

**MOWER COUNTY  
AUSTIN, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2012**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
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**MOWER COUNTY  
AUSTIN, MINNESOTA  
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## **INTRODUCTORY SECTION**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
ORGANIZATION  
DECEMBER 31, 2012**

<b>Elected</b>			<u>Term Expires</u>
<b>Commissioners</b>			
Chair	Mike Ankeny	District 5	January 2015
Vice-Chair	Jerry F. Reinartz *	District 3	January 2015
Board Member	Tim Gabrielson	District 1	January 2013
Board Member	Raymond Tucker	District 2	January 2013
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
<b>Appointed</b>			
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

\* 2013 Board Chair

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## **FINANCIAL SECTION**



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## INDEPENDENT AUDITORS' REPORT

Board of County Commissioners  
Mower County  
Austin, Minnesota

### **Report on the Financial Statements**

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), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***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 as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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, budgetary comparison schedule – General Fund, budgetary comparison schedule – Road and Bridge fund, and budgetary comparison schedule – Social Services fund as listed in the table contents 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mower County's basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedule – Ditch Fund, budgetary comparison schedule – Sewer Improvement Fund, combining statement of changes in assets and liabilities – all agency funds, the schedule of intergovernmental revenues, and schedule of expenditures of federal awards, as required by OMB Circular A-133, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information consisting of the combining and individual nonmajor fund financial statements, budgetary comparison schedule – Ditch Fund, budgetary comparison schedule – Sewer Improvement Fund, combining statement of changes in assets and liabilities – all agency funds, the schedule of intergovernmental revenues, and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of County Commissioners  
Mower County

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013, on our consideration of Mower County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mower County's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 24, 2013

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**REQUIRED SUPPLEMENTARY INFORMATION**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

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, 2012. 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*. Certain comparative information between the current year (2012) and the prior year (2011) is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2011-2012 fiscal years include the following:

- ◆ County-wide net position increased 4.3 percent over the prior year; this is primarily due to additional tax levy and additional capital grant funding.
- ◆ Overall fund-level revenues totaled \$38,694,080 and were \$1,457,584 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 an 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 \$1,137,375 from the prior year; this is primarily due to less than expected general government expenditures and then greater than anticipated miscellaneous revenues related to project reimbursements for 800 MHz projects from municipalities.
- ◆ The Road and Bridge Fund's fund balance decreased \$11,816 from the prior year before the impact of the change in inventories.
- ◆ The Social Service Fund's fund balance increased by \$12,156 primarily due to the transfer of the health department from the General Fund to this fund.
- ◆ The Capital Projects Fund reflects an increase of \$227,527. The increase in this fund is primarily due to greater tax revenues during the year over planned expenditures.

**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, 2012**

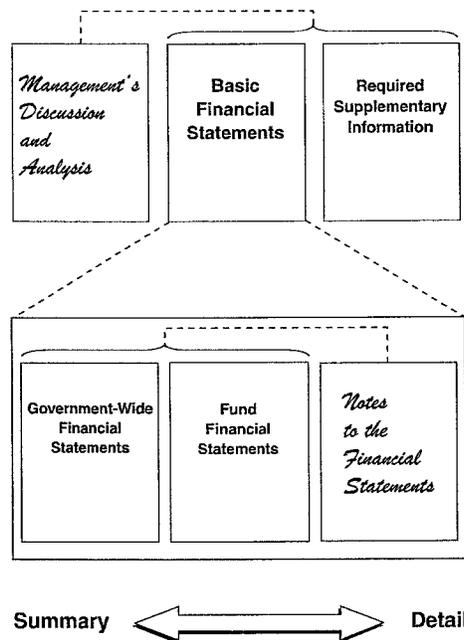
**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

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

**Figure A-1  
Annual Report Format**



**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**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.

<b>Figure A-2. Major Features of the County's Government-Wide and Fund Financial Statements</b>			
<b>Type of Statements</b>	<b>Government-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	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.
<b>Required Financial Statements</b>	Statement of net position.	Balance sheet.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
<b>Type of Asset/Liability Information</b>	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.
<b>Type of Inflow/Outflow Information</b>	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 position 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 position and how they have changed. Net position – the difference between the County's assets and liabilities – is one way to measure the County's financial health or position.

- ◆ Over time, increases or decreases in the County's net position 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, 2012**

**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 position. 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, 2012**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE**

**NET POSITION**

The County's net position was \$130,125,986 on December 31, 2012. (See Table A-1).

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

	Governmental Activities		Percentage Change
	2012	2011	
Current and Other Assets	\$ 51,852,431	\$ 47,435,026	9.3 %
Capital Assets	112,612,732	110,472,752	1.9
Total Assets	164,465,163	157,907,778	4.2
Current Liabilities	4,287,156	3,819,158	12.3
Long-Term Liabilities, Due in More Than One Year	30,052,021	29,341,963	2.4
Total Liabilities	34,339,177	33,161,121	3.6
Net Position			
Net Investment in Capital Assets	90,038,117	87,129,492	3.3
Restricted	8,162,288	6,810,900	19.8
Unrestricted	31,925,581	30,806,265	3.6
Total Net Position	\$ 130,125,986	\$ 124,746,657	4.3

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)**

**CHANGES IN NET POSITION**

The County-wide total revenues were \$41,154,192 for the year ended December 31, 2012. Property taxes and intergovernmental revenues accounted for 88 percent of total revenues for the year. (See Table A-2).

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

	Governmental Activities for the Fiscal Year Ended December 31,		Percentage Change
	2012	2011	
<b>REVENUES</b>			
Program Revenues			
Charges for Services	\$ 3,831,494	\$ 3,784,366	1.2 %
Operating Grants and Contributions	7,413,778	6,823,028	8.7
Capital Grants and Contributions	6,894,233	3,687,279	87.0
General Revenues			
Property Taxes	17,146,429	15,010,700	14.2
Other Taxes	102,054	82,005	24.4
Unrestricted Grants and Contributions	4,751,991	6,084,642	(21.9)
Unrestricted Investment Earnings	396,874	1,675,031	(76.3)
Miscellaneous	617,339	679,731	(9.2)
Total Revenues	41,154,192	37,826,782	8.8
<b>EXPENSES</b>			
General Government	6,519,534	6,811,945	(4.3)
Public Safety	8,794,815	7,693,572	14.3
Highways and Streets	6,617,388	8,035,047	(17.6)
Sanitation	625,022	667,298	(6.3)
Human Services	8,986,663	9,983,616	(10.0)
Health	1,424,546	1,668,686	(14.6)
Culture and Recreation	311,417	286,961	8.5
Conservation of Natural Resources	288,697	233,667	23.6
Economic Development	11,910	12,015	(0.9)
Interest	2,194,871	756,753	190.0
Total Expenses	35,774,863	36,149,560	(1.0)
<b>CHANGE IN NET POSITION</b>	5,379,329	1,677,222	220.7
Net Position - Beginning of Year	124,746,657	123,069,435	1.4
<b>NET POSITION - END OF YEAR</b>	<u>\$ 130,125,986</u>	<u>\$ 124,746,657</u>	4.3

Total revenues surpassed expenses, increasing net position \$5,379,329 over last year.

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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

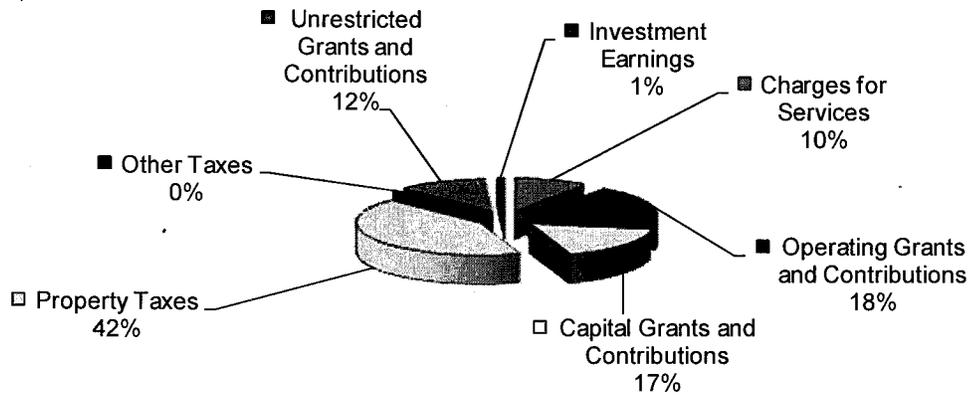
**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)**

**CHANGES IN NET POSITION (CONTINUED)**

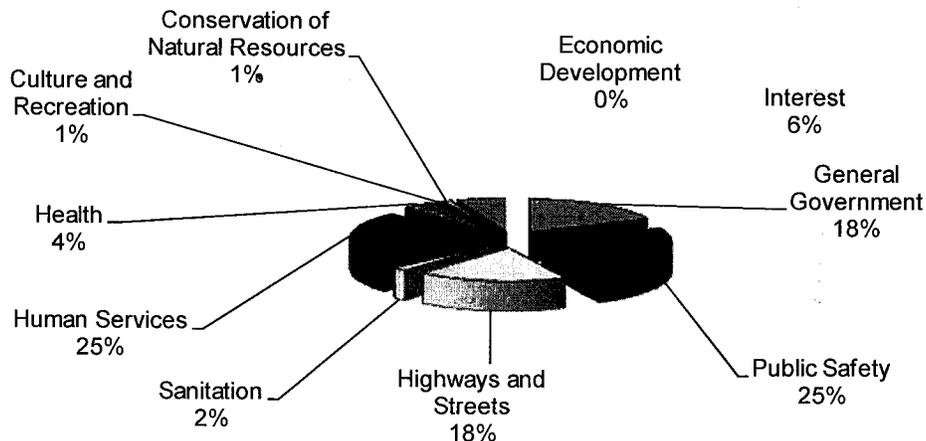
The County-wide cost of all governmental activities this year was \$35,774,863.

