

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**CHIPPEWA COUNTY**  
**MONTEVIDEO, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2005

## **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.

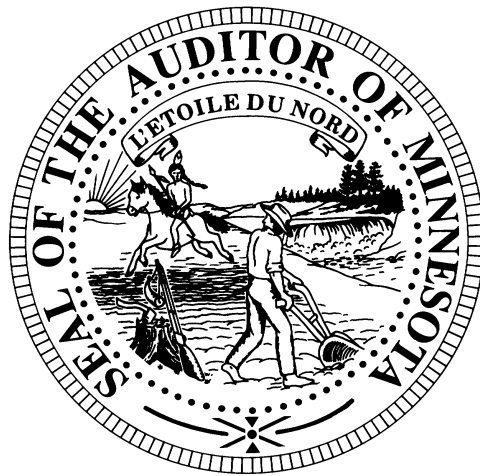
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**For the Year Ended December 31, 2005**



**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  
2005

| Office                                     | Name                             | Term Expires |
|--|----------------------------------|--------------|
| <b>Commissioners</b>                       |                                  |              |
| 1st District                               | Kenneth Koenen <sup>2</sup>      | January 2005 |
| 2nd District                               | Jeff Lopez                       | January 2005 |
| 3rd District                               | Donna Halvorson                  | January 2007 |
| 4th District                               | Jim Dahlvang                     | January 2005 |
| 5th District                               | Gene Van Binsbergen <sup>1</sup> | January 2007 |
| <b>Officers</b>                            |                                  |              |
| <b>Elected</b>                             |                                  |              |
| Attorney                                   | Dwayne Knutsen                   | January 2007 |
| Auditor/Treasurer                          | Jon Clauson                      | January 2007 |
| Coroner                                    | Ron Jones, M.D.                  | January 2007 |
| County Recorder and<br>Registrar of Titles | Jan Lenning                      | January 2007 |
| Sheriff                                    | Stacy Tufto                      | January 2007 |
| <b>Appointed</b>                           |                                  |              |
| 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   |

<sup>1</sup>Chair 2005

<sup>2</sup>Chair 2006

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Chippewa County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of December 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2006, on our consideration of Chippewa County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: May 31, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005  
(Unaudited)**

The Auditor/Treasurer of Chippewa County offers readers of Chippewa County's financial statements this narrative overview and analysis of the financial activities of Chippewa County for the fiscal year ended December 31, 2005. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in a letter of transmittal and the notes to the financial statements.

**FINANCIAL HIGHLIGHTS**

- The assets of Chippewa County exceeded its liabilities at the close of the most recent fiscal year (December 31, 2005) by \$55,066,248 (net assets). Of this amount, \$14,317,967 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.
- Chippewa County's total net assets increased by \$2,185,038. The increase is a combination of additional capital assets and budget savings from operations.
- As of the close of the 2005 fiscal year, Chippewa County governmental funds ending fund balances were \$13,810,029 compared to \$13,644,137 in 2004. Approximately 48.2 percent of the amount (\$6,651,073) is available for spending at Chippewa County's discretion (unreserved, undesignated fund balance).

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## **Government-Wide Financial Statements**

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

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

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

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

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

## **Fund Financial Statements**

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

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

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

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

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

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

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

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

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

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

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

### **Notes to the Financial Statements**

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

## Other Information

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Chippewa County, assets exceeded liabilities by \$55,066,248 on December 31, 2005.

Capital assets of \$40,289,852 (land; buildings; machinery and equipment; infrastructure; improvements to land; and construction in progress, net of accumulated depreciation) represent the largest portion of net assets (73.17 percent). Chippewa County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Less than one percent of Chippewa County's net assets represent resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$14,317,967) may be used to meet the government's ongoing obligations to citizens and creditors.

|                            | Governmental Activities |                      |
|----------------------------|-------------------------|----------------------|
|                            | 2005                    | 2004                 |
| <b>Net Assets</b>          |                         |                      |
| Assets                     |                         |                      |
| Current and other assets   | \$ 15,907,752           | \$ 15,411,152        |
| Capital assets             | <u>40,289,852</u>       | <u>38,592,044</u>    |
| Total Assets               | <u>\$ 56,197,604</u>    | <u>\$ 54,003,196</u> |
| Liabilities                |                         |                      |
| Long-term liabilities      | \$ 603,358              | \$ 613,333           |
| Other liabilities          | <u>527,998</u>          | <u>508,653</u>       |
| Total Liabilities          | <u>\$ 1,131,356</u>     | <u>\$ 1,121,986</u>  |
| Net Assets                 |                         |                      |
| Invested in capital assets | \$ 40,289,852           | \$ 38,592,044        |
| Restricted                 | 458,429                 | 22,725               |
| Unrestricted               | <u>14,317,967</u>       | <u>14,266,441</u>    |
| Total Net Assets           | <u>\$ 55,066,248</u>    | <u>\$ 52,881,210</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 26.0 percent of the net assets.

### Governmental Activities

The County's activities increased net assets by four percent (\$55,066,248 for 2005 compared to \$52,881,210 for 2004). Key elements in this increase in net assets are as follows:

|                                    | <b>Changes in Net Assets</b> |                      |
|------------------------------------|------------------------------|----------------------|
|                                    | <u>2005</u>                  | <u>2004</u>          |
| Revenues                           |                              |                      |
| Program revenues                   |                              |                      |
| Charges for services               | \$ 1,211,140                 | \$ 1,126,523         |
| Operating grants and contributions | 5,236,674                    | 3,978,915            |
| Capital grants and contributions   | 1,365,299                    | 1,444,934            |
| General revenues                   |                              |                      |
| Property taxes                     | 4,815,793                    | 4,460,123            |
| Other                              | 2,154,834                    | 2,063,703            |
| Total Revenues                     | <u>\$ 14,783,740</u>         | <u>\$ 13,074,198</u> |
| Expenses                           |                              |                      |
| General government                 | \$ 2,517,721                 | \$ 2,461,455         |
| Public safety                      | 1,961,036                    | 1,666,726            |
| Highways and streets               | 2,882,427                    | 2,695,612            |
| Sanitation                         | 179,363                      | 489,441              |
| Human services                     | 4,024,439                    | 3,811,115            |
| Health                             | 107,463                      | 107,463              |
| Culture and recreation             | 336,536                      | 345,056              |
| Conservation of natural resources  | 551,063                      | 387,403              |
| Economic development               | 36,314                       | 50,609               |
| Interest                           | 2,340                        | -                    |
| Total Expenses                     | <u>\$ 12,598,702</u>         | <u>\$ 12,014,880</u> |
| Increase in Net Assets             | \$ 2,185,038                 | \$ 1,059,318         |
| Net Assets - January 1             | <u>52,881,210</u>            | <u>51,821,892</u>    |
| Net Assets - December 31           | <u>\$ 55,066,248</u>         | <u>\$ 52,881,210</u> |

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

## **Governmental Funds**

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

As of the end of the current fiscal year, Chippewa County's governmental funds reported combined ending fund balances of \$13,810,029, an increase of \$165,892, or 1.22 percent, in comparison with the prior year. Of the combined ending fund balances, \$13,467,971 represents unreserved fund balance, which is available for spending at the County Board's discretion. The remainder of the fund balance, \$342,088, 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, grant agreements, or County Board designation.

The General Fund is the main operating fund for the County. At the end of 2005, it had an unreserved fund balance of \$3,894,368. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 75.02 percent of total General Fund expenditures. During 2005, the ending fund balance increased by \$204,697. The primary reasons for the increase were higher than anticipated interest revenue, Huber fees, and special assessments.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$3,842,386 at the end of 2005, representing 79.24 percent of its annual expenditures. The ending fund balance decreased by \$431,381 during 2005, primarily due to the final payments on CSAH #9 and capital equipment purchased.

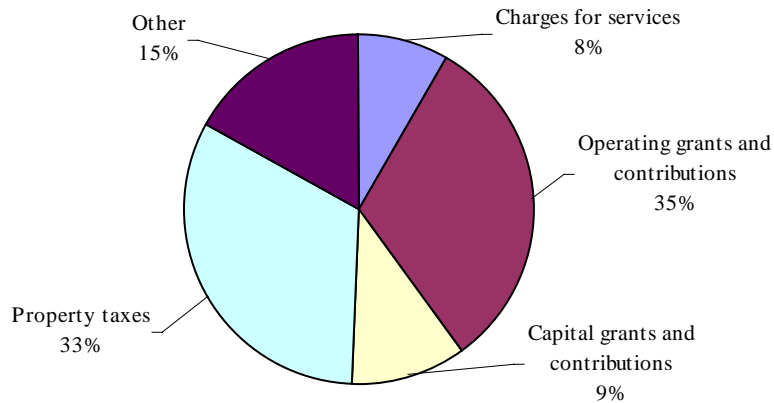
The Family Services Special Revenue Fund had an unreserved fund balance of \$2,889,221 at the end of 2005, representing 70.04 percent of its annual expenditures. The ending fund balance increased by \$221,268 during 2005, primarily due to lower than anticipated cost for out-of-home placements.

The Ditch Special Revenue Fund has an unreserved fund balance of \$2,841,966 at the end of 2005. The ending fund balance increased by \$171,308 during 2005, primarily due to the 137 ditch systems needing less maintenance than was anticipated and repayment of ditch liens.

