STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Year Ended December 31, 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

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Introductory Section

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

ORGANIZATION
2008

Office	Name	Term Expires
Commissioners		
1st District	Kenneth Koenen	January 2009
2nd District	Jeffrey Lopez[2]	January 2009
3rd District	Mark Dahl	January 2011
4th District	Jim Dahlvang	January 2009
5th District	Gene Van Binsbergen[1]	January 2011
Officers		
Elected		
Attorney	Dwayne Knutsen	January 2011
Auditor/Treasurer	Jon Clauson	January 2011
Coroner	Erik Shelstad, M.D.	January 2011
County Recorder and Registrar of Titles	Diane Ketelsen	January 2011
Sheriff	Stacy Tufto	January 2011
Appointed		
Assessor	Carol Schultz	Indefinite
Community Corrections	Midge Christianson	Indefinite
Deputy Registrar	Sandra Hodge	Indefinite
Highway Engineer	Steve Kubista	Indefinite
Land and Resource Management	Scott Williams	Indefinite
Veterans Service Officer	Dennis Anderson	Indefinite
Family Services Director	Betty Christensen	Indefinite
Data Processing	Kathy Leindecker	Indefinite

[1]Chair 2007
[2]Chair 2008

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

REBECCA OTTO
STATE AUDITOR

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
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 accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Chippewa County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 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, 2008, 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.

As discussed in Note 3.C., Chippewa County has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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The Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, 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 financial statements that collectively comprise Chippewa County's basic financial statements. The supplementary information and schedule listed in the table of contents are presented for purposes of additional analysis and are 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 presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2009, on our consideration of Chippewa County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 25, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(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, 2008. 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, 2008) by $58,706,209 (net assets). Of this amount, $15,619,521 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.

- Chippewa County's total net assets increased by $893,048. The increase is a combination of additional capital assets and budget savings from operations.

- As of the close of the 2008 fiscal year, Chippewa County's governmental funds' ending fund balances were $15,582,238 compared to $15,349,703 in 2007. Approximately 40.3 percent of the amount ($6,285,195) is available for spending at Chippewa County's discretion (unreserved, undesignated fund balance).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Chippewa County, assets exceeded liabilities by $58,706,209 on December 31, 2008.

Capital assets of $42,511,551 (land; buildings; machinery and equipment; infrastructure; improvements to land; and construction in progress, net of accumulated depreciation) represent the largest portion of net assets (72.41 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 ($15,619,521) may be used to meet the government's ongoing obligations to citizens and creditors.

Net Assets

	Governmental Activities	
	2008	2007
Assets		
Current and other assets	$ 17,638,160	$ 17,008,724
Capital assets	42,511,551	41,965,310
Total Assets	$ 60,149,711	$ 58,974,034
Liabilities		
Long-term liabilities	$ 959,337	$ 804,760
Other liabilities	484,165	356,113
Total Liabilities	$ 1,443,502	$ 1,160,873
Net Assets		
Invested in capital assets	$ 42,511,551	$ 41,965,310
Restricted	575,137	438,057
Unrestricted	15,619,521	15,409,794
Total Net Assets	$ 58,706,209	$ 57,813,161

Unrestricted net assets at December 31, 2008--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--are 26.6 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 1.545 percent ($58,706,209 for 2008 compared to $57,813,161 for 2007). Key elements in this increase in net assets are as follows:

Changes in Net Assets

	2008	2007
Revenues		
Program revenues		
Charges for services	$ 1,571,444	$ 1,467,262
Operating grants and contributions	4,702,035	4,491,694
Capital grants and contributions	1,277,549	1,409,214
General revenues		
Property taxes	6,097,852	5,571,678
Other	2,163,766	2,459,652
Total Revenues	$ 15,812,646	$ 15,399,500
Expenses		
General government	$ 2,949,880	$ 2,661,313
Public safety	1,945,596	1,912,283
Highways and streets	4,018,527	2,964,231
Sanitation	235,858	235,774
Human services	4,396,411	4,536,148
Health	107,463	134,138
Culture and recreation	416,575	376,564
Conservation of natural resources	792,082	968,684
Economic development	53,094	208,104
Interest	4,112	4,612
Total Expenses	$ 14,919,598	$ 14,001,851
Increase in Net Assets	$ 893,048	$ 1,397,649
Net Assets - January 1	57,813,161	56,415,512
Net Assets - December 31	$ 58,706,209	$ 57,813,161

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 $15,582,238, an increase of $233,205, or 1.51 percent, in comparison with the prior year. Of the combined ending fund balances, $15,069,084 represents unreserved fund balance, which is available for spending at the County Board's discretion. The remainder of the fund balance, $513,154 is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of 2008, it had an unreserved fund balance of $4,335,763. 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 62.8 percent of total General Fund expenditures. During 2008, the ending fund balance decreased by $84,439. The primary reasons for the decrease were lower than anticipated interest income ($41,389) and the Governor's unallotment of County Program Aid fund for counties ($66,164).

The Road and Bridge Special Revenue Fund had an unreserved fund balance of $4,642,546 at the end of 2008, representing 123.58 percent of its annual expenditures. The ending fund balance increased by $95,829 during 2008, primarily due to lower than anticipated expenses in the maintenance department by $279,658.

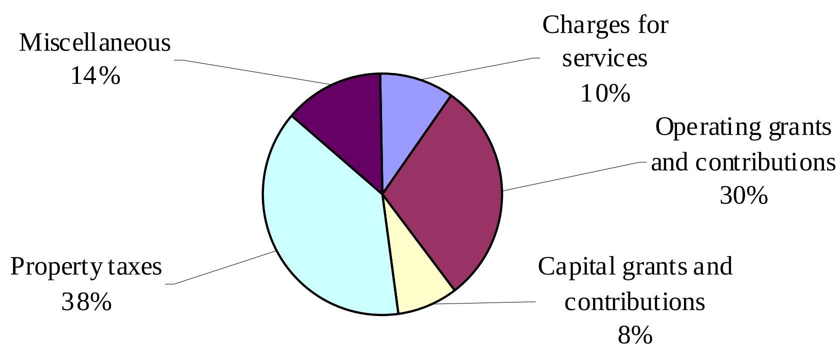
The Family Services Special Revenue Fund had an unreserved fund balance of $2,952,040 at the end of 2008, representing 65.81 percent of its annual expenditures. The ending fund balance increased by $120,360 during 2008, primarily due to lower than anticipated expenditures in Department 430 (Individual and Family Services) for child foster care of $81,966 and payments to correctional facilities of $50,972.

