

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MOWER COUNTY
AUSTIN, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

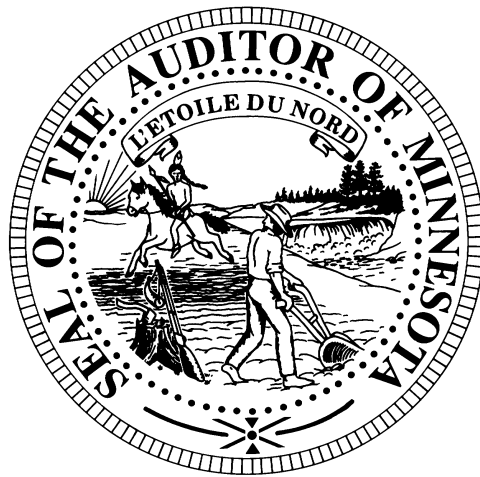
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MOWER COUNTY
AUSTIN, MINNESOTA**

Year Ended December 31, 2005



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**MOWER COUNTY
AUSTIN, MINNESOTA**

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**MOWER COUNTY
AUSTIN, MINNESOTA**

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**MOWER COUNTY
AUSTIN, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Raymond Tucker	District 2	January 2009
Vice Chair	David Hillier*	District 3	January 2007
Board Member	Richard P. Cummings	District 1	January 2009
Board Member	Garry Ellingson	District 5	January 2007
Board Member	Dick Lang	District 4	January 2007
County Attorney	Patrick Flanagan		January 2007
County Auditor	Sherwood Vereide		January 2007
County Recorder	Susan Davis		January 2007
County Sheriff	Teresa Amazi		January 2007
County Treasurer	Doug Groh		January 2007
Appointed			
Assessor	Richard Peterson		December 2008
Coroner	Dr. David Strobel		December 2006
County Coordinator	Craig Oscarson		Indefinite
County Engineer	Michal Hanson		May 2007
Court Administrator	Patricia Ball		Indefinite
Finance Director	Donna Welsh		Indefinite
Human Services Director	Bruce Henricks		Indefinite
Veterans Services Officer	Wayne Madson		Indefinite

*2006 Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mower County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mower County, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mower County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mower County Housing and Redevelopment Authority (HRA), the discretely presented component unit, as of and for the year ended September 30, 2005. These financial statements were furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, 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, 2005, including the

Mower County HRA at September 30, 2005, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Mower County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Mower County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2006, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MOWER COUNTY
AUSTIN, MINNESOTA**

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

Mower County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$104,674,299, of which \$72,946,662 is invested in capital assets, and \$4,485,039 is restricted to specific purposes.
- Mower County's net assets increased by \$366,324 for the year ended December 31, 2005. Of the change, \$664,444 was an increase in the governmental activities' capital net assets and a decrease of \$2,218,677 in restricted transportation assets. The net assets of the County's discretely presented component unit increased by \$40,724.
- The net cost of governmental activities was \$12,938,857 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$13,305,181.
- Governmental funds' fund balances increased by \$636,655. The increase was due primarily to expenditures in the General Fund being significantly less than budgeted.
- During the year, Mower County received \$54,000 from the State of Minnesota for loans to upgrade individual sewer systems.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. Mower County's basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.

Management's Discussion and Analysis
(Required supplementary information)

Government-Wide
Financial Statements



Fund Financial
Statements

Notes to the Financial Statements

Required Supplementary Information
(other than MD&A)

There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. Exhibit 7 provides financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities

Our analysis of the County as a whole begins with Exhibit 1. The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in them. You can think of the County's net assets, the difference between assets and liabilities, as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divide the County into two kinds of activities:

- Governmental activities - Most of the County's basic services are reported here, including general government, public safety, transportation, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Component units - The County includes a separate legal entity in its report, the Housing and Redevelopment Authority, presented in a separate column. Although legally separate, this "component unit" is important because the County is financially accountable for it.

Fund Financial Statements

Our analysis of the County's major funds begins with Exhibit 3. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

- Governmental funds - Most of the County's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a statement following each governmental fund financial statement.

The County as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Mower County, assets exceeded liabilities by \$104,674,299 at the close of 2005.

