

**MOWER COUNTY
AUSTIN, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2011

**MOWER COUNTY
AUSTIN, MINNESOTA
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AUSTIN, MINNESOTA
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(A-133)**

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INTRODUCTORY SECTION

**MOWER COUNTY
AUSTIN, MINNESOTA
ORGANIZATION
DECEMBER 31, 2011**

Term Expires

Elected

Commissioners

Chair	Raymond Tucker	District 2	January 2013
Vice-Chair	Mike Ankeny *	District 5	January 2015
Board Member	Tim Gabrielson	District 1	January 2013
Board Member	Jerry F Reinartz	District 3	January 2015
Board Member	Anthony Bennett	District 4	January 2015

County Attorney	Kristen Nelsen		January 2015
County Auditor-Treasurer	Doug Groh		January 2015
County Recorder	Jill Cordes		January 2015
County Sheriff	Terese Amazi		January 2015

Appointed

Assessor	Richard Peterson		December 2012
Coroner	Dr. David Strobel		December 2014
Coordinator	Craig Oscarson		Indefinite
Engineer	Michal Hanson		May 2015
Finance Director	Donna Welsh		Indefinite
Human Services Director	Julie Stevermer		Indefinite
Veterans Service Officer	Wayne Madson		Indefinite

* 2012 Board Chair

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FINANCIAL SECTION



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www.cliftonlarsonallen.com

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 (the County), Minnesota as of, and for the year ended December 31, 2011, 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, 2011, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the County adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. Adoption of the provisions of this statement results in significant changes to the classification of the components of fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2012, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for other postemployment benefit plans, and budgetary comparison information on pages 4 through 15, 64, and 65 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 consisting of combining and individual nonmajor fund financial statements, the combining statement of changes in assets and liabilities – all agency funds, and the schedule of intergovernmental revenues are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual fund supplementary information, schedule of intergovernmental revenues, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 14, 2012

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REQUIRED SUPPLEMENTARY INFORMATION



**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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, 2011. 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, 2011 and the prior year, 2010 is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-2011 fiscal years include the following:

- ◆ County-wide net assets increased 1.4 percent over the prior year; this is primarily due to the completion of 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 \$39,052,565 and were \$1,069,002 more than expenditures; this is primarily due to the increase in intergovernmental revenue for the construction of road and bridge projects.
- ◆ 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 \$360,711 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 decreased \$606,541 from the prior year before the impact of the change in inventories, and is due primarily to additional costs associated with the construction projects.
- ◆ The Social Service Fund's fund balance decreased by \$234,627 primarily due to an increased need for services, that was offset with an internal transfer of approximately \$669,352 preventing a larger overall decrease in fund balance.
- ◆ The Capital Projects Fund reflects an increase of \$1,419,469. The increase in this fund is primarily due to an internal transfer in of \$1,000,000 for the Health & Human Services/LEC remodel 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:

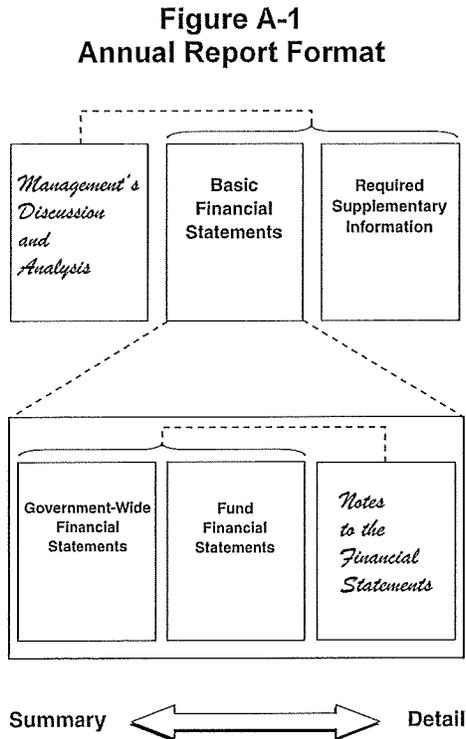
**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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.



**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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.	
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, 2011**

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, 2011**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

NET ASSETS

The County's net assets were \$124,746,657 on December 31, 2011. (See Table A-1).

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

	Governmental Activities		Percentage Change
	2011	2010	
Current and Other Assets	\$ 47,435,026	\$ 47,353,699	0.2 %
Capital Assets	110,472,752	108,678,225	1.7
Total Assets	157,907,778	156,031,924	1.2
Current Liabilities	3,819,158	4,097,756	(6.8)
Long-Term Liabilities, Due in More Than One Year	29,341,963	28,864,733	1.7
Total Liabilities	33,161,121	32,962,489	0.6
Net Assets			
Invested in Capital Assets, Net of Related Debt	87,129,492	87,884,730	(0.9)
Restricted	6,810,900	5,726,550	18.9
Unrestricted	30,806,265	29,458,155	4.6
Total Net Assets	\$ 124,746,657	\$ 123,069,435	1.4

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET ASSETS

The County-wide total revenues were \$37,826,782 for the year ended December 31, 2011. Property taxes and intergovernmental revenues accounted for 84 percent of total revenues for the year. (See Table A-2).

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

	Governmental Activities for the Fiscal		Percentage Change
	Year Ended 2011	December 31, 2010	
REVENUES			
Program Revenues			
Charges for Services	\$ 3,784,366	\$ 4,469,896	(15.3)%
Operating Grants and Contributions	6,823,028	6,855,240	(0.5)
Capital Grants and Contributions	3,687,279	5,337,687	(30.9)
General Revenues			
Property Taxes	15,010,700	14,479,486	3.7
Other Taxes	82,005	134,193	(38.9)
Unrestricted Grants and Contributions	6,084,642	5,486,170	10.9
Unrestricted Investment Earnings	1,675,031	1,013,306	65.3
Miscellaneous	679,731	291,504	133.2
Total Revenues	37,826,782	38,067,482	(0.6)
EXPENSES			
General Government	6,811,945	6,242,789	9.1
Public Safety	7,693,572	7,854,685	(2.1)
Highways and Streets	8,035,047	7,582,071	6.0
Sanitation	667,298	647,038	3.1
Human Services	9,983,616	9,712,256	2.8
Health	1,668,686	1,865,257	(10.5)
Culture and Recreation	286,961	326,018	(12.0)
Conservation of Natural Resources	233,667	264,886	(11.8)
Economic Development	12,015	12,714	(5.5)
Interest	756,753	676,933	11.8
Total Expenses	36,149,560	35,184,647	2.7
CHANGE IN NET ASSETS	1,677,222	2,882,835	(41.8)
Net Assets - Beginning of Year	123,069,435	120,186,600	2.4
NET ASSETS - END OF YEAR	\$ 124,746,657	\$ 123,069,435	1.4

Total revenues surpassed expenses, increasing net assets \$1,677,222 over last year.

Mower County experienced a significant decrease in revenues for capital grants from the State of Minnesota.

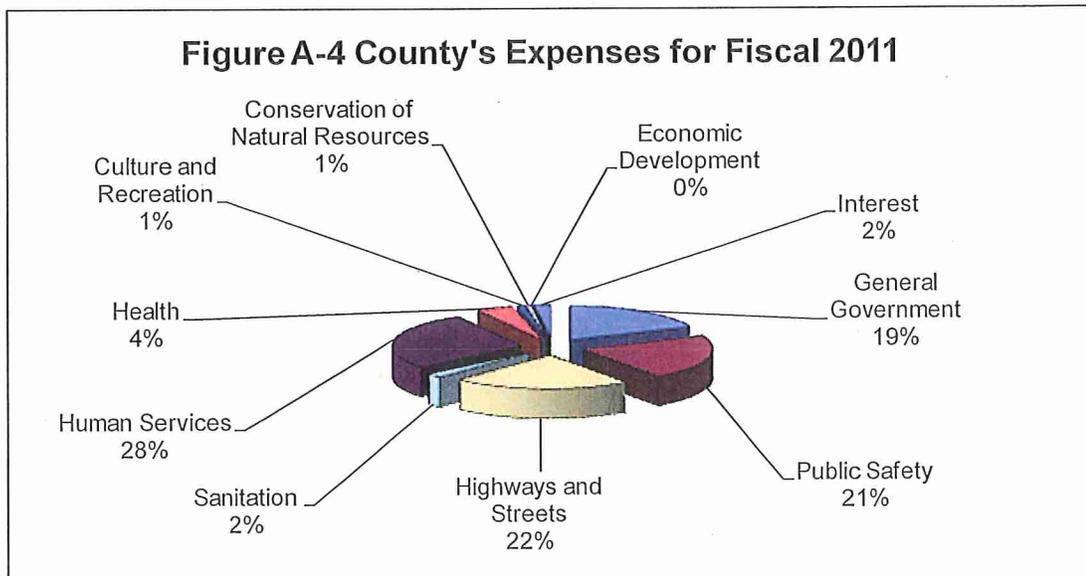
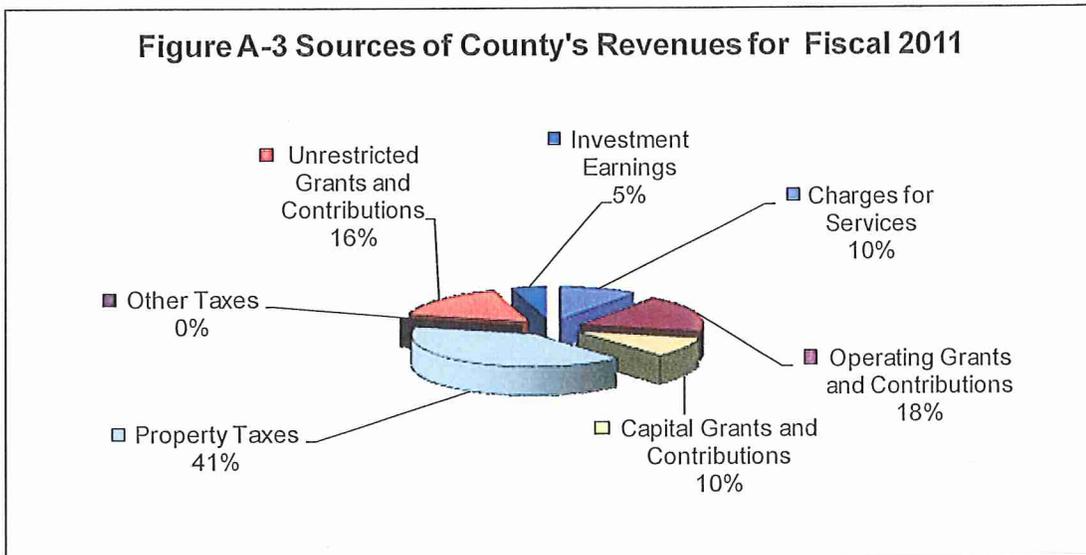
**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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 \$36,149,560.

