

**MOWER COUNTY
AUSTIN, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2010

**MOWER COUNTY
AUSTIN, MINNESOTA
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2010**

INTRODUCTORY SECTION	
ORGANIZATION	1
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	16
STATEMENT OF ACTIVITIES	18
FUND FINANCIAL STATEMENTS	
BALANCE SHEET – GOVERNMENTAL FUNDS	19
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES	21
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	22
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES	24
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS	25
NOTES TO THE FINANCIAL STATEMENTS	26
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A	
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLANS	60
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	61
BUDGETARY COMPARISON SCHEDULE – ROAD AND BRIDGE FUND	64
BUDGETARY COMPARISON SCHEDULE – SOCIAL SERVICES FUND	65
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	66

**MOWER COUNTY
AUSTIN, MINNESOTA
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL SECTION (CONTINUED)

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS	68
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS	69
BUDGETARY COMPARISON SCHEDULE – DITCH FUND	70
BUDGETARY COMPARISON SCHEDULE – SEWER IMPROVEMENT FUND	71
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – ALL AGENCY FUNDS	72
SCHEDULE OF INTERGOVERNMENTAL REVENUE	73

**REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS* AND SINGLE AUDIT
(A-133)**

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	74
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	76
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	78
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	84
REPORT ON MINNESOTA LEGAL COMPLIANCE	87

INTRODUCTORY SECTION

**MOWER COUNTY
AUSTIN, MINNESOTA
ORGANIZATION
DECEMBER 31, 2010**

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Raymond Tucker	District 2	January 2013
Vice-Chair	Mike Ankeny	District 5	January 2011
Board Member	Tim Gabrielson *	District 1	January 2013
Board Member	David Hillier	District 3	January 2011
Board Member	Dick Lang	District 4	January 2011
County Attorney	Kristen Nelsen		January 2011
County Auditor-Treasurer	Doug Groh		January 2011
County Recorder	Susan Davis		January 2011
County Sheriff	Terese Amazi		January 2011
Appointed			
Assessor	Richard Peterson		December 2012
Coroner	Dr. David Strobel		December 2010
Coordinator	Craig Oscarson		Indefinite
Engineer	Michal Hanson		May 2011
Finance Director	Donna Welsh		Indefinite
Human Services Director	Julie Stevermer		Indefinite
Veterans Service Officer	Wayne Madson		Indefinite

* 2011 Board Chair

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Mower County
Austin, Minnesota

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mower County (County), Minnesota as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Mower 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mower County, Minnesota, as of December 31, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2011, on our consideration of Mower County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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.

Board of County Commissioners
Mower County

The schedule of funding progress for other postemployment benefit plans, management's discussion and analysis and budgetary comparison information on pages 4 through 15, 60, and 61 through 66, respectively, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 Mower County's basic financial statements. The supplementary information listed in the table of contents and included on pages 68 to 73 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments*, and is not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Larson Allen LLP
LarsonAllen LLP

Brainerd, Minnesota
September 19, 2011

REQUIRED SUPPLEMENTARY INFORMATION

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

This section of Mower County's (County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2010. The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year, 2010 and the prior year, 2009 is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-2010 fiscal years include the following:

- ◆ County-wide net assets increased 2.4 percent over the prior year; this is primarily due to the investment of bond proceeds for the justice center construction. In addition, state aid funds were used for County bridge construction and state aid road resurfacing.
- ◆ Overall fund-level revenues totaled \$36,568,145 and were \$10,240,270 less than expenditures; this is primarily due to the planned use of fund balance mainly surrounding the capital projects fund.
- ◆ In the current year, there was a slight increase in intergovernmental funding due mainly to an increase in road and bridge funding from the State of Minnesota.
- ◆ The General Fund's fund balance increased by \$467,770 from the prior year; this is largely due to continual work by County staff to reduce expenditures in anticipation of the decrease in intergovernmental revenues.
- ◆ The Road and Bridge Fund's fund balance increased \$389,341 from the prior year before the impact of the change in inventories, and is due primarily to emphasis on controlling costs and due to timing of when intergovernmental payments occur.
- ◆ The Social Service Fund's fund balance increased by \$61,391 primarily due to an increased need for services, that was offset with an internal transfer of \$501,500 preventing an overall decrease in fund balance.
- ◆ The Capital Projects Fund reflects a decrease of \$11,072,166. The decrease in this fund is due to the spending of remaining bond proceeds on the justice center construction project.

OVERVIEW OF THE FINANCIAL STATEMENTS

- ◆ The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

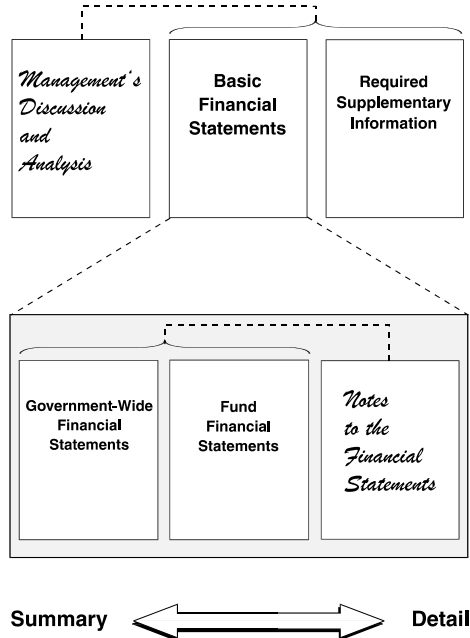
OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- ◆ The first two statements are County-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- ◆ The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the County-wide statements.
- ◆ The governmental funds' statements tell how basic services such as general government, social services, and highways and streets were financed in the short term as well as what remains for future spending.
- ◆ Fiduciary funds' statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the County's Government-Wide and Fund Financial Statements			
Type of Statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	Instances in which the County is the trustee or agent for someone else's resources.
Required Financial Statements	Statement of net assets.	Balance sheet.	Statement of fiduciary net assets.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of changes in fiduciary net assets.
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both short-term and long-term, Agency's funds do not currently contain capital assets, although they can.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

COUNTY-WIDE STATEMENTS

The County-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two County-wide statements report the County's net assets and how they have changed. Net assets – the difference between the County's assets and liabilities – are one way to measure the County's financial health or position.

- ◆ Over time, increases or decreases in the County's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ◆ To assess the overall health of the County you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of County buildings and other facilities.

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

COUNTY-WIDE STATEMENTS (CONTINUED)

In the County-wide financial statements, the County's activities are shown in one category:

- ◆ Governmental activities – The County's basic services are included here. Property taxes and intergovernmental revenues finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or "major" funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- ◆ Some funds are required by state law and by bond covenants.
- ◆ The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

THE COUNTY HAS TWO KINDS OF FUNDS:

- ◆ Governmental funds – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds' statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the County-wide statements, we provide additional information following the governmental funds' statements that explain the relationship (or differences) between them.
- ◆ Fiduciary funds – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the County-wide financial statements because the County cannot use these assets to finance its operations.

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

NET ASSETS

The County's net assets were \$123,069,435 on December 31, 2010. (See Table A-1).

**Table A-1
The County's Net Assets**

	Governmental Activities		Percentage Change
	2010	2009	
Current and Other Assets	\$ 47,353,699	\$ 56,766,801	(16.6)%
Capital Assets	108,678,225	97,046,865	12.0
Total Assets	156,031,924	153,813,666	1.4
Current Liabilities	4,097,756	5,582,912	(26.6)
Long-Term Liabilities, Due in More Than One Year	28,864,733	28,044,154	2.9
Total Liabilities	32,962,489	33,627,066	(2.0)
Net Assets			
Invested in Capital Assets, Net of Related Debt	87,884,730	86,329,920	1.8
Restricted	5,726,550	1,676,333	241.6
Unrestricted	29,458,155	32,180,347	(8.5)
Total Net Assets	<u>\$ 123,069,435</u>	<u>\$ 120,186,600</u>	2.4

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET ASSETS

The County-wide total revenues were \$38,067,482 for the year ended December 31, 2010. Property taxes and intergovernmental revenues accounted for 85 percent of total revenues for the year. (See Table A-2).

**Table A-2
Change in Net Assets**

	Governmental Activities for the Fiscal Year Ended December 31,		Percentage Change
	2010	2009	
REVENUES			
Program Revenues			
Charges for Services	\$ 4,469,896	\$ 3,158,685	41.5 %
Operating Grants and Contributions	6,855,240	9,755,375	(29.7)
Capital Grants and Contributions	5,337,687	2,830,780	88.6
General Revenues			
Property Taxes	14,479,486	13,992,053	3.5
Other Taxes	134,193	47,003	185.5
Unrestricted Grants and Contributions	5,486,170	4,248,073	29.1
Unrestricted Investment Earnings	1,013,306	813,498	24.6
Miscellaneous	291,504	150,678	93.5
Total Revenues	38,067,482	34,996,145	8.8
EXPENSES			
General Government	6,242,789	5,662,446	10.2
Public Safety	7,854,685	6,144,239	27.8
Highways and Streets	7,582,071	7,588,969	(0.1)
Sanitation	647,038	636,857	1.6
Human Services	9,712,256	9,128,121	6.4
Health	1,865,257	1,628,554	14.5
Culture and Recreation	326,018	364,201	(10.5)
Conservation of Natural Resources	264,886	659,030	(59.8)
Economic Development	12,714	28,400	(55.2)
Interest	676,933	878,441	(22.9)
Total Expenses	35,184,647	32,719,258	7.5
CHANGE IN NET ASSETS	2,882,835	2,276,887	26.6
Net Assets - Beginning of Year	120,186,600	117,909,713	1.9
NET ASSETS - END OF YEAR	<u>\$ 123,069,435</u>	<u>\$ 120,186,600</u>	2.4

Total revenues surpassed expenses, increasing net assets \$2,882,835 over last year.

Mower County received significant additional revenues for capital grants from the State of Minnesota.

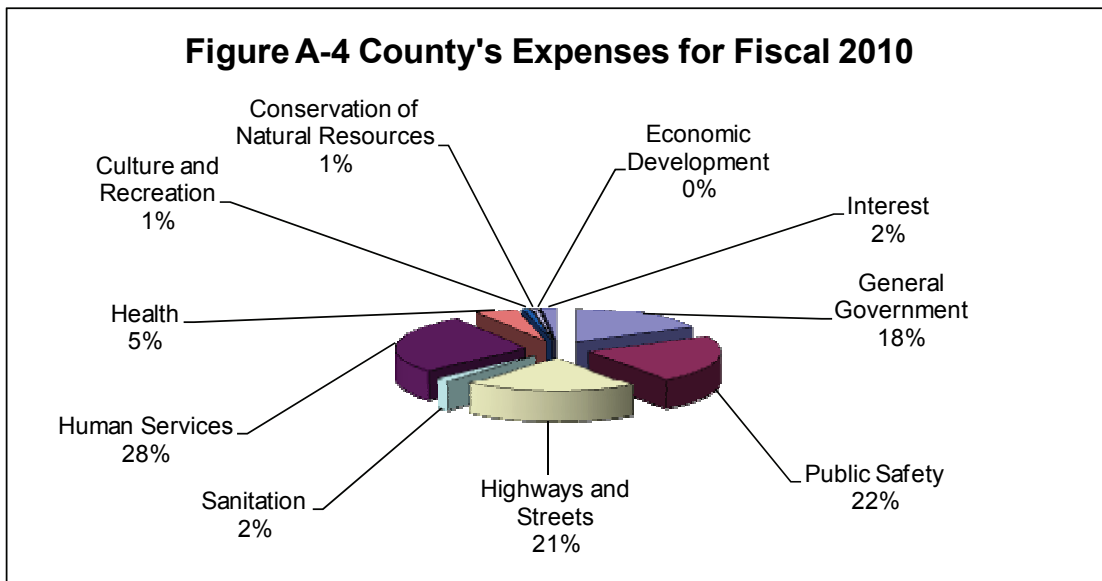
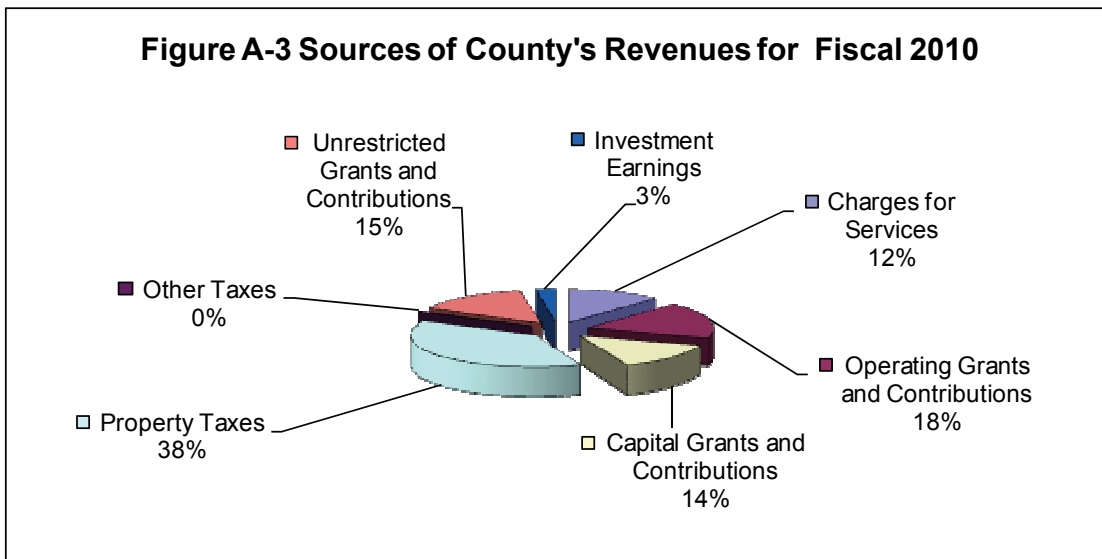
**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET ASSETS (CONTINUED)

The County-wide cost of all governmental activities this year was \$35,184,647.