- ◆ Some of the cost was paid by the users of the County's programs (\$3,831,494).
- ◆ Federal, state, and local governments subsidized certain programs with grants and contributions (\$14,308,011).
- ◆ Most of the County's remaining costs (\$17,635,358), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$17,146,429 in property taxes, \$102,054 of other taxes, \$4,751,991 of state aid, and with \$1,014,213 of investment earnings and other general revenues.

**Figure A-3 Sources of County's Revenues for Fiscal 2012**



**Figure A-4 County's Expenses for Fiscal 2012**



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**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)**

**CHANGES IN NET POSITION (CONTINUED)**

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

	<u>Total Cost of Services</u>			<u>Net Revenue (Cost) of Services</u>		
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>
General Government	\$ 6,519,534	\$ 6,811,945	(4.3)%	\$ (5,013,152)	\$ (4,992,538)	(0.4)%
Public Safety	8,794,815	7,693,572	14.3	(7,264,448)	(6,651,572)	(9.2)
Highways and Streets	6,617,388	8,035,047	(17.6)	651,090	(3,836,293)	117.0
Sanitation	625,022	667,298	(6.3)	(333,065)	(323,068)	(3.1)
Human Services	8,986,663	9,983,616	(10.0)	(2,910,691)	(4,589,204)	36.6
Health	1,424,546	1,668,686	(14.6)	(309,619)	(439,441)	29.5
Culture and Recreation	311,417	286,961	8.5	(311,417)	(286,961)	(8.5)
Conservation of						
Natural Resources	288,697	233,667	23.6	(151,676)	(191,428)	20.8
Economic Development	11,910	12,015	(0.9)	(11,910)	(12,015)	0.9
Interest	2,194,871	756,753	190.0	(1,980,470)	(532,367)	(272.0)
<b>Total Expenses</b>	<b><u>\$35,774,863</u></b>	<b><u>\$36,149,560</u></b>	<b>(1.0)</b>	<b><u>\$ (17,635,358)</u></b>	<b><u>\$ (21,854,887)</u></b>	<b>19.3</b>

**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 \$42,455,121.

Revenues for the County's governmental funds were \$38,694,080, while total expenditures were \$37,236,496.

**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, 2012**

**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**

	Year Ended		Change	
	December 31, 2012	December 31, 2011	Increase (Decrease)	Percent
Taxes	\$ 9,473,240	\$ 7,803,142	\$ 1,670,098	21.4 %
Special Assessments	383,980	418,932	(34,952)	(8.3)
Intergovernmental	2,654,277	4,038,797	(1,384,520)	(34.3)
Charges for Services	1,178,827	1,915,955	(737,128)	(38.5)
Interest on Investments	613,955	1,896,486	(1,282,531)	(67.6)
Miscellaneous and Other	1,708,590	1,287,657	420,933	32.7
Total General Fund Revenue	<u>\$ 16,012,869</u>	<u>\$ 17,360,969</u>	<u>\$ (1,348,100)</u>	<u>(7.8)</u>

Total General Fund revenue decreased by \$1,348,100 or 7.8 percent, from the previous year. State aid and market value credit and interest on investment reductions were not fully offset by increases in taxes and miscellaneous revenues. In addition, other financing sources (uses) totaled (260,384) in 2012 and (1,795,902) in 2011.

The following schedule presents a summary of General Fund Expenditures:

**Table A-5  
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2012	December 31, 2011	Increase (Decrease)	Percent
General Government	\$ 4,987,807	\$ 5,133,959	\$ (146,152)	(2.8)%
Public Safety	8,089,823	6,872,239	1,217,584	17.7
Sanitation	573,643	591,575	(17,932)	(3.0)
Health	-	1,529,936	(1,529,936)	(100.0)
Culture and Recreation	408,963	428,252	(19,289)	(4.5)
Conservation of Natural Resources	330,393	326,468	3,925	1.2
Economic Development	11,910	12,015	(105)	(0.9)
Capital Outlay	212,280	309,912	(97,632)	(31.5)
Debt Service	291	-	291	100.0
Total General Fund Expenditures	<u>\$ 14,615,110</u>	<u>\$ 15,204,356</u>	<u>\$ (589,246)</u>	<u>(3.9)</u>

The General Fund had total fund balance of \$24,600,786 at the end of the current fiscal year. The fund balance of the General Fund increased \$1,137,375 during the current fiscal year primarily due to reductions in health expenditures as that function is now incorporated within the Social Services Special Revenue Fund.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

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

**OTHER MAJOR FUNDS ANALYSIS**

The Road and Bridge Fund had total fund balance of \$7,734,109 at the end of the current fiscal year. The fund balance of the Road and Bridge Fund decreased \$147,731 during the current fiscal year primarily due to additional construction project expenditures.

The Social Services Fund had total fund balance of \$1,461,543 at the end of the current fiscal year. The fund balance of the Social Services Fund increased \$12,156, this is basically break even for 2012 after the inclusion of the health department.

The Capital Projects Fund had a total fund balance of \$6,297,985 at the end of the current fiscal year. The fund balance of the Capital Projects fund increased \$227,527 primarily due to greater tax revenues over planned expenditures in the fund.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

- ◆ Actual revenues were \$1,489,649 more than expected resulting primarily from increased miscellaneous revenues.
- ◆ The actual expenditures were \$163,786 less than budget and relate largely to less general government expenditures than was expected.

**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, 2012**

**CONSTRUCTION PROJECTS AND DEBT SERVICE (CONTINUED)**

**CAPITAL ASSETS**

By the end of 2012, the County had invested approximately \$170,400,000 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 3.A.4 to the financial statements.) Total depreciation expense for the year was \$3,227,164.

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

	Governmental Activities		Percentage Change
	2012	2011	
Land and Right of Way	\$ 16,649,196	\$ 16,637,738	0.1 %
Construction in Progress	2,780,312	1,396,083	99.2
Buildings	37,424,412	37,424,412	-
Improvements Other than Buildings	957,179	957,179	-
Machinery and Equipment	9,489,480	9,764,947	(2.8)
Software	295,839	295,839	-
Infrastructure	102,829,186	99,030,265	3.8
Accumulated Depreciation	(57,812,872)	(55,033,711)	5.0
<b>Total</b>	<b>\$ 112,612,732</b>	<b>\$ 110,472,752</b>	<b>1.9</b>

**LONG-TERM LIABILITIES**

At year-end, the County had \$32,097,125 in long-term liabilities outstanding.

- ◆ The County's total debt increased \$989,541 due largely to additional septic loans issued during 2012 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
	2012	2011	
Loans Payable	\$ 973,449	\$ 592,375	64.3 %
Bonds Payable	22,815,000	14,080,000	62.0
Capital Lease Payable	-	9,410,000	(100.0)
Compensated Absences Payable	943,906	852,656	10.7
Other Postemployment Benefits Payable	7,364,770	6,172,553	19.3
<b>Total</b>	<b>\$ 32,097,125</b>	<b>\$ 31,107,584</b>	<b>3.2</b>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**FACTORS BEARING ON THE COUNTY'S FUTURE AND 2013 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 2013 expenditure budget at \$52,969,949 an increase of \$13,994,546 from the 2012 expenditure budget due to the 2013 planned renovation of the government center and 800 MHz system upgrade.

**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 POSITION  
DECEMBER 31, 2012**

	Governmental Activities	Discretely Presented Component Unit
<b>ASSETS</b>		
Cash and Pooled Investments	\$ 39,164,342	\$ 915,412
Petty Cash and Change Funds	3,150	-
Cash with Fiscal Agent	9,101	-
Cash with Escrow Agent	-	27,286
Taxes Receivable		
Delinquent	426,151	42,791
Special Assessments Receivable		
Delinquent	27,201	-
Deferred	481,244	-
Accounts Receivable - Net	86,538	5,114
Notes Receivable	113,900	-
Accrued Interest Receivable	284,537	375
Loans Receivable	2,054,482	-
Due from Other Governments	8,677,177	1,749
Inventories	325,742	-
Restricted Investments - Temporary	29,606	975,781
Prepaid Items	4,864	22,702
Deferred Debt Issue Costs	164,396	32,124
Lease Receivable	-	9,060,000
Non-Depreciable Capital Assets		
Land and Right of Way	16,649,196	42,304
Construction in Progress	2,780,312	-
Depreciable Capital Assets		
Buildings (Net)	28,412,812	1,558,667
Improvements Other Than Buildings (Net)	697,575	78,646
Machinery, Vehicles, Furniture, and Equipment (Net)	2,791,024	143,773
Software (Net)	159,086	-
Infrastructure (Net)	61,122,727	-
	164,465,163	12,906,724
Total Assets		

See accompanying Notes to the Financial Statements.