- ◆ Some of the cost was paid by the users of the County's programs (\$3,784,366).
- ◆ Federal, state, and local governments subsidized certain programs with grants and contributions (\$10,510,307).
- ◆ Most of the County's remaining costs (\$21,854,887), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$15,010,700 in property taxes, \$82,005 of other taxes, \$6,084,642 of state aid, and with \$2,436,767 of investment earnings and other general revenues.



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**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET ASSETS (CONTINUED)

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

	<u>Total Cost of Services</u>			<u>Net Revenue (Cost) of Services</u>		
	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>2011</u>	<u>2010</u>	<u>Change</u>
General Government	\$ 6,811,945	\$ 6,242,789	9.1 %	\$ (4,992,538)	\$ (4,207,504)	18.7 %
Public Safety	7,693,572	7,854,685	(2.1)	(6,651,572)	(6,842,307)	(2.8)
Highways and Streets	8,035,047	7,582,071	6.0	(3,836,293)	(1,588,881)	141.4
Sanitation	667,298	647,038	3.1	(323,068)	(319,349)	1.2
Human Services	9,983,616	9,712,256	2.8	(4,589,204)	(4,101,855)	11.9
Health	1,668,686	1,865,257	(10.5)	(439,441)	(361,108)	21.7
Culture and Recreation	286,961	326,018	(12.0)	(286,961)	(326,018)	(12.0)
Conservation of						
Natural Resources	233,667	264,886	(11.8)	(191,428)	(85,155)	124.8
Economic Development	12,015	12,714	(5.5)	(12,015)	(12,714)	(5.5)
Interest	756,753	676,933	11.8	(532,367)	(676,933)	(21.4)
Total Expenses	<u>\$36,149,560</u>	<u>\$35,184,647</u>	2.7	<u>\$ (21,854,887)</u>	<u>\$ (18,521,824)</u>	18.0

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 \$41,110,161.

Revenues for the County's governmental funds were \$39,052,565, while total expenditures were \$37,983,563.

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, 2011**

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, 2011	December 31, 2010	Increase (Decrease)	Percent
Taxes	\$ 7,803,142	\$ 6,977,401	\$ 825,741	11.8 %
Special Assessments	418,932	457,354	(38,422)	(8.4)
Intergovernmental	4,038,797	4,220,118	(181,321)	(4.3)
Charges for Services	1,915,955	1,985,340	(69,385)	(3.5)
Interest on Investments	1,896,486	1,207,317	689,169	57.1
Miscellaneous and Other	1,287,657	1,013,141	274,516	27.1
Total General Fund Revenue	<u>\$ 17,360,969</u>	<u>\$ 15,860,671</u>	<u>\$ 1,500,298</u>	9.5

Total General Fund revenue increased by \$1,500,298 or 9.5 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 (1,795,902) in 2011 and 76,874 in 2010.

The following schedule presents a summary of General Fund Expenditures:

**Table A-5
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2011	December 31, 2010	Increase (Decrease)	Percent
General Government	\$ 5,133,959	\$ 4,642,194	\$ 491,765	10.6 %
Public Safety	6,872,239	6,666,965	205,274	3.1
Sanitation	591,575	562,718	28,857	5.1
Health	1,529,936	1,724,430	(194,494)	(11.3)
Culture and Recreation	428,252	462,757	(34,505)	(7.5)
Conservation of Natural Resources	326,468	444,244	(117,776)	(26.5)
Economic Development	12,015	12,714	(699)	(5.5)
Capital Outlay	309,912	953,753	(643,841)	(67.5)
Total General Fund Expenditures	<u>\$ 15,204,356</u>	<u>\$ 15,469,775</u>	<u>\$ (265,419)</u>	(1.7)

The General Fund had total fund balance of \$23,463,411 at the end of the current fiscal year. The fund balance of the General Fund increased \$360,711 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, 2011**

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

OTHER MAJOR FUNDS ANALYSIS

The Road and Bridge Fund had total fund balance of \$7,586,378 at the end of the current fiscal year. The fund balance of the Road and Bridge Fund decreased \$570,232 during the current fiscal year primarily due to additional construction project expenditures.

The Social Services Fund had total fund balance of \$1,449,387 at the end of the current fiscal year. The fund balance of the Social Services Fund decreased \$234,627 primarily due to additional costs of providing services offset by a transfer in from the General Fund of \$669,352 in 2011.

The Capital Projects Fund had a total fund balance of \$6,070,458 at the end of the current fiscal year. The fund balance of the Capital Projects fund increased \$1,419,469 primarily due to a transfer in from the General Fund of \$1,000,000 for the Health & Human Services/LEC remodel project.

GENERAL FUND BUDGETARY HIGHLIGHTS

- ◆ Actual revenues were \$1,638,632 more than expected resulting primarily from increased investment earnings.
- ◆ The actual expenditures were \$146,218 less than budget and relate largely to less general government expenditures than was expected.
- ◆ The County made several adjustments to the budget during the year resulting in a net increase in the total revenue budget from the original budget to the final budget of \$142,371 and a decrease in the overall expenditure budget of \$217,407. These changes in the budget are to account for several unexpected items that came to the Board's attention during 2011.

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 construction expenditures are for construction and remodel of buildings needed to provide services that come with growth, particularly in health and public safety functions.

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

CONSTRUCTION PROJECTS AND DEBT SERVICE (CONTINUED)

CAPITAL ASSETS

By the end of 2011, the County had invested approximately \$165,400,000 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 \$3,259,814.

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

	Governmental Activities		Percentage Change
	2011	2010	
Land and Right of Way	\$ 16,637,738	\$ 16,567,693	0.4 %
Construction in Progress	1,396,083	2,605,883	(46.4)
Buildings	37,424,412	37,387,006	0.1
Improvements Other than Buildings	957,179	922,339	3.8
Machinery and Equipment	9,764,947	9,582,919	1.9
Software	295,839	105,239	181.1
Infrastructure	99,030,265	93,531,737	5.9
Accumulated Depreciation	(55,033,711)	(52,024,591)	5.8
Total	\$ 110,472,752	\$ 108,678,225	1.7

LONG-TERM LIABILITIES

At year-end, the County had \$31,107,584 in long-term liabilities outstanding.

- ◆ The County's total debt increased \$456,182 due largely to additional septic loans issued during 2011 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
	2011	2010	
Loans Payable	\$ 592,375	\$ 556,224	6.5 %
Bonds Payable	14,080,000	15,285,000	(7.9)
Capital Lease Payable	9,410,000	9,750,000	(3.5)
Compensated Absences Payable	852,656	929,529	(8.3)
Other Postemployment Benefits Payable	6,172,553	4,130,649	49.4
Total	\$ 31,107,584	\$ 30,651,402	1.5

**MOWER COUNTY
AUSTIN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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 2012 expenditure budget at \$38,975,403, a decrease of \$1,084,757 from the 2011 expenditure budget due to completed construction projects in 2011.

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.

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BASIC FINANCIAL STATEMENTS

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Governmental Activities	Discretely Presented Component Unit
ASSETS		
Cash and Pooled Investments	\$ 36,545,953	\$ 918,611
Petty Cash and Change Funds	3,150	-
Cash with Fiscal Agent	9,067	-
Cash with Escrow Agent	1,128,691	27,065
Taxes Receivable		
Delinquent	391,145	44,993
Special Assessments Receivable		
Delinquent	40,294	-
Deferred	541,914	-
Accounts Receivable - Net	167,790	5,370
Notes Receivable	126,200	-
Accrued Interest Receivable	304,004	561
Loans Receivable	2,214,038	-
Due from Other Governments	5,424,906	7,551
Inventories	485,289	-
Restricted Investments - Temporary	29,576	995,703
Prepaid Items	-	21,942
Deferred Debt Issue Costs	23,009	34,091
Lease Receivable	-	9,410,000
Non-Depreciable Capital Assets		
Land and Right of Way	16,637,738	42,304
Construction in Progress	1,396,083	-
Depreciable Capital Assets		
Buildings (Net)	29,217,611	1,568,572
Improvements Other Than Buildings (Net)	735,459	93,273
Machinery, Vehicles, Furniture, and Equipment (Net)	3,189,975	154,763
Software (Net)	198,008	-
Infrastructure (Net)	59,097,878	-
	157,907,778	13,324,799
Total Assets		

See accompanying Notes to the Financial Statements.