The Ditch Special Revenue Fund has an unreserved fund balance of $3,138,735 at the end of 2008. The ending fund balance increased by $101,455 during 2008, primarily due to greater revenues from repair liens filed for previous ditch repairs.

GOVERNMENTAL ACTIVITIES

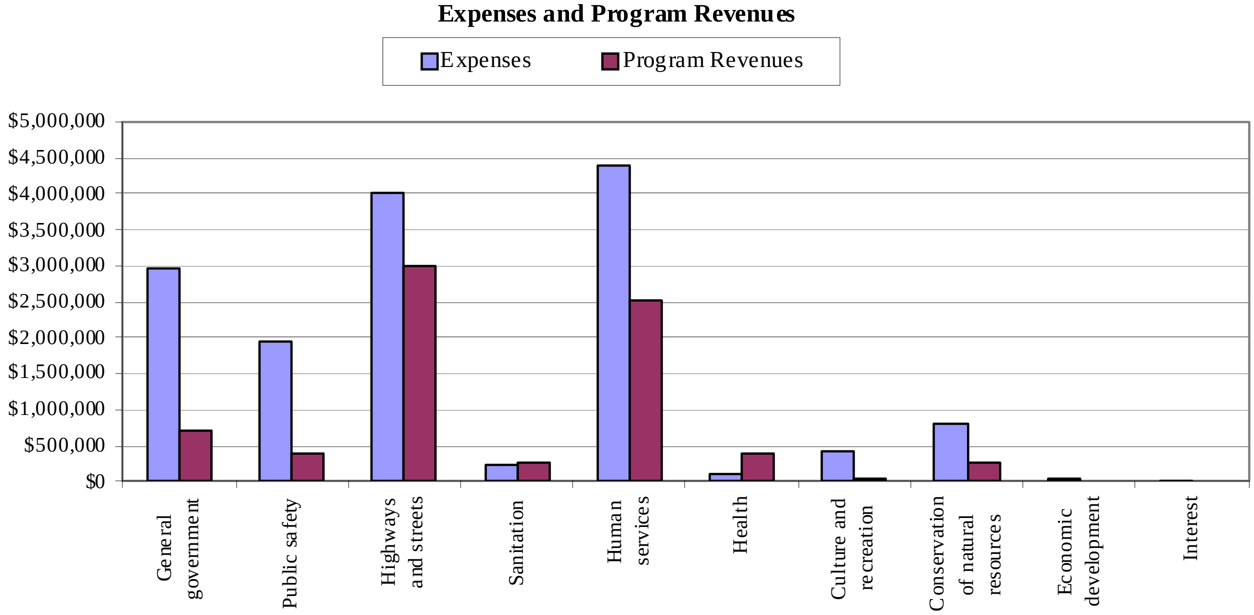
The County's total revenues were $15,812,646. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2008.

Table 1
Revenues by Source



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

Table 2
Expenses and Program Revenues



The cost of all governmental activities in 2008 was $14,919,598. However, as shown on the Statement of Activities, Exhibit 2, the amount that Chippewa County taxpayers ultimately financed these activities through County taxes was $7,368,570 because some of the cost was paid by those who directly benefited from the programs ($1,571,444) or by other governments and organizations that subsidized certain programs with grants and contributions ($5,979,584). The County paid for the remaining "public benefit" portion of governmental activities with $8,261,618 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

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

Table 3
Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008
General government	$ 2,949,880	$ 2,252,754
Public safety	1,945,596	1,551,322
Highways and streets	4,018,527	1,012,906
Sanitation	235,858	(6,732)
Human services	4,396,411	1,883,552
Health	107,463	(277,869)
Culture and recreation	416,575	373,775
Conservation of natural resources	792,082	521,656
Economic development	53,094	53,094
Interest	4,112	4,112
Totals	$ 14,919,598	$ 7,368,570

General Fund Budgetary Highlights

Over the course of the year, the County Board increased the General Fund Expenditure Budget by $1,072,772. The actual charges to appropriations (expenditures) were $282,046 under the approved budget amounts. Several factors affecting those budget variances were:

- During 2008, significant changes were made to the front of the Courthouse and adjacent parking area as a result of the Highway 7 reconstruction project commenced by the State of Minnesota. In addition to reconstructing the parking area on the east side of 11th Street, a new parking area was added on the south side of the south wing of the Courthouse. Changes were made to landscaping in the front of the Courthouse property to accommodate storm water runoff. The expenditures for the Courthouse and parking lot improvements were largely offset by funds obtained by the sale of real estate and easements to the State of Minnesota for the highway project. The receipts and disbursements related to the Courthouse lot and parking lot improvements were not included in the original budget.

- In addition to the changes made to the outside of the Courthouse property, replacements of the equipment and the controls that operate the elevator in the Courthouse were made. These expenditures far exceeded expected amounts included in the original budget.

- Other significant contributors to the budget adjustments were for the Chippewa River Watershed program and the Individual Septic Treatment System loan program. These two grant programs have expenditures offset by grant funds that pass through the County. Neither income nor expenses were reflected in the original 2008 budget.

- During 2008, Chippewa County purchased equipment and software for storing County information electronically (imaging) as opposed to retaining paper records. These expenditures were supported by the use of reserve funds on hand and were not included in the original budget.

- The Jail experienced lower than anticipated expenditures due to the lower number of prisoners being boarded in the Yellow Medicine County Jail and reduced expenditures due to the reduced number of inmate meals and meds in the Chippewa County Jail.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2008, totaled $42,511,551 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $546,241, or 1.3 percent from the previous year. The major capital asset event was construction of highways and streets of $1,349,223.

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

	2008	2007
Land and right-of-way	$ 1,592	$ 1,428
Infrastructure	36,741	36,366
Buildings	2,249	2,205
Machinery and equipment	1,704	1,765
Construction in progress	226	201
Total	$ 42,512	$ 41,965

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 liabilities 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 2009 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Chippewa County at the end of 2008 was 6.7 percent. This compares with the state unemployment rate of 6.6 percent and shows an increase from the County's 4.9 percent rate of one year ago. This could impact the level of services requested by County residents.