- ◆ Some of the cost was paid by the users of the County's programs (\$4,469,896).
- ◆ Federal, state, and local governments subsidized certain programs with grants and contributions (\$12,192,927).
- ◆ Most of the County's remaining costs (\$18,521,824), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$14,479,486 in property taxes, \$5,486,170 of state aid, and with \$1,344,029 of investment earnings and other general revenues.



**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET ASSETS (CONTINUED)

**Table A-3
Total and Net Cost of Services**

	Total Cost of Services			Net Revenue (Cost) of Services		
	2010	2009	Change	2010	2009	Change
General Government	\$ 6,242,789	\$ 5,662,446	10.2 %	\$ (4,207,504)	\$ (4,452,108)	(5.5)%
Public Safety	7,854,685	6,144,239	27.8	(6,842,307)	(4,632,429)	47.7
Highways and Streets	7,582,071	7,588,969	(0.1)	(1,588,881)	(2,503,700)	(36.5)
Sanitation	647,038	636,857	1.6	(319,349)	(400,593)	(20.3)
Human Services	9,712,256	9,128,121	6.4	(4,101,855)	(3,862,324)	6.2
Health	1,865,257	1,628,554	14.5	(361,108)	55,905	(745.9)
Culture and Recreation	326,018	364,201	(10.5)	(326,018)	(295,843)	10.2
Conservation of						
Natural Resources	264,886	659,030	(59.8)	(85,155)	20,515	(515.1)
Economic Development	12,714	28,400	(55.2)	(12,714)	(25,400)	(49.9)
Interest	676,933	878,441	(22.9)	(676,933)	(878,441)	(22.9)
Total Expenses	\$35,184,647	\$32,719,258	7.5	\$ (18,521,824)	\$ (16,974,418)	9.1

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$39,944,712.

Revenues for the County's governmental funds were \$36,568,145, while total expenditures were \$46,808,415.

GENERAL FUND

The General Fund includes the primary operations of the County in providing services to citizens and some capital outlay projects.

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenues:

**Table A-4
General Fund Revenues and Other Sources**

	Year Ended		Change	
	December 31, 2010	December 31, 2009	Increase (Decrease)	Percent
Taxes	\$ 6,977,401	\$ 6,548,350	\$ 429,051	6.6 %
Special Assessments	457,354	362,295	95,059	26.2
Intergovernmental	4,220,118	4,477,354	(257,236)	(5.7)
Charges for Services	1,985,340	1,787,222	198,118	11.1
Interest on Investments	1,207,317	815,455	391,862	48.1
Miscellaneous and Other	1,013,141	734,353	278,788	38.0
Total General Fund Revenue	<u>\$ 15,860,671</u>	<u>\$ 14,725,029</u>	<u>\$ 1,135,642</u>	7.7

Total General Fund revenue increased by \$1,135,642 or 7.7 percent, from the previous year. State aid and market value credit reductions were offset by increases in taxes, interest revenues, and miscellaneous revenues. In addition, other financing sources (uses) totaled 76,874 in 2010 and (\$8,739,204) in 2009.

The following schedule presents a summary of General Fund Expenditures:

**Table A-5
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2010	December 31, 2009	Increase (Decrease)	Percent
General Government	\$ 4,642,194	\$ 5,097,256	\$ (455,062)	(8.9)%
Public Safety	6,666,965	5,697,236	969,729	17.0
Sanitation	562,718	525,614	37,104	7.1
Health	1,724,430	1,631,523	92,907	5.7
Culture and Recreation	462,757	303,994	158,763	52.2
Conservation of Natural Resources	444,244	461,013	(16,769)	(3.6)
Economic Development	12,714	28,400	(15,686)	(55.2)
Capital Outlay	953,753	35,300	918,453	2601.8
Total General Fund Expenditures	<u>\$ 15,469,775</u>	<u>\$ 13,780,336</u>	<u>\$ 1,689,439</u>	12.3

The General Fund had total fund balance of \$23,102,700 at the end of the current fiscal year. The fund balance of the General Fund increased \$467,770 during the current fiscal year primarily due to increased tax revenues, interest revenues, and miscellaneous revenues.

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)

OTHER MAJOR FUNDS ANALYSIS

The Road and Bridge Fund had total fund balance of \$8,156,610 at the end of the current fiscal year. The fund balance of the Road and Bridge Fund increased \$325,776 during the current fiscal year primarily due to additional intergovernmental revenues being received in excess of budget.

The Social Services Fund had total fund balance of \$1,684,014 at the end of the current fiscal year. The fund balance of the Social Services Fund increased \$61,391 primarily due to transfers in from the General Fund of \$501,500 in 2010.

The Capital Projects Fund had a total fund balance of \$4,650,989 at the end of the current fiscal year. The fund balance of the Capital Projects fund decreased \$11,072,166 due to the spending down of bond proceeds as the justice center and other projects were completed.

GENERAL FUND BUDGETARY HIGHLIGHTS

- ◆ Actual revenues were \$1,095,057 more than expected resulting primarily from increased wind tax revenues, intergovernmental revenue, charges for services, and increased investment earnings.
- ◆ The actual expenditures were \$941,027 less than budget and relate largely to \$525,346 less general government expenditures and \$290,948 less capital outlay expenditures than what was expected.
- ◆ The County made several adjustments to the budget during the year resulting in an decrease in the revenue budget from original to final of \$82,271 and an increase in the expenditure budget from original to final of \$1,558,205. These changes in the budget are to account for several unexpected items that came to the Board's attention during 2010.

CONSTRUCTION PROJECTS AND DEBT SERVICE

The Capital Projects Fund is currently being used to track the capital improvement projects approved by the board over the past years. The majority of the construction expenditures are for the construction of buildings needed to provide services that come with growth, particularly in the law enforcement and court functions.

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

CONSTRUCTION PROJECTS AND DEBT SERVICE (CONTINUED)

CAPITAL ASSETS

By the end of 2010, the County had invested approximately \$160,700,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure. (See Table A-6). (More detailed information about capital assets can be found in Note 3A to the financial statements.) Total depreciation expense for the year was \$2,959,613.

**Capital Assets
Table A-6
The County's Capital Assets**

	Governmental Activities		Percentage Change
	2010	2009	
Land and Right of Way	\$ 16,567,693	\$ 15,964,591	3.8 %
Construction in Progress	2,605,883	14,089,605	(81.5)
Buildings	37,387,006	13,671,371	173.5
Improvements Other than Buildings	922,339	259,031	256.1
Machinery and Equipment	9,582,919	9,622,801	(0.4)
Software	105,239	126,747	(17.0)
Infrastructure	93,531,737	92,578,620	1.0
Accumulated Depreciation	(52,024,591)	(49,265,901)	5.6
Total	<u>\$ 108,678,225</u>	<u>\$ 97,046,865</u>	12.0

LONG-TERM LIABILITIES

At year-end, the County had \$30,651,402 in long-term liabilities outstanding.

- ◆ The County's total debt increased \$763,826 due largely to additional septic loans issued during 2010 and an increase in the liability for other postemployment benefits.

**Governmental Activities Outstanding Long-Term Liabilities
Table A-7
The County's Long-term Liabilities**

	Governmental Activities		Percentage Change
	2010	2009	
Loans Payable	\$ 556,224	\$ 444,991	25.0 %
Bonds Payable	15,285,000	16,660,000	(8.3)
Capital Lease Payable	9,750,000	10,000,000	(2.5)
Compensated Absences Payable	929,529	874,745	6.3
Other Postemployment Benefits Payable	4,130,649	1,907,840	116.5
Total	<u>\$ 30,651,402</u>	<u>\$ 29,887,576</u>	2.6

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FACTORS BEARING ON THE COUNTY'S FUTURE AND 2011 BUDGET

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent trends indicate the State of Minnesota will continue to decrease state aids in the future.

The County has set the 2011 expenditure budget at \$40,060,160, a decrease of \$8,134,777 from the 2010 expenditure budget due to completed justice center building costs during 2010.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the county's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Craig Oscarson, County Coordinator, or Donna Welsh, Finance Director at (507) 437-9549.

BASIC FINANCIAL STATEMENTS

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	Governmental Activities	Discretely Presented Component Unit
ASSETS		
Cash and Pooled Investments	\$ 31,254,098	\$ 881,937
Petty Cash and Change Funds	3,180	-
Cash with Fiscal Agent	9,044	-
Cash with Escrow Agent	996,218	27,063
Taxes Receivable		
Delinquent	378,530	45,158
Special Assessments Receivable		
Delinquent	44,001	-
Deferred	678,729	-
Accounts Receivable - Net	381,397	3,823
Notes Receivable	138,500	-
Accrued Interest Receivable	338,398	940
Loans Receivable	7,310,278	-
Due from Other Governments	5,317,571	31,668
Inventories	448,980	-
Restricted Investments - Temporary	29,484	1,021,359
Prepaid Items	-	22,062
Deferred Debt Issue Costs	25,291	-
Lease Receivable	-	9,750,000
Bond Issuance Costs	-	36,058
Non-Depreciable Capital Assets		
Land and Right of Way	16,567,693	42,304
Construction in Progress	2,605,883	-
Depreciable Capital Assets		
Buildings (Net)	30,057,481	1,649,859
Improvements Other Than Buildings (Net)	741,802	99,548
Machinery, Vehicles, Furniture, and Equipment (Net)	3,544,649	134,398
Software (Net)	33,863	-
Infrastructure (Net)	55,126,854	-
 Total Assets	 156,031,924	 13,746,177

See accompanying Notes to the Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF NET ASSETS (CONTINUED)
DECEMBER 31, 2010**

	Governmental Activities	Discretely Presented Component Unit
LIABILITIES		
Accounts Payable	\$ 711,564	\$ 18,647
Salaries Payable	530,858	5,949
Claims and Judgments Payable	9,044	-
Contracts Payable	640,262	-
Due to Other Governments	184,184	-
Accrued Expenses	-	10,031
Accrued Interest Payable	381,916	43,563
Deferred Revenue-Unearned	-	1,533
Compensated Absences Payable - Due within One Year	78,579	-
General Obligation Bonds Payable - Due within One Year	1,205,000	340,000
Loans Payable - Due within One Year	16,349	34,902
Capital Lease Payable - Due within One Year	340,000	-
Tenant Deposits Payable	-	27,063
Compensated Absences Payable - Due in More Than One Year	850,949	28,013
Other Postemployment Benefits Plan Payable - Due in More than One Year	4,130,649	-
General Obligation Bonds Payable - Due in More Than One Year	13,933,260	9,273,071
Loans Payable - Due in More Than One Year	539,875	476,932
Capital Lease Payable - Due in More Than One Year	9,410,000	-
	<u>32,962,489</u>	<u>10,259,704</u>
Total Liabilities		
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		
Net of Related Debt	87,884,730	1,414,275
Restricted for:		
General Government	847,789	-
Highways and Streets	4,127,281	-
Public Safety	45,429	-
HRA Housing	-	1,036,504
Debt Service	706,051	-
Unrestricted	29,458,155	1,035,694
	<u>29,458,155</u>	<u>1,035,694</u>
Total Net Assets	<u>\$ 123,069,435</u>	<u>\$ 3,486,473</u>