	Governmental Activities	Discretely Presented Component Unit
LIABILITIES		
Accounts Payable	\$ 670,802	\$ 43,030
Salaries Payable	510,271	10,153
Claims and Judgments Payable	9,067	-
Contracts Payable	309,394	-
Due to Other Governments	182,490	-
Accrued Expenses	-	9,501
Retainage Payable	-	-
Accrued Interest Payable	463,605	82,767
Deferred Revenue-Unearned	41,408	722
Compensated Absences Payable - Due within One Year	34,076	10,000
General Obligation Bonds Payable - Due within One Year	1,220,000	350,000
Revenue Bonds Payable - Due within One Year	-	-
Loans Payable - Due within One Year	28,045	37,302
Capital Lease Payable - Due within One Year	350,000	-
Tenant Deposits Payable	-	27,065
Compensated Absences Payable - Due in More Than One Year	818,580	17,504
Other Postemployment Benefits Plan Payable - Due in More than One Year	6,172,553	-
Unamortized Discounts on Bonds	-	-
General Obligation Bonds Payable - Due in More Than One Year	12,726,500	8,930,540
Revenue Bonds Payable - Due in More Than One Year	-	-
Loans Payable - Due in More Than One Year	564,330	439,655
Capital Lease Payable - Due in More Than One Year	9,060,000	-
	<u>33,161,121</u>	<u>9,958,239</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	87,129,492	1,381,955
Restricted for:		
General Government	729,304	-
Highways and Streets	3,692,538	-
Public Safety	55,776	-
HRA Housing	-	1,022,262
Conservation	1,622,950	-
Debt Service	710,332	-
Unrestricted	30,806,265	962,343
	<u>\$ 124,746,657</u>	<u>\$ 3,366,560</u>

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**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets Governmental Activities	Discretely Presented Component Unit
PRIMARY GOVERNMENT						
GOVERNMENTAL ACTIVITIES						
General Government	\$ 6,811,945	\$ 1,452,110	\$ 367,297	\$ -	\$ (4,992,538)	
Public Safety	7,693,572	617,379	424,621	-	(6,651,572)	
Highways and Streets	8,035,047	340,863	170,612	3,687,279	(3,836,293)	
Sanitation	667,298	240,654	103,576	-	(323,068)	
Human Services	9,983,616	267,756	5,126,656	-	(4,589,204)	
Health	1,668,686	598,979	630,266	-	(439,441)	
Culture and Recreation	286,961	-	-	-	(286,961)	
Conservation of Natural Resources	233,667	42,239	-	-	(191,428)	
Economic Development	12,015	-	-	-	(12,015)	
Interest	756,753	224,386	-	-	(532,367)	
Total Governmental Activities	<u>\$ 36,149,560</u>	<u>\$ 3,784,366</u>	<u>\$ 6,823,028</u>	<u>\$ 3,687,279</u>	(21,854,887)	
COMPONENT UNIT						
Housing and Redevelopment Authority	<u>\$ 1,613,849</u>	<u>\$ 1,144,989</u>	<u>\$ 55,463</u>	<u>\$ 167,234</u>	-	\$ (246,163)
Total Reporting Entity	<u>\$ 37,763,409</u>	<u>\$ 4,929,355</u>	<u>\$ 6,878,491</u>	<u>\$ 3,854,513</u>	(21,854,887)	(246,163)
GENERAL REVENUES						
Property Taxes					15,010,700	96,416
Mortgage Registry and Deed Tax					22,086	-
Payments in Lieu of Tax					59,919	-
Grants and Contributions not Restricted for a Particular Purpose					6,084,642	7,453
Unrestricted Investment Earnings					1,675,031	11,780
Miscellaneous					679,731	10,601
Total General Revenues					<u>23,532,109</u>	<u>126,250</u>
CHANGE IN NET ASSETS						
					1,677,222	(119,913)
Net Assets - Beginning of Year					<u>123,069,435</u>	<u>3,486,473</u>
NET ASSETS - END OF YEAR					<u>\$ 124,746,657</u>	<u>\$ 3,366,560</u>

See accompanying Notes to the Financial Statements.

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

ASSETS	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>
Cash and Pooled Investments	\$ 21,859,113	\$ 6,886,296	\$ 1,143,911
Petty Cash and Change Funds	2,650	-	500
Cash with Fiscal Agent	9,067	-	-
Cash with Escrow Agent	-	-	-
Taxes Receivable - Delinquent	181,283	64,665	74,379
Special Assessments Receivable - Delinquent	36,936	-	-
Special Assessments Receivable - Deferred	350,204	-	-
Accounts Receivable	86,298	14,357	67,135
Notes Receivable	126,200	-	-
Accrued Interest Receivable	284,651	-	-
Loans Receivable	1,404,785	-	-
Due from Other Governments	271,652	4,408,926	740,620
Due from Other Funds	24,337	-	-
Inventories	-	485,289	-
Restricted Cash - Temporary	-	-	-
Total Assets	<u><u>\$ 24,637,176</u></u>	<u><u>\$ 11,859,533</u></u>	<u><u>\$ 2,026,545</u></u>

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 6,067,137	\$ 589,496	\$ 36,545,953
-	-	3,150
-	-	9,067
-	1,128,691	1,128,691
20,588	50,230	391,145
-	3,358	40,294
-	191,710	541,914
-	-	167,790
-	-	126,200
-	19,353	304,004
-	809,253	2,214,038
-	3,708	5,424,906
-	-	24,337
-	-	485,289
-	29,576	29,576
<u>\$ 6,087,725</u>	<u>\$ 2,825,375</u>	<u>\$ 47,436,354</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

LIABILITIES AND FUND BALANCES	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>
LIABILITIES			
Accounts Payable	\$ 239,197	\$ 128,364	\$ 293,437
Salaries Payable	321,925	62,273	126,073
Claims and Judgments Payable	9,067	-	-
Contracts Payable	-	309,394	-
Due to Other Funds	-	-	-
Due to Other Governments	49,026	5,032	103,372
Deferred Revenue - Unearned	41,408	-	-
Deferred Revenue - Unavailable	513,142	3,768,092	54,276
Total Liabilities	1,173,765	4,273,155	577,158
FUND BALANCES			
Nonspendable For			
Inventories	-	485,289	-
Long-Term Receivables	1,404,785	-	-
Restricted For			
Law Library	77,674	-	-
Recorder Equipment	403,694	-	-
Canteen	9,067	-	-
SSTS Grant	-	30,713	-
Debt Service	-	-	-
Attorney Forfeited Property	50,101	-	-
Sheriff's Conceal	46,709	-	-
Missing Heirs	131,765	-	-
Land Records	66,070	-	-
Sewer Improvements	-	-	-
Ditch Projects	-	-	-
Committed For			
Wind Tower	3,000	-	-
LEC Remodel Project	-	-	-
Health/Human Services Building	-	-	-
Assigned For			
Diversion Program	10,843	-	-
Veterans	23,996	-	-
Economic Development	1,113,027	-	-
GIS	132,129	-	-
Compensated Absences	517,290	148,602	186,764
Medical Insurance Claims	6,111,424	-	-
5 Year Capital Improvement Plan	-	2,000,000	-
Capital Projects	-	-	-
Human Services Operations	-	-	1,262,623
Road and Bridge Operations	-	4,921,774	-
Unassigned	13,361,837	-	-
Total Fund Balance	23,463,411	7,586,378	1,449,387
Total Liabilities and Fund Balance	\$ 24,637,176	\$ 11,859,533	\$ 2,026,545

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 9,804	\$ 670,802
-	-	510,271
-	-	9,067
-	-	309,394
-	24,337	24,337
-	25,060	182,490
-	-	41,408
17,267	225,647	4,578,424
<u>17,267</u>	<u>284,848</u>	<u>6,326,193</u>
-	-	485,289
-	-	1,404,785
-	-	77,674
-	-	403,694
-	-	9,067
-	-	30,713
-	1,140,425	1,140,425
-	-	50,101
-	-	46,709
-	-	131,765
-	-	66,070
-	1,188,636	1,188,636
-	211,466	211,466
-	-	3,000
800,000	-	800,000
3,809,855	-	3,809,855
-	-	10,843
-	-	23,996
-	-	1,113,027
-	-	132,129
-	-	852,656
-	-	6,111,424
-	-	2,000,000
1,460,603	-	1,460,603
-	-	1,262,623
-	-	4,921,774
-	-	13,361,837
<u>6,070,458</u>	<u>2,540,527</u>	<u>41,110,161</u>
<u>\$ 6,087,725</u>	<u>\$ 2,825,375</u>	<u>\$ 47,436,354</u>

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**MOWER COUNTY
AUSTIN, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 41,110,161

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. 110,472,752

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the Governmental Funds. 4,578,424

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	\$	(592,375)	
Capital Lease Payable		(9,410,000)	
General Obligation Bonds Payable		(14,080,000)	
Discount on Bonds and Notes Issued		133,500	
Bond Issuance Costs		23,009	
Accrued Interest Payable		(463,605)	
Compensated Absences		(852,656)	
Other Postemployment Benefits Payable		(6,172,553)	
		(31,414,680)	