## GOVERNMENTAL ACTIVITIES

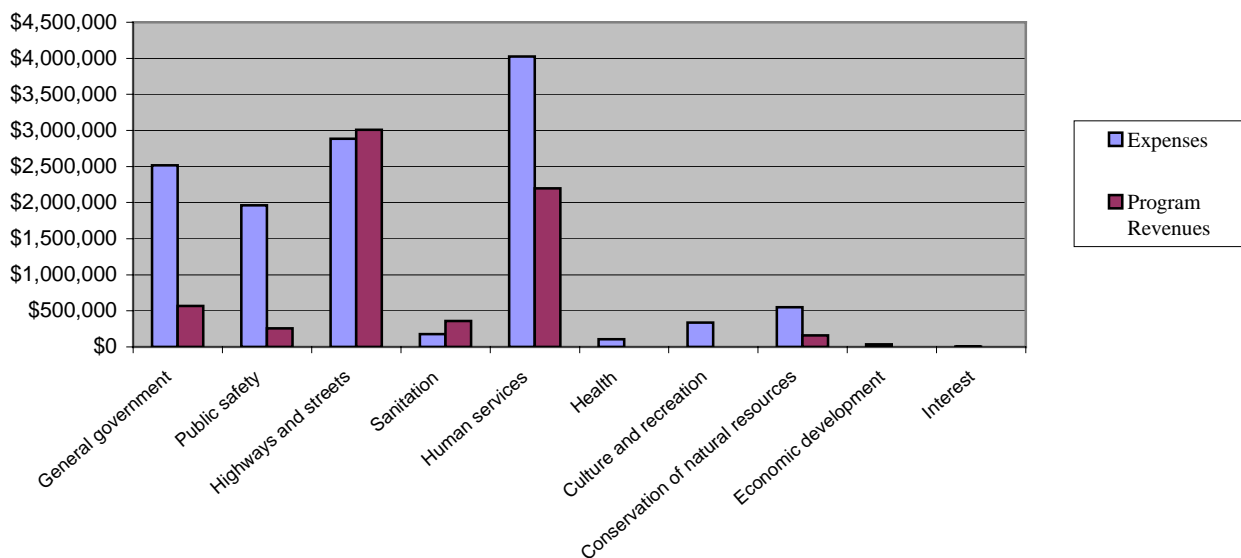
The County's total revenues were \$14,783,740. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2005.

**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 2005, 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.

**Table 2  
Expenses and Program Revenues**



(Unaudited)

The cost of all governmental activities in 2005 was \$12,598,702. However, as shown on the Statement of Activities, Exhibit 2, the amount that Chippewa County taxpayers ultimately financed these activities through County taxes was \$4,815,793 because some of the cost was paid by those who directly benefited from the programs (\$1,211,140) or by other governments and organizations that subsidized certain programs with grants and contributions (\$36,601,973). The County paid for the remaining “public benefit” portion of governmental activities with \$6,970,627 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

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

**Table 3  
Governmental Activities**

|                                   | Total Cost<br>of Services<br><u>2005</u> | Net Cost<br>of Services<br><u>2005</u> |
|-----------------------------------|--|--|
| General government                | \$ 2,517,721                             | \$ 2,031,825                           |
| Public safety                     | 1,961,036                                | 1,331,758                              |
| Highways and streets              | 2,882,427                                | (900,120)                              |
| Sanitation                        | 179,363                                  | (56,420)                               |
| Human services                    | 4,024,439                                | 1,719,650                              |
| Health                            | 107,463                                  | 107,463                                |
| Culture and recreation            | 336,536                                  | 241,808                                |
| Conservation of natural resources | 551,063                                  | 272,571                                |
| Economic development              | 36,314                                   | 34,714                                 |
| Interest                          | 2,340                                    | 2,340                                  |
| Totals                            | <u>\$ 12,598,702</u>                     | <u>\$ 4,785,589</u>                    |

### **General Fund Budgetary Highlights**

Over the course of the year, the County Board did not revise the General Fund budget.

The actual charges to appropriations (expenditures) were \$6,092 over the approved budget amounts. The most significant positive variance (\$93,831) occurred in the County’s Data Processing Department, where lower than expected costs for maintenance contracts, software, and equipment purchases resulted in a reduction in expenditures. Reasons for other significant variances of actual expenditures to final budget include lower than anticipated costs to operate the County buildings; the E911 Dispatch Department requested additional funds for capital outlay rather than reallocating unused appropriations earmarked for lease payments no longer needed; the Emergency Management Department spent less on costs qualifying for grant funds available, which may result in revenues being deferred until 2006 or in the loss of grant funds available; and several other departments spent less than anticipated.

On the other hand, resources available for appropriation were \$669,057 above the budgeted amount. The most significant positive variance (\$813,726) occurred in intergovernmental revenue. The majority of this increase came from the collection of federal and state grants.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's capital assets for its governmental activities at December 31, 2005, totaled \$40,289,201 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,697,808, or 4.4 percent from the previous year. The major capital asset events were:

|                                      |    |           |
|--------------------------------------|----|-----------|
| Construction of highways and streets | \$ | 2,484,494 |
| Purchase of highway equipment        |    | 687,538   |

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

|                          | 2005      | 2004      |
|--------------------------|-----------|-----------|
| Land and right-of-way    | \$ 1,428  | \$ 1,423  |
| Infrastructure           | 34,578    | 32,970    |
| Buildings                | 2,387     | 2,564     |
| Machinery and equipment  | 1,798     | 1,538     |
| Construction in progress | 99        | 97        |
| Total                    | \$ 40,290 | \$ 38,592 |

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

### Long-Term Debt

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

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

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The County's officials considered many factors when setting the 2006 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Chippewa County at the end of 2005 was 4.1 percent. This compares with the state unemployment rate of 4.0 percent but shows a decrease from the County's 4.8 percent rate of one year ago. This could impact the level of services requested by County residents.
- The County General Fund expenditures for 2006 are budgeted to increase 10.29 percent (\$533,465) over the 2005 original budget. The 2006 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 11.45 percent (\$196,898) over the 2005 original budget.
- The 2006 property tax levy for the County increased 8.95 percent (\$484,680) from 2005. The increase is due to several factors: reductions in state aids and reserve fund use; and increases in courtroom security, civil commitment costs, personal services, other services, and capital outlay.

## **REQUESTS FOR INFORMATION**

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

## **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, 2005**

**Assets**

|  |                      |
|--|----------------------|
| Cash and pooled investments                                  | \$ 6,948,280         |
| Investments  | 6,593,798            |
| Receivables - net  | 2,133,276            |
| Inventories  | 224,415              |
| Prepaid items  | 7,983                |
| Capital assets   |                      |
| Non-depreciable capital assets                               | 1,527,235            |
| Depreciable capital assets - net of accumulated depreciation | 38,762,617           |
|  | <hr/>                |
| <b>Total Assets</b>  | <b>\$ 56,197,604</b> |

**Liabilities**

|  |                     |
|--|---------------------|
| Accounts payable and other current liabilities | \$ 410,189          |
| Unearned revenue                               | 70,688              |
| Long-term liabilities                          |                     |
| Due within one year                            | 47,121              |
| Due in more than one year                      | 603,358             |
|  | <hr/>               |
| <b>Total Liabilities</b>                       | <b>\$ 1,131,356</b> |

**Net Assets**

|                                   |                      |
|-----------------------------------|----------------------|
| Invested in capital assets        | \$ 40,289,852        |
| Restricted for                    |                      |
| Highways and streets              | 370,913              |
| Public safety                     | 5,112                |
| Conservation of natural resources | 37,045               |
| Other purposes                    | 45,359               |
| Unrestricted                      | 14,317,967           |
|                                   | <hr/>                |
| <b>Total Net Assets</b>           | <b>\$ 55,066,248</b> |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  |                                       | Program Revenues                         |  |                     |                       | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets<br>Governmental<br>Activities |
|--|---------------------------------------|--|--|---------------------|-----------------------|--|
| Expenses   | Fees, Charges,<br>Fines, and<br>Other | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |                     |                       |  |
| <b><u>Functions/Programs</u></b>                             |                                       |  |  |                     |                       |  |
| <b>Governmental activities</b>                               |                                       |  |  |                     |                       |  |
| General government   | \$ 2,517,721                          | \$ 433,346                               | \$ 52,550                              | \$ -                | \$ (2,031,825)        |  |
| Public safety  | 1,961,036                             | 115,681                                  | 494,670                                | 18,927              | (1,331,758)           |  |
| Highways and streets   | 2,882,427                             | 160,212                                  | 2,275,963                              | 1,346,372           | 900,120               |  |
| Sanitation   | 179,363                               | 94,412                                   | 141,371                                | -                   | 56,420                |  |
| Human services   | 4,024,439                             | 186,463                                  | 2,118,326                              | -                   | (1,719,650)           |  |
| Health   | 107,463                               | -  | -                                      | -                   | (107,463)             |  |
| Culture and recreation                                       | 336,536                               | 22                                       | 94,706                                 | -                   | (241,808)             |  |
| Conservation of natural resources                            | 551,063                               | 219,404                                  | 59,088                                 | -                   | (272,571)             |  |
| Economic development   | 36,314                                | 1,600                                    | -                                      | -                   | (34,714)              |  |
| Interest   | 2,340                                 | -  | -                                      | -                   | (2,340)               |  |
| <b>Total Governmental Activities</b>                         | <b>\$ 12,598,702</b>                  | <b>\$ 1,211,140</b>                      | <b>\$ 5,236,674</b>                    | <b>\$ 1,365,299</b> | <b>\$ (4,785,589)</b> |  |
| <br><b>General revenues</b>                                  |                                       |  |  |                     |                       |  |
| Property taxes   |                                       |  |  |                     | \$ 4,815,793          |  |
| Mortgage registry and deed tax                               |                                       |  |  |                     | 7,572                 |  |
| Payments in lieu of tax                                      |                                       |  |  |                     | 59,523                |  |
| Grants and contributions not restricted to specific programs |                                       |  |  |                     | 1,454,615             |  |
| Unrestricted investment earnings                             |                                       |  |  |                     | 422,030               |  |
| Miscellaneous  |                                       |  |  |                     | 211,094               |  |
| <b>Total general revenues</b>                                |                                       |  |  |                     | <b>\$ 6,970,627</b>   |  |
| <b>Change in net assets</b>                                  |                                       |  |  |                     | <b>\$ 2,185,038</b>   |  |
| <b>Net Assets - Beginning</b>                                |                                       |  |  |                     | <b>52,881,210</b>     |  |
| <b>Net Assets - Ending</b>                                   |                                       |  |  |                     | <b>\$ 55,066,248</b>  |  |