	Governmental Activities	Discretely Presented Component Unit
<b>LIABILITIES</b>		
Accounts Payable	\$ 887,174	\$ 17,037
Salaries Payable	537,708	8,438
Claims and Judgments Payable	9,101	-
Due to Other Governments	371,883	-
Accrued Expenses	-	10,498
Accrued Interest Payable	357,105	80,577
Deferred Revenue-Unearned	130,803	275
Compensated Absences Payable - Due within One Year	72,547	10,000
General Obligation Bonds Payable - Due within One Year	1,855,000	360,000
Loans Payable - Due within One Year	65,835	39,869
Tenant Deposits Payable	-	27,286
Compensated Absences Payable - Due in More Than One Year	871,359	21,072
Other Postemployment Benefits Plan Payable - Due in More than One Year	7,364,770	-
General Obligation Bonds Payable - Due in More Than One Year	20,908,278	8,578,009
Loans Payable - Due in More Than One Year	907,614	399,813
	<u>34,339,177</u>	<u>9,552,874</u>
Total Liabilities		
<b>NET POSITION</b>		
Net Investment in Capital Assets	90,038,117	1,383,708
Restricted for:		
General Government	877,016	-
Highways and Streets	6,441,900	-
Public Safety	42,291	-
HRA Housing	-	995,327
Conservation	516,893	-
Debt Service	284,188	-
Unrestricted	31,925,581	974,815
	<u>\$ 130,125,986</u>	<u>\$ 3,353,850</u>
Total Net Position		

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**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2012**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Position Governmental Activities	Discretely Presented Component Unit
<b>PRIMARY GOVERNMENT</b>						
<b>GOVERNMENTAL ACTIVITIES</b>						
General Government	\$ 6,519,534	\$ 1,346,987	\$ 159,395	\$ -	\$ (5,013,152)	
Public Safety	8,794,815	602,222	928,145	-	(7,264,448)	
Highways and Streets	6,617,388	206,927	167,318	6,894,233	651,090	
Sanitation	625,022	235,475	56,482	-	(333,065)	
Human Services	8,986,663	387,919	5,688,053	-	(2,910,691)	
Health	1,424,546	700,542	414,385	-	(309,619)	
Culture and Recreation	311,417	-	-	-	(311,417)	
Conservation of Natural Resources	288,697	137,021	-	-	(151,676)	
Economic Development	11,910	-	-	-	(11,910)	
Interest	2,194,871	214,401	-	-	(1,980,470)	
Total Governmental Activities	35,774,863	3,831,494	7,413,778	6,894,233	(17,635,358)	
<b>COMPONENT UNIT</b>						
Housing and Redevelopment Authority	1,543,283	1,133,215	78,197	209,776	-	\$ (122,095)
Total Reporting Entity	<u>\$ 37,318,146</u>	<u>\$ 4,964,709</u>	<u>\$ 7,491,975</u>	<u>\$ 7,104,009</u>	(17,635,358)	(122,095)
<b>GENERAL REVENUES</b>						
Property Taxes					17,146,429	92,457
Mortgage Registry and Deed Tax					23,240	-
Payments in Lieu of Tax					78,814	-
Grants and Contributions not Restricted for a Particular Purpose					4,751,991	1,374
Unrestricted Investment Earnings					396,874	8,251
Miscellaneous					617,339	7,303
Total General Revenues					<u>23,014,687</u>	<u>109,385</u>
<b>CHANGE IN NET POSITION</b>						
					5,379,329	(12,710)
Net Position - Beginning of Year					<u>124,746,657</u>	<u>3,366,560</u>
<b>NET POSITION - END OF YEAR</b>						
					<u>\$ 130,125,986</u>	<u>\$ 3,353,850</u>

See accompanying Notes to the Financial Statements.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

<b>ASSETS</b>	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>
Cash and Pooled Investments	\$ 23,734,486	\$ 6,670,701	\$ 1,014,241
Petty Cash and Change Funds	2,650	-	500
Cash with Fiscal Agent	9,101	-	-
Taxes Receivable - Delinquent	207,828	69,404	70,773
Special Assessments Receivable - Delinquent	25,387	-	-
Special Assessments Receivable - Deferred	299,961	-	-
Accounts Receivable	25,118	1,266	60,154
Notes Receivable	113,900	-	-
Accrued Interest Receivable	260,300	-	-
Loans Receivable	1,190,165	-	-
Due from Other Governments	320,504	7,521,605	835,068
Inventories	-	325,742	-
Prepaid Items	-	3,115	1,749
Restricted Cash - Temporary	-	-	-
<b>Total Assets</b>	<u><u>\$ 26,189,400</u></u>	<u><u>\$ 14,591,833</u></u>	<u><u>\$ 1,982,485</u></u>

See accompanying Notes to the Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 6,306,391	\$ 1,438,523	\$ 39,164,342
-	-	3,150
-	-	9,101
19,370	58,776	426,151
-	1,814	27,201
-	181,283	481,244
-	-	86,538
-	-	113,900
-	24,237	284,537
-	864,317	2,054,482
-	-	8,677,177
-	-	325,742
-	-	4,864
-	29,606	29,606
<u>\$ 6,325,761</u>	<u>\$ 2,598,556</u>	<u>\$ 51,688,035</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BALANCE SHEET (CONTINUED)  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

<b>LIABILITIES AND FUND BALANCES</b>	General	Road and Bridge	Social Services
<b>LIABILITIES</b>			
Accounts Payable	\$ 429,185	\$ 187,103	\$ 251,798
Salaries Payable	308,743	74,471	154,494
Claims and Judgments Payable	9,101	-	-
Due to Other Governments	306,287	1,674	61,245
Deferred Revenue - Unearned	50,419	80,384	-
Deferred Revenue - Unavailable	484,879	6,514,092	53,405
Total Liabilities	1,588,614	6,857,724	520,942
<b>FUND BALANCES</b>			
Nonspendable For			
Inventories	-	325,742	-
Prepaid Items	-	3,115	1,749
Long-term Receivables	-	-	-
Restricted For			
Law Library	81,657	-	-
Recorder Equipment	455,874	-	-
Canteen	10,575	-	-
SSTS Grant	-	53,322	-
Debt Service	-	-	-
Attorney Forfeited Property	47,853	-	-
Sheriff's Conceal	31,716	-	-
Missing Heirs	131,765	-	-
Land Records	159,867	-	-
Ditch Projects	-	-	-
Committed For			
Wind Tower	3,000	-	-
LEC Remodel Project	-	-	-
Health/Human Services Building	-	-	-
Assigned For			
Veterans	23,636	-	-
Economic Development	1,613,027	-	-
EDMS Software	-	-	150,000
GIS	96,931	-	-
Compensated Absences	522,583	139,148	-
Medical Insurance Claims	6,722,566	-	-
5 Year Capital Improvement Plan	400,000	2,000,000	67,444
Capital Projects	-	-	-
Human Services Operations	-	-	1,242,350
Road and Bridge Operations	-	5,212,782	-
Sewer Improvements	-	-	-
Unassigned	14,299,736	-	-
Total Fund Balance	24,600,786	7,734,109	1,461,543
Total Liabilities and Fund Balance	\$ 26,189,400	\$ 14,591,833	\$ 1,982,485

See accompanying Notes to the Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 10,946	\$ 8,142	\$ 887,174
-	-	537,708
-	-	9,101
-	2,677	371,883
-	-	130,803
16,830	227,039	7,296,245
<u>27,776</u>	<u>237,858</u>	<u>9,232,914</u>
-	-	325,742
-	-	4,864
-	798,482	798,482
-	-	81,657
-	-	455,874
-	-	10,575
-	-	53,322
-	595,922	595,922
-	-	47,853
-	-	31,716
-	-	131,765
-	-	159,867
-	281,903	281,903
-	-	3,000
800,000	-	800,000
3,809,855	-	3,809,855
-	-	23,636
-	-	1,613,027
-	-	150,000
-	-	96,931
-	-	661,731
-	-	6,722,566
-	-	2,467,444
1,688,130	-	1,688,130
-	-	1,242,350
-	-	5,212,782
-	684,391	684,391
-	-	14,299,736
<u>6,297,985</u>	<u>2,360,698</u>	<u>42,455,121</u>
<u>\$ 6,325,761</u>	<u>\$ 2,598,556</u>	<u>\$ 51,688,035</u>

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**MOWER COUNTY  
AUSTIN, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
GOVERNMENT-WIDE STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

**FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 42,455,121

Amounts reported for governmental activities in the statement of net position 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. 112,612,732

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the Governmental Funds. 7,296,245

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	\$	(973,449)	
General Obligation Bonds Payable		(22,815,000)	
Discount on Bonds and Notes Issued		120,260	
Premiums on Bonds and Notes Issued		(68,538)	
Bond Issuance Costs		164,396	
Accrued Interest Payable		(357,105)	
Compensated Absences		(943,906)	
Other Postemployment Benefits Payable		(7,364,770)	
		(32,238,112)	(32,238,112)

**NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 130,125,986

**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	General	Road and Bridge	Social Services
<b>REVENUES</b>			
Taxes	\$ 9,473,240	\$ 2,488,215	\$ 2,301,136
Special Assessments	383,980	-	-
Licenses and Permits	43,501	69,304	-
Intergovernmental	2,654,277	6,831,489	6,310,253
Charges for Services	1,178,827	85,129	928,997
Fines and Forfeits	53,008	-	-
Gifts and Contributions	13,316	-	191
Interest on Investments	613,955	-	131
Miscellaneous	1,598,765	123,145	294,449
Total Revenues	<u>16,012,869</u>	<u>9,597,282</u>	<u>9,835,157</u>
<b>EXPENDITURES</b>			
<b>CURRENT</b>			
General Government	4,987,807	-	-
Public Safety	8,089,823	-	-
Highways and Streets	-	9,015,588	-
Sanitation	573,643	-	-
Human Services	-	-	8,628,167
Health	-	-	1,323,182
Culture and Recreation	408,963	-	-
Conservation	330,393	-	-
Economic Development	11,910	-	-
Total Current	<u>14,402,539</u>	<u>9,015,588</u>	<u>9,951,349</u>
<b>INTERGOVERNMENTAL</b>	-	408,501	-
<b>CAPITAL OUTLAY</b>			
General Government	52,804	-	-
Public Safety	143,732	-	-
Highways and Streets	-	-	-
Sanitation	14,345	73,560	-
Human Services	-	-	25,104
Culture and Recreation	1,399	-	-
Conservation	-	225,586	-
Total Capital Outlay	<u>212,280</u>	<u>299,146</u>	<u>25,104</u>
<b>DEBT SERVICE</b>			
Principal	-	-	-
Interest	291	-	-
Bond Issue Costs	-	-	-
Total Debt Service	<u>291</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>14,615,110</u>	<u>9,723,235</u>	<u>9,976,453</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,397,759	(125,953)	(141,296)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	112,076	107,342	265,528
Transfers Out	(372,870)	-	(112,076)
Payments to Refunding Bond Escrow Agent	-	-	-
Proceeds from Loan	-	-	-
Bonds and Notes Issued	-	-	-
Proceeds from the Sale of Capital Assets	410	6,795	-
Premium on Bonds/Notes Issued	-	-	-
Total Other Financing Sources (Uses)	<u>(260,384)</u>	<u>114,137</u>	<u>153,452</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,137,375	(11,816)	12,156
Fund Balance - Beginning of Year	23,463,411	7,586,378	1,449,387
Change in Inventories	-	159,547	-
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 24,600,786</u>	<u>\$ 7,734,109</u>	<u>\$ 1,461,543</u>