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 124,746,657

**MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge	Social Services
REVENUES			
Taxes	\$ 7,803,142	\$ 2,163,458	\$ 2,584,670
Special Assessments	418,932	-	-
Licenses and Permits	38,002	57,997	-
Intergovernmental	4,038,797	7,237,880	5,406,895
Charges for Services	1,915,955	264,645	113,821
Fines and Forfeits	65,435	694	-
Gifts and Contributions	17,305	-	300
Interest on Investments	1,896,486	-	-
Miscellaneous	1,166,915	25,808	476,657
Total Revenues	<u>17,360,969</u>	<u>9,750,482</u>	<u>8,582,343</u>
EXPENDITURES			
CURRENT			
General Government	5,133,959	-	-
Public Safety	6,872,239	-	-
Highways and Streets	-	9,593,323	-
Sanitation	591,575	-	-
Human Services	-	-	9,481,675
Health	1,529,936	-	-
Culture and Recreation	428,252	-	-
Conservation	326,468	-	-
Economic Development	12,015	-	-
Total Current	<u>14,894,444</u>	<u>9,593,323</u>	<u>9,481,675</u>
INTERGOVERNMENTAL	-	387,453	-
CAPITAL OUTLAY			
General Government	75,993	-	-
Public Safety	230,692	-	-
Sanitation	1,546	177,052	-
Human Services	-	-	4,647
Health	498	-	-
Culture and Recreation	1,183	-	-
Conservation	-	333,383	-
Total Capital Outlay	<u>309,912</u>	<u>510,435</u>	<u>4,647</u>
DEBT SERVICE			
Principal	-	-	-
Interest	-	-	-
Total Debt Service	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>15,204,356</u>	<u>10,491,211</u>	<u>9,486,322</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,156,613	(740,729)	(903,979)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	126,550	669,352
Transfers Out	(1,795,902)	-	-
Proceeds from Loan	-	-	-
Proceeds from the Sale of Capital Assets	-	7,638	-
Total Other Financing Sources (Uses)	<u>(1,795,902)</u>	<u>134,188</u>	<u>669,352</u>
NET CHANGE IN FUND BALANCES	360,711	(606,541)	(234,627)
Fund Balance - Beginning of Year	23,102,700	8,156,610	1,684,014
Change in Inventories	-	36,309	-
FUND BALANCE - END OF YEAR	<u>\$ 23,463,411</u>	<u>\$ 7,586,378</u>	<u>\$ 1,449,387</u>

See accompanying Notes to the Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 399,758	\$ 2,186,627	\$ 15,137,655
-	134,424	553,356
-	-	95,999
35,701	422,933	17,142,206
-	3,708	2,298,129
-	-	66,129
-	-	17,605
-	154,204	2,050,690
21,416	-	1,690,796
<u>456,875</u>	<u>2,901,896</u>	<u>39,052,565</u>
-	-	5,133,959
-	-	6,872,239
-	-	9,593,323
-	-	591,575
-	-	9,481,675
-	-	1,529,936
-	-	428,252
-	71,628	398,096
-	-	12,015
-	<u>71,628</u>	<u>34,041,070</u>
-	-	387,453
-	-	75,993
37,406	-	268,098
-	-	178,598
-	-	4,647
-	-	498
-	-	1,183
-	-	333,383
<u>37,406</u>	<u>-</u>	<u>862,400</u>
-	1,561,349	1,561,349
-	1,131,291	1,131,291
-	<u>2,692,640</u>	<u>2,692,640</u>
<u>37,406</u>	<u>2,764,268</u>	<u>37,983,563</u>
419,469	137,628	1,069,002
1,000,000	-	1,795,902
-	-	(1,795,902)
-	52,500	52,500
-	-	7,638
<u>1,000,000</u>	<u>52,500</u>	<u>60,138</u>
1,419,469	190,128	1,129,140
4,650,989	2,350,399	39,944,712
-	-	36,309
<u>\$ 6,070,458</u>	<u>\$ 2,540,527</u>	<u>\$ 41,110,161</u>

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**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, 2011**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 1,129,140

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	\$ 5,093,457	
Net Book Value of Capital Assets Disposed	(39,116)	
Current Year Depreciation	<u>(3,259,814)</u>	1,794,527

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (729,360)

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		(52,500)
--------------	--	----------

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	16,349	
Capital Lease	340,000	
General Obligation Bonds	<u>1,205,000</u>	1,561,349

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	(81,689)	
Amortization of Discounts and Deferred Issuance Charges	(15,522)	
Change in Accrued Compensated Absences	76,872	
Change in Other Postemployment Benefits Payable	(2,041,904)	
Change in Inventories	<u>36,309</u>	<u>(2,025,934)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 1,677,222

MOWER COUNTY
AUSTIN, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	Agency
ASSETS	
Cash and Pooled Investments	\$ 1,259,457
LIABILITIES	
Funds Held in Trust	\$ 594,459
Salaries Payable	6,003
Due to Other Governments	658,995
Total Liabilities	\$ 1,259,457

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011. 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, 2011. 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, 2011**

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 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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

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

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs, which are funded through restricted intergovernmental revenues.

The Capital Projects Fund is used to account for committed intergovernmental revenues and expenditures related to the maintenance and construction of County buildings.

Additionally, the County reports the following fund type:

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.

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.

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

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011, 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 nonspendable fund balance in the 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, 2011**

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, 2011**

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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Fund Balance

At December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type definitions*.

In the fund financial statements, governmental funds reported nonspendable portions of fund balance related to prepaids, inventories, long term receivables and corpus on any permanent fund. Nonspendable portions of fund balance are related to prepaid items, loans receivable, and inventory. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.) Committed fund balances are established and modified by a resolution approved by the Board of Commissioners. Assigned fund balances are established and modified by the Board of Commissioners or their designee. The Board, as part of the adoption of this statement, has designated the Finance Director as the responsible party in determining assigned fund balance. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the County's policy to use restricted first, then, unrestricted fund balance. When an expenditure is incurred for which committed, assigned and unassigned amounts are available, it is the County's policy to use committed first, then assigned, and finally unassigned amounts.

Mower County receives a majority of its property tax payments based on the property tax calendar as discussed in Note 1.D.2. As a result of the unequal timing of the tax receipts, it is necessary for the County to maintain adequate fund balances to meet the operational expenditure needs of the County. It is the County's policy to maintain a minimum unassigned fund balance, equal to 50 percent of the subsequent year's tax levy, for cash flow purposes in the General Fund. In the Road and Bridge and Human Services Special Revenue Funds, it is the County's policy to maintain a minimum committed fund balance for fund purpose equal to 50 percent of the subsequent year's tax levy for each of the respective funds. The failure to maintain these fund balance levels could result in the need for short term borrowing. For the year ended December 31, 2011, the required minimum fund balances are \$4,174,900, \$1,275,200, and \$1,175,300, respectively.

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 \$6,810,900 of restricted net assets, of which \$6,100,568 is restricted by enabling legislation.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2011:

	Actual	Budget	Excess
Social Services	\$ 9,486,322	\$ 9,073,369	\$ 412,953

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

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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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, 2011, 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.

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;

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Deposits and Investments (Continued)

Investments (Continued)

- (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, 2011, the County had the following investments:

Investment Type	Fair Value	Maturity		
		Less Than 2 Years	2-5 Years	5+ Years
Federal Home Loan Bank	\$ 2,520,205	\$ -	\$ 1,502,795	\$ 1,017,410
Federal Home Loan Mortgage	1,005,760	-	-	1,005,760
Fannie Mae	2,306,932	-	1,803,069	503,863
Municipal Bonds	22,406,713	3,234,763	8,282,698	10,889,252
Mutual Funds	3,604,818	3,604,818	-	-
MAGIC Fund	2,594,325	2,594,325	-	-
Negotiable Certificates of Deposit	4,311,520	2,318,378	1,993,142	-
Total	\$ 38,750,273	\$ 11,752,284	\$ 13,581,704	\$ 13,416,285

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011:

Investment Type	S & P Rating	Fair Value
Mutual Funds:		
Dreyfus Money Market CL B		\$ 321
Morgan Stanley AA Money Trust		265,036
UBS Select Prime Institutional Fund		3,321,658
First American Government Obligation Fund CL D		16,898
General Government SEC Money Market CL B		905
Municipal Bonds	AAA	22,406,713
Negotiable Certificates of Deposit	NR	4,311,520
Federal Home Loan Mortgage Company	AAA	1,005,760
Fannie Mae	AAA	2,306,932
MN Association of Governments Investing for Counties (MAGIC) Fund	NR	2,594,325
Federal Home Loan Bank	AAA	2,520,205
Totals		<u>\$ 38,750,273</u>

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, 2011, none of the County's investments were subject to custodial credit risk.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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
Municipal Bonds	\$ 22,406,713	57.8 %
Negotiable Certificates of Deposit	4,311,520	11.1
Fannie Mae	2,306,932	6.0
Federal Home Loan Bank	2,520,205	6.5

It should be noted that investments in municipal bonds and negotiable certificates of deposits did not exceed 5% of total investments with any one issuer.