- 2008 property tax levy for the County increased 7.99 percent ($494,638) from 2007. The increase is due to several factors: reductions in state aids and reserve fund use and increases in 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, 2008

Assets		
Cash and pooled investments	$	7,965,329
Investments		7,522,893
Receivables - net		2,002,879
Inventories		133,415
Prepaid items		13,644
Capital assets		
Non-depreciable capital assets		1,817,917
Depreciable capital assets - net of accumulated depreciation		40,693,634
Total Assets	**$**	**60,149,711**
Liabilities		
Accounts payable and other current liabilities	$	484,165
Long-term liabilities		
Due within one year		66,729
Due in more than one year		892,608
Total Liabilities	**$**	**1,443,502**
Net Assets		
Invested in capital assets - net of related debt	$	42,511,551
Restricted for		
Public safety		23,682
Highways and streets		316,404
Conservation of natural resources		25,544
Other purposes		209,507
Unrestricted		15,619,521
Total Net Assets	**$**	**58,706,209**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs					
Primary government					
Governmental activities					
General government	$ 2,949,880	$ 553,225	$ 143,901	$ -	$ (2,252,754)
Public safety	1,945,596	207,411	186,863	-	(1,551,322)
Highways and streets	4,018,527	81,899	1,646,173	1,277,549	(1,012,906)
Sanitation	235,858	242,590	-	-	6,732
Human services	4,396,411	275,957	2,236,902	-	(1,883,552)
Health	107,463	-	385,332	-	277,869
Culture and recreation	416,575	42,800	-	-	(373,775)
Conservation of natural resources	792,082	167,562	102,864	-	(521,656)
Economic development	53,094	-	-	-	(53,094)
Interest	4,112	-	-	-	(4,112)
Total Governmental Activities	**$ 14,919,598**	**$ 1,571,444**	**$ 4,702,035**	**$ 1,277,549**	**$ (7,368,570)**

General Revenues	
Property taxes	$ 6,097,852
Mortgage registry and deed tax	8,005
Payments in lieu of tax	136,952
Grants and contributions not restricted to specific programs	1,207,661
Unrestricted investment income	488,462
Miscellaneous	310,224
Gain on disposal of capital assets	12,462
Total general revenues	**$ 8,261,618**
Change in net assets	**$ 893,048**
Net Assets - Beginning	**57,813,161**
Net Assets - Ending	**$ 58,706,209**

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

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Road and Bridge	Family Services	Ditch Revenue	Total
Assets					
Cash and pooled investments	$ 4,110,008	$ 378,956	$ 3,015,209	$ 374,212	$ 7,878,385
Undistributed cash in agency funds	39,910	9,381	21,172	202	70,665
Petty cash and change funds	2,000	100	100	-	2,200
Departmental cash	14,079	-	-	-	14,079
Investments	514,432	4,202,461	6,000	2,800,000	7,522,893
Taxes receivable					
Prior	59,062	14,422	32,233	-	105,717
Special assessments receivable					
Prior	19,503	-	-	42	19,545
Noncurrent	400,374	-	-	492,039	892,413
Accounts receivable	15,801	343	25,920	2,678	44,742
Loans receivable	106,196	-	-	-	106,196
Accrued interest receivable	48,765	26,976	49	-	75,790
Due from other governments	32,282	492,159	186,736	47,299	758,476
Inventories	-	133,415	-	-	133,415
Prepaid items	8,194	5,450	-	-	13,644
Total Assets	**$ 5,370,606**	**$ 5,263,663**	**$ 3,287,419**	**$ 3,716,472**	**$ 17,638,160**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Road and Bridge	Family Services	Ditch Revenue	Total
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 128,544	$ 13,000	$ 105,458	$ 6,785	$ 253,787
Salaries payable	12,911	3,270	2,983	-	19,164
Due to other governments	34,079	1,587	146,612	28,936	211,214
Deferred revenue - unavailable	511,159	463,800	54,782	542,016	1,571,757
Total Liabilities	**$ 686,693**	**$ 481,657**	**$ 309,835**	**$ 577,737**	**$ 2,055,922**
Fund Balances					
Reserved for					
Prepaid items	$ 8,194	$ 5,450	$ -	$ -	$ 13,644
Missing heirs	20,992	-	-	-	20,992
Inventories	-	133,415	-	-	133,415
Highway allotments	-	595	-	-	595
Sheriff's contingency	8,170	-	-	-	8,170
Gun permit fees	10,471	-	-	-	10,471
Boat and water safety	747	-	-	-	747
Recorder's technology fund	92,684	-	-	-	92,684
Recorder's compliance fund	84,096	-	-	-	84,096
Drug task force forfeitures	4,294	-	-	-	4,294
Attorney's forfeited property	11,624	-	-	-	11,624
Unclaimed property	154	-	-	-	154
Septic/sewer loans	106,613	-	-	-	106,613
Election equipment grant	111	-	-	-	111
Unspent grant monies	-	-	25,544	-	25,544
Unreserved					
Designated for future expenditures	4,335,763	2,434,000	1,400,000	-	8,169,763
Designated for capital expenditures	-	-	100,000	-	100,000
Designated for out-of-home care	-	-	500,000	-	500,000
Designated for caregiver program	-	-	14,126	-	14,126
Undesignated	-	2,208,546	937,914	3,138,735	6,285,195
Total Fund Balances	**$ 4,683,913**	**$ 4,782,006**	**$ 2,977,584**	**$ 3,138,735**	**$ 15,582,238**
Total Liabilities and Fund Balances	**$ 5,370,606**	**$ 5,263,663**	**$ 3,287,419**	**$ 3,716,472**	**$ 17,638,160**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2008

Fund balance - total governmental funds (Exhibit 3)		**$ 15,582,238**
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.		42,511,551
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,571,757
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	$ (425,438)	
OPEB liability	(47,671)	
Compensated absences	(486,228)	(959,337)
Net Assets of Governmental Activities (Exhibit 1)		**$ 58,706,209**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Road and Bridge	Family Services	Ditch Revenue	Total
Revenues					
Taxes	$ 3,463,173	$ 808,234	$ 1,822,932	$ 1,198	$ 6,095,537
Special assessments	153,257	-	-	195,590	348,847
Licenses and permits	13,198	-	-	-	13,198
Intergovernmental	1,711,627	2,767,402	2,497,604	-	6,976,633
Charges for services	575,858	45,887	113,268	63,019	798,032
Gifts and contributions	5,190	-	9,257	-	14,447
Investment earnings	271,770	153,216	272	94,656	519,914
Miscellaneous	535,286	77,761	162,689	1,453	777,189
Total Revenues	**$ 6,729,359**	**$ 3,852,500**	**$ 4,606,022**	**$ 355,916**	**$ 15,543,797**
Expenditures					
Current					
General government	$ 3,175,790	$ -	$ -	$ -	$ 3,175,790
Public safety	1,854,436	-	-	-	1,854,436
Highways and streets	-	3,509,203	-	-	3,509,203
Sanitation	230,617	-	-	-	230,617
Human services	-	-	4,378,199	-	4,378,199
Culture and recreation	400,742	-	-	-	400,742
Conservation of natural resources	549,968	-	-	254,461	804,429
Economic development	53,094	-	-	-	53,094
Intergovernmental	601,672	247,468	107,463	-	956,603
Debt service					
Principal	25,354	-	-	-	25,354
Interest	4,112	-	-	-	4,112
Total Expenditures	**$ 6,895,785**	**$ 3,756,671**	**$ 4,485,662**	**$ 254,461**	**$ 15,392,579**
Excess of Revenues Over (Under) Expenditures	**$ (166,426)**	**$ 95,829**	**$ 120,360**	**$ 101,455**	**$ 151,218**
Other Financing Sources (Uses)					
Loans issued	81,987	-	-	-	81,987
Net Change in Fund Balance	**$ (84,439)**	**$ 95,829**	**$ 120,360**	**$ 101,455**	**$ 233,205**
Fund Balance - January 1	**4,768,352**	**4,686,847**	**2,857,224**	**3,037,280**	**15,349,703**
Increase (decrease) in reserved for inventories	**-**	**(670)**	**-**	**-**	**(670)**
Fund Balance - December 31	**$ 4,683,913**	**$ 4,782,006**	**$ 2,977,584**	**$ 3,138,735**	**$ 15,582,238**