The County's combined net assets increased by \$366,324. The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets
(in Millions)

	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 34.3	\$ 34.4
Capital assets	<u>72.9</u>	<u>72.3</u>
Total Assets	\$ 107.2	\$ 106.7
Long-term debt outstanding	\$ 1.3	\$ 1.2
Other liabilities	<u>1.3</u>	<u>1.2</u>
Total Liabilities	\$ 2.6	\$ 2.4
Net Assets		
Invested in capital assets	\$ 72.9	\$ 72.3
Restricted	4.5	6.4
Unrestricted	<u>27.2</u>	<u>25.6</u>
Total Net Assets	\$ <u>104.6</u>	\$ <u>104.3</u>

Net assets of the County's governmental activities remained relatively constant compared with the previous year.

Table 2
Changes in Net Assets
(in Millions)

	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 3.8	\$ 3.7
Operating grants and contributions	9.6	11.2
Capital grants and contributions	0.2	1.0
General revenues		
Property taxes	8.3	7.5
Grants and contributions	4.2	3.0
Other general revenues	<u>0.7</u>	<u>2.1</u>
Total Revenues	\$ 26.8	\$ 28.5

	<u>2005</u>	<u>2004</u>
Program expenses		
General government	\$ 4.5	\$ 4.5
Public safety	4.6	4.3
Transportation	6.7	6.6
Human services	7.2	7.8
Health	1.7	1.8
Sanitation	0.8	0.8
Culture and recreation	0.4	0.7
Conservation of natural resources	<u>0.6</u>	<u>0.6</u>
 Total Expenses	 <u>\$ 26.5</u>	 <u>\$ 27.1</u>
 Increase (Decrease) in Net Assets	 <u>\$ 0.3</u>	 <u>\$ 1.4</u>

Governmental Activities (in Millions)

The cost of all governmental activities this year was \$26.5. However, as shown in the Statement of Activities, Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$12.9, because some of the cost was paid by those who directly benefited from the programs (\$3.8) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9.8). The County paid for the remaining “public benefit” portion of governmental activities with \$12.9 in general revenues, primarily taxes (some of which could only be used for certain programs), other revenues (such as interest and general entitlements), and reserves.

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

Table 3
Governmental Activities
(in Millions)

	<u>2005</u> Total Cost of Service	<u>2005</u> Net Cost of Service	<u>2004</u> Total Cost of Service	<u>2004</u> Net Cost of Service
Human services	\$ 7.2	\$ 2.4	\$ 7.8	\$ 2.8
Transportation	6.7	2.6	6.6	1.1
General government	4.5	3.2	4.5	3.0
Public safety	4.6	3.6	4.3	3.5
Health	1.7	0.4	1.8	0.4
All others	<u>1.8</u>	<u>0.7</u>	<u>2.1</u>	<u>0.4</u>
 Totals	 <u>\$ 26.5</u>	 <u>\$ 12.9</u>	 <u>\$ 27.1</u>	 <u>\$ 11.2</u>

The County's Funds

As the County completed the year, its governmental funds (as presented in the balance sheet on Exhibit 3) reported a combined fund balance of \$30,471,180, which is above last year's total of \$29,834,525, a \$636,655 increase. Included in this year's total fund balance is a surplus of \$21,048,482 in the County's General Fund; \$5,776,407 in the Road and Bridge Fund; and \$2,350,389 in the Social Services Fund. The General Fund's change in fund balance (an increase of \$1,190,331 for 2005) reflected a local grant and capital expenditures not completed. The Road and Bridge Fund decrease of \$296,810 and the Social Services Fund decrease of \$196,982 are due to revenues not meeting expectations.

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the County's budget several times. The budget amendments were for departmental costing of workers' compensation, unanticipated departmental costs, such as legal costs in court cases, changes in assessment software, additional attorney staff support, and minor equipment purchases.

Even with these adjustments, the actual charges to appropriations (expenditures) were \$3,615,122 below the final budget amounts. The most significant positive variances occurred in the public safety category, with a deferral of the radio system project and the building project area, where the justice center and transit building projects were deferred.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the County had \$72,946,662 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$664,444 over last year.

Table 4
Governmental Activities Capital Assets at Year-End
(Net of Depreciation, in Millions)

	2005	2004
Land, including highway right-of-way	\$ 11.8	\$ 11.7
Construction in progress	-	0.5
Buildings and improvements	8.0	8.3
Other improvements	0.1	0.2
Machinery, furniture, and equipment	2.6	2.7
Software	-	0.1
Infrastructure	50.4	48.8
Totals	<u>\$ 72.9</u>	<u>\$ 72.3</u>

This year's major additions included (in millions):

- Various road segment projects completed during the year.
- Road equipment purchased during the year (\$0.5).