Balance Sheet Presentation

Total County cash and investments at December 31, 2011 consisted of:

Balance Sheet Presentation

Deposits	\$ 222,471
Petty Cash and Change Funds	3,150
Investments	38,750,273
Total	<u>\$ 38,975,894</u>

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

Cash and Pooled Investments	\$ 36,545,953
Petty Cash and Change Funds	3,150
Restricted Cash	29,576
Cash with Fiscal Agent	9,067
Cash with Escrow Agent	1,128,691
Agency Fund Cash and Investments	1,259,457
Total	<u>\$ 38,975,894</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, for the County governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Activities	
Accounts Receivable	\$ 1,340,093
Less: Allowance for Uncollectibles	
Social Services Department	<u>(1,172,303)</u>
Total Governmental Activities, Net	<u>\$ 167,790</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, 2011:

	Beginning Balance	Additions	Payments	Ending Balance
Economic Development Loans	\$ 6,595,330	\$ -	\$ 5,190,545	\$ 1,404,785
Sewer Improvement Loans	714,948	243,119	148,814	809,253
Notes Receivable	138,500	-	12,300	126,200
Total	<u>\$ 7,448,778</u>	<u>\$ 243,119</u>	<u>\$ 5,351,659</u>	<u>\$ 2,340,238</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 6,138,873	\$ -	\$ -	\$ 6,138,873
Right of Way	10,428,820	92,431	22,386	10,498,865
Construction in Progress	2,605,883	4,670,282	5,880,082	1,396,083
Total Capital Assets, Not Depreciated	<u>19,173,576</u>	<u>4,762,713</u>	<u>5,902,468</u>	<u>18,033,821</u>
Capital Assets Being Depreciated				
Buildings	32,498,440	37,406	-	32,535,846
Buildings Improvements	4,888,566	-	-	4,888,566
Improvements Other Than Building	922,339	34,840	-	957,179
Machinery, Furniture, Equipment, and Vehicles	9,582,919	282,135	100,107	9,764,947
Software	105,239	197,600	7,000	295,839
Infrastructure	93,531,737	5,681,231	182,703	99,030,265
Total Capital Assets Being Depreciated	<u>141,529,240</u>	<u>6,233,212</u>	<u>289,810</u>	<u>147,472,642</u>
Less: Accumulated Depreciation for				
Buildings	3,988,993	636,454	-	4,625,447
Buildings Improvements	3,340,532	240,822	-	3,581,354
Improvements Other Than Building	180,537	41,183	-	221,720
Machinery, Furniture, Equipment, and Vehicles	6,038,270	636,809	100,107	6,574,972
Software	71,376	33,455	7,000	97,831
Infrastructure	38,404,883	1,671,091	143,587	39,932,387
Total Accumulated Depreciation	<u>52,024,591</u>	<u>3,259,814</u>	<u>250,694</u>	<u>55,033,711</u>
Total Capital Assets, Depreciated, Net	<u>89,504,649</u>	<u>2,973,398</u>	<u>39,116</u>	<u>92,438,931</u>
Governmental Activities Capital Assets, Net	<u>\$ 108,678,225</u>	<u>\$ 7,736,111</u>	<u>\$ 5,941,584</u>	<u>\$ 110,472,752</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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	\$ 840,577
Public Safety	229,683
Highways and Streets, Including Infrastructure	2,077,148
Sanitation	38,437
Human Services	12,190
Health	522
Culture and Recreation	58,347
Conservation of Natural Resources	<u>2,910</u>
Depreciation Expense - Governmental Activities	<u><u>\$ 3,259,814</u></u>

B. Interfund Receivables, Payables, and Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfer	Amount	Reason
Transfer from the General Fund to the Capital Projects Fund	\$ 1,000,000	Health & Human Services/LEC Remodel Project
Transfer from the General Fund to the Social Services Fund	669,352	Cash Flows and Redesign Costs
Transfer from the General Fund to the Road and Bridge Fund	<u>126,550</u>	Transfer of Environmental Services Department
Total Interfund Transfers	<u><u>\$ 1,795,902</u></u>	

Interfund receivables and payables for the year ended December 31, 2011, consisted of the following:

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	\$ 24,337

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2011. The projects include the following:

	Original Contract Amount	Remaining Commitment
Governmental Activities		
Roads and Bridges	\$ 1,819,518	\$ 954,845

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 \$78,782 for the year ended December 31, 2011. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2012	\$ 73,797
2013	73,797
2014	61,497
Total Operating Lease Payments	\$ 209,091

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, 2011**

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 2011, there were eight 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 2011, 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 2011, 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 2011, 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, 2011**

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	165,226
Adjustment to Annual Required Contribution	<u>(371,516)</u>
Annual OPEB Cost (Expense)	2,926,308
Contributions Made	(884,404)
Net OPEB Obligation - Beginning of Year	<u>4,130,649</u>
Net OPEB Obligation, End of Year	<u><u>\$ 6,172,553</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 2011 are as follows:

Fiscal Year End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 2,926,308	\$ 962,224	32.9 %	\$ 6,172,553
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

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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	255.5 %
January 1, 2008	-	22,494,031	22,494,031	-	11,738,940	191.6

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, 2011**

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, 2011 was 18 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, 2011**

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 \$216,693, respectively, as of December 31, 2011.

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, 2011
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	24,655
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
2011 Septic Loans	2026	\$2,500 - \$5,400	-	52,500	52,500
Total General Obligation Capital Notes				666,487	592,375
Bonds:					
General Obligation Taxable Jail Bonds, Series 2009A	2022	\$1,375,000 - \$15,285,000	1.25%-5.4%	16,660,000	14,080,000
Capital Lease Payable:					
Facility Lease	2029	\$250,000 - \$775,000	2.5%-5.9%	10,000,000	9,410,000
Total Long-Term Debt				<u>\$ 27,326,487</u>	<u>\$ 24,082,375</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011, were as follows:

Year Ending December 31	State Loans		Bonds		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 28,045	\$ -	\$ 1,220,000	\$ 612,575	\$ 350,000	\$ 477,048
2013	43,618	-	1,240,000	576,275	360,000	464,618
2014	49,146	-	1,265,000	533,020	375,000	450,638
2015	50,119	-	1,295,000	482,438	390,000	434,850
2016	63,596	-	1,330,000	425,300	405,000	417,653
2017-2021	261,357	-	7,305,000	1,088,870	2,335,000	1,772,108
2022-2026	96,494	-	425,000	11,475	2,990,000	1,076,245
2027-2030	-	-	-	-	2,205,000	198,239
Totals	<u>\$ 592,375</u>	<u>\$ -</u>	<u>\$ 14,080,000</u>	<u>\$ 3,729,953</u>	<u>\$ 9,410,000</u>	<u>\$ 5,291,399</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans Payable	\$ 556,224	\$ 52,500	\$ 16,349	\$ 592,375	\$ 28,045
Bonds Payable	15,285,000	-	1,205,000	14,080,000	1,220,000
Capital Lease Payable	9,750,000	-	340,000	9,410,000	350,000
Compensated Absences	929,529	1,171,409	1,248,282	852,656	34,076
Other Postemployment Benefits Payable	4,130,649	2,926,308	884,404	6,172,553	-
Long-Term Liabilities	<u>\$ 30,651,402</u>	<u>\$ 4,150,217</u>	<u>\$ 3,694,035</u>	<u>\$ 31,107,584</u>	<u>\$ 1,632,121</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, 2011**

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, 2011**

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, 2011**

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 6.25 percent, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6 percent of their annual covered salary in 2011. PECF members are required to contribute 5.83 percent of their annual covered salary. In 2011, Mower County was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.25 percent for Coordinated Plan members, 14.40 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, 2011**

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, 2011, 2010, and 2009 were:

	General Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund	Defined Contribution Plan
2011	\$ 638,798	\$ 178,115	\$ 104,831	\$ 3,744
2010	628,737	191,511	75,717	2,370
2009	607,076	186,894	53,138	2,481

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 2011. 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, 2011**

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 2011, the County made no payments to the Collaborative.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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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 2011, 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 2011, Mower County paid \$82,619 to the Cooperative.

2. Southeast Minnesota Emergency Management Services (EMS)

The EMS provides various health services to several counties. During 2011, 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, 2011**

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 2011, 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 2011, the County paid \$404,096 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 2011.

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 \$1,000 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 \$2,500 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 made no contributions to the Board during 2011.

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, 2011**

NOTE 7 SUBSEQUENT EVENTS

On May 8, 2012, the County Board approved the issuance of \$9,955,000 of General Obligation Capital Improvement Refunding Bonds, Series 2012A. The proceeds of this issuance were used to refund in advance of their stated maturities, the remaining maturities of the County's Series 2008A Lease Revenue Bonds. The bonds have an interest rate range of 1.5 to 2.7 percent and a final maturity date of February 1, 2028. Future ad valorem tax levies are dedicated to the retirement of these bonds.

NOTE 8 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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

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	\$ 945,676
Restricted Assets:	
Deposits	9,064
Investments	986,639
Total Cash and Investments	<u>\$ 1,941,379</u>

Deposits and Investments (Continued)

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

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, 2011, 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;

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Investments (Continued)

- (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
- (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, 2011, the HRA had the following restricted investments:

	At Estimated Market Value
Held in Escrow at the MHFA	\$ 987,178

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 \$8,779 and \$16,534 for the years ended September 30, 2011 and 2010, respectively.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

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.

Balance Sheet Presentation

Deposits	\$ 918,611
Tenant Deposit Cash	27,065
Restricted Assets	995,703
Total	<u>\$ 1,941,379</u>

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.