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

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, 2008

Net change in fund balances - total governmental funds (Exhibit 5)		**$ 233,205**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 1,571,757	
Deferred revenue - January 1	(1,302,908)	268,849
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.		
Expenditures for general capital assets and infrastructure	$ 2,165,610	
Net book value of disposed assets	(41,809)	
Current year depreciation	(1,577,560)	546,241
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		25,354
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		(81,987)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in inventories	$ (670)	
Change in OPEB liability	(47,671)	
Change in compensated absences	(50,273)	(98,614)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 893,048**

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

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FIDUCIARY FUNDS

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2008

	Investment Trusts	Agency
Assets		
Cash and pooled investments	$ 2,299,816	$ 827,680
Investments	18,116,094	-
Accrued interest	212,216	-
Total Assets	**$ 20,628,126**	**$ 827,680**
Liabilities		
Due to other governments	**$ -**	**$ 827,680**
Net Assets		
Net assets, held in trust	**$ 20,628,126**	

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 8

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

		Investment Trusts
Additions		
Contributions from participants	$	83,995,614
Interest		706,916
Total Additions	**$**	**84,702,530**
Deductions		
Distribution to participants		101,018,758
Change in net assets	**$**	**(16,316,228)**
Net Assets - Beginning of the Year		**36,944,354**
Net Assets - End of the Year	**$**	**20,628,126**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

The County participates in several joint ventures described in Note 4.C. The County also participates in jointly-governed organizations described in Note 4.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, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities normally are supported by taxes and intergovernmental revenue.

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

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

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

      2. Fund Financial Statements

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

         The County reports the following major governmental funds:

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Road and Bridge Special Revenue Fund 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 Revenue 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.

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.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, 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 2008 were $519,914.

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

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories

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

4. Capital Assets

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

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

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

5. Compensated Absences

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

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, 2008, Chippewa County reported 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. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	$	7,965,329
Investments		7,522,893
Statement of fiduciary net assets		
Cash and pooled investments		3,127,496
Investments		18,116,094
Total Cash and Investments	$	36,731,812

Checking	$	2,633,821
Petty cash and change funds		2,200
Departmental cash		14,079
Savings		2,518,666
Money market		2,137,081
Certificates of deposit		3,500,000
Investments		25,925,965
Total Cash and Investments	$	36,731,812

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2008, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

(4) bankers' acceptances of United States banks;

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

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

Interest Rate Risk

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

At December 31, 2008, the County had the following investments:

	Fair Value	Less Than 1 Year	1 - 5 Years	5+ Years
U.S. agency securities	$ 8,828,428	$ 8,828,428	$ -	$ -
MAGIC Fund	8,085,905	8,085,905	-	-
Negotiable certificates of deposit	9,011,632	9,011,632	-	-
Total Investments	$ 25,925,965	$ 25,925,965	$ -	$ -

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. The County's exposure to credit risk at December 31, 2008, is as follows:

	S & P Rating	Fair Value
U.S. government agency securities	AAA	$ 8,828,428
MAGIC Fund	N/R	8,085,905
Negotiable certificates of deposit	N/A	9,011,632
Total		$ 25,925,965

N/R - Not rated
N/A - Not applicable

Custodial Credit Risk

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2008, $5,967,677 of Federal Home Loan Bank Bonds held by the County were subject to custodial credit risk.

Issuer	Carrying (Fair) Value
Federal Home Loan Bank	$ 4,554,552
Federal Home Loan Mortgage Corporation	1,413,125
Total	$ 5,967,677

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, 2008, by issuer, not including negotiable certificates of deposit:

Issuer	Reported Amount
Federal Home Loan Bank	$ 4,554,552
Federal Home Loan Mortgage Corporation	1,413,125
MAGIC Fund	10,785,371

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

c. External Investment Pool

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

Cash and pooled investments	
Belonging to the County	$ 7,878,385
Held in trust for the Hospital	1,988,800
Total Cash and Pooled Investments	$ 9,867,185

2. Receivables

Receivables as of December 31, 2008, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 105,717	$ -
Special assessments	911,958	892,413
Accounts	44,742	-
Interest	75,790	-
Loans	106,196	-
Due from other governments	758,476	-
Total Receivables - Net	$ 2,002,879	$ 892,413

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 936,647	$ 163,719	$ -	$ 1,100,366
Right-of-way	491,493	-	-	491,493
Construction in progress	200,670	144,389	119,001	226,058
Total capital assets not depreciated	$ 1,628,810	$ 308,108	$ 119,001	$ 1,817,917
Capital assets depreciated				
Buildings	$ 8,550,786	$ 209,305	$ 12,000	$ 8,748,091
Machinery and equipment	4,564,378	417,975	287,563	4,694,790
Infrastructure	48,368,061	1,349,223	-	49,717,284
Total capital assets depreciated	$ 61,483,225	$ 1,976,503	$ 299,563	$ 63,160,165
Less: accumulated depreciation for				
Buildings	$ 6,345,620	$ 165,906	$ 12,000	$ 6,499,526
Machinery and equipment	2,799,204	437,313	245,754	2,990,763
Infrastructure	12,001,901	974,341	-	12,976,242
Total accumulated depreciation	$ 21,146,725	$ 1,577,560	$ 257,754	$ 22,466,531
Total capital assets depreciated, net	$ 40,336,500	$ 398,943	$ 41,809	$ 40,693,634
Capital Assets, Net	$ 41,965,310	$ 707,051	$ 160,810	$ 42,511,551