This year, no major subtractions occurred and construction in progress was completed.

The County's fiscal year 2006 capital budget calls for it to spend another \$4.82 million for capital projects, grading and pavement rehabilitation of County State-Aid Highway (CSAH) No. 2, pavement rehabilitation of CSAH Nos. 105 and 109, various bridge projects, justice center preliminary work, and a public safety radio system. The County has plans to use fund reserves or state aids to finance the projects. More detailed information about the County's capital assets is presented in notes to the financial statements.

Debt

At year-end, the County had \$428,712 outstanding in long-term debt as a result of state loans for individual septic systems loans. During the year, the state loan payable had a net increase of \$14,000, which includes an additional \$54,000 in loans from the state and a reduction of \$40,000 due to payments made on the septic loan program. Semi-annual installments to the state are paid in July and December with no interest.

The County has not bonded publicly recently, which means that a general obligation bond rating has not been completed. The state limits the amount of net debt that the County can issue to two percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$51.5 million state-imposed limit.

The County participates in a joint-powers agreement for insurance for employee health coverage and has future obligations for retired and some current employees. Other obligations include accrued vacation pay and sick leave payable. More detailed information about the County's long-term liabilities is presented in notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County Board of Commissioners considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for the government-type activities.

- The State of Minnesota has reduced state-aid funding and program changes that require local funding instead of state funding.
- The annual average unemployment rate in Mower County changed from 4.3 percent in Year 2004 to 3.7 percent ending December 2005, which could change the level of services requested by County residents.

- County General Fund expenditures for 2006 are budgeted to increase over 13 percent from 2005 for capital expenditures in public safety and flood land purchases.
- A decision to build a criminal justice center to accommodate public safety needs will impact future financing needs and will require bonding for funds.
- Property tax levy increased 7.9 percent for 2006. Year 2004 tax levy cost per capita report shows Mower County as 86th out of 87 counties.
- The County has one of the highest elderly populations in Minnesota, typical in rural counties. County services to the elderly represent a significant portion of the budget.
- The County's road and bridge infrastructure is aging, and normal state and federal funding has not kept up with inflationary replacement costs.
- Criminal justice-related costs have exceeded normal growth, resulting in increased activity in law enforcement, attorney, courts, and corrections.

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 show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Donna Welsh, County Finance Director, Mower County Courthouse, 201 First Street N.E., Austin, Minnesota 55912.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MOWER COUNTY
AUSTIN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 27,393,259	\$ 358,730
Petty cash and change funds	3,130	-
Investments	-	516,244
Taxes receivable		
Current - net	-	36,603
Prior - net	145,562	-
Special assessments receivable		
Current - net	1,004,792	-
Prior - net	29,946	-
Accounts receivable - net	177,075	5,074
Notes receivable - net	366,201	-
Accrued interest receivable	161,788	3,304
Loans receivable - net	2,966,510	-
Due from other governments	1,775,813	14,773
Prepaid items	-	26,345
Inventories	260,791	-
Restricted assets		
Cash and pooled investments	-	965,351
Investments	26,307	-
Capital assets		
Non-depreciable	11,816,234	42,304
Depreciable - net of accumulated depreciation	61,130,428	2,089,311
Total Assets	\$ 107,257,836	\$ 4,058,039
<u>Liabilities</u>		
Accounts payable	\$ 575,752	\$ 38,895
Salaries payable	215,329	10,392
Accrued expenses	-	8,838
Contracts payable	141,730	-
Due to other governments	301,113	-
Long-term liabilities		
Due within one year	90,874	32,040
Due in more than one year	1,258,739	640,290
Total Liabilities	\$ 2,583,537	\$ 730,455

**MOWER COUNTY
AUSTIN, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Net Assets</u>		
Invested in capital assets	\$ 72,946,662	\$ 1,476,267
Restricted for		
General government	3,616,366	-
Public safety	349,223	-
Highways and streets	260,791	-
Conservation of natural resources	218,659	-
Debt service	40,000	-
HRA housing	-	965,351
Unrestricted	27,242,598	885,966
Total Net Assets	\$ 104,674,299	\$ 3,327,584