See accompanying Notes to the Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Changes in	Discretely
					Governmental Activities	Presented Component Unit
PRIMARY GOVERNMENT						
GOVERNMENTAL ACTIVITIES						
General Government	\$ 6,242,789	\$ 1,674,422	\$ 360,863	\$ -	\$ (4,207,504)	
Public Safety	7,854,685	606,113	406,265	-	(6,842,307)	
Highways and Streets	7,582,071	391,951	263,552	5,337,687	(1,588,881)	
Sanitation	647,038	225,837	101,852	-	(319,349)	
Human Services	9,712,256	554,563	5,055,838	-	(4,101,855)	
Health	1,865,257	837,279	666,870	-	(361,108)	
Culture and Recreation	326,018	-	-	-	(326,018)	
Conservation of Natural Resources	264,886	179,731	-	-	(85,155)	
Economic Development	12,714	-	-	-	(12,714)	
Interest	676,933	-	-	-	(676,933)	
Total Governmental Activities	<u>\$ 35,184,647</u>	<u>\$ 4,469,896</u>	<u>\$ 6,855,240</u>	<u>\$ 5,337,687</u>	(18,521,824)	
COMPONENT UNIT						
Housing and Redevelopment Authority	<u>\$ 1,556,998</u>	<u>\$ 1,303,345</u>	<u>\$ 56,753</u>	<u>\$ 90,472</u>		\$ (106,428)
GENERAL REVENUES						
Property Taxes					14,479,486	96,212
Mortgage Registry and Deed Tax					21,397	-
Payments in Lieu of Tax					112,796	-
Grants and Contributions not Restricted for a Particular Purpose					5,486,170	7,888
Unrestricted Investment Earnings					1,013,306	4,574
Miscellaneous					291,504	-
Total General Revenues					<u>21,404,659</u>	<u>108,674</u>
CHANGE IN NET ASSETS					2,882,835	2,246
Net Assets - Beginning of Year					<u>120,186,600</u>	<u>3,484,227</u>
NET ASSETS - END OF YEAR					<u>\$ 123,069,435</u>	<u>\$ 3,486,473</u>

See accompanying Notes to the Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	General	Road and Bridge	Social Services
ASSETS			
Cash and Pooled Investments	\$ 16,176,253	\$ 7,766,291	\$ 1,446,085
Petty Cash and Change Funds	2,680	-	500
Cash with Fiscal Agent	9,044	-	-
Cash with Escrow Agent	-	-	-
Taxes Receivable - Delinquent	170,354	66,767	72,829
Special Assessments Receivable - Delinquent	43,043	-	-
Special Assessments Receivable - Deferred	414,091	-	-
Accounts Receivable	142,948	256	238,193
Notes Receivable	138,500	-	-
Accrued Interest Receivable	311,272	-	-
Loans Receivable	6,595,330	-	-
Due from Other Governments	493,300	4,297,221	521,201
Inventories	-	448,980	-
Restricted Investments - Temporary	-	-	-
Total Assets	<u>\$ 24,496,815</u>	<u>\$ 12,579,515</u>	<u>\$ 2,278,808</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 308,445	\$ 56,276	\$ 343,156
Salaries Payable	338,729	64,509	127,620
Claims and Judgments Payable	9,044	-	-
Contracts Payable	-	-	-
Due to Other Governments	115,317	1,612	58,126
Deferred Revenue - Unavailable	622,580	4,300,508	65,892
Total Liabilities	1,394,115	4,422,905	594,794
FUND BALANCES			
Reserved For			
Law Library	95,694	-	-
Recorder Equipment	347,125	-	-
Canteen	10,575	-	-
Loans Receivable	6,733,830	-	-
Attorney Forfeited Property	45,105	-	-
Sheriff's Conceal	34,854	-	-
Missing Heirs	128,007	-	-
Land Records	231,858	-	-
Inventories	-	448,980	-
Unreserved, Designated			
Future Expenditures	380,895	2,000,000	-
Cash Flows	3,870,900	1,209,300	1,446,300
Compensated Absences	561,493	190,951	177,424
Medical Insurance	1,111,424	-	-
Nonmajor Special Revenue Funds	-	-	-
Nonmajor Debt Service Funds	-	-	-
Unreserved, Undesignated	9,550,940	4,307,379	60,290
Unreserved, Undesignated Reported in Nonmajor Special Revenue Funds	-	-	-
Total Fund Balance	<u>23,102,700</u>	<u>8,156,610</u>	<u>1,684,014</u>
Total Liabilities and Fund Balance	<u>\$ 24,496,815</u>	<u>\$ 12,579,515</u>	<u>\$ 2,278,808</u>

See accompanying Notes to the Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 5,288,375	\$ 577,094	\$ 31,254,098
-	-	3,180
-	-	9,044
-	996,218	996,218
25,842	42,738	378,530
-	958	44,001
-	264,638	678,729
-	-	381,397
-	-	138,500
-	27,126	338,398
-	714,948	7,310,278
-	5,849	5,317,571
-	-	448,980
-	29,484	29,484
<u>\$ 5,314,217</u>	<u>\$ 2,659,053</u>	<u>\$ 47,328,408</u>

\$ -	\$ 3,687	\$ 711,564
-	-	530,858
-	-	9,044
640,262	-	640,262
-	9,129	184,184
<u>22,966</u>	<u>295,838</u>	<u>5,307,784</u>
663,228	308,654	7,383,696

-	-	95,694
-	-	347,125
-	-	10,575
-	714,948	7,448,778
-	-	45,105
-	-	34,854
-	-	128,007
-	-	231,858
-	-	448,980
4,430,289	-	6,811,184
220,700	-	6,747,200
-	-	929,868
-	-	1,111,424
-	456,528	456,528
-	1,057,405	1,057,405
-	-	13,918,609
-	121,518	121,518
<u>4,650,989</u>	<u>2,350,399</u>	<u>39,944,712</u>
<u>\$ 5,314,217</u>	<u>\$ 2,659,053</u>	<u>\$ 47,328,408</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 39,944,712

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. 108,678,225

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the Governmental Funds. 5,307,784

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	\$	(556,224)	
Capital Lease Payable		(9,750,000)	
General Obligation Bonds Payable		(15,285,000)	
Discount on Bonds and Notes Issued		146,740	
Bond Issuance Costs		25,291	
Accrued Interest Payable		(381,916)	
Compensated Absences		(929,528)	
Other Postemployment Benefits Payable		(4,130,649)	
		(30,861,286)	(30,861,286)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 123,069,435

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010**

	General	Road and Bridge	Social Services
REVENUES			
Taxes	\$ 6,977,401	\$ 2,296,468	\$ 2,538,571
Special Assessments	457,354	-	-
Licenses and Permits	81,168	9,655	-
Intergovernmental	4,220,118	5,831,428	5,376,964
Charges for Services	1,985,340	238,915	385,152
Fines and Forfeits	71,795	-	-
Gifts and Contributions	14,188	-	744
Interest on Investments	1,207,317	-	-
Miscellaneous	845,990	80,695	433,737
Total Revenues	<u>15,860,671</u>	<u>8,457,161</u>	<u>8,735,168</u>
EXPENDITURES			
CURRENT			
General Government	4,642,194	-	-
Public Safety	6,666,965	-	-
Highways and Streets	-	7,681,961	-
Sanitation	562,718	-	-
Human Services	-	-	9,175,277
Health	1,724,430	-	-
Culture and Recreation	462,757	-	-
Conservation	444,244	-	-
Economic Development	12,714	-	-
Total Current	<u>14,516,022</u>	<u>7,681,961</u>	<u>9,175,277</u>
INTERGOVERNMENTAL	-	353,417	-
CAPITAL OUTLAY			
General Government	455,559	-	-
Public Safety	480,614	-	-
Sanitation	1,038	39,552	-
Health	3,550	-	-
Culture and Recreation	12,048	-	-
Conservation	944	-	-
Total Capital Outlay	<u>953,753</u>	<u>39,552</u>	<u>-</u>
DEBT SERVICE			
Principal	-	-	-
Interest	-	-	-
Total Debt Service	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>15,469,775</u>	<u>8,074,930</u>	<u>9,175,277</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	390,896	382,231	(440,109)
OTHER FINANCING SOURCES (USES)			
Transfers In	577,870	-	501,500
Transfers Out	(501,500)	-	-
Proceeds from Loan	-	-	-
Proceeds from the Sale of Capital Assets	504	7,110	-
Total Other Financing Sources (Uses)	<u>76,874</u>	<u>7,110</u>	<u>501,500</u>
NET CHANGE IN FUND BALANCES	467,770	389,341	61,391
Fund Balance - Beginning of Year	22,634,930	7,830,834	1,622,623
Increase (Decrease) in Reserved for Inventories	-	(63,565)	-
FUND BALANCE - END OF YEAR	<u>\$ 23,102,700</u>	<u>\$ 8,156,610</u>	<u>\$ 1,684,014</u>

See accompanying Notes to the Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 430,249	\$ 2,444,689	\$ 14,687,378
-	98,644	555,998
-	-	90,823
37,088	326,488	15,792,086
-	13,228	2,622,635
-	-	71,795
-	-	14,932
-	82,409	1,289,726
82,350	-	1,442,772
<u>549,687</u>	<u>2,965,458</u>	<u>36,568,145</u>
-	-	4,642,194
-	-	6,666,965
-	-	7,681,961
-	-	562,718
-	-	9,175,277
-	-	1,724,430
-	-	462,757
-	98,160	542,404
-	-	12,714
-	<u>98,160</u>	<u>31,471,420</u>
-	-	353,417
224,401	-	679,960
10,822,082	-	11,302,696
-	-	40,590
-	-	3,550
-	-	12,048
-	-	944
<u>11,046,483</u>	<u>-</u>	<u>12,039,788</u>
-	1,632,606	1,632,606
-	1,311,184	1,311,184
-	<u>2,943,790</u>	<u>2,943,790</u>
<u>11,046,483</u>	<u>3,041,950</u>	<u>46,808,415</u>
(10,496,796)	(76,492)	(10,240,270)
-	-	1,079,370
(577,870)	-	(1,079,370)
-	118,839	118,839
2,500	-	10,114
<u>(575,370)</u>	<u>118,839</u>	<u>128,953</u>
(11,072,166)	42,347	(10,111,317)
15,723,155	2,308,052	50,119,594
-	-	(63,565)
<u>\$ 4,650,989</u>	<u>\$ 2,350,399</u>	<u>\$ 39,944,712</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ (10,111,317)

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

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

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Assets Adjustments	\$ 14,951,606	
Net Book Value of Capital Assets Disposed	(360,633)	
Current Year Depreciation	<u>(2,959,613)</u>	11,631,360

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,044,649
------------------------------------------------------------------------------------------------------------------------------------	-----------

Loan 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:

Loans Issued	(118,839)
--------------	-----------

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

Principal Repayments		
Loans Payable	7,606	
Capital Lease	250,000	
General Obligation Bonds	<u>1,375,000</u>	1,632,606

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 Accrued Interest Payable	161,056	
Amortization of Discounts and Deferred Issuance Charges	(15,522)	
Change in Accrued Compensated Absences	(54,784)	
Change in Other Postemployment Benefits Payable	(2,222,809)	
Change in Inventories	<u>(63,565)</u>	<u>(2,195,624)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,882,835</u></u>
--------------------------------------------------------	----------------------------

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2010**

	Agency
ASSETS	
Cash and Pooled Investments	\$ 894,926
LIABILITIES	
Funds Held in Trust	\$ 432,081
Salaries Payable	5,839
Due to Other Governments	457,006
Total Liabilities	\$ 894,926

See accompanying Notes to the Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mower County's (County) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Mower County was established February 20, 1855 and is an organized county having the powers, duties, and privileges granted counties by *Minnesota Statutes* ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Mower County (Primary Government) and its component units for which the County is financially accountable. There is financial accountability if the Primary Government appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body; or there is the potential for the organization to provide specific financial benefits or to impose specific financial burden on the Primary Government. Based on the criteria for determining component units, the County reports the Mower County Housing and Redevelopment Authority (HRA) as a discrete component unit. The HRA information is reported as of September 30, 2010. 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 Coordinator, appointed by the County Board, serves as the clerk of the Board of Commissioners but has no vote.