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Capital Assets

HRA capital asset activity for the year ended September 30, 2011 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	-	18,021	3,120
Accumulated Depreciation for:				
Equipment	2,434	246	-	2,680
Transportation	18,021	-	18,021	-
Total Accumulated Depreciation	20,455	246	18,021	2,680
Total Capital Assets, Being Depreciated, Net	\$ 686	\$ (246)	\$ -	\$ 440
Business-Type Activities:				
Capital Asset, Not Being Depreciated				
Land	\$ 42,304	\$ -	\$ -	\$ 42,304
Capital Assets, Being Depreciated				
Land Improvements	328,668	5,474	-	334,142
Buildings	4,094,238	38,187	-	4,132,425
Furnishings	414,407	45,936	-	460,343
Maintenance Equipment	25,258	1,092	-	26,350
Total Capital Assets Being Depreciated	4,862,571	90,689	-	4,953,260
Accumulated Depreciation for:				
Land Improvements	224,619	16,250	-	240,869
Buildings	2,445,230	118,623	-	2,563,853
Furnishings	284,670	22,336	-	307,006
Maintenance Equipment	24,933	431	-	25,364
Total Accumulated Depreciation	2,979,452	157,640	-	3,137,092
Total Capital Assets, Being Depreciated, Net	1,883,119	(66,951)	-	1,816,168
Business-Type Activities Capital Assets, Net	\$ 1,925,423	\$ (66,951)	\$ -	\$ 1,858,472

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

2. Assets (Continued)

Capital Assets (Continued)

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

Governmental Activities	
General Government	\$ 246
Business-Type Activities	
Housing	\$ 157,640

3. Liabilities

Long-Term Debt

Long-term debt outstanding at September 30, 2011, 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	\$ 412,631	\$ 34,463
Mortgage Payable	2024	8.75	123,000	64,326	2,839
Lease Revenue Bond Payable	2029	2.50-5.90	10,000,000	9,410,000	350,000
			\$ 10,998,870	\$ 9,886,957	\$ 387,302

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
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	434,850
2016	48,688	19,925	405,000	417,653
2016-2020	241,965	45,850	2,335,000	1,772,108
2021-2025	20,971	2,760	2,990,000	1,076,245
2026-2030	-	-	2,205,000	198,239
Totals	\$ 476,957	\$ 177,654	\$ 9,410,000	\$ 5,291,399

**MOWER COUNTY
AUSTIN, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

3. Liabilities (Continued)

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, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance
Mortgages Payable	\$ 511,834	\$ -	\$ 34,877	\$ 476,957
Lease Revenue Bonds Payable	9,750,000	-	340,000	9,410,000
Unamortized Discount	(136,929)	-	(7,469)	(129,460)
Compensated Absences	28,013	18,393	18,902	27,504
Long-Term Liabilities	<u>\$ 10,152,918</u>	<u>\$ 18,393</u>	<u>\$ 386,310</u>	<u>\$ 9,785,001</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, 2011**

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	255.5 %
January 1, 2008	-	22,494,031	22,494,031	-	11,738,940	191.6

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**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETRY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 8,892,649	\$ 8,182,553	\$ 7,803,142	\$ (379,411)
Special Assessments	395,541	395,541	418,932	23,391
Licenses and Permits	28,171	28,171	38,002	9,831
Intergovernmental	2,978,658	3,831,125	4,038,797	207,672
Charges for Services	2,005,521	2,005,521	1,915,955	(89,566)
Fines and Forfeits	52,936	52,936	65,435	12,499
Gifts and Contributions	10,000	10,000	17,305	7,305
Investments Earnings	639,780	639,780	1,896,486	1,256,706
Miscellaneous	576,710	576,710	1,166,915	590,205
Total Revenues	15,579,966	15,722,337	17,360,969	1,638,632
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	280,323	280,323	278,266	2,057
Courts	118,818	118,818	96,442	22,376
Law Library	65,885	65,885	64,564	1,321
County Administration	592,329	593,917	564,838	29,079
County Auditor-Treasurer	368,076	368,076	329,177	38,899
County Assessor	723,081	724,081	716,076	8,005
Elections	52,960	52,960	48,529	4,431
Auditing	80,160	80,160	97,705	(17,545)
Information Systems	392,764	392,764	411,688	(18,924)
Central Services	67,659	67,659	44,680	22,979
Attorney	735,499	853,604	812,899	40,705
Recorder	196,464	196,464	170,319	26,145
Buildings and Plant	748,615	748,615	700,119	48,496
Public Transit	10,425	10,425	17,942	(7,517)
Veterans Service	157,348	157,348	142,176	15,172
Other General Government	1,027,539	650,524	638,539	11,985
Total General Government	5,617,945	5,361,623	5,133,959	227,664

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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (Continued)				
CURRENT (Continued)				
PUBLIC SAFETY				
Sheriff	\$ 2,295,832	\$ 2,302,627	\$ 2,179,773	\$ 122,854
E911	26,339	34,339	158,757	(124,418)
Coroner	47,900	47,900	64,593	(16,693)
County Jail	2,571,822	2,571,822	2,471,346	100,476
County Jail Canteen	21,600	21,600	221,150	(199,550)
Law Enforcement Center	574,536	581,736	691,244	(109,508)
Community Corrections	980,583	980,583	951,092	29,491
Sentence to Serve	56,692	56,692	57,413	(721)
Civil/Bailiff	107,977	107,977	76,871	31,106
Total Public Safety	<u>6,683,281</u>	<u>6,705,276</u>	<u>6,872,239</u>	<u>(166,963)</u>
SANITATION				
Solid Waste	586,525	586,525	591,575	(5,050)
HEALTH				
Nursing Service	1,241,510	1,241,510	1,127,219	114,291
Maternal and Child Health	64,145	64,145	59,937	4,208
County Health Officer	1,399	1,399	1,400	(1)
Women, Infants, and Children	271,143	271,143	234,380	36,763
Other	128,965	128,965	107,000	21,965
Total Health	<u>1,707,162</u>	<u>1,707,162</u>	<u>1,529,936</u>	<u>177,226</u>
CULTURE AND RECREATION				
Historical Society	33,750	33,750	33,751	(1)
Senior Citizens	47,400	47,400	63,811	(16,411)
Regional Library	246,187	246,187	228,614	17,573
Other	85,228	85,228	102,076	(16,848)
Total Culture and Recreation	<u>412,565</u>	<u>412,565</u>	<u>428,252</u>	<u>(15,687)</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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (Continued)				
CURRENT (Continued)				
CONSERVATION OF NATURAL RESOURCES				
County Extension	\$ 168,511	\$ 168,511	\$ 156,234	\$ 12,277
Soil and Water Conservation	133,505	133,505	133,505	-
County Fair	25,414	25,414	25,414	-
Other	-	-	11,315	(11,315)
Total Conservation of Natural Resources	<u>327,430</u>	<u>327,430</u>	<u>326,468</u>	<u>962</u>
ECONOMIC DEVELOPMENT				
Development Corporation	<u>12,019</u>	<u>12,019</u>	<u>12,015</u>	<u>4</u>
CAPITAL OUTLAY				
General Government	121,050	123,589	75,993	47,596
Public Safety	92,804	107,185	230,692	(123,507)
Sanitation	500	500	1,546	(1,046)
Health	4,200	4,200	498	3,702
Culture and Recreation	2,500	2,500	1,183	1,317
Total Capital Outlay	<u>221,054</u>	<u>237,974</u>	<u>309,912</u>	<u>(71,938)</u>
Total Expenditures	<u>15,567,981</u>	<u>15,350,574</u>	<u>15,204,356</u>	<u>146,218</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	11,985	371,763	2,156,613	1,784,850
OTHER FINANCING SOURCES (USES)				
Transfer Out	-	(669,352)	(1,795,902)	(1,126,550)
NET CHANGE IN FUND BALANCE	<u>\$ 11,985</u>	<u>\$ (297,589)</u>	360,711	<u>\$ 658,300</u>
Fund Balance - Beginning of Year			<u>23,102,700</u>	
FUND BALANCE - END OF YEAR			<u>\$ 23,463,411</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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,418,637	\$ 2,184,846	\$ 2,163,458	\$ (21,388)
Licenses and Permits	42,700	42,700	57,997	15,297
Intergovernmental	8,846,041	9,446,666	7,237,880	(2,208,786)
Charges for Services	231,000	231,000	264,645	33,645
Fines and Forfeits	-	-	694	694
Miscellaneous	158,000	158,000	25,808	(132,192)
Total Revenues	<u>11,696,378</u>	<u>12,063,212</u>	<u>9,750,482</u>	<u>(2,312,730)</u>
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Administration	537,744	537,744	576,942	(39,198)
Maintenance	2,325,457	2,325,457	2,196,781	128,676
Construction	7,403,764	7,403,764	5,648,622	1,755,142
Equipment and Maintenance Shops	759,289	759,289	978,283	(218,994)
Buildings and Grounds	174,561	174,561	139,040	35,521
Other	-	366,834	53,655	313,179
Total Current	<u>11,200,815</u>	<u>11,567,649</u>	<u>9,593,323</u>	<u>1,974,326</u>
CONSERVATION OF NATURAL RESOURCES				
Environmental Services	327,791	327,791	333,383	(5,592)
INTERGOVERNMENTAL				
General Government	-	-	387,453	(387,453)
CAPITAL OUTLAY				
Highway and Streets	438,000	438,000	177,052	260,948
Total Expenditures	<u>11,966,606</u>	<u>12,333,440</u>	<u>10,491,211</u>	<u>1,842,229</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	(270,228)	(270,228)	(740,729)	(470,501)
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	126,550	126,550
Proceeds from the Sale of Capital Assets	5,000	5,000	7,638	2,638
Total Other Financing Sources (Uses)	<u>5,000</u>	<u>5,000</u>	<u>134,188</u>	<u>129,188</u>
NET CHANGE IN FUND BALANCE	<u>\$ (265,228)</u>	<u>\$ (265,228)</u>	(606,541)	<u>\$ (341,313)</u>
Fund Balance - Beginning of Year			8,156,610	
CHANGE IN INVENTORIES			<u>36,309</u>	
FUND BALANCE - END OF YEAR			<u>\$ 7,586,378</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 2,892,558	\$ 2,612,956	\$ 2,584,670	\$ (28,286)
Intergovernmental	4,788,897	5,068,499	5,406,895	338,396
Charges for Services	949,412	949,412	113,821	(835,591)
Gifts and Contributions	-	-	300	300
Miscellaneous	423,150	423,150	476,657	53,507
Total Revenues	<u>9,054,017</u>	<u>9,054,017</u>	<u>8,582,343</u>	<u>(471,674)</u>
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Income Maintenance	3,202,501	3,213,919	3,146,167	67,752
Social Services	5,851,516	5,859,450	6,335,508	(476,058)
Total Human Services	<u>9,054,017</u>	<u>9,073,369</u>	<u>9,481,675</u>	<u>(408,306)</u>
CAPTIAL OUTLAY				
Human Services	-	-	4,647	(4,647)
Total Expenditures	<u>9,054,017</u>	<u>9,073,369</u>	<u>9,486,322</u>	<u>(412,953)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(19,352)	(903,979)	(923,331)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	669,352	669,352	-
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 650,000</u>	(234,627)	<u>\$ (923,331)</u>
Fund Balance - Beginning of Year			<u>1,684,014</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,449,387</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, 2011**