See accompanying Notes to the Financial Statements.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 453,561	\$ 2,477,393	\$ 17,193,545
-	169,717	553,697
-	-	112,805
1,553	222,918	16,020,490
-	-	2,192,953
-	-	53,008
-	-	13,507
-	(76,370)	537,716
-	-	2,016,359
<u>455,114</u>	<u>2,793,658</u>	<u>38,694,080</u>
-	-	4,987,807
-	-	8,089,823
-	-	9,015,588
-	-	573,643
-	-	8,628,167
-	-	1,323,182
-	-	408,963
-	77,082	407,475
-	-	11,910
-	<u>77,082</u>	<u>33,446,558</u>
-	-	408,501
186,500	-	239,304
11,511	-	155,243
29,576	-	29,576
-	-	87,905
-	-	25,104
-	-	1,399
-	-	225,586
<u>227,587</u>	<u>-</u>	<u>764,117</u>
-	1,598,545	1,598,545
-	869,552	869,843
-	148,932	148,932
-	<u>2,617,029</u>	<u>2,617,320</u>
<u>227,587</u>	<u>2,694,111</u>	<u>37,236,496</u>
227,527	99,547	1,457,584
-	-	484,946
-	-	(484,946)
-	(10,715,044)	(10,715,044)
-	409,619	409,619
-	9,955,000	9,955,000
-	-	7,205
-	71,049	71,049
-	<u>(279,376)</u>	<u>(272,171)</u>
227,527	(179,829)	1,185,413
6,070,458	2,540,527	41,110,161
-	-	159,547
<u>\$ 6,297,985</u>	<u>\$ 2,360,698</u>	<u>\$ 42,455,121</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, 2012**

**NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS** **\$ 1,185,413**

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	\$ 5,367,145	
Net Book Value of Capital Assets Disposed	52,520	
Current Year Depreciation	<u>(3,279,685)</u>	2,139,980

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,717,821
--	-----------

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

General Obligation Bonds Issued	(9,955,000)	
Loans Issued	(409,619)	
Bond Issuance Costs	<u>148,932</u>	(10,215,687)

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

Principal Repayments		
Loans Payable	28,545	
Capital Lease	9,410,000	
General Obligation Bonds	<u>1,220,000</u>	10,658,545

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	106,500	
Amortization of Premiums, Discounts and Deferred Issuance Charges	(20,785)	
Change in Accrued Compensated Absences	(91,250)	
Change in Other Postemployment Benefits Payable	(1,192,217)	
Change in Inventories	<u>159,547</u>	(1,038,205)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 5,447,867**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2012**

	Agency
<b>ASSETS</b>	
Cash and Pooled Investments	\$ 1,486,474
<b>LIABILITIES</b>	
Funds Held in Trust	\$ 687,426
Salaries Payable	11,461
Due to Other Governments	787,587
Total Liabilities	\$ 1,486,474

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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, 2012. 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, 2012. 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 <sup>th</sup> 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, 2012**

**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 position 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.

In the government-wide statement of net position, 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. 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, 2012**

**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, community social services, and public health 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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Liabilities, and Net Position 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, 2012, 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, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Liabilities, and Net Position 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 position 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, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Liabilities, and Net Position 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 position. 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, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

9. Fund Balance

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 the General Fund and the Road and Bridge and Social Services Special Revenue Funds, plus an additional \$5,000,000, for cash flow purposes in the General Fund. The failure to maintain these fund balance levels could result in the need for short term borrowing. As of December 31, 2012, the required minimum fund balance is \$10,974,265.

10. Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets, 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 position is 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 position reports \$8,162,288 of restricted net position, of which \$7,878,100 is restricted by enabling legislation.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Liabilities, and Net Position 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, 2012:

	Actual	Budget	Excess
Social Services	\$ 9,976,453	\$ 9,917,660	\$ 58,793

The excess of expenditures over budget was funded by a transfer from the general to coincide with the transfer of the health department from the General Fund to the Social Services Fund.

**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, 2012**

**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, 2012, 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, 2012**

**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, 2012, the County had the following investments:

Investment Type	Fair Value	Maturity		
		Less Than 2 Years	2-5 Years	5+ Years
Federal Home Loan Bank	\$ 1,493,485	\$ -	\$ -	\$ 1,493,485
Fannie Mae	2,506,847	495,930	-	2,010,917
Municipal Bonds	21,767,190	6,470,717	8,282,871	7,013,602
Money Markets	1,850,597	1,850,597	-	-
MAGIC Fund	2,181,326	2,181,326	-	-
U.S. Government Time Deposits	300,441	-	300,441	-
Negotiable Certificates of Deposit	10,303,872	5,531,772	3,215,884	1,556,216
Total	<u>\$ 40,403,758</u>	<u>\$ 16,530,342</u>	<u>\$ 11,799,196</u>	<u>\$ 12,074,220</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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, 2012:

Investment Type	S & P Rating	Fair Value
Money Markets	NR	\$ 1,850,597
Municipal Bonds	CC to AAA	21,767,190
Negotiable Certificates of Deposit	NR	10,303,872
U.S. Government Time Deposits	AA+	300,441
Fannie Mae	AA+	2,506,847
MN Association of Governments Investing for Counties (MAGIC) Fund	NR	2,181,326
Federal Home Loan Bank	AA+	1,493,485
Totals		<u>\$ 40,403,758</u>

NR - Not Rated

At December 31, 2012, the County was holding one investment that no longer meets the requirements of *Minnesota Statutes* §118A. The municipal bond with a par value of \$500,000 and a market value of \$193,260, declined in credit rating from AA- to CC during 2012.

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, 2012, none of the County's investments were subject to custodial credit risk.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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	\$ 21,767,169	54 %
Negotiable Certificates of Deposit	10,303,872	26 %
Fannie Mae	2,306,932	6 %
MN Association of Governments Investing for Counties (MAGIC) Fund	2,181,326	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, 2012 consisted of:

Deposits	\$ 285,265
Petty Cash and Change Funds	3,650
Investments	40,403,758
Total	<u>\$ 40,692,673</u>

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

Cash and Pooled Investments	\$ 39,164,342
Petty Cash and Change Funds	3,150
Restricted Cash	29,606
Cash with Escrow Agent	9,101
Agency Fund Cash and Investments	1,486,474
Total	<u>\$ 40,692,673</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, for the County governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 426,151	\$ -
Special Assessments	508,445	481,244
Accounts	86,538	-
Interest	284,537	-
Notes	113,900	98,500
Loans	2,054,482	798,482
Due from Other Governments	<u>8,677,177</u>	<u>-</u>
 Total Governmental Activities, Net	 <u>\$ 12,151,230</u>	 <u>\$ 1,378,226</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, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Economic Development Loans	\$ 1,404,785	\$ -	\$ 214,620	\$ 1,190,165
Sewer Improvement Loans	809,253	257,500	202,436	864,317
Notes Receivable	126,200	-	12,300	113,900
Total	<u>\$ 2,340,238</u>	<u>\$ 257,500</u>	<u>\$ 429,356</u>	<u>\$ 2,168,382</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 6,138,873	\$ -	\$ -	\$ 6,138,873
Right of Way	10,498,865	11,458	-	10,510,323
Construction in Progress	1,396,083	5,183,150	3,798,921	2,780,312
Total Capital Assets, Not Depreciated	<u>18,033,821</u>	<u>5,194,608</u>	<u>3,798,921</u>	<u>19,429,508</u>
Capital Assets Being Depreciated				
Buildings	32,535,846	-	-	32,535,846
Buildings Improvements	4,888,566	-	-	4,888,566
Improvements Other Than Building	957,179	-	-	957,179
Machinery, Furniture, Equipment, and Vehicles	9,764,947	172,536	448,003	9,489,480
Software	295,839	-	-	295,839
Infrastructure	99,030,265	3,798,921	-	102,829,186
Total Capital Assets Being Depreciated	<u>147,472,642</u>	<u>3,971,457</u>	<u>448,003</u>	<u>150,996,096</u>
Less: Accumulated Depreciation for				
Buildings	4,625,447	584,045	-	5,209,492
Buildings Improvements	3,581,354	220,754	-	3,802,108
Improvements Other Than Building	221,720	37,884	-	259,604
Machinery, Furniture, Equipment, and Vehicles	6,574,972	571,487	448,003	6,698,456
Software	97,831	38,922	-	136,753
Infrastructure	39,932,387	1,774,072	-	41,706,459
Total Accumulated Depreciation	<u>55,033,711</u>	<u>3,227,164</u>	<u>448,003</u>	<u>57,812,872</u>
Total Capital Assets, Depreciated, Net	<u>92,438,931</u>	<u>744,293</u>	<u>-</u>	<u>93,183,224</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 110,472,752</u>	<u>\$ 5,938,901</u>	<u>\$ 3,798,921</u>	<u>\$ 112,612,732</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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	\$ 778,349
Public Safety	235,954
Highways and Streets, Including Infrastructure	2,081,930
Sanitation	29,217
Human Services	15,343
Health	479
Culture and Recreation	53,484
Conservation of Natural Resources	<u>32,408</u>
Depreciation Expense - Governmental Activities	<u><u>\$ 3,227,164</u></u>