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

General government	$ 137,994
Public safety	112,959
Highways and streets, including depreciation of infrastructure assets	1,262,221
Sanitation	1,848
Human services	37,163
Culture and recreation	15,833
Conservation of natural resources	9,542
Total Depreciation Expense - Governmental Activities	$ 1,577,560

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

	Governmental Activities
Accounts	$ 253,787
Salaries	19,164
Due to other governments	211,214
Total Payables	$ 484,165

2. Long-Term Debt--Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
Hawk Creek Loan (SRF0074)	2014	$ 13,921	2.0	$ 125,605	$ 72,163
Hawk Creek Continuation Loan (SRF0119)	2016	8,024	2.0	72,398	59,048
Chippewa River Watershed Continuation Loan (SRF0112)	2016	6,153	2.0	67,862	55,348
Loan Additions					
Hawk Creek Watershed Loan (SRF0158)	2020	-	2.0	202,296	140,952
Chippewa River Watershed Loan (SRF0159)	2019	-	2.0	312,000	97,927
Total				$ 780,161	$ 425,438

2. Detailed Notes on All Funds

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean water loans payable	$ 368,805	$ 81,987	$ 25,354	$ 425,438	$ 25,864
Compensated absences	435,955	50,273	-	486,228	40,865
Net OPEB liability	-	47,671	-	47,671	-
Long-Term Liabilities	$ 804,760	$ 179,931	$ 25,354	$ 959,337	$ 66,729

4. Debt Service Requirements

Year Ending December 31	Loans Payable Principal	Loans Payable Interest
2009	$ 25,864	$ 3,603
2010	26,384	3,083
2011	26,914	2,552
2012	27,455	2,011
2013	25,007	1,460
2014 - 2016	54,935	1,659
Total	$ 186,559	$ 14,368

Clean water loans in the amount of $238,879 are not included in the debt service requirements because a fixed repayment schedule is not available.

5. Conduit Debt

In 2007, Chippewa County issued $36,565,000 of Gross Revenue Hospital Bonds to provide financial assistance to the Montevideo Hospital for the acquisition, construction, and equipping of a new hospital located in the City. The bonds are secured by the property. They are financed and payable solely from revenues of the Hospital. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2008, the outstanding principal amount payable was $36,565,000. The first principal payment is due in 2011.

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

1. Plan Description

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

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 as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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 defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

1. Plan Description (Continued)

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

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

2. Funding Policy (Continued)

Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2008	2007	2006
Public Employees Retirement Fund	$ 236,804	$ 257,684	$ 204,889
Public Employees Police and Fire Fund	68,278	66,583	51,951
Public Employees Correctional Fund	26,215	24,865	24,302

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

3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

Five County Commissioners of Chippewa County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies plan provisions, including 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. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2008, were:

	Employee	Employer
Contribution amount	$ 6,705	$ 6,705
Percentage of covered payroll	5%	5%

Required contribution rates were five percent.

3. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB)

Beginning in 2008, Chippewa County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement required the County to calculate and record a net other postemployment benefit obligation (NOPEBO) at December 31, 2008. The NOPEBO is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2008.

Plan Description

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

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Chippewa County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the healthcare plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2008, there were approximately 130 participants in the plan, including 10 spouses.

Annual OPEB Cost and Net OPEB Obligation

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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	$	82,869
Interest on net OPEB obligation		-
Adjustment to ARC		-
Annual OPEB cost (expense)	$	82,869
Contributions made		(35,198)
Increase in net OPEB obligation	$	47,671
Net OPEB Obligation - Beginning of Year		-
Net OPEB Obligation - End of Year	$	47,671

The County's annual OPEB cost for December 31, 2008, was $82,869. The percentage of annual OPEB cost contributed to the plan was 42.5 percent, and the net OPEB obligation for 2008 was $47,671. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

Fund Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was $692,892 and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of $692,892. The covered payroll (annual payroll of active employees covered by the plan) was $4,902,246, and the ratio of the UAAL to the covered payroll was 14.13 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

3. Pension Plans and Other Postemployment Benefits

   C. Other Postemployment Benefits (OPEB) (Continued)

      Actuarial Methods and Assumptions

      Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Chippewa County's implicit rate of return on the General Fund. The annual healthcare cost trend is 9.0 percent initially reduced by decrements to an ultimate rate of 5.0 percent over eight years. Both rates included a 2.5 percent inflation assumption. The dental trend rate is 4.0 percent. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2008, was 29 years.

4. Summary of Significant Contingencies and Other Items

   A. Risk Management

      The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risks, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

      The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

with coverage at $410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

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

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

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.

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Countryside Public Health Service (Continued)

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

Region 6W Community Corrections

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

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

Chippewa County's contribution of $159,601 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.

Chippewa County's contribution of $46,252 to the Montevideo-Chippewa Airport Commission is shown as an expenditure in the General Fund. Complete financial statements of the City of Montevideo, which include the Montevideo-Chippewa Airport Commission, can be obtained at Benson Road, Montevideo, Minnesota 56265.

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Chippewa County-Montevideo Hospital

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

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

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

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

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

The PLYP is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota. 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.

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

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 2008.

4. 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. Chippewa County's 2008 contribution was $1,313.

Pioneerland Library System

Chippewa County, along with several cities and other counties, participates in the Pioneerland Library System in order to provide efficient and improved regional public library service. Chippewa County's contribution of $148,489 to Pioneerland Library System is shown as an expenditure in the General Fund.