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 assignments 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, 2011:

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
Social Services	\$ 9,486,322	\$ 9,073,369	\$ 412,953

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, 2011**

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, 2011**

	Ditch	Sewer Improvements	Bond Fund	Total Governmental Funds
ASSETS				
Cash and Pooled Investments	\$ 239,689	\$ 349,807	\$ -	\$ 589,496
Cash with Escrow Agent	-	-	1,128,691	1,128,691
Taxes Receivable - Delinquent	-	-	50,230	50,230
Special Assessments Receivable - Delinquent	3,358	-	-	3,358
Special Assessments Receivable - Deferred	191,710	-	-	191,710
Accrued Interest Receivable	-	-	19,353	19,353
Loans Receivable	-	809,253	-	809,253
Due from Other Governments	3,708	-	-	3,708
Restricted Investments - Temporary	-	29,576	-	29,576
Total Assets	\$ 438,465	\$ 1,188,636	\$ 1,198,274	\$ 2,825,375
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 9,804	\$ -	\$ -	\$ 9,804
Due to Other Funds	-	-	24,337	24,337
Due to Other Governments	25,060	-	-	25,060
Deferred Revenue - Unavailable	192,135	-	33,512	225,647
Total Liabilities	226,999	-	57,849	284,848
FUND BALANCES				
Restricted For				
Ditch Projects	211,466	-	-	211,466
Sewer Improvements	-	1,188,636	-	1,188,636
Debt Service	-	-	1,140,425	1,140,425
Total Fund Balance	211,466	1,188,636	1,140,425	2,540,527
Total Liabilities and Fund Balance	\$ 438,465	\$ 1,188,636	\$ 1,198,274	\$ 2,825,375

**MOWER COUNTY
AUSTIN, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011**

	Ditch	Sewer Improvements	Bond Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ -	\$ -	\$ 2,186,627	\$ 2,186,627
Special Assessments	111,807	22,617	-	134,424
Intergovernmental	-	-	422,933	422,933
Charges for Services	3,708	-	-	3,708
Interest on Investments	4,361	92	149,751	154,204
Total Revenues	<u>119,876</u>	<u>22,709</u>	<u>2,759,311</u>	<u>2,901,896</u>
EXPENDITURES				
CURRENT				
Conservation	71,628	-	-	71,628
DEBT SERVICE				
Principal	-	16,349	1,545,000	1,561,349
Interest	-	-	1,131,291	1,131,291
Total Expenditures	<u>71,628</u>	<u>16,349</u>	<u>2,676,291</u>	<u>2,764,268</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	48,248	6,360	83,020	137,628
OTHER FINANCING SOURCES (USES)				
Proceeds from Loan	-	52,500	-	52,500
NET CHANGE IN FUND BALANCES	48,248	58,860	83,020	190,128
Fund Balance - Beginning of Year	163,218	1,129,776	1,057,405	2,350,399
FUND BALANCE - END OF YEAR	<u>\$ 211,466</u>	<u>\$ 1,188,636</u>	<u>\$ 1,140,425</u>	<u>\$ 2,540,527</u>

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
DITCH FUND
YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Special Assessments	\$ 83,350	\$ 83,350	\$ 111,807	\$ 28,457
Charges for Services	-	-	3,708	3,708
Investments Earnings	-	-	4,361	4,361
Total Revenues	<u>83,350</u>	<u>83,350</u>	<u>119,876</u>	<u>36,526</u>
EXPENDITURES				
CURRENT				
CONSERVATION OF NATURAL RESOURCES				
Other	<u>83,350</u>	<u>83,350</u>	<u>71,628</u>	<u>11,722</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	48,248	<u>\$ 48,248</u>
Fund Balance - Beginning of Year			<u>163,218</u>	
FUND BALANCE - END OF YEAR			<u>\$ 211,466</u>	

**MOWER COUNTY
AUSTIN, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
SEWER IMPROVEMENT FUND
YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Special Assessments	\$ 210,000	\$ 210,000	\$ 22,617	\$ (187,383)
Investments Earnings	-	-	92	92
Total Revenues	<u>210,000</u>	<u>210,000</u>	<u>22,709</u>	<u>(187,291)</u>
EXPENDITURES				
CURRENT				
CONSERVATION OF NATURAL RESOURCES				
Other	210,000	210,000	-	210,000
DEBT SERVICE				
Principal	-	-	16,349	(16,349)
Total Expenditures	<u>210,000</u>	<u>210,000</u>	<u>16,349</u>	<u>193,651</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	6,360	6,360
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	52,500	52,500
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	58,860	<u>\$ 58,860</u>
Fund Balance - Beginning of Year			<u>1,129,776</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,188,636</u>	

**MOWER COUNTY
AUSTIN, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
STATE REVENUE				
ASSETS				
Cash and Pooled Investments	\$ 104,461	\$ 851,903	\$ 832,494	\$ 123,870
LIABILITIES				
Due to Other Governments	\$ 104,461	\$ 851,903	\$ 832,494	\$ 123,870
FAMILY CONNECTIONS COLLABORATIVE				
ASSETS				
Cash and Pooled Investments	\$ 269,435	\$ 344,923	\$ 183,783	\$ 430,575
LIABILITIES				
Salaries Payable	\$ 5,839	\$ 164	\$ -	\$ 6,003
Due to Other Governments	263,596	344,759	183,783	424,572
Total Liabilities	\$ 269,435	\$ 344,923	\$ 183,783	\$ 430,575
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 432,081	\$ 38,480,003	\$ 38,317,625	\$ 594,459
LIABILITIES				
Funds Held in Trust	\$ 432,081	\$ 38,480,003	\$ 38,317,625	\$ 594,459
SOCIAL WELFARE FUND				
ASSETS				
Cash and Pooled Investments	\$ 88,949	\$ 1,064,491	\$ 1,042,887	\$ 110,553
LIABILITIES				
Due to Other Governments	\$ 88,949	\$ 1,064,491	\$ 1,042,887	\$ 110,553
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 894,926	\$ 40,741,320	\$ 40,376,789	\$ 1,259,457
LIABILITIES				
Funds Held in Trust	\$ 432,081	\$ 38,480,003	\$ 38,317,625	\$ 594,459
Salaries Payable	5,839	164	-	6,003
Due to Other Governments	457,006	2,261,153	2,059,164	658,995
Total Liabilities	\$ 894,926	\$ 40,741,320	\$ 40,376,789	\$ 1,259,457

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Funds</u>
SHARED REVENUE	
State	
Highway Users Tax	\$ 5,569,246
County Program Aid	2,027,705
PERA Rate Reimbursement	40,232
Disparity Reduction Aid	187,346
Police Aid	139,140
Enhanced 911	121,930
Market Value Credit	1,198,048
Total Shared Revenue	<u>9,283,647</u>
REIMBURSEMENT FOR SERVICES	
STATE	
Minnesota Department of Human Services	11,408
PAYMENTS	
LOCAL	
Payments in Lieu of Taxes	59,919
GRANTS	
STATE	
Minnesota Department/Board of	
Peace Officers Board	7,953
Corrections	307,848
Health	182,698
Human Services	1,788,802
Soil and Water Resources	71,296
Natural Resources	43,839
Public Safety	2,875
Pollution Control Agency	103,576
Total State	<u>2,508,887</u>
FEDERAL	
Department of	
Agriculture	486,007
Commerce	25,600
Justice	128,684
Transportation	987,343
Homeland Security	224,721
Health	3,201,604
Internal Revenue Service	224,386
Total Federal	<u>5,278,345</u>
Total State and Federal Grants	<u>7,787,232</u>
Total Intergovernmental Revenue	<u><u>\$ 17,142,206</u></u>

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



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

Board of County Commissioners
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, 2011, which collectively comprise Mower County's basic financial statements and have issued our report thereon dated September 14, 2012. The financial statements of the Mower County Housing and Redevelopment Authority are as of and for the year ended September 30, 2011. 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, 2011. 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, 10-1, and 11-1, described in the accompanying schedule of findings and questioned costs, to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 11-2 and 11-7 described in the accompany schedule of findings and questioned costs to be significant deficiencies.

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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 14, 2012



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**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, 2011. 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 \$479,939 in federal awards during the year ended September 30, 2011, which are not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2011. Our audit, described below did not include the operations of the HRA because the component unit engaged for its own separate 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 11-3.

Internal Control Over Compliance

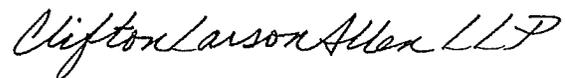
The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over 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 deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-3, 11-4, and 11-5. *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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 14, 2012

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**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011**

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, 10-1, and 11-1 are considered to be material weaknesses and 11-2 and 11-7 are considered to be a significant deficiencies.
3. No instances of noncompliance material to the basic financial statements of the County were disclosed during the audit.
4. Significant deficiencies involving internal control over compliance relating to the audit of the major federal award programs were 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". These are listed as items 11-3, 11-4, and 11-5.
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. An Audit finding relative to the major federal award programs for the County was disclosed during the audit that is required to be reported in accordance with Section 510(a) of OMB Circular A-133. This is listed as item 11-3.
7. The programs tested as a major program were:

Highway Planning and Construction Cluster	CFDA No. 20.205 & 20.219
TANF Cluster	CFDA No. 93.558 & 93.714
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, 2011**

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, 2011**

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, 2011**

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.*

11-1 TIMELY INVENTORY

Criteria: Timely inventory counts are recommended to improve internal controls and accuracy over inventory balances.