B. Interfund Receivables, Payables, and Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer	Amount	Reason
Transfer from the Social Services Fund to the General Fund	\$ 112,076	Transfer of Public Health Department
Transfer from the General Fund to the Social Services Fund	265,528	To Record SDA Phase 4 Reimbursement
Transfer from the General Fund to the Road and Bridge Fund	<u>107,342</u>	Transfer of Environmental Services Department
Total Interfund Transfers	<u><u>\$ 484,946</u></u>	

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2012. The projects include the following:

	Original Contract Amount	Remaining Commitment
Governmental Activities		
Roads and Bridges	\$ 4,792,961	\$ 1,140,189

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 \$73,797 for the year ended December 31, 2012. The future minimum lease payments for these leases are as follows:

OPERATING LEASES

Year Ending December 31	Amount
2013	\$ 73,797
2014	61,497
Total Operating Lease Payments	\$ 135,294

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 three basic groups as follows:

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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 (\$728 per month) or family (\$1,941 per month) premium. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2012, there were nine participants in this plan at a cost of \$111,954.
- (2) 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 2012, there were 89 participants in the plan at a cost of \$865,674.
- (3) 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 2012, there was one participant in the plan at a cost of \$9,308.

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, 2012**

**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)	\$ 2,618,210
Interest on Net OPEB Obligation	246,902
Adjustment to Annual Required Contribution	<u>(544,385)</u>
Annual OPEB Cost (Expense)	2,320,727
Contributions Made	(1,128,510)
Net OPEB Obligation - Beginning of Year	<u>6,172,553</u>
 Net OPEB Obligation, End of Year	 <u><u>\$ 7,364,770</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 2012 are as follows:

Fiscal Year End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	\$ 2,320,727	\$ 1,128,510	48.6 %	\$ 7,364,770
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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
January 1, 2012	\$ -	\$ 25,543,999	\$ 25,543,999	-	\$ 11,728,771	217.8 %

**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, 2012**

**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, 2012 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, 2012 was 17 years.

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. The loans are to be repaid in amounts ranging from \$2,500 to \$14,736 with zero percent interest and final maturity of 2026. The loans are repaid with the proceeds that are collected on the related loans receivable in the Sewer Improvement Special Revenue Fund.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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. During 2012 the County issued \$9,955,000 Capital Improvement Plan Bonds Series 2012A. The 2012 Capital Improvement Plan Bonds have coupon rates ranging from 1.50%-2.70% and mature in 2028. These bonds are intended to advance refund this capital lease and resulted in defeasance of the lease payable. The refunding of this capital lease resulted in actual cash savings of \$1,032,561 with a net present value of \$890,933.

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, 2012
General Obligation Capital Notes:					
1998 and 2001 Septic Loans	2020	\$5,000 - \$10,000	- %	\$ 100,000	\$ 96,110
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	-	118,839	118,839
2011 Septic Loans	2026	\$2,500 - \$5,400	-	52,500	52,500
2012 Septic Loans	2026	\$2,500 - \$5,400	-	409,619	409,619
Total General Obligation Capital Notes				977,339	973,449
Bonds:					
General Obligation Taxable					
Jail Bonds, Series 2009A	2022	\$1,375,000 - \$15,285,000	1.25%-5.4%	16,660,000	12,860,000
Capital Improvement Plan Bonds, 2012A	2028	\$555,000 - \$715,000	1.5%-2.7%	9,955,000	9,955,000
Total Bonds Payable				<u>26,615,000</u>	<u>22,815,000</u>
Total Long-Term Debt				<u>\$ 27,592,339</u>	<u>\$ 23,788,449</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

C. Liabilities (Continued)

4. Long-Term Debt (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	State Loans		Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 65,835	\$ -	\$ 1,855,000	\$ 791,506
2014	102,812	-	1,820,000	708,070
2015	97,581	-	1,855,000	649,126
2016	112,506	-	1,900,000	583,513
2017	118,287	-	1,950,000	511,418
2018-2022	390,640	-	9,390,000	1,348,871
2023-2027	85,788	-	3,330,000	299,843
2028-2032	-	-	715,000	9,651
Totals	<u>\$ 973,449</u>	<u>\$ -</u>	<u>\$ 22,815,000</u>	<u>\$ 4,901,998</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans Payable	\$ 592,375	\$ 409,619	\$ 28,545	\$ 973,449	\$ 65,835
Bonds Payable	14,080,000	9,955,000	1,220,000	22,815,000	1,855,000
Capital Lease Payable	9,410,000	-	9,410,000	-	-
Compensated Absences	852,656	975,106	883,856	943,906	72,547
Other Postemployment Benefits Payable	6,172,553	2,320,727	1,128,510	7,364,770	-
Long-Term Liabilities	<u>\$ 31,107,584</u>	<u>\$ 13,660,452</u>	<u>\$ 12,670,911</u>	<u>\$ 32,097,125</u>	<u>\$ 1,993,382</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, 2012**

**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, 2012**

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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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 2012. PEPFF members were required to contribute 9.6 percent of their annual covered salary in 2012. PECF members are required to contribute 5.83 percent of their annual covered salary. In 2012, 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, 2012**

**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, 2012, 2011, and 2010 were:

	General Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund	Defined Contribution Plan
2012	\$ 656,751	\$ 191,225	\$ 110,904	\$ 3,754
2011	638,798	178,115	104,831	3,744
2010	628,737	191,511	75,717	2,370

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 \$460,000 in 2012. 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  
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**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 (the 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 2012, the County made no payments to the Collaborative.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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 2012, 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 2012, Mower County paid \$86,574 to the Cooperative.

2. Southeast Minnesota Emergency Management Services (EMS)

The EMS provides various health services to several counties. During 2012, 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  
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**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 2012, 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 2012, the County paid \$376,412 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 2012.

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 \$2,000 to the Board during the year.

10. SEMN Region1 JPB Emergency Management Board

The SEMN Region1 JPB Emergency Management Board has been organized to provide for the joint exercise of the parties' powers requiring regional coordination to plan for the needs of southeast Minnesota homeland security emergency management. The County paid \$1,000 to the Board during 2012.

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, 2012**

**NOTE 7 COMPONENT UNIT DISCLOSURES**

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

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

2. Basis of Presentation

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

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

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

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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	\$	942,698
Restricted Assets:		
Deposits		17,483
Investments		958,298
Total Cash and Investments	<u>\$</u>	<u>1,918,479</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, 2012, 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, 2012**

**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, 2012, the HRA had the following restricted investments:

	At Estimated Market Value
Held in Escrow at the MHFA	\$ 967,532

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 \$8,251 and \$8,779 for the years ended September 30, 2012 and 2011, respectively.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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	\$ 915,412
Tenant Deposit Cash	27,286
Restricted Assets	975,781
Total	<u>\$ 1,918,479</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets, Being Depreciated				
Equipment	\$ 3,120	\$ -	\$ -	\$ 3,120
Accumulated Depreciation for:				
Equipment	2,680	246	-	2,926
Total Capital Assets, Being Depreciated, Net	<u>\$ 440</u>	<u>\$ (246)</u>	<u>\$ -</u>	<u>\$ 194</u>
<b>Business-Type Activities:</b>				
Capital Asset, Not Being Depreciated				
Land	\$ 42,304	\$ -	\$ -	\$ 42,304
Capital Assets, Being Depreciated				
Land Improvements	334,142	-	-	334,142
Buildings	4,132,425	107,904	20,979	4,219,350
Furnishings	460,343	13,945	-	474,288
Maintenance Equipment	26,350	-	-	26,350
Total Capital Assets Being Depreciated	<u>4,953,260</u>	<u>121,849</u>	<u>20,979</u>	<u>5,054,130</u>
Accumulated Depreciation for:				
Land Improvements	240,869	14,627	-	255,496
Buildings	2,563,853	117,809	20,979	2,660,683
Furnishings	307,006	24,532	-	331,538
Maintenance Equipment	25,364	157	-	25,521
Total Accumulated Depreciation	<u>3,137,092</u>	<u>157,125</u>	<u>20,979</u>	<u>3,273,238</u>
Total Capital Assets, Being Depreciated, Net	<u>1,816,168</u>	<u>(35,276)</u>	<u>-</u>	<u>1,780,892</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,858,472</u>	<u>\$ (35,276)</u>	<u>\$ -</u>	<u>\$ 1,823,196</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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	\$	246
General Government	<u>          </u>	<u>          </u>
Business-Type Activities		
Housing	<u>          </u>	<u>157,125</u>

3. Liabilities

Long-Term Debt

Long-term debt outstanding at September 30, 2012, for the HRA consists of the following:

Types of Indebtedness	Final Maturity	Interest Rates (%)	Original Amount	Remaining Balance	Due Within One Year
Mortgage Payable	2020	6.50	\$ 875,870	\$ 378,168	\$ 36,771
Mortgage Payable	2024	8.75	123,000	61,514	3,098
Lease Revenue Bond Payable	2029	2.50-5.90	10,000,000	9,060,000	360,000
			<u>\$ 10,998,870</u>	<u>\$ 9,499,682</u>	<u>\$ 399,869</u>

Debt Service Requirements

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

Year Ending December 31	Mortgages Payable		Lease Revenue Bond Payable	
	Principal	Interest	Principal	Interest
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
2017	52,046	16,567	425,000	398,968
2018-2022	196,707	30,838	2,450,000	1,651,903
2023-2027	14,210	1,205	3,145,000	905,819
2028-2029	-	-	1,510,000	89,903
Totals	<u>\$ 439,682</u>	<u>\$ 146,343</u>	<u>\$ 9,060,000</u>	<u>\$ 4,814,352</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance
Mortgages Payable	\$ 476,957	\$ -	\$ 37,275	\$ 439,682
Lease Revenue Bonds Payable	9,410,000	-	350,000	9,060,000
Unamortized Discount	(129,460)	-	(7,469)	(121,991)
Compensated Absences	27,504	19,983	16,415	31,072
Long-Term Liabilities	<u>\$ 9,785,001</u>	<u>\$ 19,983</u>	<u>\$ 396,221</u>	<u>\$ 9,408,763</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, 2012**

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, 2012	\$ -	\$ 25,543,999	\$ 25,543,999	- %	\$ 11,728,771	217.8 %
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

The significant changes to the actuarial accrued liability between the January 1, 2010 and 2012 studies were as follows: there was an approximate savings of \$5 million due to changes in plans available for retirees for actuarial experiences which consists of demographic changes, greater than anticipated health care rates, and a significant increase in retirees on the plans.