**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, 2005**

|                                    | <b>General</b>             | <b>Road and<br/>Bridge</b> | <b>Family<br/>Services</b> | <b>Ditch</b>               | <b>Total<br/>Governmental<br/>Funds</b> |
|------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|---|
| <b><u>Assets</u></b>               |                            |                            |                            |                            |   |
| Cash and pooled investments        | \$ 3,436,557               | \$ 129,735                 | \$ 2,849,593               | \$ 444,684                 | \$ 6,860,569                            |
| Undistributed cash in agency funds | 43,040                     | 9,142                      | 21,387                     | 425                        | 73,994                                  |
| Petty cash and change funds        | 2,000                      | 100                        | 100                        | -                          | 2,200                                   |
| Departmental cash                  | 11,517                     | -                          | -                          | -                          | 11,517                                  |
| Investments                        | 500,200                    | 3,681,898                  | 11,700                     | 2,400,000                  | 6,593,798                               |
| Taxes receivable                   |                            |                            |                            |                            |   |
| Prior                              | 52,104                     | 14,714                     | 32,235                     | -                          | 99,053                                  |
| Special assessments receivable     |                            |                            |                            |                            |   |
| Prior                              | 6,264                      | -                          | -                          | -                          | 6,264                                   |
| Noncurrent                         | 192,049                    | -                          | -                          | 787,896                    | 979,945                                 |
| Accounts receivable                | 10,127                     | 148                        | 16,754                     | -                          | 27,029                                  |
| Accrued interest receivable        | 84,090                     | 33,503                     | 127                        | 295                        | 118,015                                 |
| Due from other funds               | 1,669                      | 1,016                      | -                          | -                          | 2,685                                   |
| Due from other governments         | 51,703                     | 591,328                    | 248,286                    | 11,653                     | 902,970                                 |
| Inventories                        | -                          | 224,415                    | -                          | -                          | 224,415                                 |
| Prepaid items                      | 7,983                      | -                          | -                          | -                          | 7,983                                   |
| <b>Total Assets</b>                | <b><u>\$ 4,399,303</u></b> | <b><u>\$ 4,685,999</u></b> | <b><u>\$ 3,180,182</u></b> | <b><u>\$ 3,644,953</u></b> | <b><u>\$ 15,910,437</u></b>             |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

|   | <u>General</u>      | <u>Road and<br/>Bridge</u> | <u>Family<br/>Services</u> | <u>Ditch</u>        | <u>Total<br/>Governmental<br/>Funds</u> |
|---|---------------------|----------------------------|----------------------------|---------------------|---|
| <b><u>Liabilities and Fund Balances</u></b> |                     |                            |                            |                     |   |
| <b>Liabilities</b>                          |                     |                            |                            |                     |   |
| Accounts payable                            | \$ 67,205           | \$ 61,226                  | \$ 116,070                 | \$ 150              | \$ 244,651                              |
| Salaries payable                            | 9,220               | 2,077                      | 3,772                      | -                   | 15,069                                  |
| Due to other funds                          | 821                 | 628                        | 121                        | 1,115               | 2,685                                   |
| Due to other governments                    | 39,596              | 3,738                      | 104,962                    | 2,173               | 150,469                                 |
| Deferred revenue - unavailable              | 250,417             | 534,645                    | 32,235                     | 799,549             | 1,616,846                               |
| Deferred revenue - unearned                 | 36,887              | -                          | 33,801                     | -                   | 70,688                                  |
| <b>Total Liabilities</b>                    | <b>\$ 404,146</b>   | <b>\$ 602,314</b>          | <b>\$ 290,961</b>          | <b>\$ 802,987</b>   | <b>\$ 2,100,408</b>                     |
| <b>Fund Balances</b>                        |                     |                            |                            |                     |   |
| Reserved for                                |                     |                            |                            |                     |   |
| Inventories                                 | \$ -                | \$ 224,415                 | \$ -                       | \$ -                | \$ 224,415                              |
| Prepaid items                               | 7,983               | -                          | -                          | -                   | 7,983                                   |
| Missing heirs                               | 6,762               | -                          | -                          | -                   | 6,762                                   |
| Law library                                 | 5,136               | -                          | -                          | -                   | 5,136                                   |
| Recorder's technology fund                  | 21,210              | -                          | -                          | -                   | 21,210                                  |
| Sheriff's contingency                       | 5,112               | -                          | -                          | -                   | 5,112                                   |
| Unclaimed property                          | 154                 | -                          | -                          | -                   | 154                                     |
| Highway allotments                          | -                   | 16,884                     | -                          | -                   | 16,884                                  |
| Septic/sewer loans                          | 37,045              | -                          | -                          | -                   | 37,045                                  |
| Recorder's compliance fund                  | 17,387              | -                          | -                          | -                   | 17,387                                  |
| Unreserved                                  |                     |                            |                            |                     |   |
| Designated for future expenditures          | 1,035,959           | 1,422,500                  | 900,000                    | -                   | 3,358,459                               |
| Designated for capital expenditures         | 1,154,730           | -                          | 100,000                    | -                   | 1,254,730                               |
| Designated for workers' compensation        | 86,498              | -                          | -                          | -                   | 86,498                                  |
| Designated for County library               | 102,977             | -                          | -                          | -                   | 102,977                                 |
| Designated for economic development         | 62,651              | -                          | -                          | -                   | 62,651                                  |
| Designated for cemetery                     | 719                 | -                          | -                          | -                   | 719                                     |
| Designated for landfill                     | 1,124,926           | -                          | -                          | -                   | 1,124,926                               |
| Designated for insurance contingencies      | 141,429             | -                          | -                          | -                   | 141,429                                 |
| Designated for water quality                | 184,479             | -                          | -                          | -                   | 184,479                                 |
| Designated for out-of-home care             | -                   | -                          | 500,000                    | -                   | 500,000                                 |
| Undesignated                                | -                   | 2,419,886                  | 1,389,221                  | 2,841,966           | 6,651,073                               |
| <b>Total Fund Balances</b>                  | <b>\$ 3,995,157</b> | <b>\$ 4,083,685</b>        | <b>\$ 2,889,221</b>        | <b>\$ 2,841,966</b> | <b>\$ 13,810,029</b>                    |
| <b>Total Liabilities and Fund Balances</b>  | <b>\$ 4,399,303</b> | <b>\$ 4,685,999</b>        | <b>\$ 3,180,182</b>        | <b>\$ 3,644,953</b> | <b>\$ 15,910,437</b>                    |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2005**

|  |                             |
|--|-----------------------------|
| <b>Fund balances - total governmental funds (Exhibit 3)</b>  | <b>\$ 13,810,029</b>        |
| 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. | 40,289,852                  |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.                                  | 1,616,846                   |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.  |                             |
| Compensated absences   | \$ (420,235)                |
| Loans payable  | (230,244)                   |
|  | <u>(650,479)</u>            |
| <b>Net assets of governmental activities (Exhibit 1)</b>   | <b><u>\$ 55,066,248</u></b> |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  | <u>General</u>      | <u>Road and<br/>Bridge</u> | <u>Family<br/>Services</u> | <u>Ditch</u>        | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|----------------------------|----------------------------|---------------------|---|
| <b>Revenues</b>  |                     |                            |                            |                     |   |
| Taxes  | \$ 2,594,007        | \$ 664,084                 | \$ 1,558,962               | \$ -                | \$ 4,817,053                            |
| Special assessments  | 120,903             | -                          | -                          | 227,933             | 348,836                                 |
| Licenses and permits                                       | 8,860               | -                          | -                          | -                   | 8,860                                   |
| Intergovernmental  | 1,565,621           | 3,470,130                  | 2,586,502                  | -                   | 7,622,253                               |
| Charges for services                                       | 446,096             | 31,489                     | 66,914                     | -                   | 544,499                                 |
| Gifts and contributions                                    | 15,407              | -                          | 14,180                     | -                   | 29,587                                  |
| Investment earnings  | 217,764             | 130,519                    | 349                        | 73,398              | 422,030                                 |
| Miscellaneous  | 401,713             | 98,460                     | 119,549                    | 1,546               | 621,268                                 |
| <b>Total Revenues</b>                                      | <b>\$ 5,370,371</b> | <b>\$ 4,394,682</b>        | <b>\$ 4,346,456</b>        | <b>\$ 302,877</b>   | <b>\$ 14,414,386</b>                    |
| <b>Expenditures</b>  |                     |                            |                            |                     |   |
| <b>Current</b>   |                     |                            |                            |                     |   |
| General government   | \$ 2,326,427        | \$ -                       | \$ -                       | \$ -                | \$ 2,326,427                            |
| Public safety  | 1,815,592           | -                          | -                          | -                   | 1,815,592                               |
| Highways and streets                                       | -                   | 4,599,249                  | -                          | -                   | 4,599,249                               |
| Sanitation   | 180,819             | -                          | -                          | -                   | 180,819                                 |
| Human services   | -                   | -                          | 4,017,725                  | -                   | 4,017,725                               |
| Culture and recreation                                     | 313,203             | -                          | -                          | -                   | 313,203                                 |
| Conservation of natural resources                          | 415,079             | -                          | -                          | 131,569             | 546,648                                 |
| Economic development                                       | 36,314              | -                          | -                          | -                   | 36,314                                  |
| <b>Intergovernmental</b>                                   | 89,601              | 249,773                    | 107,463                    | -                   | 446,837                                 |
| <b>Debt service</b>  |                     |                            |                            |                     |   |
| Principal  | 11,580              | -                          | -                          | -                   | 11,580                                  |
| Interest   | 2,340               | -                          | -                          | -                   | 2,340                                   |
| <b>Total Expenditures</b>                                  | <b>\$ 5,190,955</b> | <b>\$ 4,849,022</b>        | <b>\$ 4,125,188</b>        | <b>\$ 131,569</b>   | <b>\$ 14,296,734</b>                    |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b>    | <b>\$ 179,416</b>   | <b>\$ (454,340)</b>        | <b>\$ 221,268</b>          | <b>\$ 171,308</b>   | <b>\$ 117,652</b>                       |
| <b>Other Financing Sources (Uses)</b>                      |                     |                            |                            |                     |   |
| Loans issued   | 25,281              | -                          | -                          | -                   | 25,281                                  |
| <b>Net Change in Fund Balance</b>                          | <b>\$ 204,697</b>   | <b>\$ (454,340)</b>        | <b>\$ 221,268</b>          | <b>\$ 171,308</b>   | <b>\$ 142,933</b>                       |
| <b>Fund Balance - January 1</b>                            | <b>3,790,460</b>    | <b>4,515,066</b>           | <b>2,667,953</b>           | <b>2,670,658</b>    | <b>13,644,137</b>                       |
| <b>Increase (decrease) in reserved for<br/>inventories</b> | <b>-</b>            | <b>22,959</b>              | <b>-</b>                   | <b>-</b>            | <b>22,959</b>                           |
| <b>Fund Balance - December 31</b>                          | <b>\$ 3,995,157</b> | <b>\$ 4,083,685</b>        | <b>\$ 2,889,221</b>        | <b>\$ 2,841,966</b> | <b>\$ 13,810,029</b>                    |