**MOWER COUNTY
AUSTIN, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary government		
Governmental activities		
General government	\$ 4,517,339	\$ 953,645
Public safety	4,571,492	430,426
Transportation	6,725,821	588,954
Sanitation	765,901	300,150
Human services	7,238,403	207,854
Health	1,696,366	792,524
Culture and recreation	353,874	8,200
Conservation of natural resources	612,293	505,911
Economic development	42,400	12,336
Total primary government	\$ 26,523,889	\$ 3,800,000
Component unit		
Housing and Redevelopment Authority	\$ 897,663	\$ 747,675
 General Revenues		
		Property taxes
		Mortgage registry and deed tax
		Local sales tax
		Payments in lieu of tax
		Grants and contributions not restricted to specific programs
		Unrestricted investment earnings
		Miscellaneous
		Total general revenues
		Change in net assets
		Net Assets - Beginning
		Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Discretely Presented Component Unit
\$ 326,042	\$ -	\$ (3,237,652)	
528,771	-	(3,612,295)	
3,484,178	74,906	(2,577,783)	
-	86,094	(379,657)	
4,644,078	-	(2,386,471)	
552,439	-	(351,403)	
-	-	(345,674)	
88,524	-	(17,858)	
-	-	(30,064)	
\$ 9,624,032	\$ 161,000	\$ (12,938,857)	
\$ 43,640	\$ 19,127		\$ (87,221)
		\$ 8,337,900	\$ -
		30,179	-
		-	78,222
		6,042	-
		4,152,687	11,673
		761,581	38,050
		16,792	-
		\$ 13,305,181	\$ 127,945
		\$ 366,324	\$ 40,724
		104,307,975	3,286,860
		\$ 104,674,299	\$ 3,327,584

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**MOWER COUNTY
AUSTIN, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 17,777,548	\$ 6,442,999	\$ 2,097,815	\$ 1,074,897	\$ 27,393,259
Petty cash and change funds	2,630	-	500	-	3,130
Taxes receivable					
Prior	91,036	25,932	28,594	-	145,562
Special assessments receivable					
Current	652,792	-	-	352,000	1,004,792
Prior	28,605	-	-	1,341	29,946
Accounts receivable - net	85,132	1,818	90,125	-	177,075
Notes receivable	366,201	-	-	-	366,201
Accrued interest receivable	161,788	-	-	-	161,788
Loans receivable	2,595,993	-	-	370,517	2,966,510
Due from other funds	-	-	-	7,662	7,662
Due from other governments	369,138	751,435	651,179	4,061	1,775,813
Inventories	-	260,791	-	-	260,791
Restricted investments - temporary	-	-	-	26,307	26,307
Total Assets	<u>\$ 22,130,863</u>	<u>\$ 7,482,975</u>	<u>\$ 2,868,213</u>	<u>\$ 1,836,785</u>	<u>\$ 34,318,836</u>

**MOWER COUNTY
AUSTIN, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 167,537	\$ 75,760	\$ 327,299	\$ 5,156	\$ 575,752
Salaries payable	131,615	30,021	53,693	-	215,329
Contracts payable	-	141,730	-	-	141,730
Due to other funds	7,662	-	-	-	7,662
Due to other governments	24,885	4,579	89,263	182,386	301,113
Deferred revenue - unavailable	750,682	1,454,478	47,569	353,341	2,606,070
Total Liabilities	\$ 1,082,381	\$ 1,706,568	\$ 517,824	\$ 540,883	\$ 3,847,656
Fund Balances					
Reserved for					
Inventories	\$ -	\$ 260,791	\$ -	\$ -	\$ 260,791
Law library	50,289	-	-	-	50,289
Recorder's equipment	57,892	-	-	-	57,892
Sheriff's contingency	2,645	-	-	-	2,645
DARE	5,209	-	-	-	5,209
Canteen	16,833	-	-	-	16,833
Enhanced 911	321,596	-	-	-	321,596
Attorney's forfeited property	7,500	-	-	-	7,500
Conservation of natural resources	3,026	-	-	-	3,026
Veterans' van	5,108	-	-	-	5,108
Sheriff's donations	2,940	-	-	-	2,940
NRBG	35,522	-	-	-	35,522
Loans receivable	2,600,638	-	-	370,517	2,971,155
Land records fund	53,368	-	-	-	53,368
Debt service	-	-	-	40,000	40,000
Unreserved					
Designated for future expenditures	3,699,701	3,296,625	100,000	-	7,096,326
Designated for cash flows	3,057,700	1,012,386	982,561	-	5,052,647
Designated for compensated absences	530,747	162,122	224,941	-	917,810
Designated for medical insurance	6,111,424	-	-	-	6,111,424
Undesignated	4,486,344	1,044,483	1,042,887	-	6,573,714
Unreserved, reported in nonmajor Special revenue funds	-	-	-	885,385	885,385
Total Fund Balances	\$ 21,048,482	\$ 5,776,407	\$ 2,350,389	\$ 1,295,902	\$ 30,471,180
Total Liabilities and Fund Balances	\$ 22,130,863	\$ 7,482,975	\$ 2,868,213	\$ 1,836,785	\$ 34,318,836