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Mower County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Mower County Housing and Redevelopment Auth. (HRA) provides services pursuant to <i>Minnesota Statutes</i> §469.001-.047.	The County appoints members, and the HRA is a financial burden.	Mower County HRA 59039 – 200 th Street Austin, MN 55912

Joint Ventures

The County participates in several joint ventures which are described in Note 6.B. The County also participates in jointly-governed organizations which are described in Note 6.C.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) display information about the Primary Government. 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, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

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

2. Fund Financial Statements

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

The County reports the following fiduciary fund types:

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 agency capacity.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

The Capital Projects Fund is used to account for capital project activity, including the activity related to the construction of the Justice Center.

C. Measurement Focus and Basis of Accounting

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

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

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Finance Director for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, based on market prices. Pursuant to *Minnesota Statutes* §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.

Mower 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 *Minnesota Statutes* §471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

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

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

Significant portions of special assessments receivable are not expected to be collected within one year due to the nature of the receivable.

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Inventories

All inventories are valued at cost using the weighted average 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. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1 for land, \$25,000 for improvements other than buildings, buildings, and building improvements, as well as \$5,000 for all other capital assets, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. In the case of the initial capitalization of general infrastructure reported in governmental activities, the County chose to include all such items it was able to identify since 1927. Costs were estimated based upon a conversion from current construction converted to 2001 dollars.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the Primary Government and the component unit is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Improvements other than Buildings	5-20
Buildings	20-125
Building Improvements	20-50
Public Domain Infrastructure	50-75
Machinery, Furniture, Equipment, and Vehicles	2-20
Software	2-5

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Compensated Absences

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

7. Deferred Revenue

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

8. 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

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

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The government-wide statement of net assets reports \$5,726,550 of restricted net assets, of which \$5,020,499 is restricted by enabling legislation.

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2010:

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
Social Services	\$ 9,175,277	\$ 9,076,364	\$ 98,913

The excess of expenditures over budget was generally funded by a transfer from the general fund and the use of existing fund balance.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

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

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

In the case of deposits, 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 does not have a policy for deposit custodial credit risk but rather follows *Minnesota Statutes* for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

As of December 31, 2010, the County's deposits in banks were entirely covered by federal deposit insurance or collateral held as described in the preceding paragraph.

Investments

The funds of the County shall be deposited or invested in accordance with *Minnesota Statutes* §118A, any other applicable laws, and the County investment policy. The objectives, in order of priority, will be to preserve principal, maintain liquidity, and earn the optimum rate of return.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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

- (a) 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 *Minnesota Statutes* §118A.04, subd. 6;
- (b) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (c) 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;
- (d) bankers’ acceptances of United States banks;
- (e) 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
- (f) 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. In accordance with the County’s investment policy, investments will be sufficiently diverse to avoid risk and enhance return.

As of December 31, 2010, the County had the following investments:

Investment Type	Fair Value	Maturity		
		Less Than 2 Years	2-5 Years	5+ Years
Federal Home Loan Bank	\$ 4,268,532	\$ -	\$ -	\$ 4,268,532
Federal Home Loan Mortgage	1,164,523	-	38,836	1,125,687
Fannie Mae	4,530,308	-	1,311,384	3,218,924
Municipal Bonds	14,516,711	1,522,258	5,320,444	7,674,008
Mutual Funds	582,412	582,412	-	-
Total	\$ 32,791,998	\$ 8,783,462	\$ 7,721,385	\$ 16,287,151

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and 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.

Following is a summary of the credit risk and fair values as of December 31, 2010:

Investment Type	S & P Rating	Fair Value
Mutual Funds:		
Western Asset Government Money Market CL A	NR	\$ 5,705
UBS Select Prime Institutional Fund	NR	521,273
First American Government Obligation Fund CL D	NR	16,898
General Government SEC Money Market CL B	NR	38,536
Municipal Bonds	AAA	14,516,711
Negotiable Certificates of Deposit	NR	3,732,268
Federal Home Loan Mortgage Company	AAA	1,164,523
Fannie Mae	AAA	4,530,308
MN Association of Governments Investing for Counties (MAGIC) Fund	NR	3,997,244
Federal Home Loan Bank	AAA	4,268,532
Totals		<u>\$ 32,791,998</u>

N/R - Not Rated

Custodial Credit Risk – Investments

For an investment, this 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. At December 31, 2010, none of the County's investments were subject to custodial credit risk.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. Agency Securities, obligations backed by U.S. Treasury and/or U.S. Agency securities, and investments held by Trustees, may be held without limit.

Investments in any one issuer that represent five percent or more of the County's investments are:

Issuer	Reported Amount	Percentage
Fannie Mae	\$ 4,530,308	14.0 %
Federal Home Loan Bank	4,268,532	13.0

Balance Sheet Presentation

Total County cash and investments at December 31, 2010 consisted of:

Balance Sheet Presentation

Deposits	\$ 391,772
Petty Cash and Change Funds	3,180
Investments	32,791,998
Total	<u>\$ 33,186,950</u>

Deposits and investments are reported in the County's financial statements as follows:

Cash and Pooled Investments	\$ 31,254,098
Petty Cash and Change Funds	3,180
Restricted Cash	9,044
Restricted Investments	29,484
Cash with Escrow Agent	996,218
Agency Fund Cash and Investments	894,926
Total	<u>\$ 33,186,950</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2010, for the County governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Activities	
Accounts Receivable	\$ 1,400,752
Less: Allowance for Uncollectibles	
Nursing Department	(5,866)
Social Services Department	<u>(1,013,489)</u>
Total Governmental Activities, Net	<u>\$ 381,397</u>

3. Loans and Notes Receivable

The County has made various economic development and other loans to businesses and other governmental entities under a variety of repayment terms. In addition, the County has made loans to individuals under a sewer improvement loan program. Repayment of these loans is over ten years, with interest at three percent. Delinquent sewer improvement loans are added to the special assessment tax rolls. The funds for the sewer improvement revolving loan program were originally received from the State of Minnesota in the form of a loan to the County.

Activity in these loans and notes receivable is as follows for the year ended December 31, 2010:

	Beginning Balance	Additions	Payments	Ending Balance
Economic Development Loans	\$ 6,811,253	\$ -	\$ 215,923	\$ 6,595,330
Sewer Improvement Loans	600,059	238,666	123,777	714,948
Notes Receivable	150,800	-	12,300	138,500
Total	<u>\$ 7,562,112</u>	<u>\$ 238,666</u>	<u>\$ 352,000</u>	<u>\$ 7,448,778</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 5,606,254	\$ 604,558	\$ 71,939	\$ 6,138,873
Right of Way	10,358,337	123,402	52,919	10,428,820
Construction in Progress	14,089,605	13,558,759	25,042,481	2,605,883
Total Capital Assets, Not Depreciated	<u>30,054,196</u>	<u>14,286,719</u>	<u>25,167,339</u>	<u>19,173,576</u>
Capital Assets Being Depreciated				
Buildings	8,782,805	23,715,635	-	32,498,440
Buildings Improvements	4,888,566	-	-	4,888,566
Improvements Other Than Building	259,031	663,308	-	922,339
Machinery, Furniture, Equipment, and Vehicles	9,622,801	154,377	194,259	9,582,919
Software	126,747	22,212	43,720	105,239
Infrastructure	92,578,620	1,151,836	198,719	93,531,737
Total Capital Assets Being Depreciated	<u>116,258,570</u>	<u>25,707,368</u>	<u>436,698</u>	<u>141,529,240</u>
Less: Accumulated Depreciation for				
Buildings	3,787,388	201,605	-	3,988,993
Buildings Improvements	3,094,145	246,387	-	3,340,532
Improvements Other Than Building	171,353	9,184	-	180,537
Machinery, Furniture, Equipment, and Vehicles	5,531,012	688,872	181,614	6,038,270
Software	87,745	2,940	19,309	71,376
Infrastructure	36,594,258	1,810,625	-	38,404,883
Total Accumulated Depreciation	<u>49,265,901</u>	<u>2,959,613</u>	<u>200,923</u>	<u>52,024,591</u>
Total Capital Assets, Depreciated, Net	<u>66,992,669</u>	<u>22,747,755</u>	<u>235,775</u>	<u>89,504,649</u>
Governmental Activities Capital Assets, Net	<u>\$ 97,046,865</u>	<u>\$ 37,034,474</u>	<u>\$ 25,403,114</u>	<u>\$ 108,678,225</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the Primary Government as follows:

Governmental Activities	
General Government	\$ 391,488
Public Safety	188,338
Highways and Streets, Including Infrastructure	2,261,768
Sanitation	39,295
Human Services	12,469
Health	522
Culture and Recreation	59,238
Conservation of Natural Resources	<u>6,495</u>
Depreciation Expense - Governmental Activities	<u><u>\$ 2,959,613</u></u>

B. Interfund Receivables, Payables, and Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

<u>Transfer</u>	<u>Amount</u>	<u>Reason</u>
Transfer from the General Fund to the Social Services Fund	\$ 500,000	To Cover Operations
Transfer from the General Fund to the Social Services Fund	1,500	To Cover AMC Conference Costs
Transfer from the Capital Projects Fund to the General Fund	<u>577,870</u>	Justice Center Noncapital Costs
Total Interfund Transfers	<u><u>\$ 1,079,370</u></u>	

As of December 31, 2010, there were no interfund receivables or payables.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2010. The projects include the following:

	Original Contract Amount	Remaining Commitment
Governmental Activities		
Roads and Bridges	\$ 3,314,892	\$ 1,129,854
Public Safety	22,173,386	933,408
Total	\$ 25,488,278	\$ 2,063,262

2. Leases

Operating Leases

The County leases space for Social Services under a long-term operating lease, in addition to other miscellaneous equipment leases. Total cost for the leases was \$139,954 for the year ended December 31, 2010. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2011	\$ 135,552
2012	73,797
2013	73,797
2014	61,497
Total Operating Lease Payments	\$ 344,643

3. Other Postemployment Benefits

a) Plan Description and Funding Policy

Retirees:

The County provides postemployment health care benefits for retirees and their dependents under a single-employer fully-insured plan. This benefit is provided based on Board of County Commissioners motion dated January 5, 1999. Mower County offers various levels of retiree health insurance coverage based upon the date of hire, retirement date, and years of service. The County has four basic groups as follows:

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Other Postemployment Benefits (Continued)

a) Plan Description and Funding Policy (Continued)

Retirees (Continued):

- (1) Employees who retired prior to July 18, 1989, who meet the eligibility requirements are eligible to be included as a member of the County's group medical insurance program until death. The County pays the full single (\$577 per month) or family (\$1,542 per month) premium. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2010, there were 8 participants in this plan at a cost of \$89,626.
- (2) Employees who retired after July 17, 1989, and prior to November 1, 1992, who met the eligibility requirements are eligible to receive single medical insurance coverage. For family coverage after October 31, 1993, the retiree will pay \$26 per month plus one-half of the premium increases limited to a maximum premium adjustment of \$15 per month per adjustment. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2010, all six participants were moved to the Medicare Supplement Plan, with a cost of \$38,610 prior to the move.
- (3) Employees who retire after October 31, 1992, and were hired before that date, and meet other eligibility requirements, are qualified to receive the same health insurance benefits as current County employees. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2010, there were 79 participants in the plan at a cost of \$686,724.
- (4) Employees who were hired after October 31, 1992, and meet other eligibility requirements are qualified to receive employer contribution to health insurance capped at the dollar amount being paid at the date of retirement. The retiree is responsible for all premium increases. Benefits terminate when the retiree qualifies for full Social Security benefits. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2010, this plan had no participants.

Elected Officials

After their County Service, elected County officials are entitled to the same benefits listed above. They must meet the age and years of service qualifying conditions to be eligible for health insurance benefits.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Other Postemployment Benefits (Continued)

b) Annual OPEB Cost and Net OPEB Obligation

An entity's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), 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 cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the County's net OPEB obligation:

Annual Required Contribution (ARC)	\$ 3,132,598
Interest on Net OPEB Obligation	76,314
Adjustment to Annual Required Contribution	<u>(171,593)</u>
Annual OPEB Cost (Expense)	3,037,319
Contributions Made	(814,510)
Net OPEB Obligation - Beginning of Year	<u>1,907,840</u>
 Net OPEB Obligation, End of Year	 <u><u>\$ 4,130,649</u></u>

The County's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 are as follows:

Fiscal Year End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 3,037,319	\$ 814,510	26.8 %	\$ 4,130,649
December 31, 2009	1,906,596	962,224	50.5	1,907,840
December 31, 2008	1,868,057	904,589	48.4	963,468

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Other Postemployment Benefits (Continued)

c) Funded Status and Funding Progress

Funded Status

The County currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
January 1, 2010	\$ -	\$ 33,408,050	\$ 33,408,050	- %	\$ 13,075,593	2.6 %
January 1, 2008	-	22,494,031	22,494,031	-	11,738,940	1.9

Funding Progress

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 healthcare cost trends. 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

d) 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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs 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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Other Postemployment Benefits (Continued)

d) Actuarial Methods and Assumptions (Continued)

In the County's January 1, 2010 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a four percent discount rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The UAAL is being amortized as a level percentage of projected payrolls on a 20-year closed basis. The remaining amortization period at December 31, 2010 was 19 years.