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**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 9,563,696	\$ 9,563,696	\$ 9,473,240	\$ (90,456)
Special Assessments	355,132	355,132	383,980	28,848
Licenses and Permits	28,830	28,830	43,501	14,671
Intergovernmental	2,354,119	2,354,119	2,654,277	300,158
Charges for Services	1,112,805	1,112,805	1,178,827	66,022
Fines and Forfeits	47,376	47,376	53,008	5,632
Gifts and Contributions	12,000	12,000	13,316	1,316
Investments Earnings	529,562	529,562	613,955	84,393
Miscellaneous	519,700	519,700	1,598,765	1,079,065
Total Revenues	14,523,220	14,523,220	16,012,869	1,489,649
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>GENERAL GOVERNMENT</b>				
Commissioners	266,967	266,967	263,221	3,746
Courts	106,410	106,410	116,165	(9,755)
Law Library	43,882	43,882	48,154	(4,272)
County Administration	575,449	575,449	483,279	92,170
County Auditor-Treasurer	344,345	344,345	312,212	32,133
County Assessor	495,385	495,385	531,348	(35,963)
Elections	104,271	104,271	107,233	(2,962)
Auditing	85,800	85,800	53,802	31,998
Information Systems	503,472	503,472	532,085	(28,613)
Central Services	-	-	2,262	(2,262)
Attorney	847,614	847,614	839,063	8,551
Recorder	220,807	220,807	209,049	11,758
Buildings and Plant	862,803	862,803	697,971	164,832
Public Transit	11,766	11,766	38,059	(26,293)
Veterans Service	151,029	151,029	133,552	17,477
Other General Government	924,637	924,637	620,352	304,285
Total General Government	5,544,637	5,544,637	4,987,807	556,830

*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, 2012**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES (Continued)</b>				
<b>CURRENT (Continued)</b>				
<b>PUBLIC SAFETY</b>				
Sheriff	\$ 2,202,068	\$ 2,202,068	\$ 2,247,222	\$ (45,154)
E911	16,060	16,060	28,230	(12,170)
Coroner	48,900	48,900	59,398	(10,498)
County Jail	2,553,480	2,553,480	2,488,776	64,704
County Jail Canteen	54,900	54,900	178,021	(123,121)
Law Enforcement Center	595,534	595,534	987,696	(392,162)
Community Corrections	2,017,578	2,017,578	1,911,566	106,012
Sentence to Serve	57,834	57,834	57,834	-
Civil/Bailiff	112,249	112,249	130,582	(18,333)
Other Public Safety	-	-	498	(498)
Total Public Safety	<u>7,658,603</u>	<u>7,658,603</u>	<u>8,089,823</u>	<u>(431,220)</u>
<b>SANITATION</b>				
Solid Waste	590,524	590,524	573,643	16,881
<b>CULTURE AND RECREATION</b>				
Historical Society	33,750	33,750	33,750	-
Senior Citizens	42,400	42,400	25,989	16,411
Regional Library	244,014	244,014	257,933	(13,919)
Other	86,281	86,281	91,291	(5,010)
Total Culture and Recreation	<u>406,445</u>	<u>406,445</u>	<u>408,963</u>	<u>(2,518)</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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<b>CURRENT (Continued)</b>				
<b>CONSERVATION OF NATURAL RESOURCES</b>				
County Extension	\$ 168,635	\$ 168,635	\$ 159,119	\$ 9,516
Soil and Water Conservation	133,505	133,505	133,505	-
County Fair	25,414	25,414	25,414	-
Other	-	-	12,355	(12,355)
Total Conservation of Natural Resources	327,554	327,554	330,393	(2,839)
<b>ECONOMIC DEVELOPMENT</b>				
Development Corporation	12,183	12,183	11,910	273
<b>CAPITAL OUTLAY</b>				
General Government	113,550	113,550	52,804	60,746
Public Safety	122,400	122,400	143,732	(21,332)
Sanitation	500	500	14,345	(13,845)
Culture and Recreation	2,500	2,500	1,399	1,101
Total Capital Outlay	238,950	238,950	212,280	26,670
Total Expenditures	14,778,896	14,778,896	14,615,110	163,786
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(255,676)	(255,676)	1,397,759	1,653,435
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	-	-	112,076	112,076
Transfer Out	-	-	(372,870)	(372,870)
Proceeds from the Sale of Capital Assets	-	-	410	410
Total Other Financing Sources (Uses)	-	-	(260,384)	(260,384)
<b>NET CHANGE IN FUND BALANCE</b>	\$ (255,676)	\$ (255,676)	1,137,375	\$ 1,393,051
Fund Balance - Beginning of Year			23,463,411	
<b>FUND BALANCE - END OF YEAR</b>			\$ 24,600,786	

*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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,550,396	\$ 2,550,396	\$ 2,488,215	\$ (62,181)
Licenses and Permits	47,700	47,700	69,304	21,604
Intergovernmental	7,850,578	7,850,578	6,831,489	(1,019,089)
Charges for Services	229,025	229,025	85,129	(143,896)
Miscellaneous	65,000	65,000	123,145	58,145
Total Revenues	<u>10,742,699</u>	<u>10,742,699</u>	<u>9,597,282</u>	<u>(1,145,417)</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>HIGHWAY AND STREETS</b>				
Administration	513,597	513,597	534,670	(21,073)
Maintenance	2,155,709	2,155,709	2,239,156	(83,447)
Construction	6,322,291	6,322,291	5,538,148	784,143
Equipment and Maintenance Shops	968,510	968,510	574,802	393,708
Buildings and Grounds	145,358	145,358	128,812	16,546
Total Current	<u>10,105,465</u>	<u>10,105,465</u>	<u>9,015,588</u>	<u>1,089,877</u>
<b>CONSERVATION OF NATURAL RESOURCES</b>				
Environmental Services	310,234	310,234	225,586	84,648
<b>INTERGOVERNMENTAL</b>				
General Government	-	-	408,501	(408,501)
<b>CAPITAL OUTLAY</b>				
Highway and Streets	332,000	332,000	73,560	258,440
Total Expenditures	<u>10,747,699</u>	<u>10,747,699</u>	<u>9,723,235</u>	<u>1,024,464</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	(5,000)	(5,000)	(125,953)	(120,953)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	-	-	107,342	107,342
Proceeds from the Sale of Capital Assets	5,000	5,000	6,795	1,795
Total Other Financing Sources (Uses)	<u>5,000</u>	<u>5,000</u>	<u>114,137</u>	<u>109,137</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	(11,816)	<u>\$ (11,816)</u>
Fund Balance - Beginning of Year			7,586,378	
<b>CHANGE IN INVENTORIES</b>			<u>159,547</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 7,734,109</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, 2012**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 2,350,650	\$ 2,350,650	\$ 2,301,136	\$ (49,514)
Intergovernmental	5,453,588	5,453,588	6,310,253	856,665
Charges for Services	1,670,500	1,670,500	928,997	(741,503)
Gifts and Contributions	-	-	191	191
Investments Earnings	-	-	131	131
Miscellaneous	395,828	395,828	294,449	(101,379)
Total Revenues	<u>9,870,566</u>	<u>9,870,566</u>	<u>9,835,157</u>	<u>(35,409)</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>HUMAN SERVICES</b>				
Income Maintenance	3,200,374	3,200,374	3,269,796	(69,422)
Social Services	<u>5,187,047</u>	<u>5,187,047</u>	<u>5,358,371</u>	<u>(171,324)</u>
Total Human Services	8,387,421	8,387,421	8,628,167	(240,746)
<b>HEALTH</b>				
Health	1,530,239	1,530,239	1,323,182	207,057
<b>CAPITAL OUTLAY</b>				
Human Services	<u>-</u>	<u>-</u>	<u>25,104</u>	<u>(25,104)</u>
Total Expenditures	<u>9,917,660</u>	<u>9,917,660</u>	<u>9,976,453</u>	<u>(58,793)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(47,094)	(47,094)	(141,296)	(94,202)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	265,528	265,528
Transfers Out	<u>-</u>	<u>-</u>	<u>(112,076)</u>	<u>(112,076)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>153,452</u>	<u>153,452</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (47,094)</u>	<u>\$ (47,094)</u>	12,156	<u>\$ 59,250</u>
Fund Balance - Beginning of Year			<u>1,449,387</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 1,461,543</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, 2012**

**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, 2012:

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
Social Services	\$ 9,976,453	\$ 9,917,660	\$ 58,793