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

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	$0	$692,892	$692,892	0.0%	$4,902,246	14.13%

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

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,927,387	$ 3,842,387	$ 3,463,173	$ (379,214)
Special assessments	-	85,000	153,257	68,257
Licenses and permits	8,300	8,300	13,198	4,898
Intergovernmental	770,440	997,540	1,711,627	714,087
Charges for services	598,752	598,752	575,858	(22,894)
Gifts and contributions	-	-	5,190	5,190
Investment earnings	320,000	320,000	271,770	(48,230)
Miscellaneous	295,841	295,841	535,286	239,445
Total Revenues	**$ 5,920,720**	**$ 6,147,820**	**$ 6,729,359**	**$ 581,539**
Expenditures				
Current				
General government				
Commissioners	$ 239,684	$ 249,100	$ 248,365	$ 735
Law library	58,275	58,275	24,218	34,057
County auditor/treasurer	516,448	532,448	519,052	13,396
Accounting and auditing	30,000	31,000	43,765	(12,765)
County assessor	256,583	266,083	263,255	2,828
Elections	26,440	37,190	37,453	(263)
Data processing	254,417	254,417	228,325	26,092
Central services	38,500	98,786	30,861	67,925
Attorney	273,890	313,890	314,516	(626)
Recorder	238,325	267,325	270,857	(3,532)
Buildings and plant	457,036	720,696	707,599	13,097
Veterans service officer	160,789	160,789	147,942	12,847
Geographic information systems	1,000	31,000	30,640	360
Other general government	230,440	243,740	308,942	(65,202)
Total general government	**$ 2,781,827**	**$ 3,264,739**	**$ 3,175,790**	**$ 88,949**
Public safety				
Sheriff	$ 867,962	$ 913,712	$ 911,745	$ 1,967
Safety management	6,500	12,000	11,886	114
Boat and water safety	1,200	1,200	723	477
D.A.R.E program	2,650	2,650	1,179	1,471
Coroner	10,287	10,287	8,355	1,932
Dispatch	228,941	228,941	201,083	27,858
Jail	772,154	772,154	631,349	140,805
Victim witness program	50,777	50,777	52,231	(1,454)
Emergency management	25,596	35,396	35,885	(489)
Other public service	25,596	-	-	-
Total public safety	**$ 1,991,663**	**$ 2,027,117**	**$ 1,854,436**	**$ 172,681**

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

Schedule 2
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	$ 46,000	$ 78,000	$ 88,586	$ (10,586)
Recycling	123,320	138,570	138,371	199
Hazardous waste	3,000	3,500	3,660	(160)
Total sanitation	**$ 172,320**	**$ 220,070**	**$ 230,617**	**$ (10,547)**
Health				
Ambulance	**$ 5,000**	**$ 5,000**	**$ -**	**$ 5,000**
Culture and recreation				
Historical society	$ 30,000	$ 56,900	$ 62,122	$ (5,222)
Regional Library	195,989	267,500	266,534	966
Parks	6,000	6,000	4,834	1,166
Fairgrounds	21,000	21,000	21,000	-
Airport	20,000	46,255	46,252	3
Total culture and recreation	**$ 272,989**	**$ 397,655**	**$ 400,742**	**$ (3,087)**
Conservation of natural resources				
Extension	$ 111,710	$ 111,710	$ 109,513	$ 2,197
Soil and water conservation	70,000	70,000	70,000	-
Agricultural inspector	-	18,900	231	18,669
Weed control	64,964	64,964	49,238	15,726
Water planning	10,300	51,550	60,585	(9,035)
Land resource management	167,055	267,705	240,447	27,258
County farm	2,000	3,090	19,954	(16,864)
Total conservation of natural resources	**$ 426,029**	**$ 587,919**	**$ 549,968**	**$ 37,951**
Economic development				
Community development	$ 35,000	$ 38,000	$ 21,250	$ 16,750
Prairie Five	6,000	6,000	3,744	2,256
Other	29,630	29,630	28,100	1,530
Total economic development	**$ 70,630**	**$ 73,630**	**$ 53,094**	**$ 20,536**
Intergovernmental				
General government	$ 159,601	$ 159,601	$ 159,601	$ -
Conservation of natural resources	225,000	442,100	442,071	29
Total intergovernmental	$ **384,601**	$ **601,701**	$ **601,672**	$ **29**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Schedule 2
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures (Continued)				
Debt service				
Principal	$ -	$ -	$ 25,354	$ (25,354)
Interest	-	-	4,112	(4,112)
Total debt service	$ -	$ -	$ **29,466**	$ **(29,466)**
Total Expenditures	**$ 6,105,059**	**$ 7,177,831**	**$ 6,895,785**	**$ 282,046**
Excess of Revenues Over (Under) Expenditures	**$ (184,339)**	**$ (1,030,011)**	**$ (166,426)**	**$ 863,585**
Other Financing Sources (Uses)				
Loans issued	-	-	81,987	81,987
Net Change in Fund Balance	**$ (184,339)**	**$ (1,030,011)**	**$ (84,439)**	**$ 945,572**
Fund Balance - January 1	**4,768,352**	**4,768,352**	**4,768,352**	**-**
Fund Balance - December 31	**$ 4,584,013**	**$ 3,738,341**	**$ 4,683,913**	**$ 945,572**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 891,202	$ 891,202	$ 808,234	$ (82,968)
Intergovernmental	3,564,898	3,564,898	2,767,402	(797,496)
Charges for services	-	-	45,887	45,887
Investment earnings	200,000	200,000	153,216	(46,784)
Miscellaneous	175,000	175,000	77,761	(97,239)
Total Revenues	**$ 4,831,100**	**$ 4,831,100**	**$ 3,852,500**	**$ (978,600)**
Expenditures				
Current				
Highways and streets				
Maintenance	$ 1,308,100	$ 1,308,100	$ 1,239,000	$ 69,100
Engineering/construction	2,879,400	2,879,400	1,693,796	1,185,604
Administration	247,200	247,200	202,889	44,311
Equipment and shop	401,700	401,700	373,518	28,182
Total highways and streets	**$ 4,836,400**	**$ 4,836,400**	**$ 3,509,203**	**$ 1,327,197**
Intergovernmental				
Highways and streets	240,500	240,500	247,468	(6,968)
Total Expenditures	**$ 5,076,900**	**$ 5,076,900**	**$ 3,756,671**	**$ 1,320,229**
Net Change in Fund Balance	**$ (245,800)**	**$ (245,800)**	**$ 95,829**	**$ 341,629**
Fund Balance - January 1	**4,686,847**	**4,686,847**	**4,686,847**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**(670)**	**(670)**
Fund Balance - December 31	**$ 4,441,047**	**$ 4,441,047**	**$ 4,782,006**	**$ 340,959**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Schedule 4

BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,818,543	$ 1,818,543	$ 1,822,932	$ 4,389
Intergovernmental	2,435,486	2,435,486	2,497,604	62,118
Charges for services	94,562	94,562	113,268	18,706
Gifts and contributions	8,000	8,000	9,257	1,257
Investment earnings	-	-	272	272
Miscellaneous	86,300	86,300	162,689	76,389
Total Revenues	**$ 4,442,891**	**$ 4,442,891**	**$ 4,606,022**	**$ 163,131**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,220,746	$ 1,220,746	$ 1,272,191	$ (51,445)
Social services	3,370,506	3,370,506	3,106,008	264,498
Total human services	**$ 4,591,252**	**$ 4,591,252**	**$ 4,378,199**	**$ 213,053**
Intergovernmental				
Health	107,463	107,463	107,463	-
Total Expenditures	**$ 4,698,715**	**$ 4,698,715**	**$ 4,485,662**	**$ 213,053**
Net Change in Fund Balance	**$ (255,824)**	**$ (255,824)**	**$ 120,360**	**$ 376,184**
Fund Balance - January 1	**2,857,224**	**2,857,224**	**2,857,224**	**-**
Fund Balance - December 31	**$ 2,601,400**	**$ 2,601,400**	**$ 2,977,584**	**$ 376,184**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Schedule 5