The significant changes to the actuarial accrued liability between the January 1, 2008 and 2010 studies were as follows: there was an approximate savings of \$1 million due to changes in plans available for retirees and additional costs of approximately \$5.5 million for changes to the plans' assumptions and approximately \$7.9 million for actuarial experiences which consists of demographic changes, greater than anticipated health care rates, and a significant increase in retirees on the plans.

4. Long-Term Debt

Loans Payable

In 1996, the County started a program that resulted in entering into several loan agreements with the Minnesota Department of Agriculture and the Minnesota Department of Employment and Economic Development for financing failing septic systems. The revolving loans are secured by special assessments placed on the individual parcels requesting repair of a failing septic system.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Long-Term Debt (Continued)

Capital Lease Payable

On December 30, 2008, the Mower County Housing and Redevelopment Authority (HRA) issued the HRA's \$10,000,000 Lease Revenue Bonds (Mower County Court Facilities Project), Series 2008A. The County has a capital lease agreement with the HRA whereby the County will make lease payments equal to all bond principal payments, bond interest payments, and trustee fees incurred by the HRA related to this bond issuance. The debt service payments will be funded through a special debt service levy. The County has scheduled tax levy requirements to support this debt during the scheduled amortization period ending in 2029. When the lease terminates in February 2029, the ownership of the Justice Center passes from the HRA to the County.

The total cost of the asset included in buildings and the accumulated depreciation related to this capital lease are \$10,000,000 and \$0, respectively, as of December 31, 2010.

General Obligation Bonds Payable

On July 15, 2009, the County issued \$16,660,000 General Obligation Taxable Jail Bonds, Series 2009A (Build America Bonds). The proceeds were used to construct a law enforcement center. The County is eligible to receive a credit from the federal government in the amount of thirty-five percent of the interest payable on each interest payment date.

Debt Summary

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2010
General Obligation Capital Notes:					
1998 and 2001 Septic Loans	2020	\$5,000 - \$10,000	-	\$ 100,000	\$ 100,000
2002 Septic Loans	2016	\$2,500 - \$10,000	-	100,000	41,004
2004 Septic Loans	2024	\$2,500 - \$14,736	-	124,712	124,712
2005 Septic Loans	2025	\$2,500 - \$5,400	-	54,000	54,000
2006 Septic Loans	2025	\$2,500 - \$5,400	-	60,000	60,000
2007 Septic Loans	2025	\$2,500 - \$5,400	-	40,169	40,169
2008 Septic Loans	2025	\$2,500 - \$5,400	-	10,500	10,500
2009 Septic Loans	2025	\$2,500 - \$5,400	-	7,000	7,000
2010 Septic Loans	2026	\$2,500 - \$5,400	-	117,606	118,839
Total General Obligation Capital Notes				613,987	556,224
Bonds:					
General Obligation Taxable Jail Bonds, Series 2009A	2022	\$1,375,000 - \$15,285,000	1.25%-5.4%	16,660,000	15,285,000
Capital Lease Payable:					
Facility Lease	2029	\$250,000 - \$775,000	2.5%-5.9%	10,000,000	9,750,000
Total Long-Term Debt				<u>\$ 27,273,987</u>	<u>\$ 25,591,224</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Long-Term Debt (Continued)

Debt Service Requirements

Debt service requirements, including payments due under the capital lease at December 31, 2010, were as follows:

Year Ending December 31	State Loans		Bonds		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 16,349	\$ -	\$ 1,205,000	\$ 641,103	\$ 340,000	\$ 488,098
2012	28,045	-	1,220,000	612,575	350,000	477,048
2013	32,313	-	1,240,000	576,275	360,000	464,618
2014	39,989	-	1,265,000	533,020	375,000	450,638
2015	40,684	-	1,295,000	482,438	390,000	434,850
2016-2020	261,378	-	7,075,000	1,449,100	2,230,000	1,883,428
2021-2025	132,066	-	1,985,000	76,545	2,840,000	1,235,450
2026-2030	5,400	-	-	-	2,865,000	345,366
Totals	<u>\$ 556,224</u>	<u>\$ -</u>	<u>\$ 15,285,000</u>	<u>\$ 4,371,056</u>	<u>\$ 9,750,000</u>	<u>\$ 5,779,496</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans Payable	\$ 444,991	\$ 118,839	\$ 7,606	\$ 556,224	\$ 16,349
Bonds Payable	16,660,000	-	1,375,000	15,285,000	1,205,000
Capital Lease Payable	10,000,000	-	250,000	9,750,000	340,000
Compensated Absences	874,745	1,150,258	1,095,474	929,529	78,579
Other Postemployment Benefits Payable	1,907,840	3,037,319	814,510	4,130,649	-
Long-Term Liabilities	<u>\$ 29,887,576</u>	<u>\$ 4,306,416</u>	<u>\$ 3,542,590</u>	<u>\$ 30,651,402</u>	<u>\$ 1,639,928</u>

The bonds payable and capital leases payable are liquidated by the nonmajor bond fund, loans payable are liquidated by the nonmajor sewer improvements fund, and the compensated absences and other postemployment benefits payable liabilities are liquidated by the general fund.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

A. Defined Benefit Plan

1. Plan Description

All full-time and certain part-time employees of Mower County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF 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, fire-fighters, and peace officers who qualify for membership by statute are covered by the PEPFF. 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 jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the PECF.

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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

1. Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree -- no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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 their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF, PEPFF, and PECF. 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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4 percent of their annual covered salary in 2010. PECF members are required to contribute 5.83 percent of their annual covered salary. In 2010, Mower County was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.0 percent for Coordinated Plan members, 14.1 percent for PEPFF members, and 8.75 percent for PECF members.

B. Defined Contribution Plan

Commissioners of the County are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP 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. *Minnesota Statutes*, Chapter 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 5 percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee 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 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

C. Plan Contributions

The County's contributions to the GERF, PEPFF, PECF, and PEDCP for the years ending December 31, 2010, 2009, and 2008 were:

	General Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund	Defined Contribution Plan
2010	\$ 628,737	\$ 191,511	\$ 75,717	\$ 2,370
2009	607,076	186,894	53,138	2,481
2008	564,202	166,842	50,541	1,261

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

NOTE 5 RISK MANAGEMENT

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 in 2010. 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. The 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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 5 RISK MANAGEMENT (CONTINUED)

The County has entered into a joint powers agreement with other Minnesota counties to form the Southeast Service Cooperative for group employee benefits. Group employee benefits include, but are not limited to, health benefits coverage, life insurance, disability income protection, dental insurance, flexible spending programs, and other services as directed by the joint powers board.

NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. 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.

B. Joint Ventures

1. Family Services Collaborative

The Mower County Family Services Collaborative was established in 1996 under the authority of *Minnesota Statutes* §§33 471.59 and 124D.23. The Collaborative includes Mower County; the City of Austin; SEMCAC; Mower County Township Association; and Independent School District Nos. 492, 495, 497, 499, and 500. All of these entities appoint members to the Collaborative's governing board. The purpose of the Collaborative is to provide a coordinated approach to support and nurture individuals and families through prevention and intervention so as to ensure success for every child.

Control of the Collaborative is vested in a board of directors. Mower County appoints two members to this 14-member Board. The Mower County Department of Social Services acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the Minnesota Department of Education.

During 2010, the County made no payments to the Collaborative.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

B. Joint Ventures (Continued)

1. Family Services Collaborative (Continued)

Currently, the Collaborative does not prepare complete financial statements; therefore, the Collaborative does not have audited financial statements. Financial information can be obtained by contacting Val Kruger, Mower County Social Service Collections and Financial Supervisor, Social Services Department, 201 First Street N.E., Austin, Minnesota 55912.

2. Austin Mower County Area Transit (AMCAT)

AMCAT was established July 2004 under the authority of *Minnesota Statutes* §471.59. The City of Austin and Mower County joined to promote efficient and economic delivery of public transit services to residents in participating jurisdictions. The AMCAT Board consists of five members, two from members of the Austin City Council and two from members of the Mower Board of County Commissioners, and one resident of Mower County that has been mutually appointed by the City Council and the Board of County Commissioners and serves as chair of the AMCAT Board. The City of Austin acts as fiscal agent and lead agency for the purpose of payments from the Department of Transportation for financial assistance. AMCAT does not levy taxes or borrow money. The City of Austin and Mower County equally share the net cost of this program. During 2010, the County made no payments to AMCAT. This joint powers agreement stays in effect until notice from either party of its desire and intention to withdraw. Withdrawal does not take effect until the next calendar year has been completed. Financial statements are available at the office of the fiscal agent, City of Austin, Tom Dankert, Administrative Services, 500 - 4th Avenue N.E., Austin, Minnesota 55912.

C. Jointly-Governed Organizations

Mower County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed:

1. Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During 2010, Mower County paid \$77,990 to the Cooperative.

2. Southeast Minnesota Emergency Management Services (EMS)

The EMS provides various health services to several counties. During 2010, the County made no payments to the EMS.

3. Southeast Minnesota Recyclers Exchange (SEMREX)

The County paid \$1,300 to SEMREX for recycling coordination services.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Jointly-Governed Organizations (Continued)

4. Southeastern Minnesota Community Action Council

The Southeastern Minnesota Community Action Council provides various elder care programs on behalf of member counties. During the year, the County paid \$2,000 to the Southeastern Minnesota Community Action Council.

5. Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force provides drug investigation services for member organizations. During 2010, the County paid \$6,000 to the Task Force.

6. Southeastern Minnesota Private Industry Council

The Southeastern Minnesota Private Industry Council provides various job training services to member counties. During 2010, the County paid \$346,307 to the Council.

7. Southeast Minnesota Water Resources Board

The Southeast Minnesota Water Resources Board provides water quality services to several counties. The County paid \$4,000 to the Board during 2010.

8. Southeast Minnesota Regional Radio Board

The Southeast Minnesota Regional Board has been organized to ensure communication among member counties for emergency service purposes. The County paid \$500 to the Board during the year.

9. Rural Minnesota Energy Board

The Rural Minnesota Energy Board has been organized to provide policies and procedures regarding alternative energy sources, including ethanol, bio-diesel, solar, wind, etc. The County paid \$3,000 to the Board during the year.

10. SEMN Region1 JPB Emergency Management Board

The SEMN Region1 JPB Emergency Management Board has been organized to provide for the joint exercise of the parties' powers requiring regional coordination to plan for the needs of southeast Minnesota homeland security emergency management. The County paid \$1,000 to the Board during 2010.

11. Austin/Mower County Home Ownership Fund

The Austin/Mower County Home Ownership Fund has been organized to provide a flexible source of secondary funds to families and individuals interested in purchasing a house. The Fund is meant to assist families and individuals who qualify for a mortgage with down payment assistance. The Fund can also be used to assist with rehabilitation on projects that are required to be made in order to meet code or mortgage requirements.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 7 COMPONENT UNIT DISCLOSURES

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component unit has the following significant accounting policies.

1. Reporting Entity

The Housing and Redevelopment Authority (HRA) is governed by a five-member board of directors appointed by the County Board. The HRA has a fiscal year-end of September 30.

Because of the significance of its financial relationship, Mower County considers the HRA a discrete component unit.

2. Basis of Presentation

The HRA prepares separate financial statements. These statements were prepared in accordance with GASB Statement 34.

3. Cash, Cash Equivalents, Investments, and Restricted Investments

For the purposes of reporting cash flows, the HRA considers all cash on hand, checking, and money market savings accounts, excluding amounts restricted by mortgage agreements, to be cash equivalents. Restricted investments represent balances that are held in escrow by agencies to which the HRA owes a mortgage payable--the Minnesota Housing Finance Agency (MHFA). The investments in these accounts cannot be spent without regulatory agency approval.