**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, 2005**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 142,933**

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

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

|                                |              |         |
|--------------------------------|--------------|---------|
| Deferred revenue - December 31 | \$ 1,616,846 |         |
| Deferred revenue - January 1   | (1,041,818)  | 575,028 |

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

|  |              |           |
|--|--------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ 3,179,210 |           |
| Net book value of assets disposed of                       | (65,731)     |           |
| Current year depreciation                                  | (1,415,671)  | 1,697,808 |

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

|                      |  |        |
|----------------------|--|--------|
| Principal repayments |  |        |
| Loans payable        |  | 11,580 |

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

|              |  |          |
|--------------|--|----------|
| Debt issued  |  |          |
| Loans issued |  | (25,281) |

|   |  |           |
|---|--|-----------|
| Septic/ISTS loans previously reported in the funds as due to other governments are now reported solely in the government-wide statements. |  | (216,543) |
|---|--|-----------|

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 | \$ (23,446) |       |
| Change in inventories          | 22,959      | (487) |

**Change in net assets of governmental activities (Exhibit 2) \$ 2,185,038**

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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, 2005**

|   | <b>Investment<br/>Trust</b> | <b>Agency</b>     |
|---|-----------------------------|-------------------|
| <b><u>Assets</u></b>                          |                             |                   |
| Cash and pooled investments                   | \$ 1,032,947                | \$ 823,704        |
| Investments                                   | 11,042,279                  | -                 |
| Accrued interest receivable                   | 115,664                     | -                 |
| <b>Total Assets</b>                           | <b>\$ 12,190,890</b>        | <b>\$ 823,704</b> |
| <b><u>Liabilities</u></b>                     |                             |                   |
| Due to other governments                      | -                           | <b>\$ 823,704</b> |
| <b><u>Net Assets</u></b>                      |                             |                   |
| Net assets held in trust for pool participant | <b>\$ 12,190,890</b>        |                   |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|   | <b>Investment<br/>Trust</b> |
|---|-----------------------------|
| <b><u>Additions</u></b>                   |                             |
| Contributions from participants           | \$ 21,229,075               |
| Investment earnings                       | 239,724                     |
| <b>Total Additions</b>                    | <b>\$ 21,468,799</b>        |
| <b><u>Deductions</u></b>                  |                             |
| Distributions to participants             | 21,880,717                  |
| <b>Change in Net Assets</b>               | <b>\$ (411,918)</b>         |
| <b>Net Assets - Beginning of the Year</b> | <b>12,602,808</b>           |
| <b>Net Assets - End of the Year</b>       | <b><u>\$ 12,190,890</u></b> |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

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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, 2005. 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**

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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**

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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**

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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, 2005, 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 2005 were \$204,660.

**CHIPPEWA COUNTY  
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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.

2. Receivables and Payables

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

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due 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.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Capital Assets

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

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

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

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

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

5. Compensated Absences

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

At December 31, 2005, 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     | \$ 5,190,955        | \$ 5,184,863        | \$ 6,092      |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

|   |                          |
|---|--------------------------|
| Government-wide statement of net assets |                          |
| Governmental activities                 |                          |
| Cash and pooled investments             | \$ 6,948,280             |
| Investments                             | 6,593,798                |
| Statement of fiduciary net assets       |                          |
| Cash and pooled investments             | 1,856,651                |
| Investments                             | <u>11,042,279</u>        |
| <br>Total Cash and Investments          | <br><u>\$ 26,441,008</u> |

a. Deposits

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

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. As of December 31, 2005, \$296,786 of the County's bank balance of \$16,558,225 was exposed to custodial credit risk as uninsured and uncollateralized.

b. Investments

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

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's investment policy does not address custodial credit risk for investments. At December 31, 2005, \$5,121,637 of Federal Home Loan Bank Bonds held by the County were subject to custodial credit risk.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2005, and information relating to potential investment risks:

| Investment Type                          | Credit Risk   |               | Concentration Risk   | Interest Rate Risk | Carrying (Fair) Value |
|--|---------------|---------------|----------------------|--------------------|-----------------------|
|  | Credit Rating | Rating Agency | Over 5% of Portfolio | Maturity Date      |                       |
| <b>Investments</b>                       |               |               |                      |                    |                       |
| U.S. government agency securities        |               |               |                      |                    |                       |
| Government National Mortgage Association | N/R           | N/A           | <5%                  | 11/15/2008         | \$ 461                |
| Federal Home Loan Mortgage Corporation   | N/R           | N/A           | <5%                  | 07/01/2009         | \$ 10                 |
| Federal Home Loan Bank Bond              | AAA           | S&P           |                      | 08/27/2007         | \$ 489,845            |
| Federal Home Loan Bank Bond              | AAA           | S&P           |                      | 10/29/2007         | 485,470               |
| Federal Home Loan Bank Bond              | AAA           | S&P           |                      | 10/30/2007         | 625,203               |
| Federal Home Loan Bank Bond              | AAA           | S&P           |                      | 11/27/2007         | 581,322               |
| Federal Home Loan Bank Bond              | AAA           | S&P           |                      | 01/23/2008         | 774,752               |
| Federal Home Loan Bank Bond              | AAA           | S&P           |                      | 02/06/2008         | 816,925               |
| Federal Home Loan Bank Bond              | AAA           | S&P           |                      | 08/14/2008         | 1,948,120             |
| Total Federal Home Loan Bank             |               |               | 23.2%                |                    | \$ 5,721,637          |
| Investment pools/mutual funds            |               |               |                      |                    |                       |
| MAGIC Fund                               | N/R           | N/A           | N/A                  | N/A                | \$ 4,869,162          |
| Total investments                        |               |               |                      |                    | \$ 10,591,270         |
| Checking                                 |               |               |                      |                    |                       |
| Petty cash and change funds              |               |               |                      |                    | 1,774,121             |
| Departmental cash                        |               |               |                      |                    | 2,200                 |
| Certificates of deposit                  |               |               |                      |                    | 11,517                |
|  |               |               |                      |                    | 14,061,900            |
| Total Cash and Investments               |               |               |                      |                    | \$ 26,441,008         |

N/A - Not Applicable; N/R - Not Rated; <5% - Concentration is less than 5% of investments

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, including the applicable allowances for uncollectible accounts, are as follows:

|                            | Total<br>Receivables | Amounts Not<br>Scheduled for<br>Collection During<br>the Subsequent Year |
|----------------------------|----------------------|--|
| Governmental Activities    |                      |  |
| Taxes                      | \$ 99,053            | \$ -   |
| Special assessments        | 986,209              | 817,648  |
| Accounts                   | 27,029               | -  |
| Interest                   | 118,015              | -  |
| Due from other governments | 902,970              | -  |
| Total Receivables - Net    | \$ 2,133,276         | \$ 817,648   |