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

## **SUPPLEMENTARY INFORMATION**

**MOWER COUNTY  
AUSTIN, MINNESOTA  
DECEMBER 31, 2012**

**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, 2012**

	Ditch	Sewer Improvements	Bond Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 291,293	\$ 698,082	\$ 449,148	\$ 1,438,523
Taxes Receivable - Delinquent	-	-	58,776	58,776
Special Assessments Receivable - Delinquent	1,814	-	-	1,814
Special Assessments Receivable - Deferred	181,283	-	-	181,283
Accrued Interest Receivable	-	-	24,237	24,237
Loans Receivable	-	864,317	-	864,317
Restricted Investments - Temporary	-	29,606	-	29,606
<b>Total Assets</b>	<b>\$ 474,390</b>	<b>\$ 1,592,005</b>	<b>\$ 532,161</b>	<b>\$ 2,598,556</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 8,142	\$ -	\$ -	\$ 8,142
Due to Other Governments	2,677	-	-	2,677
Deferred Revenue - Unavailable	181,668	-	45,371	227,039
<b>Total Liabilities</b>	<b>192,487</b>	<b>-</b>	<b>45,371</b>	<b>237,858</b>
<b>FUND BALANCES</b>				
Nonspendable For				
Long-Term Receivables	-	798,482	-	798,482
Restricted For				
Ditch Projects	281,903	-	-	281,903
Debt Service	-	109,132	486,790	595,922
Assigned For				
Sewer Improvements	-	684,391	-	684,391
<b>Total Fund Balance</b>	<b>281,903</b>	<b>1,592,005</b>	<b>486,790</b>	<b>2,360,698</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 474,390</b>	<b>\$ 1,592,005</b>	<b>\$ 532,161</b>	<b>\$ 2,598,556</b>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	Ditch	Sewer Improvements	Bond Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 2,477,393	\$ 2,477,393
Special Assessments	147,519	22,198	-	169,717
Intergovernmental	-	-	222,918	222,918
Interest on Investments	-	97	(76,467)	(76,370)
Total Revenues	<u>147,519</u>	<u>22,295</u>	<u>2,623,844</u>	<u>2,793,658</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
Conservation	77,082	-	-	77,082
<b>DEBT SERVICE</b>				
Principal	-	28,545	1,570,000	1,598,545
Interest	-	-	869,552	869,552
Bond Issue Costs	-	-	148,932	148,932
Total Debt Service	<u>-</u>	<u>28,545</u>	<u>2,588,484</u>	<u>2,617,029</u>
Total Expenditures	77,082	28,545	2,588,484	2,694,111
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	70,437	(6,250)	35,360	99,547
<b>OTHER FINANCING SOURCES (USES)</b>				
Payments to Refunding Bond Escrow Agent	-	-	(10,715,044)	(10,715,044)
Proceeds from Loan	-	409,619	-	409,619
Bonds and Notes Issued	-	-	9,955,000	9,955,000
Premium on Bonds/Notes Issued	-	-	71,049	71,049
Total Other Financing Sources (Uses)	<u>-</u>	<u>409,619</u>	<u>(688,995)</u>	<u>(279,376)</u>
<b>NET CHANGE IN FUND BALANCES</b>	70,437	403,369	(653,635)	(179,829)
Fund Balance - Beginning of Year	<u>211,466</u>	<u>1,188,636</u>	<u>1,140,425</u>	<u>2,540,527</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 281,903</u>	<u>\$ 1,592,005</u>	<u>\$ 486,790</u>	<u>\$ 2,360,698</u>

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
DITCH FUND  
YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Special Assessments	\$ 104,000	\$ 104,000	\$ 147,519	\$ 43,519
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>CONSERVATION OF NATURAL RESOURCES</b>				
Other	<u>104,000</u>	<u>109,000</u>	<u>77,082</u>	<u>31,918</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (5,000)</u>	70,437	<u>\$ 75,437</u>
Fund Balance - Beginning of Year			<u>211,466</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 281,903</u>	

**MOWER COUNTY  
AUSTIN, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
SEWER IMPROVEMENT FUND  
YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Special Assessments	\$ 136,000	\$ 136,000	\$ 22,198	\$ (113,802)
Investments Earnings	-	-	97	97
Total Revenues	<u>136,000</u>	<u>136,000</u>	<u>22,295</u>	<u>(113,705)</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>CONSERVATION OF NATURAL RESOURCES</b>				
Other	210,000	210,000	-	210,000
<b>DEBT SERVICE</b>				
Principal	-	-	28,545	(28,545)
Total Expenditures	<u>210,000</u>	<u>210,000</u>	<u>28,545</u>	<u>181,455</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(74,000)	(74,000)	(6,250)	67,750
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan Proceeds	-	-	409,619	409,619
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (74,000)</u>	<u>\$ (74,000)</u>	403,369	<u>\$ 477,369</u>
Fund Balance - Beginning of Year			<u>1,188,636</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 1,592,005</u>	

**MOWER COUNTY  
AUSTIN, MINNESOTA  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<b>STATE REVENUE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 123,870	\$ 1,007,036	\$ 1,016,810	\$ 114,096
<b>LIABILITIES</b>				
Due to Other Governments	\$ 123,870	\$ 1,007,036	\$ 1,016,810	\$ 114,096
<b>FAMILY CONNECTIONS COLLABORATIVE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 430,575	\$ 330,991	\$ 175,754	\$ 585,812
<b>LIABILITIES</b>				
Salaries Payable	\$ 6,003	\$ 5,458	\$ -	\$ 11,461
Due to Other Governments	424,572	325,533	175,754	574,351
Total Liabilities	\$ 430,575	\$ 330,991	\$ 175,754	\$ 585,812
<b>TAXES AND PENALTIES</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 594,459	\$ 43,164,216	\$ 43,071,249	\$ 687,426
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 594,459	\$ 43,164,216	\$ 43,071,249	\$ 687,426
<b>SOCIAL WELFARE FUND</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 110,553	\$ 976,551	\$ 987,964	\$ 99,140
<b>LIABILITIES</b>				
Due to Other Governments	\$ 110,553	\$ 976,551	\$ 987,964	\$ 99,140
<b>TOTAL ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 1,259,457	\$ 45,478,794	\$ 45,251,777	\$ 1,486,474
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 594,459	\$ 43,164,216	\$ 43,071,249	\$ 687,426
Salaries Payable	6,003	5,458	-	11,461
Due to Other Governments	658,995	2,309,120	2,180,528	787,587
Total Liabilities	\$ 1,259,457	\$ 45,478,794	\$ 45,251,777	\$ 1,486,474

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF INTERGOVERNMENTAL REVENUE  
YEAR ENDED DECEMBER 31, 2012**

	<u>Governmental Funds</u>
<b>SHARED REVENUE</b>	
State	
Highway Users Tax	\$ 5,756,182
County Program Aid	2,027,705
PERA Rate Reimbursement	40,232
Disparity Reduction Aid	191,068
Police Aid	126,646
Enhanced 911	118,765
Market Value Credit	158,534
Total Shared Revenue	8,419,132
<b>REIMBURSEMENT FOR SERVICES</b>	
<b>STATE</b>	
Minnesota Department of Human Services	11,350
<b>PAYMENTS</b>	
<b>LOCAL</b>	
Payments in Lieu of Taxes	78,814
<b>GRANTS</b>	
<b>STATE</b>	
Minnesota Department/Board of	
Peace Officers Board	6,642
Corrections	302,247
Health	177,742
Human Services	1,743,384
Soil and Water Resources	85,833
Public Safety	24,850
Pollution Control Agency	56,482
Total State	2,397,180
<b>FEDERAL</b>	
Department of	
Agriculture	482,747
Justice	52,239
Transportation	607,601
Homeland Security	63,660
Health	3,693,366
Internal Revenue Service	214,401
Total Federal	5,114,014
Total State and Federal Grants	7,511,194
Total Intergovernmental Revenue	\$ 16,020,490

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



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### INDEPENDENT AUDITORS' 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, in accordance with the 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, the 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), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Mower County's basic financial statements, and have issued our report thereon dated September 24, 2013.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (MCHRA for the year ended December 31, 2012. Our reporting, described below, did not include the operations of the MCHRA because the MCHRA (component unit) engaged for its own separate audit in accordance with *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mower County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Mower County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

### **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 and correct, 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 County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questions Costs as items 2006-01, 2006-02, 2006-05, 2010-01, and 2012-02 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 described in the accompanying Schedule of Findings and Questioned Costs as items 2011-07, and 2012-03 to be significant deficiencies.

### **Compliance and Other Matters**

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

### **Mower County's Responses to Findings**

Mower County's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Mower County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mower County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 24, 2013



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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

**Report on Compliance for Each Major Federal Program**

We have audited Mower County'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, 2012. Mower County's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (MCHRA), which expended \$517,168 in federal awards which are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2012. Our audit, described below, did not include the operations of the MCHRA because the MCHRA (component unit) engaged for its own separate audit in accordance with OMB Circular A-133.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

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

**Opinion on Each Major Federal Program**

In our opinion, Mower County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

**Report on Internal Control Over Compliance**

Management of Mower County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mower County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-05 to be a material weakness.

**Mower County's Responses to Findings**

Mower County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Mower County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 24, 2013

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2012**

**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 "Independent Auditors' 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 2006-01, 2006-02, 2006-05, 2010-01, and 2012-02 are considered to be material weaknesses and 2011-07, and 2012-03 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. A deficiency involving internal control over compliance relating to the audit of the major federal award programs was reported in the "Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133". Item 2011-05 is considered to be a material weakness.
5. The auditors' report on compliance for the major federal award programs for Mower County expresses an unqualified opinion on all major federal programs.
6. No findings relative to the major federal award programs for the County were disclosed during the audit that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major program were:

Highway Planning and Construction Cluster	CFDA No. 20.205 & 20.219
TANF Cluster	CFDA No. 93.558 & 93.714
Medical Assistance Grant Cluster	CFDA No. 93.720, 93.775, 93.777 & 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, 2012**

**MATERIAL WEAKNESSES - FINANCIAL REPORTING:**

2006-01 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 and Context:** 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.