Condition: The Road and Bridge inventory was not counted until March 31, 2012.

Cause: Staff turnover.

Effect: Inventory counts may not be accurate for financial statement purposes.

Recommendation: We recommend inventories be counted in a timely manner related to year end.

Client Response: *This was an issue in the current year as a result of turnover in the position responsible for these counts. The new staff person is aware of the requirement and will take a timely inventory for the next year-end.*

SIGNIFICANT DEFICIENCY - FINANCIAL REPORTING

11-2 BUDGET AMENDMENTS

Criteria: Budget amendments in the Road and Bridge Fund were made during board meetings but the proper forms were not submitted to the finance director for entry into the General Ledger.

Condition: The Road and Bridge board approved budget does not match the budget per the General Ledger.

Cause: unknown.

Effect: The budget amounts for revenues and expenditures in the Road and Bridge Fund were not accurate.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2011**

SIGNIFICANT DEFICIENCY - FINANCIAL REPORTING (CONTINUED):

11-2 BUDGET AMENDMENTS (CONTINUED)

Recommendation: We recommend budget amendments be formally approved by the Board and information submitted to the Finance Director for entry into the general ledger system for accurate budget to actual tracking throughout the year.

Client Response: *This was an issue due to the proper forms not being completed and the information not being submitted for entry into the system. Effort will be made to improve communications and to ensure that board changes are all accounted for on the general ledger system.*

11-7 BANK RECONCILIATIONS

Criteria: As part of sound financial controls over cash and investments balances, the County should reconcile its bank and investment accounts to its general ledger at the end of each calendar month.

Condition: The County has not been able to completely reconcile the bank balances to the general ledger since January of 2011.

Cause: Unknown.

Effect: Absent a complete and accurate reconciliation of the County's cash fully each month diminishes the ability of the County's management to prevent timely and accurate reporting of financial information.

Recommendation: We recommend the County complete a precise and timely reconciliation of the County's bank accounts to its general ledger each month and that the County provide for documented review of these monthly reconciliations.

Client Response: *The client is aware of the situation and will work to reconcile the cash per the bank to the cash per the general ledger.*

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2011**

MAJOR PROGRAM SIGNIFICANT DEFICIENCY INTERNAL CONTROL AND COMPLIANCE:

**DEPARTMENT OF HEALTH AND HUMAN SERVICES, PASSED THROUGH THE MINNESOTA
DEPARTMENT OF HUMAN SERVICES AND MINNESOTA DEPARTMENT OF HEALTH**

11-3 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF CLUSTER) - CFDA # 93.558
AND 93.714; GRANT PERIOD – YEAR ENDED DECEMBER 31, 2011

Criteria: The A-133 compliance supplement requires that income verification be performed to determine the applicant qualifies as needy.

Condition and Context: A sample of forty case files was selected for audit. One of forty applications tested did not document verification of income to determine if the applicant was qualified as needy under program guidelines.

Cause: Unknown.

Effect: Benefits could be provided to an ineligible client.

Recommendation: We recommend the County take proper steps to ensure that documentation of applicant qualification requirements is maintained under program guidelines.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Lisa Kocer, Interim Public Health Director

Corrective Action Planned: A document has been created by the Interim Public Health Director that must be completed by the applicant with income verification as a requirement.

Anticipated Completion Date: December 31, 2012

MAJOR PROGRAM SIGNIFICANT DEFICIENCY INTERNAL CONTROL

**DEPARTMENT OF HEALTH AND HUMAN SERVICES, PASSED THROUGH THE MINNESOTA
DEPARTMENT OF HUMAN SERVICES AND MINNESOTA DEPARTMENT OF HEALTH**

11-4 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF CLUSTER) - CFDA # 93.558
AND 93.714; GRANT PERIOD – YEAR ENDED DECEMBER 31, 2011

Criteria: Standard internal control procedures suggest a supervisor review quarterly Public Health TANF Reports prior to submission.

Condition and Context: A sample of two quarterly TANF reports was selected for audit. Both reports tested did not have a signature indicating supervisor review by the County prior to submission.

Cause: Unknown.

Effect: Benefits could be provided to an ineligible client.

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2011**

MAJOR PROGRAM SIGNIFICANT DEFICIENCY INTERNAL CONTROL (CONTINUED)

**DEPARTMENT OF HEALTH AND HUMAN SERVICES, PASSED THROUGH THE MINNESOTA
DEPARTMENT OF HUMAN SERVICES AND MINNESOTA DEPARTMENT OF HEALTH
(CONTINUED)**

11-4 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF CLUSTER) - CFDA # 93.558
AND 93.714; GRANT PERIOD – YEAR ENDED DECEMBER 31, 2011 (CONTINUED)

Recommendation: We recommend the County take proper steps to ensure that all reports are reviewed and signed prior to submission.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Lisa Kocer, Interim Public Health Director

Corrective Action Planned: The Public Health and Human Services departments will merge on May 1, 2012, upon the merge, there will be a separate person preparing and another reviewing the reports prior to submission.

Anticipated Completion Date: May 1, 2012

11-5 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF CLUSTER) - CFDA # 93.558
AND 93.714 AND MEDICAL ASSISTANCE – CFDA 93.778; GRANT PERIOD – YEAR
ENDED DECEMBER 31, 2011

Criteria: Standard internal control procedures suggest County personnel review casefiles periodically to ensure the County is in compliance with the program requirements.

Condition and Context: A sample of forty case files was selected for the TANF and Medical Assistance audits. Ultimate eligibility is determined by the State of Minnesota, but there is no periodic review over the information in the casefiles by a supervisor.

Cause: Unknown.

Effect: Benefits could be provided to an ineligible client.

Recommendation: We recommend the County take proper steps to ensure that periodic review procedures are implemented and documented to ensure compliance with program requirements.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Todd Lynse, Income Maintenance Supervisor

Corrective Action Planned: The Health and Human Services department will implement new procedures to ensure all casefiles are being reviewed.

Anticipated Completion Date: December 31, 2012

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2011**

MAJOR PROGRAM SIGNIFICANT DEFICIENCY INTERNAL CONTROL (CONTINUED)

PREVIOUSLY REPORTED ITEM RESOLVED:

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

During our testing of controls over JAG disbursements it was noted that documentation of approval for payment was not on the invoice.

RESOLUTION

During testing performed, no similar instances were noted.

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

11-6 PAYMENT OF CLAIMS

Criteria: *Minnesota Statutes* §471.425, subd. 4 requires the County pay bills within 35 days of receipt.

Condition: The County did not pay an invoice tested in the audit of the Edward Byrne Memorial Justice Assistance Grant for 50 days after it was received via email by the County Attorney's office.

Cause: Lack of communication between departments.

Effect: The County is not in compliance with State of Minnesota statutes.

Recommendation: We recommend that all departments be made aware that bills must be approved and submitted to accounting in a timely manner.

Client Response: *The individuals involved in the process will ensure that invoices are submitted for payment timely in the future.*

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 225,255
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children Total Department of Agriculture	10.557	<u>260,752</u> 486,007
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	21,816
Passed Through Southeast Regional Radio Board Public Safety Interoperable Communications Grant Program Total Department of Commerce	11.555	<u>3,784</u> 25,600
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Edward Bryne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories-ARRA	16.803	109,602
Direct Supervised Visitation, Safe Havens for Children Total Department of Justice	16.527	<u>19,082</u> 128,684
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	987,343

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2011**

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 County Health Officers Medical Reserve Corps Small Grant Program	93.008	\$ 5,000
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	27,409
Universal Newborn Hearing Screening	93.251	150
PPHF 2012 National Public Health Improvement Initiative	93.507	2,500
Temporary Assistance for Needy Families (TANF Cluster)	93.558	50,814
Maternal and Child Health Services Block Grant to the States	93.994	40,368
Passed Through Southeast Regional Radio Board Immunization Grants	93.268	2,320
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	27,470
Temporary Assistance for Needy Families (TANF Cluster)	93.558	491,393
Child Support Enforcement	93.563	822,999
Child Care and Development Block Grant (CCDF Cluster)	93.575	10,769
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)	93.596	23,874
Foster Care Title IV-E	93.658	110,559
Adoption Assistance	93.659	1,000
Social Services Block Grant	93.667	256,559
Chafee Foster Care Independence Program	93.674	762
ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF Cluster)	93.714	19,629
Children's Health Insurance Program	93.767	166
Medical Assistance Program	93.778	1,304,218
Community Mental Health Block Grant	93.958	3,645
Total Department of Health and Human Services		3,201,604

**MOWER COUNTY
AUSTIN, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 24,368
Passed Through Southeast Regional Radio Board Interoperable Emergency Communications	97.055	66,412
Homeland Security Grant Program	97.067	<u>133,941</u>
Total Department of Homeland Security		<u>224,721</u>
Total Cash Type Federal Awards		<u><u>\$ 5,053,959</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	\$ 5,278,345
Revenues included on the Schedule of Intergovernmental Revenue that are not considered Federal Grant Expenditures (Build America Bonds Interest Refund)	<u>(224,386)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 5,053,959</u></u>

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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, 2011, and have issued our report thereon dated.

The County's basic financial statements include the operations of the Mower County Housing and Redevelopment Authority (MCHRA) for the year ended December 31, 2011. Our audit, described below, did not include the operations of the MCHRA because the component unit engaged for their own separate audit that included provision of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*.

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, except as for the item described in the attached schedule of findings and questioned costs as finding 11-6.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 14, 2012



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