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

|                                       | Balance       | Increase     | Decrease   | Ending<br>Balance |
|---------------------------------------|---------------|--------------|------------|-------------------|
| Capital assets not depreciated        |               |              |            |                   |
| Land                                  | \$ 936,647    | \$ -         | \$ -       | \$ 936,647        |
| Right-of-way                          | 486,705       | 4,788        | -          | 491,493           |
| Construction in progress              | 96,705        | 65,350       | 62,960     | 99,095            |
| Total capital assets not depreciated  | \$ 1,520,057  | \$ 70,138    | \$ 62,960  | \$ 1,527,235      |
| Capital assets depreciated            |               |              |            |                   |
| Buildings                             | \$ 8,390,027  | \$ -         | \$ -       | \$ 8,390,027      |
| Machinery and equipment               | 4,093,603     | 687,538      | 514,138    | 4,267,003         |
| Infrastructure                        | 42,218,420    | 2,484,494    | -          | 44,702,914        |
| Total capital assets depreciated      | \$ 54,702,050 | \$ 3,172,032 | \$ 514,138 | \$ 57,359,944     |
| Less: accumulated depreciation for    |               |              |            |                   |
| Buildings                             | \$ 5,826,404  | \$ 177,036   | \$ -       | \$ 6,003,440      |
| Machinery and equipment               | 2,555,469     | 362,397      | 448,407    | 2,469,459         |
| Infrastructure                        | 9,248,190     | 876,238      | -          | 10,124,428        |
| Total accumulated depreciation        | \$ 17,630,063 | \$ 1,415,671 | \$ 448,407 | \$ 18,597,327     |
| Total capital assets depreciated, net | \$ 37,071,987 | \$ 1,756,361 | \$ 65,731  | \$ 38,762,617     |
| Capital Assets, Net                   | \$ 38,592,044 | \$ 1,826,499 | \$ 128,691 | \$ 40,289,852     |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

|   |    |           |
|---|----|-----------|
| General government  | \$ | 118,800   |
| Public safety   |    | 94,854    |
| Highways and streets, including depreciation of infrastructure assets |    | 1,131,977 |
| Sanitation  |    | 1,848     |
| Family services   |    | 34,843    |
| Culture and recreation  |    | 23,333    |
| Conservation of natural resources                                     |    | 10,016    |
| Total Depreciation Expense - Governmental Activities                  | \$ | 1,415,671 |

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, is as follows:

Due To/From Other Funds

| Receivable Fund               | Payable Fund    | Amount   |
|-------------------------------|-----------------|----------|
| General                       | Road and Bridge | \$ 628   |
|                               | Family Services | 121      |
|                               | Ditch           | 920      |
| Total General Fund            |                 | \$ 1,669 |
| Road and Bridge               | General         | \$ 821   |
|                               | Ditch           | 195      |
| Total Road and Bridge Fund    |                 | \$ 1,016 |
| Total Due To/From Other Funds |                 | \$ 2,685 |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

|                          | Governmental<br>Activities |
|--------------------------|----------------------------|
| Accounts                 | \$ 244,651                 |
| Salaries                 | 15,069                     |
| Due to other governments | 150,469                    |
| Total Payables           | \$ 410,189                 |

2. Construction Commitments

The government did not have any active construction projects as of December 31, 2005.

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. In 2004, the County entered into another agreement with the Minnesota Pollution Control Agency for septic upgrades in the Chippewa River Watershed. The loans are secured by special assessments placed on the individual parcels requesting repair of a failing septic system. Loan payments are reported in the General Fund.

| Type of<br>Indebtedness   | Final<br>Maturity | Installment<br>Amounts | Interest<br>Rates<br>(%) | Original<br>Issue<br>Amount | Outstanding<br>Balance<br>December 31,<br>2005 |
|---------------------------|-------------------|------------------------|--------------------------|-----------------------------|--|
| 2001 Clean water<br>loans | 2014              | \$13,550               | 2.00                     | \$ 177,649                  | \$ 166,068                                     |
| 2004 Clean water<br>loans | -                 | -                      | -                        | 64,176                      | 64,176   |
| Total                     |                   |                        |                          | \$ 241,825                  | \$ 230,244                                     |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

|                           | Beginning<br>Balance | Additions        | Reductions       | Ending<br>Balance | Due Within<br>One Year |
|---------------------------|----------------------|------------------|------------------|-------------------|------------------------|
| Clean water loans payable | \$ 216,544           | \$ 25,280        | \$ 11,580        | \$ 230,244        | \$ 11,813              |
| Compensated absences      | 396,789              | 23,446           | -                | 420,235           | 35,308                 |
| Long-Term Liabilities     | <u>\$ 613,333</u>    | <u>\$ 48,726</u> | <u>\$ 11,580</u> | <u>\$ 650,479</u> | <u>\$ 47,121</u>       |

5. Debt Service Requirements

| Year Ending<br>December 31 | Loans Payable     |                  |
|----------------------------|-------------------|------------------|
|                            | Principal         | Interest         |
| 2006                       | \$ 11,813         | \$ 2,108         |
| 2007                       | 12,051            | 1,870            |
| 2008                       | 12,293            | 1,628            |
| 2009                       | 12,540            | 1,381            |
| 2010                       | 12,792            | 1,129            |
| 2011 - 2014                | 46,831            | 1,892            |
| Total                      | <u>\$ 108,320</u> | <u>\$ 10,008</u> |

Some clean water loans are not included in the debt service requirements because a fixed repayment schedule is not available.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

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 and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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MONTEVIDEO, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

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 internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

2. Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

|                                       | 2005   | 2006   |
|---------------------------------------|--------|--------|
| Public Employees Retirement Fund      |        |        |
| Basic Plan members                    | 11.78% | 11.78% |
| Coordinated Plan members              | 5.53   | 6.00   |
| Public Employees Police and Fire Fund | 9.30   | 10.50  |
| Public Employees Correctional Fund    | 8.75   | 8.75   |

The County's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

|      | Public<br>Employees<br>Retirement<br>Fund | Public<br>Employees<br>Police and<br>Fire Fund | Public<br>Employees<br>Correctional<br>Fund |
|------|---|--|---|
| 2005 | \$ 186,155                                | \$ 40,812                                      | \$ 24,799                                   |
| 2004 | 180,345                                   | 39,805   | 25,377                                      |
| 2003 | 174,782                                   | 36,989   | 24,845                                      |

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**

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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, 2005, 2004, and 2003, were \$6,183, \$5,830, and \$5,789, 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 MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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MONTEVIDEO, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

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**

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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 \$89,601 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 inpatient and outpatient care to the Chippewa County area. The Hospital Commission consists of seven members--three from Chippewa County, three from the City of Montevideo, and a seventh member appointed by the other six members.

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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

Control of the PLYP is vested in a joint board, which is composed of one County Commissioner from each participating county. An advisory board has also been established, which is composed of the directors of the Kandiyohi County Community Corrections Agency and the Region 6W Community Corrections Agency, and the directors of the family services or human services departments of the counties participating in the agreement. The PLYP 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 PLYP, provides accounting and payroll services and, in an agent capacity, reports the cash transactions of the PLYP as an agency fund on its financial statements. Complete financial information can be obtained from the Kandiyohi County Auditor/Treasurer's Office or the PLYP's office, P. O. Box 894, Willmar, Minnesota 56201.

Southwestern Minnesota Adult Mental Health Consortium Board

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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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 2005.