BUDGETARY COMPARISON SCHEDULE
DITCH REVENUE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 100	$ 100	$ 1,198	$ 1,098
Special assessments	100,000	100,000	195,590	95,590
Charges for services	100,000	100,000	63,019	(36,981)
Investment earnings	60,000	60,000	94,656	34,656
Miscellaneous	-	-	1,453	1,453
Total Revenues	**$ 260,100**	**$ 260,100**	**$ 355,916**	**$ 95,816**
Expenditures				
Current				
Conservation of natural resources				
Other	260,100	260,100	254,461	5,639
Net Change in Fund Balance	**$ -**	**$ -**	**$ 101,455**	**$ 101,455**
Fund Balance - January 1	**-**	**-**	**3,037,280**	**3,037,280**
Fund Balance - December 31	**$ -**	**$ -**	**$ 3,138,735**	**$ 3,138,735**

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

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008

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

	Expenditures		
Fund	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 6,105,059	$ 1,072,772	$ 7,177,831

2. Budget Basis of Accounting

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

3. Other Postemployment Benefits

The Schedule of Funding Progress does not contain multi-year trend information as 2008 is the first year of implementation of GASB Statement 45.

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SUPPLEMENTARY INFORMATION

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

FIDUCIARY FUNDS

Investment Trust Funds

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

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

Agency Funds

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

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

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

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

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

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Statement 1

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
DECEMBER 31, 2008

	Pooled	Investments	Total
Assets			
Cash and pooled investments	$ 1,988,800	$ 311,016	$ 2,299,816
Investments	-	18,116,094	18,116,094
Accrued interest	3,364	208,852	212,216
Total Assets	**$ 1,992,164**	**$ 18,635,962**	**$ 20,628,126**
Net Assets			
Net assets, held in trust	**$ 1,992,164**	**$ 18,635,962**	**$ 20,628,126**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Statement 2

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Pooled	Investments	Total
Additions			
Investment earnings	$ 41,552	$ 665,364	$ 706,916
Contributions from participants	59,636,113	24,359,501	83,995,614
Total Additions	**$ 59,677,665**	**$ 25,024,865**	**$ 84,702,530**
Deductions			
Distributions to participants	59,053,577	41,965,181	101,018,758
Change in Net Assets	**$ 624,088**	**$ (16,940,316)**	**$ (16,316,228)**
Net Assets - Beginning of the Year	**1,368,076**	**35,576,278**	**36,944,354**
Net Assets - End of the Year	**$ 1,992,164**	**$ 18,635,962**	**$ 20,628,126**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Statement 3

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1	Additions	Deductions	Balance December 31
COMMUNITY CORRECTIONS				
Assets				
Cash and pooled investments	$ 193,602	$ 1,402,943	$ 1,366,153	$ 230,392
Liabilities				
Due to other governments	$ 193,602	$ 1,402,943	$ 1,366,153	$ 230,392
STATE REVENUE				
Assets				
Cash and pooled investments	$ 34,275	$ 298,822	$ 274,135	$ 58,962
Liabilities				
Due to other governments	$ 34,275	$ 298,822	$ 274,135	$ 58,962
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 146,359	$ 14,907,722	$ 14,941,124	$ 112,957
Liabilities				
Due to other governments	$ 146,359	$ 14,907,722	$ 14,941,124	$ 112,957

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Statement 3
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1	Additions	Deductions	Balance December 31
SOUTHERN PRAIRIE PURCHASING				
Assets				
Cash and pooled investments	$ 55,000	$ 3,445	$ 8,376	$ 50,069
Liabilities				
Due to other governments	$ 55,000	$ 3,445	$ 8,376	$ 50,069
MENTAL HEALTH				
Assets				
Cash and pooled investments	$ 455,472	$ 95,928	$ 176,100	$ 375,300
Liabilities				
Due to other governments	$ 455,472	$ 95,928	$ 176,100	$ 375,300
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 884,708	$ 16,708,860	$ 16,765,888	$ 827,680
Liabilities				
Due to other governments	$ 884,708	$ 16,708,860	$ 16,765,888	$ 827,680

OTHER SCHEDULE

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Schedule 6

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2008

Shared Revenue		
State		
Highway users tax	$	2,562,861
Market value credit		541,754
PERA rate reimbursement		22,736
Disparity reduction aid		80,633
County program aid		493,789
Police aid		60,031
Enhanced 911		72,080
Total Shared Revenue	**$**	**3,833,884**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**232,920**
Payments		
Local		
Local grants	$	106,366
Payments in lieu of taxes		136,952
Total Payments	**$**	**243,318**
Grants		
State		
Minnesota Department/Board of		
Crime Victim Services	$	45,840
Transportation		246
Natural Resources		17,700
Human Services		852,356
Veterans Affairs		12,490
Water and Soil Resources		85,164
Pollution Control Agency		385,332
Total State	**$**	**1,399,128**
Federal		
Department of		
Agriculture	$	120,689
Transportation		49,992
Health and Human Services		975,866
Homeland Security		10,745
Environmental Protection Agency		110,091
Total Federal	**$**	**1,267,383**
Total State and Federal Grants	**$**	**2,666,511**
Total Intergovernmental Revenue	**$**	**6,976,633**

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Management and Compliance Section

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Schedule 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Chippewa County.

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Chippewa County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." We consider several of the deficiencies to be material weaknesses.

C. No instances of noncompliance material to the financial statements of Chippewa County were disclosed during the audit.

D. No matters involving internal control over compliance relating to the audit of the major federal award programs were 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:

Child Support Enforcement Title IV-D	CFDA #93.563
Medical Assistance	CFDA #93.778

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

I. Chippewa County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

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

We recommend that County management implement oversight procedures to ensure internal control policies and procedures are being followed by staff.

Client's Response:

The County is cognizant that due to limited staffing levels, sufficient levels of segregation of duties is difficult to attain. In April of 2008, the County Board approved an Accounting Policies and Procedures Manual to better define accounting procedures to address the segregation of duties issue.