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

Component Unit	
Deposits - Unrestricted	\$ 909,000
Restricted Assets:	
Deposits	7,287
Investments	1,014,072
Total Cash and Investments	<u>\$ 1,930,359</u>

In accordance with *Minnesota Statutes*, the HRA maintains deposits at depository banks authorized by the HRA Board.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the HRA's deposits may not be returned to it. The HRA's deposit policy for custodial credit risk follows *Minnesota Statutes* for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or corporate surety bonds.

The HRA's deposits in banks at September 30, 2010, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with *Minnesota Statutes*.

Investments

The HRA may also invest idle funds, as authorized by *Minnesota Statutes*, as follows:

- (a) direct obligations or obligations guaranteed by the United States or its agencies;
- (b) shares of investment companies registered under the Federal Investment Company Act of 1940 that either receive the highest credit rating and one of the two highest ratings by a statistical rating agency, with all of the investments having a final maturity of no more than 13 months, or holds itself out to be a money market mutual fund and is rated in one of the two highest ratings by a statistical rating agency;
- (c) general obligations rated "A" or better; revenue obligations rated "AA" or better;
- (d) general obligations of the Minnesota Housing Finance Agency rated "A" or better;
- (e) bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System;
- (f) commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;
- (g) guaranteed investment contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; and

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Investments (Continued)

(h) repurchase or reverse purchase agreements and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Restricted Investments

At September 30, 2010, the HRA had the following restricted investments:

	<u>At Estimated Market Value</u>
Held in Escrow at the MHFA	\$ 1,014,072

The MHFA requires the HRA to establish various escrow and reserve accounts. These investments are restricted and held in an escrow account by the MHFA in the HRA's name in accordance with debt agreements. These restricted investments are administered by the MHFA. Eligible investments of these funds, as stated in the escrow agreement, include instruments of the U.S. government and its agencies, the State of Minnesota and its agencies, certain financial institution demand or time deposits, and certain shares of investment companies. The balances are stated at their cost, which approximates fair value. The HRA does not have the authority to invest or to disburse funds from these accounts. Expenditures must be approved by the MHFA, who then withdraws the funds and mails the funds to the HRA. Interest income generated by these investments totaled \$16,534 and \$28,972 for the years ended September 30, 2010 and 2009, respectively.

Interest Rate Risk

The HRA has an informal investment policy that addresses permissible investment, portfolio diversification, and instrument maturities. Investment maturities are scheduled to coincide with projected cash flows. Within these parameters, it is the HRA's policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses arising from rising interest rates.

Concentration of Credit Risk

The HRA does not have a policy that limits the amount of the total portfolio that may be invested with any one depository. In general, other than escrowed funds, all other excess funds are invested in deposits and are covered under the HRA's collateral requirements.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Balance Sheet Presentation

Deposits	\$ 881,937
Tenant Deposit Cash	27,063
Restricted Assets	1,021,359
Total	\$ 1,930,359

Lease Receivable

On December 1, 2008 the HRA obtained a lease receivable with Mower County for the Justice Center project. The interest rate is unstated and, therefore, is assumed to be the stated rate of interest on the outstanding bonds that were issued to finance the construction of the Justice Center. The interest rate on these bonds ranges from 2.5 percent to 5.9 percent. The County may purchase the Justice Center building for \$1 at the end of the lease. Annual payments vary according to the payments due under the bonds.

Capital Assets

HRA capital asset activity for the year ended September 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Being Depreciated				
Equipment	\$ 3,120	\$ -	\$ -	\$ 3,120
Transportation	18,021	-	-	18,021
Total Capital Assets Being Depreciated	21,141	-	-	21,141
Accumulated Depreciation for:				
Equipment	2,188	246	-	2,434
Transportation	18,021	-	-	18,021
Total Accumulated Depreciation	20,209	246	-	20,455
Total Capital Assets, Being Depreciated, Net	\$ 932	\$ (246)	\$ -	\$ 686

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Asset, Not Being Depreciated				
Land	\$ 42,304	\$ -	\$ -	\$ 42,304
Capital Assets, Being Depreciated				
Land Improvements	328,668	-	-	328,668
Buildings	3,981,942	112,248	-	4,094,190
Furnishings	347,641	34,022	-	381,663
Maintenance Equipment	53,582	4,418	-	58,000
Total Capital Assets Being Depreciated	4,711,833	150,688	-	4,862,521
Accumulated Depreciation for:				
Land Improvements	213,191	15,929	-	229,120
Buildings	2,329,298	115,033	-	2,444,331
Furnishings	255,400	15,950	-	271,350
Maintenance Equipment	30,448	4,153	-	34,601
Total Accumulated Depreciation	2,828,337	151,065	-	2,979,402
Total Capital Assets, Being Depreciated, Net	1,883,496	(377)	-	1,883,119
Business-Type Activities Capital Assets, Net	\$ 1,925,800	\$ (377)	\$ -	\$ 1,925,423

Depreciation expense was charged to functions/programs of the discretely presented component unit as follows:

Governmental Activities	
General Government	\$ 246
Business-Type Activities	
Housing	\$ 151,065

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Long-Term Debt

Long-term debt outstanding at September 30, 2010, for the HRA consists of the following:

Types of Indebtedness	Final Maturity	Interest Rates (%)	Original Amount	Remaining Commitment	Due Within One Year
Mortgage Payable	2020	6.50	\$ 875,870	\$ 444,931	\$ 32,300
Mortgage Payable	2024	8.75	123,000	66,903	2,602
Lease Revenue Bond Payable	2029	2.50-5.90	10,000,000	9,750,000	340,000
			<u>\$ 10,998,870</u>	<u>\$ 10,261,834</u>	<u>\$ 374,902</u>

Debt Service Requirements

Mortgage debt service requirements to maturity for the HRA are as follows:

Year Ending December 31	Mortgages Payable		Lease Revenue Bond Payable	
	Principal	Interest	Principal	Interest
2011	\$ 34,902	\$ 33,711	\$ 340,000	\$ 488,098
2012	37,302	31,311	350,000	477,048
2013	39,869	28,744	360,000	464,618
2014	42,613	26,000	375,000	450,638
2015	45,549	23,064	390,000	450,638
2016-2020	279,439	81,665	2,230,000	1,986,190
2021-2025	32,138	4,895	2,840,000	1,383,960
2026-2030	-	-	2,865,000	528,944
Totals	<u>\$ 511,812</u>	<u>\$ 229,390</u>	<u>\$ 9,750,000</u>	<u>\$ 6,230,134</u>

Changes in Long-Term Liabilities

The following is a summary of the long-term debt transactions of the HRA for the year ended September 30, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance
Mortgages Payable	\$ 544,469	\$ -	\$ 32,635	\$ 511,834
Lease Revenue Bonds Payable	10,000,000	-	250,000	9,750,000
Unamortized Discount	(144,398)	-	(7,469)	(136,929)
Compensated Absences	25,073	17,537	14,597	28,013
Long-Term Liabilities	<u>\$ 10,425,144</u>	<u>\$ 17,537</u>	<u>\$ 289,763</u>	<u>\$ 10,152,918</u>

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**MOWER COUNTY
 AUSTIN, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLANS
 YEAR ENDED DECEMBER 31, 2010**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
January 1, 2010	\$ -	\$ 33,408,050	\$ 33,408,050	- %	\$ 13,075,593	2.6 %
January 1, 2008	-	22,494,031	22,494,031	-	11,738,940	1.9

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETRY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 7,529,109	\$ 6,876,525	\$ 6,977,401	\$ 100,876
Special Assessments	448,611	448,611	457,354	8,743
Licenses and Permits	60,163	60,163	81,168	21,005
Intergovernmental	3,276,800	3,795,233	4,220,118	424,885
Charges for Services	1,940,689	1,940,689	1,985,340	44,651
Fines and Forfeits	67,520	67,520	71,795	4,275
Gifts and Contributions	10,000	10,000	14,188	4,188
Investments Earnings	1,095,593	1,041,593	1,207,317	165,724
Miscellaneous	419,400	525,280	845,990	320,710
Total Revenues	14,847,885	14,765,614	15,860,671	1,095,057
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	288,705	288,705	229,946	58,759
Courts	131,955	131,955	104,089	27,866
Law Library	38,525	38,525	40,211	(1,686)
County Administration	522,477	522,477	504,164	18,313
County Auditor-Treasurer	346,363	346,363	344,068	2,295
County Assessor	481,409	481,409	460,495	20,914
Elections	116,660	116,660	102,605	14,055
Auditing	71,660	87,660	78,603	9,057
Information Systems	365,187	365,187	386,687	(21,500)
Central Services	84,014	84,014	82,083	1,931
Attorney	838,373	838,373	783,433	54,940
Recorder	233,711	233,711	208,683	25,028
Planning and Zoning	92,595	92,595	99,555	(6,960)
Buildings and Plant	600,359	614,495	639,275	(24,780)
Public Transit	8,844	8,844	14,006	(5,162)
Veterans Service	138,258	141,758	129,856	11,902
Other General Government	822,646	774,809	434,435	340,374
Total General Government	5,181,741	5,167,540	4,642,194	525,346

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (Continued)				
CURRENT (Continued)				
PUBLIC SAFETY				
Sheriff	\$ 2,271,757	\$ 2,271,757	\$ 2,270,728	\$ 1,029
E911	22,823	105,869	146,453	(40,584)
Coroner	44,400	44,400	58,665	(14,265)
County Jail	1,923,839	2,453,839	2,389,083	64,756
County Jail Canteen	11,700	11,700	14,745	(3,045)
Law Enforcement Center	576,589	646,038	570,858	75,180
Community Corrections	972,437	972,437	980,738	(8,301)
Sentence to Serve	37,795	65,424	47,493	17,931
Civil/Bailiff	87,175	89,705	78,202	11,503
Other Public Safety	132,000	132,000	110,000	22,000
Total Public Safety	<u>6,080,515</u>	<u>6,793,169</u>	<u>6,666,965</u>	<u>126,204</u>
SANITATION				
Solid Waste	587,860	593,471	562,718	30,753
HEALTH				
Nursing Service	1,169,989	1,169,989	1,172,834	(2,845)
Maternal and Child Health	63,122	63,122	58,022	5,100
County Health Officer	1,400	1,400	1,454	(54)
Women, Infants, and Children	271,824	271,824	262,793	9,031
Other	247,687	247,687	229,327	18,360
Total Health	<u>1,754,022</u>	<u>1,754,022</u>	<u>1,724,430</u>	<u>29,592</u>
CULTURE AND RECREATION				
Historical Society	37,500	39,900	39,900	-
Senior Citizens	47,400	47,400	47,400	-
Regional Library	254,416	254,416	266,780	(12,364)
Other	74,852	79,388	108,677	(29,289)
Total Culture and Recreation	<u>414,168</u>	<u>421,104</u>	<u>462,757</u>	<u>(41,653)</u>