**Possible 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.*

2006-02 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 position.

**Condition and Context:** 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.

**Possible 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, 2012**

**MATERIAL WEAKNESSES - FINANCIAL REPORTING (CONTINUED):**

2006-02 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.*

2006-05 TIMELY DEPOSITS

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

**Condition and Context:** 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.

**Possible 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.*

2010-01 CONTROLS OVER INVESTMENT ACTIVITY

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

**Condition and Context:** 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.

**Possible 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.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2012**

**MATERIAL WEAKNESSES - FINANCIAL REPORTING (CONTINUED):**

2010-01 CONTROLS OVER INVESTMENT ACTIVITY (CONTINUED)

**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. The County Board will be taking a more active role starting in 2013.*

2012-02 CASH DISBURSEMENT CONTROLS

**Criteria:** As a part of sound financial control structure, controls should be in place to ensure all invoices have the appropriate supporting documentation in place prior to being paid. Controls should also be in place to ensure that the payments being issued match the payments that were authorized via County Board approval.

**Condition and Context:** It was noted during our audit procedures the County was not able to provide proper documentation indicating approval for the disbursement had occurred on two of twenty-five social welfare fund disbursements and four of fifteen credit card invoices that were selected for audit testing. It also appears that the County does not have procedures in place to ensure that the audit list which is provided to the County Board for approval of disbursements at their meetings is being compared to the physical checks that are being issued by the County.

**Cause:** Unknown.

**Possible Effect:** The lack of proper supporting documentation of approval and comparison of the County Board approved audit list could result in misuse of public funds or a misappropriation of assets.

**Recommendation:** We recommend that the County implement policies and procedures to ensure all disbursements and credit card payments have the appropriate supporting documentation and approval prior to being paid. We also recommend that County implement policies and procedures to ensure the audit list approved by the County Board matches the physical payments being issued.

**Client Response:** *An Assistant Finance Director was hired in 2013 and these controls are performed as a part of the job duties.*

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2012**

**MATERIAL WEAKNESSES - FINANCIAL REPORTING (CONTINUED):**

**PREVIOUSLY REPORTED ITEM RESOLVED**

11-1 TIMELY INVENTORY

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

RESOLUTION

Inventory for December 31, 2012 was counted within a reasonable period of time after year-end.

**SIGNIFICANT DEFICIENCIES - FINANCIAL REPORTING**

2011-07 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 and Context:** The County has not been able to completely reconcile the bank balances to the general ledger since January of 2012.

**Cause:** Unknown.

**Possible Effect:** Absence a complete and accurate reconciliation of the County's cash 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, 2012**

**SIGNIFICANT DEFICIENCIES - FINANCIAL REPORTING (CONTINUED):**

2012-03 CHANGE FUND CONTROLS

**Criteria:** As a part of sound financial control structure, controls should be in place to ensure the change and petty cash funds established by the County Board are being used for their intended purposes.

**Condition and Context:** It was noted during our audit procedures in the Auditor/Treasurer's Department the \$500 change fund that has been approved by the County Board was being used to provide additional funds in the case deposits were over/short during the reconciliation process.

**Cause:** Unknown.

**Possible Effect:** The lack of proper controls around petty cash and change funds could result in a misappropriation of assets.

**Recommendation:** We recommend that the County implement policies and procedures to ensure all deposits are fully reconciled each day and the County Board approved petty cash and change funds are being used for their intended purposes.

**Client Response:** *The County Board requests that the Auditor-Treasurer and the Finance Director provide procedures documenting internal controls over the proper use of change funds.*

**PREVIOUSLY REPORTED ITEM RESOLVED**

2011-02 BUDGET CONTROL PROCEDURES

The County's Board approved budget was not properly entered into the accounting system.

RESOLUTION

The County Board approved budget was properly entered into the accounting system in 2012.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2012**

**MAJOR PROGRAM MATERIAL WEAKNESS IN INTERNAL CONTROL OVER COMPLIANCE:**

**U.S. Department of Health and Human Services, Passed Through Minnesota Department of Human Services**

2011-05 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, 2012

**Criteria:** Standard internal control procedures suggest County personnel review case files 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 case files 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 Lysne, Income Maintenance Supervisor

**Corrective Action Planned:** The Health and Human Services department will implement new procedures to ensure all case files are being reviewed and that this review is properly documented.

**Anticipated Completion Date:** December 31, 2013

**MAJOR PROGRAM SIGNIFICANT DEFICIENCIES INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEMS RESOLVED**

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

During the 2011, audit one of forty applications tested did not document verification of income to determine if the applicant was qualified as needy under program guidelines.

**RESOLUTION**

No similar instances were noted during 2012.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2012**

**MAJOR PROGRAM SIGNIFICANT DEFICIENCIES INTERNAL CONTROL (CONTINUED)**

**PREVIOUSLY REPORTED ITEMS RESOLVED (CONTINUED)**

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

It was noted during our audit procedures documentation was not provided to indicate quarterly reports were being reviewed prior to submittal to state and federal agencies.

RESOLUTION

Documentation was observed during our testing of program during 2012.

**OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE**

2012-04 RECORDS RETENTION

**Criteria:** *Minnesota Statutes* §138.17 requires municipalities to maintain records in accordance with policies and procedures established the Records Disposition Panel of the State of Minnesota.

**Condition and Context:** It was noted during our audit procedures in the Auditor/Treasurer's Department that their change fund was being used to balance deposits in a cash short/over type of manner.

**Cause:** Past practice

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

**Recommendation:** We recommend that the County have proper policies and procedures in place to ensure all applicable state statutes are being followed properly.

**Client Response:** *The County Coordinator requests that the Auditor-Treasurer provide procedures documenting internal controls over the proper use of change funds and proper use of a cash short/over account.*

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
DECEMBER 31, 2012**

**OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE (CONTINUED)**

2012-05 CHANGE FUNDS

**Criteria:** *Minnesota Statutes §375.45* allows for the establishment of change funds for county departments solely for the purpose of making change.

**Condition and Context:** It was noted during our audit procedures in the Auditor/Treasurer's Department the \$500 change fund that has been approved by the County Board was being used to provide additional funds in the case deposits were over/short during the reconciliation process.

**Cause:** Unknown

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

**Recommendation:** We recommend that the County have proper policies and procedures in place to ensure all applicable state statutes are being followed properly.

**Client Response:** *The County will work with the Auditor/Treasurer to ensure their change fund is being used as allowed by statute.*

**PREVIOUSLY REPORTED ITEM RESOLVED**

11-6 PAYMENT OF CLAIMS

It was noted during our testing that 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.

RESOLUTION

No similar instances were noted during 2012.

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster)	10.561	\$ 225,428
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	<u>257,319</u>
Total Department of Agriculture		482,747
<b>U.S. Department of Justice</b>		
Passed Through Southeast Regional Radio Board Bulletproof Vest Partnership Program	16.607	27,476
Passed Through Minnesota Department of Public Safety Recovery Act - Edward Bryne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories (JAG Program Cluster)	16.803	<u>24,763</u>
Total Department of Justice		52,239
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction (Highway Planning and Construction Cluster)	20.205	607,601

*The Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.*

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Health and Human Services</b>		
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	20,561
Universal Newborn Hearing Screening	93.251	150
Center for Disease Control and Prevention-Investigations and Technical Assistance	93.283	375
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	98,356
Temporary Assistance for Needy Families (TANF Cluster)	93.558	50,814
Maternal and Child Health Services Block Grant to the States	93.994	43,227
Passed Through Southeast Regional Radio Board Immunization Cooperative Agreements (Immunization Cluster)	93.268	2,230
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	15,604
Temporary Assistance for Needy Families (TANF Cluster)	93.558	450,949
Child Support Enforcement	93.563	856,236
Refugee and Entrant Assistance-State Administered Programs	93.566	463
Child Care and Development Block Grant (CCDF Cluster)	93.575	35,832
Foster Care Title IV-E	93.658	209,066
Social Services Block Grant	93.667	256,255
Chafee Foster Care Independence Program	93.674	2,450
ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (TANF Cluster)	93.714	32,458
Children's Health Insurance Program	93.767	69
Medical Assistance Program (Medicaid Cluster)	93.778	<u>1,613,271</u>
Total Department of Health and Human Services		<u>3,693,366</u>

*The Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.*

**MOWER COUNTY  
AUSTIN, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grant	97.042	\$ 63,660
Total Cash Type Federal Awards		<u>\$ 4,899,613</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	\$ 5,114,014
Revenues included on the Schedule of Intergovernmental Revenue that are not considered Federal Grant Expenditures (Build America Bonds Interest Refund)	<u>(214,401)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 4,899,613</u>

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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners  
Mower County  
Austin, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, 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 December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 24, 2013.

The County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (MCHRA), for the year ended December 31, 2012. Our audit, described below, did not include the operations of the MCHRA because the MCHRA (component unit) engaged for its own separate audit that included provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*.

The *Minnesota Legal Compliance 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, and miscellaneous provisions.

In connection with our audit, nothing came to our attention that caused us to believe that Mower County, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivision* except for the items described in detail in the attached Schedule of Findings and Questioned Costs as findings 2012-04 and 2012-05. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Mower County, Minnesota's noncompliance with the above referenced provisions.

Mower County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Mower county's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads 'CliftonLarsonAllen LLP'.

**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 24, 2013



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