00-4 Annual Adopted Budget and Reporting

The County Board adopts its annual budget at the fund level. A budget document, upon which the fund level budget is based, contains the details of estimated revenues by source and budgeted expenditures by fund, function, and departments. This document is not adopted by the Board as part of the budget resolution.

In the previous year, we also noted that amounts recorded in the original budget columns of the budgetary comparison schedules, contained in the County's annual financial report, represent preliminary budgets developed by individual departments, not the original budget adopted by the Board. The original budget columns are meant to show the original actions of the Board, not information from departments. We found in the current year that the original Board-approved budgets were used in the financial report, so this finding is resolved.

We recommend that, if the County Board chooses not to adopt a detailed budget by fund, reference be made in the Board minutes to the detailed budget document upon which the Board is basing its resolution.

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

The County Board will approve a detailed revenue and expenditure budget along with approval of the final tax levy each year.

05-1 <u>Travel Expenditure Reimbursements</u>

The County's travel policy states that the County will reimburse its representatives and employees for ordinary and necessary expenses incurred while attending to official County business. During our previous audit, some expenditures were identified that did not have itemized receipts. Our current review found 4 of 32 expenditures examined did not contain support for the specific items purchased.

We again recommend that all County expenditures, including reimbursements for travel, be supported with proper documentation.

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

During 2008, the use of purchasing cards was implemented for most employees that incur travel expenses. Detailed monthly reports and receipts are required as part of the payment for these expenses.

06-1 <u>Adding New Vendors to the Accounting System</u>

Our previous audit found the County did not have procedures for determining how new vendors were added to the accounts payable system or if the new vendors added were legitimate vendors. The following was recommended:

- Periodically, a report called "Vendors Added list by Number" should be reviewed by someone independent of the accounts payable system. That person should document his or her review of the report.

- When invoices are submitted by vendors who have not previously conducted business with the County, procedures should be required to verify whether the vendor is legitimate.

Based on discussions with County staff, vendor verification started occurring in early 2009; however, the procedures still need to be updated in the financial procedures manual. We will follow up on this comment in the next audit.

Client's Response:

The Auditor/Treasurer will review and document the "Vendors Added list by Number" report periodically.

06-3 Capital Assets Policies and Procedures

During the previous audit, it was noted that a physical inventory of the capital assets had not been performed.

We again recommend a physical inventory of capital assets be performed periodically. This can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every four years.

Client's Response:

County staff will conduct a physical inventory of capital assets beginning in 2009.

06-6 Financial Reporting

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

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

The County's accounting system has been upgraded to accommodate the modified accrual and full accrual basis of accounting in separate general ledger systems to allow for the preparation of the annual financial statements in accordance with generally accepted accounting principles for governments. During our audit, we noted several deficiencies that prevented the accounting system from providing accurate modified and full accrual financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required.

Although Chippewa County has identified and has been training individuals to obtain the expertise to improve its preparation of financial statements, we recommend the County continue training individuals to internally prepare its annual financial statements in accordance with GAAP, including preparing and reporting appropriate government-wide and fund financial statements and the related notes to the financial statements. This process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes.

As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements. When the financial statements are completed, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets.

Client's Response:

The County continues to transition from reliance on external auditors to prepare parts of the financial statements. Significant progress has been made, however there are tasks that remain to be dealt with during the next few years.

06-7 Audit Adjustments

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

During our audit, we proposed material adjustments that resulted in significant changes to the County's financial statements. The adjustments included reclassifying certain grant funds from state to federal revenue, adjusting deferred revenue for interest received more than 60 days after year-end, and converting trial balances from the modified to full accrual basis.

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

Client's Response:

The County Board approved an Accounting Policies and Procedures Manual in April, 2008. This document is a living document that will require additional policies to address this issue. That work will be completed in 2009.

III. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

08-1 Travel Policy

Minnesota Statute § 471.661 states that the policy for out-of-state travel must include the following information:

- when is out-of-state travel appropriate,
- travel expense limits, and
- the process for approving travel.

We recommend the County update its travel policy to comply with the state statute.

Client's Response:

The County Board approved an Accounting Policies and Procedures Manual in April, 2008. The section of the policy pertaining to out of state travel will be updated using the State Auditor's statement of position as a template.

08-2 County Board Per Diems

Minnesota Statutes § 375.055 permits county commissioners to establish a schedule of per diem payments for service by individual commissioners. "Per diem" means per day. The Minnesota Attorney General has ruled that county commissioners may receive only one "per diem" payment per day. Op Atty Gen., 124a, April 28, 1994.

On December 29, 2008, the County Board authorized the per diem rates of $50 per meeting, not to exceed two meetings per day or $100 per full day. Receiving two "per diems" for the same day is inconsistent with state law.

We recommend the County update its policy on per diems to comply with the state law.

Client's Response:

The annual resolution passed by the County Board establishing per diem rates will be updated to comply with MS 375.055.

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 25, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 00-4, 05-1, 06-1, 06-3, 06-6, and 06-7 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Chippewa County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 08-1 and 08-2.

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

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

November 25, 2009

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2008. Chippewa County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Chippewa County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Chippewa County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Chippewa County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 25, 2009. Our audit was performed for the purpose of forming opinions on 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 others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

November 25, 2009

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Schedule 8

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services			
Food Stamps	10.560	$	110,551
Matching Grants for Food Stamp Program	10.561		10,138
Total U.S. Department of Agriculture		**$**	**120,689**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$	**49,992**
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Pollution Control			
Non-point Source Implementation	66.460	**$**	**110,091**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	$	13,218
Temporary Assistance for Needy Families (TANF)	93.558		114,630
Child Care and Development Block Grant	93.575		59,214
Title IV-D Child Support Enforcement	93.563		260,454
Children's Justice Grant	93.566		312
Child Welfare Services - State Grants	93.767		358
Foster Care Title IV-E	93.658		45,257
Social Services Block Grant Title XX	93.667		98,478
Independent Living Grant	93.674		110
Medical Assistance	93.778		379,511
Community Mental Health Block Grant	93.958		4,324
Total U.S. Department of Health and Human Services		**$**	**975,866**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Emergency Food and Shelter Program	97.024	$	1,833
Homeland Security Grant Program	97.067		8,912
Total U.S. Department of Homeland Security		**$**	**10,745**
Total Federal Awards		**$**	**1,267,383**

Schedule 8
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

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 the 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. Pass-through grant numbers were not assigned by the pass-through agencies.

4. During 2008, the County did not pass any federal money to subrecipients.