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                 | Budgeted Amounts    |                     | Actual<br>Amounts   | Variance with<br>Final Budget |
|---------------------------------|---------------------|---------------------|---------------------|-------------------------------|
|                                 | Original            | Final               |                     |                               |
| <b>Revenues</b>                 |                     |                     |                     |                               |
| Taxes                           | \$ 2,896,520        | \$ 2,896,520        | \$ 2,594,007        | \$ (302,513)                  |
| Special assessments             | 84,092              | 84,092              | 120,903             | 36,811                        |
| Licenses and permits            | 7,425               | 7,425               | 8,860               | 1,435                         |
| Intergovernmental               | 751,895             | 751,895             | 1,565,621           | 813,726                       |
| Charges for services            | 485,601             | 485,601             | 446,096             | (39,505)                      |
| Gifts and contributions         | 15,200              | 15,200              | 15,407              | 207                           |
| Investment earnings             | 150,000             | 150,000             | 217,764             | 67,764                        |
| Miscellaneous                   | 310,581             | 310,581             | 401,713             | 91,132                        |
| <b>Total Revenues</b>           | <b>\$ 4,701,314</b> | <b>\$ 4,701,314</b> | <b>\$ 5,370,371</b> | <b>\$ 669,057</b>             |
| <b>Expenditures</b>             |                     |                     |                     |                               |
| <b>Current</b>                  |                     |                     |                     |                               |
| <b>General government</b>       |                     |                     |                     |                               |
| Commissioners                   | \$ 216,106          | \$ 216,106          | \$ 194,942          | \$ 21,164                     |
| Law library                     | 40,302              | 40,302              | 55,494              | (15,192)                      |
| County auditor/treasurer        | 345,048             | 345,048             | 339,276             | 5,772                         |
| License center                  | 123,020             | 123,020             | 119,864             | 3,156                         |
| County assessor                 | 228,322             | 228,322             | 213,166             | 15,156                        |
| Elections                       | 27,200              | 27,200              | 541                 | 26,659                        |
| Accounting and auditing         | 22,000              | 22,000              | 25,307              | (3,307)                       |
| Data processing                 | 273,363             | 273,363             | 179,532             | 93,831                        |
| Central services                | 32,275              | 32,275              | 50,405              | (18,130)                      |
| Attorney                        | 241,218             | 241,218             | 250,568             | (9,350)                       |
| Recorder                        | 219,264             | 219,264             | 203,746             | 15,518                        |
| Buildings and plant             | 418,076             | 418,076             | 390,889             | 27,187                        |
| Veterans service officer        | 140,356             | 140,356             | 124,912             | 15,444                        |
| County car                      | 1,660               | 1,660               | 6,357               | (4,697)                       |
| Cafeteria                       | 17,700              | 17,700              | 16,897              | 803                           |
| Other general government        | 104,189             | 104,189             | 154,531             | (50,342)                      |
| <b>Total general government</b> | <b>\$ 2,450,099</b> | <b>\$ 2,450,099</b> | <b>\$ 2,326,427</b> | <b>\$ 123,672</b>             |
| <b>Public safety</b>            |                     |                     |                     |                               |
| Sheriff                         | \$ 695,064          | \$ 695,064          | \$ 676,594          | \$ 18,470                     |
| Boat and water safety           | 1,475               | 1,475               | 123                 | 1,352                         |
| Emergency services              | -                   | -                   | 3,528               | (3,528)                       |
| Dispatch                        | 197,261             | 197,261             | 160,396             | 36,865                        |
| Safety management               | 6,500               | 6,500               | 4,938               | 1,562                         |
| Victim witness program          | 47,142              | 47,142              | 45,391              | 1,751                         |
| Coroner                         | 9,000               | 9,000               | 2,132               | 6,868                         |
| County jail                     | 645,079             | 645,079             | 582,294             | 62,785                        |
| DARE program                    | 1,550               | 1,550               | 1,728               | (178)                         |
| Civil defense                   | 12,974              | 12,974              | 338,468             | (325,494)                     |
| <b>Total public safety</b>      | <b>\$ 1,616,045</b> | <b>\$ 1,616,045</b> | <b>\$ 1,815,592</b> | <b>\$ (199,547)</b>           |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  | Budgeted Amounts  |                   | Actual<br>Amounts | Variance with<br>Final Budget |
|--|-------------------|-------------------|-------------------|-------------------------------|
|  | Original          | Final             |                   |                               |
| <b>Expenditures</b>                            |                   |                   |                   |                               |
| <b>Current (Continued)</b>                     |                   |                   |                   |                               |
| <b>Sanitation</b>                              |                   |                   |                   |                               |
| Solid waste                                    | \$ 54,000         | \$ 54,000         | \$ 51,949         | \$ 2,051                      |
| Recycling                                      | 123,320           | 123,320           | 126,231           | (2,911)                       |
| Hazardous waste                                | 3,000             | 3,000             | 2,639             | 361                           |
| <b>Total sanitation</b>                        | <b>\$ 180,320</b> | <b>\$ 180,320</b> | <b>\$ 180,819</b> | <b>\$ (499)</b>               |
| <b>Health</b>                                  |                   |                   |                   |                               |
| Ambulance                                      | \$ 5,000          | \$ 5,000          | -                 | \$ 5,000                      |
| <b>Culture and recreation</b>                  |                   |                   |                   |                               |
| Historical society                             | \$ 20,250         | \$ 20,250         | \$ 20,250         | \$ -                          |
| Fairgrounds                                    | 18,000            | 18,000            | 18,000            | -                             |
| Airport  | 30,000            | 30,000            | 6,115             | 23,885                        |
| Parks  | 10,500            | 10,500            | 4,970             | 5,530                         |
| Regional library                               | 263,289           | 263,289           | 260,218           | 3,071                         |
| Other  | 2,600             | 2,600             | 3,650             | (1,050)                       |
| <b>Total culture and recreation</b>            | <b>\$ 344,639</b> | <b>\$ 344,639</b> | <b>\$ 313,203</b> | <b>\$ 31,436</b>              |
| <b>Conservation of natural resources</b>       |                   |                   |                   |                               |
| Extension                                      | \$ 79,855         | \$ 79,855         | \$ 78,690         | \$ 1,165                      |
| Soil and water conservation                    | 62,000            | 62,000            | 62,000            | -                             |
| Agricultural inspection                        | 54,482            | 54,482            | 378               | 54,104                        |
| Geographic information                         | 1,000             | 1,000             | 6,071             | (5,071)                       |
| Weed control                                   | 92,147            | 92,147            | 46,862            | 45,285                        |
| County farm                                    | 10,300            | 10,300            | 5,796             | 4,504                         |
| Water planning                                 | 9,650             | 9,650             | 46,442            | (36,792)                      |
| Land use                                       | 154,420           | 154,420           | 165,090           | (10,670)                      |
| Other  | -                 | -                 | 3,750             | (3,750)                       |
| <b>Total conservation of natural resources</b> | <b>\$ 463,854</b> | <b>\$ 463,854</b> | <b>\$ 415,079</b> | <b>\$ 48,775</b>              |
| <b>Economic development</b>                    |                   |                   |                   |                               |
| Community development                          | \$ 25,000         | \$ 25,000         | \$ 24,084         | \$ 916                        |
| SWMIF  | 3,930             | 3,930             | 3,930             | -                             |
| Prairie Five                                   | -                 | -                 | 1,925             | (1,925)                       |
| Tourism  | 6,375             | 6,375             | 6,375             | -                             |
| <b>Total economic development</b>              | <b>\$ 35,305</b>  | <b>\$ 35,305</b>  | <b>\$ 36,314</b>  | <b>\$ (1,009)</b>             |
| <b>Intergovernmental</b>                       |                   |                   |                   |                               |
| Public safety                                  | \$ 89,601         | \$ 89,601         | \$ 89,601         | \$ -                          |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|   | <u>Budgeted Amounts</u> |                     | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
|   | <u>Original</u>         | <u>Final</u>        |                           |                                       |
| <b>Expenditures (Continued)</b>                         |                         |                     |                           |                                       |
| <b>Debt service</b>                                     |                         |                     |                           |                                       |
| Principal   | \$ -                    | \$ -                | \$ 11,580                 | \$ (11,580)                           |
| Interest  | \$ -                    | \$ -                | \$ 2,340                  | \$ (2,340)                            |
| <b>Total Expenditures</b>                               | <b>\$ 5,184,863</b>     | <b>\$ 5,184,863</b> | <b>\$ 5,190,955</b>       | <b>\$ (6,092)</b>                     |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b> | <b>\$ (483,549)</b>     | <b>\$ (483,549)</b> | <b>\$ 179,416</b>         | <b>\$ 662,965</b>                     |
| <b>Other Financing Sources (Uses)</b>                   |                         |                     |                           |                                       |
| Loans issued  | -                       | -                   | 25,281                    | 25,281                                |
| <b>Net Change in Fund Balance</b>                       | <b>\$ (483,549)</b>     | <b>\$ (483,549)</b> | <b>\$ 204,697</b>         | <b>\$ 688,246</b>                     |
| <b>Fund Balance - January 1</b>                         | <b>3,790,460</b>        | <b>3,790,460</b>    | <b>3,790,460</b>          | <b>-</b>                              |
| <b>Fund Balance - December 31</b>                       | <b>\$ 3,306,911</b>     | <b>\$ 3,306,911</b> | <b>\$ 3,995,157</b>       | <b>\$ 688,246</b>                     |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  | Budgeted Amounts    |                     | Actual<br>Amounts   | Variance with<br>Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
|  | Original            | Final               |                     |                               |
| <b>Revenues</b>  |                     |                     |                     |                               |
| Taxes  | \$ 752,868          | \$ 752,868          | \$ 664,084          | \$ (88,784)                   |
| Intergovernmental                                      | 3,653,132           | 3,913,132           | 3,470,130           | (443,002)                     |
| Charges for services                                   | -                   | -                   | 31,489              | 31,489                        |
| Investment earnings                                    | 75,000              | 75,000              | 130,519             | 55,519                        |
| Miscellaneous  | 150,000             | 150,000             | 98,460              | (51,540)                      |
| <b>Total Revenues</b>                                  | <b>\$ 4,631,000</b> | <b>\$ 4,891,000</b> | <b>\$ 4,394,682</b> | <b>\$ (496,318)</b>           |
| <b>Expenditures</b>                                    |                     |                     |                     |                               |
| <b>Current</b>   |                     |                     |                     |                               |
| <b>Highways and streets</b>                            |                     |                     |                     |                               |
| Administration   | \$ 227,089          | \$ 227,089          | \$ 183,414          | \$ 43,675                     |
| Maintenance  | 1,419,194           | 1,419,194           | 1,181,983           | 237,211                       |
| Construction   | 3,484,130           | 3,484,130           | 2,842,366           | 641,764                       |
| Equipment and maintenance shops                        | 312,687             | 312,687             | 391,486             | (78,799)                      |
| <b>Total highways and streets</b>                      | <b>\$ 5,443,100</b> | <b>\$ 5,443,100</b> | <b>\$ 4,599,249</b> | <b>\$ 843,851</b>             |
| <b>Intergovernmental</b>                               |                     |                     |                     |                               |
| Highways and streets                                   | -                   | 260,000             | 249,773             | 10,227                        |
| <b>Total Expenditures</b>                              | <b>\$ 5,443,100</b> | <b>\$ 5,703,100</b> | <b>\$ 4,849,022</b> | <b>\$ 854,078</b>             |
| <b>Net Change in Fund Balance</b>                      | <b>\$ (812,100)</b> | <b>\$ (812,100)</b> | <b>\$ (454,340)</b> | <b>\$ 357,760</b>             |
| <b>Fund Balance - January 1</b>                        | <b>4,515,066</b>    | <b>4,515,066</b>    | <b>4,515,066</b>    | <b>-</b>                      |
| <b>Increase (decrease) in reserved for inventories</b> | <b>-</b>            | <b>-</b>            | <b>22,959</b>       | <b>22,959</b>                 |
| <b>Fund Balance - December 31</b>                      | <b>\$ 3,702,966</b> | <b>\$ 3,702,966</b> | <b>\$ 4,083,685</b> | <b>\$ 380,719</b>             |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                   | Budgeted Amounts    |                     | Actual<br>Amounts   | Variance with<br>Final Budget |
|-----------------------------------|---------------------|---------------------|---------------------|-------------------------------|
|                                   | Original            | Final               |                     |                               |
| <b>Revenues</b>                   |                     |                     |                     |                               |
| Taxes                             | \$ 1,757,501        | \$ 1,757,501        | \$ 1,558,962        | \$ (198,539)                  |
| Intergovernmental                 | 2,331,232           | 2,331,232           | 2,586,502           | 255,270                       |
| Charges for services              | 78,062              | 78,062              | 66,914              | (11,148)                      |
| Gifts and contributions           | 10,000              | 10,000              | 14,180              | 4,180                         |
| Investment earnings               | 200                 | 200                 | 349                 | 149                           |
| Miscellaneous                     | 118,900             | 118,900             | 119,549             | 649                           |
| <b>Total Revenues</b>             | <b>\$ 4,295,895</b> | <b>\$ 4,295,895</b> | <b>\$ 4,346,456</b> | <b>\$ 50,561</b>              |
| <b>Expenditures</b>               |                     |                     |                     |                               |
| <b>Current</b>                    |                     |                     |                     |                               |
| <b>Human services</b>             |                     |                     |                     |                               |
| Income maintenance                | \$ 1,115,790        | \$ 1,115,790        | \$ 1,127,547        | \$ (11,757)                   |
| Social services                   | 3,187,948           | 3,187,948           | 2,890,178           | 297,770                       |
| <b>Total human services</b>       | <b>\$ 4,303,738</b> | <b>\$ 4,303,738</b> | <b>\$ 4,017,725</b> | <b>\$ 286,013</b>             |
| <b>Intergovernmental</b>          |                     |                     |                     |                               |
| Health                            | 107,463             | 107,463             | 107,463             | -                             |
| <b>Total Expenditures</b>         | <b>\$ 4,411,201</b> | <b>\$ 4,411,201</b> | <b>\$ 4,125,188</b> | <b>\$ 286,013</b>             |
| <b>Net Change in Fund Balance</b> | <b>\$ (115,306)</b> | <b>\$ (115,306)</b> | <b>\$ 221,268</b>   | <b>\$ 336,574</b>             |
| <b>Fund Balance - January 1</b>   | <b>2,667,953</b>    | <b>2,667,953</b>    | <b>2,667,953</b>    | <b>-</b>                      |
| <b>Fund Balance - December 31</b> | <b>\$ 2,552,647</b> | <b>\$ 2,552,647</b> | <b>\$ 2,889,221</b> | <b>\$ 336,574</b>             |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
DITCH FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  | Budgeted Amounts    |                     | Actual<br>Amounts   | Variance with<br>Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
|  | Original            | Final               |                     |                               |
| <b>Revenues</b>                          |                     |                     |                     |                               |
| Special assessments                      | \$ 145,200          | \$ 145,200          | \$ 227,933          | \$ 82,733                     |
| Investment earnings                      | 36,000              | 36,000              | 73,398              | 37,398                        |
| Miscellaneous                            | -                   | -                   | 1,546               | 1,546                         |
| <b>Total Revenues</b>                    | <b>\$ 181,200</b>   | <b>\$ 181,200</b>   | <b>\$ 302,877</b>   | <b>\$ 121,677</b>             |
| <b>Expenditures</b>                      |                     |                     |                     |                               |
| <b>Current</b>                           |                     |                     |                     |                               |
| <b>Conservation of natural resources</b> |                     |                     |                     |                               |
| Other                                    | 239,700             | 239,700             | 131,569             | 108,131                       |
| <b>Net Change in Fund Balance</b>        | <b>\$ (58,500)</b>  | <b>\$ (58,500)</b>  | <b>\$ 171,308</b>   | <b>\$ 229,808</b>             |
| <b>Fund Balance - January 1</b>          | <b>2,670,658</b>    | <b>2,670,658</b>    | <b>2,670,658</b>    | <b>-</b>                      |
| <b>Fund Balance - December 31</b>        | <b>\$ 2,612,158</b> | <b>\$ 2,612,158</b> | <b>\$ 2,841,966</b> | <b>\$ 229,808</b>             |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