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (Continued)				
CURRENT (Continued)				
CONSERVATION OF NATURAL RESOURCES				
County Extension	\$ 164,586	\$ 164,586	\$ 158,069	\$ 6,517
Soil and Water Conservation	144,330	144,330	144,330	-
Feedlot	53,070	53,070	53,545	(475)
Agricultural Inspection	4,400	4,400	-	4,400
County Fair	25,414	25,414	42,414	(17,000)
Water Planning	44,995	44,995	45,886	(891)
Total Conservation of Natural Resources	<u>436,795</u>	<u>436,795</u>	<u>444,244</u>	<u>(7,449)</u>
ECONOMIC DEVELOPMENT				
Development Corporation	-	-	12,714	(12,714)
Total Current Expenditures	436,795	436,795	456,958	(20,163)
CAPITAL OUTLAY				
General Government	124,500	706,200	455,559	250,641
Public Safety	257,496	514,161	480,614	33,547
Sanitation	2,500	2,500	1,038	1,462
Health	4,200	4,200	3,550	650
Culture and Recreation	4,000	12,840	12,048	792
Conservation of Natural Resources	4,800	4,800	944	3,856
Total Capital Outlay	<u>397,496</u>	<u>1,244,701</u>	<u>953,753</u>	<u>290,948</u>
Total Expenditures	<u>14,852,597</u>	<u>16,410,802</u>	<u>15,469,775</u>	<u>941,027</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	(4,712)	(1,645,188)	390,896	2,036,084
OTHER FINANCING SOURCES (USES)				
Transfer In	-	577,870	577,870	-
Transfer Out	-	(500,000)	(501,500)	(1,500)
Proceeds from the Sale of Capital Assets	-	-	504	504
Total Other Financing Sources (Uses)	<u>-</u>	<u>77,870</u>	<u>76,874</u>	<u>(996)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (4,712)</u>	<u>\$ (1,567,318)</u>	467,770	<u>\$ 2,035,088</u>
Fund Balance - Beginning of Year			<u>22,634,930</u>	
FUND BALANCE - END OF YEAR			<u>\$ 23,102,700</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,565,146	\$ 2,304,646	\$ 2,296,468	\$ (8,178)
Licenses and Permits	19,000	19,000	9,655	(9,345)
Intergovernmental	8,057,990	8,263,542	5,831,428	(2,432,114)
Charges for Services	170,250	170,250	238,915	68,665
Miscellaneous	56,000	56,000	80,695	24,695
Total Revenues	<u>10,868,386</u>	<u>10,813,438</u>	<u>8,457,161</u>	<u>(2,356,277)</u>
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Administration	535,807	535,807	517,656	18,151
Maintenance	2,362,412	2,362,412	2,389,114	(26,702)
Construction	6,665,064	6,665,064	3,710,742	2,954,322
Equipment and Maintenance Shops	763,217	803,217	781,106	22,111
Buildings and Grounds	174,192	174,192	141,744	32,448
Other	-	-	141,599	(141,599)
Total Current	<u>10,500,692</u>	<u>10,540,692</u>	<u>7,681,961</u>	<u>2,858,731</u>
INTERGOVERNMENTAL				
General Government	-	-	353,417	(353,417)
CAPITAL OUTLAY				
Highway and Streets	<u>387,694</u>	<u>347,694</u>	<u>39,552</u>	<u>308,142</u>
Total Expenditures	<u>10,888,386</u>	<u>10,888,386</u>	<u>8,074,930</u>	<u>2,813,456</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	(20,000)	(74,948)	382,231	457,179
OTHER FINANCING SOURCES (USES)				
Proceeds from the Sale of Capital Assets	<u>20,000</u>	<u>20,000</u>	<u>7,110</u>	<u>(12,890)</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ -</u>	<u>\$ (54,948)</u>	389,341	<u>\$ 444,289</u>
Fund Balance - Beginning of Year			7,830,834	
DECREASE IN RESERVED FOR INVENTORIES				
			<u>(63,565)</u>	
FUND BALANCE - END OF YEAR				
			<u>\$ 8,156,610</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 2,858,775	\$ 2,568,455	\$ 2,538,571	\$ (29,884)
Intergovernmental	4,845,445	5,078,376	5,376,964	298,588
Charges for Services	929,428	929,428	385,152	(544,276)
Gifts and Contributions	-	-	744	744
Miscellaneous	478,550	478,550	433,737	(44,813)
Total Revenues	<u>9,112,198</u>	<u>9,054,809</u>	<u>8,735,168</u>	<u>(319,641)</u>
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Income Maintenance	3,048,911	3,049,797	3,072,803	(23,006)
Social Services	6,053,687	6,026,567	6,102,474	(75,907)
Total Human Services	<u>9,102,598</u>	<u>9,076,364</u>	<u>9,175,277</u>	<u>(98,913)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	9,600	(21,555)	(440,109)	(461,664)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	500,000	501,500	(1,500)
Transfers Out	(6,000)	(6,000)	-	(6,000)
Total Other Financing Sources (Uses)	<u>(6,000)</u>	<u>494,000</u>	<u>501,500</u>	<u>(7,500)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 3,600</u>	<u>\$ 472,445</u>	61,391	<u>\$ (469,164)</u>
Fund Balance - Beginning of Year			<u>1,622,623</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,684,014</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2010**

I. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

On or before mid-July of each year, all departments and agencies submit requests for appropriations to the Mower County Coordinator so that a budget can be prepared. Before September 15, the proposed budget is presented to the Board of County Commissioners for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the Board of County Commissioners or County Coordinator if under \$5,000. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made expense reductions to meet unbudgeted state-aid reductions.

Encumbrance accounting is employed in governmental funds. Encumbrances (such as, purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

II. EXCESS OF EXPENDITURES OVER BUDGET

The following funds had expenditures in excess of budget for the year ended December 31, 2010:

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
Social Services	\$ 9,175,277	\$ 9,076,364	\$ 98,913

The excess of expenditures over budget was generally funded by a transfer from the general fund and the use of existing fund balance.

SUPPLEMENTARY INFORMATION

**MOWER COUNTY
AUSTIN, MINNESOTA
DECEMBER 31, 2010**

NONMAJOR SPECIAL REVENUE FUNDS

The Ditch Special Revenue Fund is used to account for the financing of public improvements or services for the construction, reconstruction, and maintenance of both County and joint-County drainage systems. These services are financed by special assessments against the benefited properties.

The Sewer Improvements Fund accounts for sewer system improvement loans made through the County.

NONMAJOR DEBT SERVICE FUND

The Bond Fund accounts for the accumulation of resources for, and the payment, of debt principal, interest, and related costs of the County's debt.

AGENCY FUNDS

The State Revenue Fund accounts for monies received by the County that will be remitted to the various state agencies.

The Family Connections Collaborative Fund accounts for the operations of the Mower County Family Services Collaborative.

The Taxes and Penalties Fund accounts for the collection and distribution of property taxes (current and delinquent).

The Social Welfare Agency Fund is used to account for the receipts and disbursements of the social welfare account.

**MOWER COUNTY
AUSTIN, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	Ditch	Sewer Improvements	Bond Fund	Total Governmental Funds
ASSETS				
Cash and Pooled Investments	\$ 167,315	\$ 387,894	\$ 21,885	\$ 577,094
Cash with Escrow Agent	-	-	996,218	996,218
Taxes Receivable - Delinquent	-	-	42,738	42,738
Special Assessments Receivable - Delinquent	958	-	-	958
Special Assessments Receivable - Deferred	264,638	-	-	264,638
Accrued Interest Receivable	-	-	27,126	27,126
Loans Receivable	-	714,948	-	714,948
Due from Other Governments	5,849	-	-	5,849
Restricted Investments - Temporary	-	29,484	-	29,484
Total Assets	<u>\$ 438,760</u>	<u>\$ 1,132,326</u>	<u>\$ 1,087,967</u>	<u>\$ 2,659,053</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 1,137	\$ 2,550	\$ -	\$ 3,687
Due to Other Governments	9,129	-	-	9,129
Deferred Revenue - Unavailable	265,276	-	30,562	295,838
Total Liabilities	275,542	2,550	30,562	308,654
FUND BALANCES				
Reserved For				
Loans Receivable	-	714,948	-	714,948
Unreserved, Designated				
Cash Flows	41,700	105,000	1,057,405	1,204,105
Debt Service	-	309,828	-	309,828
Unreserved, Undesignated	121,518	-	-	121,518
Total Fund Balance	<u>163,218</u>	<u>1,129,776</u>	<u>1,057,405</u>	<u>2,350,399</u>
Total Liabilities and Fund Balance	<u>\$ 438,760</u>	<u>\$ 1,132,326</u>	<u>\$ 1,087,967</u>	<u>\$ 2,659,053</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010**

	Ditch	Sewer Improvements	Bond Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ -	\$ -	\$ 2,444,689	\$ 2,444,689
Special Assessments	92,079	6,565	-	98,644
Intergovernmental	-	-	326,488	326,488
Charges for Services	13,228	-	-	13,228
Interest on Investments	-	275	82,134	82,409
Total Revenues	<u>105,307</u>	<u>6,840</u>	<u>2,853,311</u>	<u>2,965,458</u>
EXPENDITURES				
CURRENT				
Conservation	98,160	-	-	98,160
DEBT SERVICE				
Principal	-	7,606	1,625,000	1,632,606
Interest	-	-	1,311,184	1,311,184
Total Expenditures	<u>98,160</u>	<u>7,606</u>	<u>2,936,184</u>	<u>3,041,950</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	7,147	(766)	(82,873)	(76,492)
OTHER FINANCING SOURCES (USES)				
Proceeds from Loan	-	118,839	-	118,839
NET CHANGE IN FUND BALANCES	7,147	118,073	(82,873)	42,347
Fund Balance - Beginning of Year	<u>156,071</u>	<u>1,011,703</u>	<u>1,140,278</u>	<u>2,308,052</u>
FUND BALANCE - END OF YEAR	<u>\$ 163,218</u>	<u>\$ 1,129,776</u>	<u>\$ 1,057,405</u>	<u>\$ 2,350,399</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
DITCH FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Special Assessments	\$ 87,500	\$ 87,500	\$ 92,079	\$ 4,579
Charges for Services	-	-	13,228	13,228
Total Revenues	<u>87,500</u>	<u>87,500</u>	<u>105,307</u>	<u>17,807</u>
EXPENDITURES				
CURRENT				
CONSERVATION OF NATURAL RESOURCES				
Other	<u>105,503</u>	<u>137,903</u>	<u>98,160</u>	<u>39,743</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (18,003)</u>	<u>\$ (50,403)</u>	7,147	<u>\$ 57,550</u>
Fund Balance - Beginning of Year			<u>156,071</u>	
FUND BALANCE - END OF YEAR			<u>\$ 163,218</u>	

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
SEWER IMPROVEMENT FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Special Assessments	\$ 170,000	\$ 112,000	\$ 6,565	\$ (105,435)
Investments Earnings	-	-	275	275
Total Revenues	<u>170,000</u>	<u>112,000</u>	<u>6,840</u>	<u>(105,160)</u>
EXPENDITURES				
CURRENT				
CONSERVATION OF NATURAL RESOURCES				
Other	170,000	248,165	-	248,165
DEBT SERVICE				
Principal	-	-	7,606	<u>(7,606)</u>
Total Expenditures	<u>170,000</u>	<u>248,165</u>	<u>7,606</u>	<u>240,559</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(136,165)	(766)	135,399
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	118,839	<u>118,839</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (136,165)</u>	118,073	<u>\$ 254,238</u>
Fund Balance - Beginning of Year			<u>1,011,703</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,129,776</u>	

**MOWER COUNTY
AUSTIN, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
STATE REVENUE				
ASSETS				
Cash and Pooled Investments	\$ 77,229	\$ 840,956	\$ 813,724	\$ 104,461
LIABILITIES				
Due to Other Governments	\$ 77,229	\$ 840,956	\$ 813,724	\$ 104,461
FAMILY CONNECTIONS COLLABORATIVE				
ASSETS				
Cash and Pooled Investments	\$ 214,086	\$ 254,284	\$ 198,935	\$ 269,435
LIABILITIES				
Salaries Payable	\$ 3,724	\$ 2,115	\$ -	\$ 5,839
Due to Other Governments	210,362	53,234	-	263,596
Total Liabilities	\$ 214,086	\$ 55,349	\$ -	\$ 269,435
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 366,989	\$ 36,851,400	\$ 36,786,308	\$ 432,081
LIABILITIES				
Funds Held in Trust	\$ 366,989	\$ 36,851,400	\$ 36,786,308	\$ 432,081
SOCIAL WELFARE FUND				
ASSETS				
Cash and Pooled Investments	\$ 193,382	\$ 1,022,643	\$ 1,127,076	\$ 88,949
LIABILITIES				
Due to Other Governments	\$ 193,382	\$ 1,022,643	\$ 1,127,076	\$ 88,949
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 851,686	\$ 38,969,283	\$ 38,926,043	\$ 894,926
LIABILITIES				
Funds Held in Trust	\$ 366,989	\$ 36,851,400	\$ 36,786,308	\$ 432,081
Salaries Payable	3,724	2,115	-	5,839
Due to Other Governments	480,973	1,916,833	1,940,800	457,006
Total Liabilities	\$ 851,686	\$ 38,770,348	\$ 38,727,108	\$ 894,926

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Funds</u>
SHARED REVENUE	
State	
Highway Users Tax	\$ 3,343,975
County Program Aid	2,174,940
PERA Rate Reimbursement	40,232
Disparity Reduction Aid	189,190
Police Aid	138,434
Enhanced 911	121,930
Market Value Credit	<u>1,198,325</u>
Total Shared Revenue	7,207,026
REIMBURSEMENT FOR SERVICES	
STATE	
Minnesota Department of Human Services	13,895
GRANTS	
STATE	
Minnesota Department/Board of	
Peace Officers Board	7,528
Corrections	304,143
Health	149,488
Human Services	1,582,811
Soil and Water Resources	116,428
Veteran's Affairs	4,200
Natural Resources	164,912
Pollution Control Agency	<u>101,852</u>
Total State	2,431,362
FEDERAL	
Department of	
Agriculture	531,990
Justice	315,043
Transportation	1,746,360
Homeland Security	23,233
Health	3,408,981
Internal Revenue Service	<u>114,196</u>
Total Federal	<u>6,139,803</u>
Total State and Federal Grants	<u>8,571,165</u>
Total Intergovernmental Revenue	<u><u>\$ 15,792,086</u></u>

**REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*
AND SINGLE AUDIT (A-133)**

**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
Mower County
Austin, Minnesota

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mower County (County), Minnesota, as of and for the year ended December 31, 2010, which collectively comprise Mower County's basic financial statements and have issued our report thereon dated September 19, 2011. The financial statements of the Mower County Housing and Redevelopment Authority are as of and for the year ended September 30, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The County's basic financial statements include the operations of the Mower County Housing and Redevelopment Authority for the year ended December 31, 2010. Our audit, described below, did not include the operations of the Mower County Housing and Redevelopment Authority because the component unit engaged their own separate audit in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mower County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Mower County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mower 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Internal Control Over Financial Reporting (Continued)

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 06-1, 06-2, 06-5 and 10-1, described in the accompanying schedule of findings and questioned costs, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Mower County's written responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of County Commissioners, others within the organization, 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.