1. General Budget Policies

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

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

Budget Amendment

| Fund            | Original<br>Budget | Increase<br>(Decrease) | Final Budget |
|-----------------|--------------------|------------------------|--------------|
| Road and Bridge | \$ 5,443,100       | \$ 260,000             | \$ 5,703,100 |

2. Budget Basis of Accounting

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

3. Excess of Expenditures Over Budget

| Fund    | Expenditures | Final Budget | Excess   |
|---------|--------------|--------------|----------|
| General | \$ 5,190,955 | \$ 5,184,863 | \$ 6,092 |

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**SUPPLEMENTARY INFORMATION**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**FIDUCIARY FUNDS**

Investment Trust Funds

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

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

Agency Funds

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

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

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

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

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Statement 1*

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
INVESTMENT TRUST FUNDS  
DECEMBER 31, 2005**

|   | <b>Pooled</b>       | <b>Investments</b>   | <b>Total</b>         |
|---|---------------------|----------------------|----------------------|
| <b><u>Assets</u></b>                          |                     |                      |                      |
| Cash and cash equivalents                     | \$ 1,032,947        | \$ -                 | \$ 1,032,947         |
| Investments                                   | -                   | 11,042,279           | 11,042,279           |
| Accrued interest receivable                   | 6,999               | 108,665              | 115,664              |
|   | <b>\$ 1,039,946</b> | <b>\$ 11,150,944</b> | <b>\$ 12,190,890</b> |
| <b><u>Net Assets</u></b>                      |                     |                      |                      |
| Net assets held in trust for pool participant | <b>\$ 1,039,946</b> | <b>\$ 11,150,944</b> | <b>\$ 12,190,890</b> |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Statement 2*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
INVESTMENT TRUST FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  | Pooled               | Investments           | Total                |
|--|----------------------|-----------------------|----------------------|
| <b><u>Additions</u></b>                  |                      |                       |                      |
| Contributions from participants          | \$ 15,270,765        | \$ 5,958,310          | \$ 21,229,075        |
| Investment earnings                      | 39,763               | 199,961               | 239,724              |
| <b>Total Additions</b>                   | <b>\$ 15,310,528</b> | <b>\$ 6,158,271</b>   | <b>\$ 21,468,799</b> |
| <b><u>Deductions</u></b>                 |                      |                       |                      |
| Distributions to participants            | 14,321,473           | 7,559,244             | 21,880,717           |
| <b>Change in Net Assets</b>              | <b>\$ 989,055</b>    | <b>\$ (1,400,973)</b> | <b>\$ (411,918)</b>  |
| <b>Net Assets--Beginning of the Year</b> | <b>50,891</b>        | <b>12,551,917</b>     | <b>12,602,808</b>    |
| <b>Net Assets--End of the Year</b>       | <b>\$ 1,039,946</b>  | <b>\$ 11,150,944</b>  | <b>\$ 12,190,890</b> |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Statement 3*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                       | Balance<br>January 1 | Additions     | Deductions    | Balance<br>December 31 |
|---------------------------------------|----------------------|---------------|---------------|------------------------|
| <b><u>COMMUNITY CORRECTIONS</u></b>   |                      |               |               |                        |
| <b><u>Assets</u></b>                  |                      |               |               |                        |
| Cash and pooled investments           | \$ 179,462           | \$ 964,140    | \$ 920,166    | \$ 223,436             |
| <b><u>Liabilities</u></b>             |                      |               |               |                        |
| Due to other governments              | \$ 179,462           | \$ 964,140    | \$ 920,166    | \$ 223,436             |
| <br><b><u>MENTAL HEALTH</u></b>       |                      |               |               |                        |
| <b><u>Assets</u></b>                  |                      |               |               |                        |
| Cash and pooled investments           | \$ 366,671           | \$ 390,316    | \$ 328,517    | \$ 428,470             |
| <b><u>Liabilities</u></b>             |                      |               |               |                        |
| Due to other governments              | \$ 366,671           | \$ 390,316    | \$ 328,517    | \$ 428,470             |
| <br><b><u>STATE REVENUE</u></b>       |                      |               |               |                        |
| <b><u>Assets</u></b>                  |                      |               |               |                        |
| Cash and pooled investments           | \$ 134,408           | \$ 287,088    | \$ 380,441    | \$ 41,055              |
| <b><u>Liabilities</u></b>             |                      |               |               |                        |
| Due to other governments              | \$ 134,408           | \$ 287,088    | \$ 380,441    | \$ 41,055              |
| <br><b><u>TAXES AND PENALTIES</u></b> |                      |               |               |                        |
| <b><u>Assets</u></b>                  |                      |               |               |                        |
| Cash and pooled investments           | \$ 77,986            | \$ 11,786,188 | \$ 11,733,431 | \$ 130,743             |
| <b><u>Liabilities</u></b>             |                      |               |               |                        |
| Due to other governments              | \$ 77,986            | \$ 11,786,188 | \$ 11,733,431 | \$ 130,743             |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                      | Balance<br>January 1 | Additions     | Deductions    | Balance<br>December 31 |
|--------------------------------------|----------------------|---------------|---------------|------------------------|
| <b><u>TOTAL ALL AGENCY FUNDS</u></b> |                      |               |               |                        |
| <b><u>Assets</u></b>                 |                      |               |               |                        |
| Cash and pooled investments          | \$ 758,527           | \$ 13,427,732 | \$ 13,362,555 | \$ 823,704             |
| <b><u>Liabilities</u></b>            |                      |               |               |                        |
| Due to other governments             | \$ 758,527           | \$ 13,427,732 | \$ 13,362,555 | \$ 823,704             |

**OTHER SCHEDULE**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**Shared Revenue**

**State**

|                         |    |           |
|-------------------------|----|-----------|
| Highway users tax       | \$ | 2,451,836 |
| County program aid      |    | 792,989   |
| PERA rate reimbursement |    | 22,736    |
| Disparity reduction aid |    | 106,346   |
| Police aid              |    | 39,805    |
| Enhanced 911            |    | 65,204    |
| Market value credit     |    | 532,544   |
|                         |    | 532,544   |

**Total Shared Revenue** **\$ 4,011,460**

**Reimbursement for Services**

|  |    |           |
|--|----|-----------|
| Minnesota Department of Human Services | \$ | 1,052,727 |
|  |    | 1,052,727 |

**Payments**

|                           |    |         |
|---------------------------|----|---------|
| Payments in lieu of taxes | \$ | 59,523  |
| Local grants              |    | 107,526 |
|                           |    | 107,526 |