Larson Allen LLP
LarsonAllen LLP

Brainerd, Minnesota
September 19, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Mower County
Austin, Minnesota

Compliance

We have audited Mower County (County), Minnesota's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mower County's major federal programs for the year ended December 31, 2010. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Mower County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (HRA), which expended \$510,411 in federal awards during the year ended September 30, 2010, which are not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2010. Our audit, described below did not include the operations of the HRA because the component unit engaged for its own separate single audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Nonprofit 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 the 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 of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended December 31, 2010.

Internal Control Over Compliance

The management of the 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mower County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified a deficiency in internal control over compliance that we consider to be significant deficiency as described in the accompanying schedule of findings and questioned costs as item 10-2. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Mower County's written responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of County Commissioners, others within the organization, 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.

Larson Allen LLP
LarsonAllen LLP

Brainerd, Minnesota
September 19, 2011

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2010**

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Mower County, Minnesota.
2. Deficiencies in internal control were disclosed during the audit of the basic financial statements for the 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*". Items 06-1, 06-2, 06-5, and 10-1 are considered to be material weaknesses.
3. No instances of noncompliance material to the basic financial statements of the County were disclosed during the audit.
4. One significant deficiency involving internal control over compliance relating to the audit of the major federal award programs was reported in the "Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133". This is listed as item 10-2.
5. The auditors' report on compliance for the major federal award programs for Mower County expresses an unqualified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for the County were disclosed during the audit that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major program were:

Highway Planning and Construction Cluster	CFDA No. 20.205 & 20.219
Child Support Enforcement	CFDA No. 93.563
Edward Byrne Memorial Justice Assistance Grant	CFDA No. 16.803
Medical Assistance Grant	CFDA No. 93.778
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The County was not determined to be a low-risk auditee.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2010**

MATERIAL WEAKNESSES - FINANCIAL REPORTING:

06-1 SEGREGATION OF DUTIES – VARIOUS DEPARTMENTS

Criteria: County management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition: Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control, is not in place for various County departments.

Cause: The County has a limited number of personnel within several County departments.

Effect: The design of the internal controls over financial reporting could affect the ability of the County to record, process, summarize and report financial data consistently with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the County's inability to prevent/detect misappropriation of County assets.

Recommendation: We recommend County management be aware of the lack of segregation of duties within the accounting functions and assess whether additional segregation of duties is cost beneficial. If additional segregation is not possible, we recommend County management implement some oversight procedures to ensure the internal control policies and procedures are being implemented by County staff.

Client Response: *County management will review accounting functions and segregate them as it deems cost beneficial.*

06-2 AUDIT ADJUSTMENTS

Criteria: County management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions, including account coding, depreciation, and reporting of accruals and net assets.

Condition: As part of the audit we proposed material audit adjustments for recording of accruals, reclassifications of revenues to the proper accounts, adjustment of deferred revenue, adjustment to various Road and Bridge Fund accounts, corrections of modified accrual adjustments, and suggested additional note disclosures.

Cause: The County has a limited number of personnel.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the County to provide accurate modified accrual basis financial information for external financial reporting purposes.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2010**

MATERIAL WEAKNESSES - FINANCIAL REPORTING (CONTINUED):

06-2 AUDIT ADJUSTMENTS (Continued)

Recommendation: We recommend County management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

Client Response: *The County will continue to work at eliminating the need for audit adjustments, including consideration of the cost/benefit of hiring additional finance personnel.*

06-5 TIMELY DEPOSITS

Criteria: Internal control frameworks recommend that collections be deposited on a daily basis to improve internal controls over cash.

Condition: Collections in various departments and offices within the County are not deposited in a timely manner. These departments and offices make deposits anywhere from weekly to monthly.

Cause: Past practice.

Effect: The risk of fraud and theft of collections is increased due to the increased time elapsed between deposits.

Recommendation: We recommend deposits be made on a daily basis in order to minimize the risk of fraud and theft.

Client Response: *County management will review current procedures and enhance deposit activity requirements as it deems cost beneficial.*

10-1 CONTROLS OVER INVESTMENT ACTIVITY

Criteria: Internal control frameworks recommend that investment activity is reviewed and approved by the Board.

Condition: The primary control regarding investment activity is the review and approval by the Board. Investment activity information is regularly given to the Board. However, documentation of supervisor review is not on the information presented to the board and board approval is not documented in the minutes.

Cause: Past practice.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2010**

MATERIAL WEAKNESSES - FINANCIAL REPORTING (CONTINUED):

10-1 CONTROLS OVER INVESTMENT ACTIVITY (CONTINUED)

Effect: The design of the internal controls over investment activity do not document the approval process to assist the County in ensuring accurate information is being presented to, and is approved, by the Board.

Recommendation: We recommend the supervisory review procedures be documented on the investment detail and County Board review and approval be documented as part of the Board minutes

Client Response: *County management will review current procedures and enhance deposit activity requirements as it deems cost beneficial.*

FEDERAL PROGRAM FINDING – MATERIAL WEAKNESS IN INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED:

09-2 MEDICAL ASSISTANCE – CFDA #93.778
PASSED THROUGH MINNESOTA DEPARTMENT OF HUMAN SERVICES
INTERNAL CONTROL OVER REVIEW OF CASE FILES

The Income Maintenance Supervisor does not perform internal reviews on case files to review eligibility determinations.

RESOLUTION

The County has implemented a process to periodically review case file eligibility determinations.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2010**

FEDERAL PROGRAM FINDING – SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL:

10-2 ARRA EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT (JAG) – CFDA #16.803
PASSED THROUGH MINNESOTA DEPARTMENT OF PUBLIC SAFETY
INTERNAL CONTROL OVER DISBURSEMENTS

Criteria: Good internal control dictates that all disbursements should be approved by the appropriate supervisor prior to County payment to ensure disbursements comply with federal requirements.

Condition: As part of our testing, we noted 1 of 14 disbursements tested was not approved by a department head prior to payment.

Cause: Unknown.

Effect: Without proper controls in place, the County has a higher likelihood of disbursing funds that may not be allowable under the requirements of the federal program.

Questioned Costs: None.

Recommendation: We recommend the County implement procedures to ensure all payments are reviewed, prior to payment.

CORRECTIVE ACTION PLAN (CAP):

Corrective Action Planned: The County will ensure they are reviewing, and marking all payments as approved, prior to payment.

Contact Person: *Kristine Nelson, County Attorney*

Anticipated Completion Date: Immediately

**OTHER ITEMS FOR CONSIDERATION – INTERNAL CONTROLS PREVIOUSLY REPORTED
ITEMS RESOLVED:**

06-6 BUSINESS CONTINUITY PLAN
The County did not have a business continuity plan.

RESOLUTION
The County has developed and formalized a disaster recovery plan.

06-7 POLICIES AND PROCEDURES
The County did not have formal policies and procedures for journal entries and various financial reporting policies were outdated.

RESOLUTION
The County has designed, revised and updated policies and procedures over journal entries and various financial reporting policies.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2010**

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

09-3 CLAIMS AND DISBURSEMENTS

The County paid a Human Services reimbursement 55 days after receipt of the bill, without including an interest payment.

RESOLUTION

No issues were noted in the current year testing.

09-4 PUBLICATION OF MINUTES

The County was averaging 60 days for publishing minutes for the County Board and state statute requires publication within 30 days.

RESOLUTION

The County is publishing minutes within the required 30 day time frame.

09-5 UNCLAIMED PROPERTY TAX OVERPAYMENT

The County was not returning overpayments in compliance with state statutes.

RESOLUTION

The County now refunds all overpayments immediately once they are calculated.

09-6 BOARD APPROVAL OF CREDIT CARDS

The County Highway Department indicated that their department uses credit cards that have not been approved by the Board.

RESOLUTION

The County has updated the list of approved credit cards.

09-7 DESIGNATION OF DEPOSITORIES

The County did not designate depositories during calendar years 2008 or 2009.

RESOLUTION

The County Board properly designated depositories for 2010.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services Supplemental Nutrition Assistance Program (SNAP Cluster)	10.551	\$ 2,575
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster)	10.561	271,070
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program-ARRA (SNAP Cluster)	10.561	9,054
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children Total Department of Agriculture	10.557	<u>249,291</u> 531,990
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Block Grant	16.523	11,096
Edward Bryne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories-ARRA	16.803	130,826
Direct		
Supervised Visitation, Safe Havens for Children	16.527	137,171
Bulletproof Vest Partnership Program	16.607	6,819
Edward Bryne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government-ARRA Total Department of Justice	16.804	<u>29,131</u> 315,043
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	1,746,360

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through National Association of Health Officers Medical Reserve Corps Small Grant Program	93.008	\$ 5,000
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	46,636
Universal Newborn Hearing Screening	93.251	300
Immunization Grants (Immunization Cluster)	93.268	770
Center for Disease Control and Prevention-Investigations and Technical Assistance	93.283	30,423
Temporary Assistance for Needy Families	93.558	50,814
ARRA Immunization (Immunization Cluster)	93.712	8,658
Maternal and Child Health Services Block Grant to the States	93.994	47,708
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	18,641
Temporary Assistance for Needy Families	93.558	461,580
Child Support Enforcement	93.563	731,840
Child Support Enforcement-ARRA	93.563	70,355
Refugee and Entrant Assistance-State Administered Programs	93.566	298
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	34,548
Foster Care Title IV-E	93.658	114,398
Foster Care Title IV-E-ARRA	93.658	1,411
Social Services Block Grant	93.667	257,010
Chafee Foster Care Independence Program	93.674	2,773
Children's Health Insurance Program	93.767	433
Medical Assistance Program	93.778	1,525,385
Total Department of Health and Human Services		3,408,981

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through United Way of America Emergency Food and Shelter National Board Program	97.024	\$ 2,500
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grant	97.042	<u>20,733</u>
Total Department of Homeland Security		<u>23,233</u>
Total Cash Type Federal Awards		<u><u>\$ 6,025,607</u></u>

Notes:

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Mower County, except for those expended by its discretely presented component unit the Mower County Housing and Redevelopment Authority (HRA). The HRA had a separate audit. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the County as described in Section 205 of OMB Circular A-133. Governmental funds use the modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. ARRA denotes the program has received funding provided by the American Recovery and Reinvestment Act of 2009.
5. Reconciliation to the Schedule of Intergovernmental Revenue:

Federal Grant Revenue Per Schedule of Intergovernmental Revenue	\$ 6,139,803
Revenues included on the Schedule of Intergovernmental Revenue that are not considered Federal Grant Expenditures (Build America Bonds Interest Refund)	<u>(114,196)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 6,025,607</u></u>

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners
Mower County
Austin, Minnesota

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mower County, Minnesota, as of and for the year ended December 31, 2010, and have issued our report thereon dated.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* §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 *Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing districts, and county and city miscellaneous provisions. Our study included all of the listed categories, except tax increment financing districts, because the County does not have any tax increment financing districts.

The results of our tests indicate that for the items tested, the County complied with the material terms and conditions of applicable legal provisions.

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

LarsonAllen LLP
LarsonAllen LLP

Brainerd, Minnesota
September 19, 2011