**Total Payments** **\$ 167,049**

**Grants**

**State**

|  |    |         |
|--|----|---------|
| Minnesota Department of                    |    |         |
| Human Services                             | \$ | 718,170 |
| Natural Resources                          |    | 7,390   |
| Public Safety                              |    | 28,566  |
| Water and Soil Resources Board             |    | 44,930  |
| Office of Environmental Assistance         |    | 24,539  |
| Peace Officer Standards and Training Board |    | 2,467   |
| Pollution Control Agency                   |    | 24,540  |
|  |    | 24,540  |

**Total State** **\$ 850,602**

**Federal**

|                           |    |         |
|---------------------------|----|---------|
| Department of             |    |         |
| Agriculture               | \$ | 3,874   |
| Justice                   |    | 32,337  |
| Transportation            |    | 814,514 |
| Health and Human Services |    | 352,341 |
| Homeland Security         |    | 337,349 |
|                           |    | 337,349 |

**Total Federal** **\$ 1,540,415**

**Total State and Federal Grants** **\$ 2,391,017**

**Total Intergovernmental Revenue** **\$ 7,622,253**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Schedule 6*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the basic financial statements of Chippewa County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Chippewa County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Chippewa County were disclosed during the audit.
- D. No reportable conditions relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Chippewa County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- |   |              |
|---|--------------|
| Highway Planning and Construction                     | CFDA #20.205 |
| Homeland Security Cluster                             |              |
| State Domestic Preparedness Equipment Support Program | CFDA #97.004 |
| Homeland Security Grant Program                       | CFDA #97.067 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Chippewa County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED 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.*

ITEM ARISING THIS YEAR

05-1 Travel Expenditure Reimbursements

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

- On one VISA bill, the County paid finance charges of \$14.35 and \$21.67.
- Meals are charged to hotel bills, thereby allowing claims without verification to bypass the travel reimbursement system.

- One employee was reimbursed from a credit card receipt that did not have proper documentation.
- One voucher for a bill from VISA did not have all supporting documentation present for charges made on the credit card.
- On a hotel bill from Hawaii, there were \$127.92 of restaurant charges for which there were no receipts.

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

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

Client’s Response:

*Delays in receiving expenditure information from county departments resulted in small amounts of interest expense. There is nothing in statutes that prohibit the payment of finance charges.*

*The Chippewa County Auditor/Treasurer’s Office will discontinue payment of any vouchers not having appropriate support documentation.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Depository Pledge Agreement

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

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

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

Client’s Response:

*Chippewa County does currently have depository pledge agreements in place with banks. Revisions will be made to those agreements to comply with Minn. Stat. § 118A.03, subd. 4.*

ITEMS ARISING THIS YEAR

05-2 Collateral Pledged to Secure Deposits

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

Minn. Stat. § 118A.03 provides that, to the extent funds deposited are in excess of available federal deposit insurance, “[t]he total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day.”

We recommend that the County Auditor/Treasurer monitor the deposits in designated depositories to ensure that County funds are fully protected as required by Minn. Stat. § 118A.03 at all times.

Client's Response:

*An error was made calculating market values at year-end. The situation was corrected as soon as possible.*

05-3

Assignment of Collateral

The County does not have a pledge agreement with Prairie Sun Bank, nor does the County have a safekeeping agreement for collateral pledged to the bank to address Minnesota statutory requirements. The County receives a "Pledge Receipt" from First Tennessee Bank when Prairie Sun Bank pledges collateral to the County. The receipt does not sufficiently meet Minnesota statutory requirements by itself.

Minn. Stat. § 118A.03, subd. 4, states, "Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. 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."

Minn. Stat. § 118A.03, subd. 5, states, "A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity."

We recommend that the County Auditor/Treasurer obtain the necessary safekeeping agreement and comply with Minnesota statutes.

Client's Response:

*Prairie Sun Bank has executed a depository pledge agreement. That agreement is also scheduled for previously noted revisions.*

05-4 Prompt Payment Language in Contracts

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

We recommend that the County comply with Minn. Stat. § 471.425, subd. 4a, by implementing statutory language in contracts to ensure compliance.

Client’s Response:

*The County will insert language into contracts that will comply with Minn. Stat. § 471.425, subd. 4a.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Collateral Substitution (03-2)**

The procedures used for pledging new collateral and for collateral substitutions changed for Minnwest Bank. The Depository Pledge Agreement stated that substitution could be without depositor’s written consent.

**Resolution**

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

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 Road and Bridge Fund differed by \$812,100. 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:

*Chippewa County will implement procedures that will accommodate budget revisions when warranted.*

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans and

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

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

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

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

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

## **OTHER REQUIRED REPORTS**

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners  
Chippewa County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2005, and have issued our report thereon dated May 31, 2006. 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 certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. 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 conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 05-1.

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 conditions indicated above are material weaknesses.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Chippewa County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 04-1 and 05-2 through 05-4.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: May 31, 2006



# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

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

Board of County Commissioners  
Chippewa County

### Compliance

We have audited the compliance of Chippewa County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. Chippewa County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs are the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Chippewa County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

### Internal Control Over Compliance

The management of Chippewa County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Chippewa County as of and for the year ended December 31, 2005, and have issued our report thereon dated May 31, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: May 31, 2006

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Schedule 7*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b>   | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b> | <b>Passed Through<br/>to Subrecipients</b> |
|--|------------------------------------|---------------------|--|
| <b>U.S. Department of Agriculture</b>  |                                    |                     |  |
| Passed Through Minnesota Department of Human Services<br>State Administrative Matching Grants for Food Stamp Program | 10.561                             | \$ <b>3,874</b>     | \$ -                                       |
| <b>U.S. Department of Justice</b>  |                                    |                     |  |
| Passed Through Minnesota Department of Public Safety<br>Crime Victim Assistance                                      | 16.575                             | \$ 23,750           | \$ -                                       |
| Local Law Enforcement Block Grant Program  | 16.592                             | 3,924               | -  |
| Direct<br>State Criminal Alien Assistance Program  | 16.606                             | 4,273               | -  |
| Passed Through Minnesota Department of Public Safety<br>Enforcing Underage Drinking Laws Program                     | 16.727                             | 390                 | -  |
| <b>Total U.S. Department of Justice</b>  |                                    | <b>\$ 32,337</b>    | <b>\$ -</b>                                |
| <b>U.S. Department of Transportation</b>   |                                    |                     |  |
| Passed Through Minnesota Department of Transportation<br>Highway Planning and Construction                           | 20.205                             | \$ 812,788          | \$ -                                       |
| Passed Through Minnesota Department of Public Safety<br>State and Community Highway Safety                           | 20.600                             | 1,726               | -  |
| <b>Total U.S. Department of Transportation</b>   |                                    | <b>\$ 814,514</b>   | <b>\$ -</b>                                |
| <b>U.S. Environmental Protection Agency</b>  |                                    |                     |  |
| Passed Through Minnesota Pollution Control Agency<br>Nonpoint Source Implementation Grants                           | 66.460                             | \$ <b>55,717</b>    | \$ <b>55,717</b>                           |
| <b>U.S. Department of Health and Human Services</b>  |                                    |                     |  |
| Passed Through Minnesota Department of Human Services<br>Promoting Safe and Stable Families                          | 93.556                             | \$ 11,169           | \$ -                                       |
| Temporary Assistance for Needy Families (TANF)   | 93.558                             | 96,142              | -  |
| Child Care and Development Block Grant   | 93.575                             | 69,640              | -  |
| Child Care Mandatory and Matching Funds of the Child Care<br>and Development Fund                                    | 93.596                             | 37,434              | -  |
| Child Welfare Services - State Grants  | 93.645                             | 6,296               | -  |
| Foster Care - Title IV-E   | 93.658                             | 22,875              | -  |
| Social Services Block Grant  | 93.667                             | 99,415              | -  |

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*Schedule 7*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b> | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b> | <b>Passed Through<br/>to Subrecipients</b> |
|--|------------------------------------|---------------------|--|
| <b>U.S. Department of Health and Human Services</b>                    |                                    |                     |  |
| Passed Through Minnesota Department of Human Services<br>(Continued)   |                                    |                     |  |
| Chafee Foster Care Independence Program                                | 93.674                             | 5,650               | -  |
| Block Grants for Community Mental Health Services                      | 93.958                             | 3,720               | -  |
| <b>Total U.S. Department of Health and Human Services</b>              |                                    | <b>\$ 352,341</b>   | <b>\$ -</b>                                |
| <b>U.S. Department of Homeland Security</b>                            |                                    |                     |  |
| Passed Through Minnesota Department of Public Safety                   |                                    |                     |  |
| State Domestic Preparedness Equipment Support Program                  | 97.004                             | \$ 322,845          | \$ -                                       |
| Passed Through United Way  |                                    |                     |  |
| Emergency Food and Shelter National Board Program                      | 97.024                             | 1,915               | -  |
| Passed Through Minnesota Department of Public Safety                   |                                    |                     |  |
| Emergency Management Performance Grants                                | 97.042                             | 6,299               | -  |
| Homeland Security Grant Program  | 97.067                             | 6,290               | -  |
| <b>Total U.S. Department of Homeland Security</b>                      |                                    | <b>\$ 337,349</b>   | <b>\$ -</b>                                |
| <b>Total Federal Awards</b>  |                                    | <b>\$ 1,596,132</b> | <b>\$ 55,717</b>                           |

Notes to Schedule of Expenditures of Federal Awards.

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Chippewa County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2005, \$55,717 of CFDA No. 66.460 was passed through to a subrecipient. These funds were not reported as either revenues or expenditures of the County, as they were passed through to another entity.
4. Pass-through grant numbers were not assigned by the pass-through agencies.