**MOWER COUNTY
AUSTIN, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$ 30,471,180
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	72,946,662
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,606,070
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Loans payable	\$ (428,712)
Compensated absences	(920,901)
	<u>(1,349,613)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 104,674,299</u>

**MOWER COUNTY
AUSTIN, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 5,437,076	\$ 1,507,378	\$ 1,430,521	\$ -	\$ 8,374,975
Special assessments	454,364	-	-	104,790	559,154
Licenses and permits	83,085	11,585	-	-	94,670
Intergovernmental	4,090,708	5,314,909	5,383,862	18,467	14,807,946
Charges for services	1,860,016	581,553	207,854	94	2,649,517
Fines and forfeits	41,572	-	-	-	41,572
Gifts and contributions	12,288	-	-	-	12,288
Interest on investments	762,307	-	-	470	762,777
Miscellaneous	565,594	7,794	-	27,681	601,069
Total Revenues	\$ 13,307,010	\$ 7,423,219	\$ 7,022,237	\$ 151,502	\$ 27,903,968
Expenditures					
Current					
General government	\$ 4,285,117	\$ -	\$ -	\$ -	\$ 4,285,117
Public safety	4,531,700	-	-	-	4,531,700
Transportation	-	7,644,506	-	105,843	7,750,349
Sanitation	717,510	-	-	-	717,510
Human services	-	-	7,219,219	-	7,219,219
Health	1,685,921	-	-	-	1,685,921
Culture and recreation	289,621	-	-	-	289,621
Conservation of natural resources	489,759	-	-	119,543	609,302
Economic development	42,400	-	-	-	42,400
Capital outlay	74,651	-	-	-	74,651
Debt service					
Principal	-	-	-	40,000	40,000
Total Expenditures	\$ 12,116,679	\$ 7,644,506	\$ 7,219,219	\$ 265,386	\$ 27,245,790
Excess of Revenues Over (Under) Expenditures	\$ 1,190,331	\$ (221,287)	\$ (196,982)	\$ (113,884)	\$ 658,178
Other Financing Sources (Uses)					
Loans issued	-	-	-	54,000	54,000
Net Change in Fund Balances	\$ 1,190,331	\$ (221,287)	\$ (196,982)	\$ (59,884)	\$ 712,178
Fund Balances - January 1	19,858,151	6,073,217	2,547,371	1,355,786	29,834,525
Increase (decrease) in reserved for inventories	-	(75,523)	-	-	(75,523)
Fund Balances - December 31	\$ 21,048,482	\$ 5,776,407	\$ 2,350,389	\$ 1,295,902	\$ 30,471,180

**MOWER COUNTY
AUSTIN, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	712,178
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(852,871)
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	\$ 4,187,176	
Current year depreciation	<u>(3,466,025)</u>	721,151
In the statement of activities, only the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of.		(56,707)
Loan proceeds provide current financial resources to governmental funds, but receiving a loan increases long-term liabilities in the statement of net assets.		
Loan proceeds		(54,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayments on loans payable		40,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in compensated absences	\$ (67,904)	
Change in inventories	<u>(75,523)</u>	<u>(143,427)</u>
Change in net assets of governmental activities (Exhibit 2)		<u>\$ 366,324</u>

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FIDUCIARY FUNDS

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MOWER COUNTY
AUSTIN, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 556,198</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 556,198</u>

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**MOWER COUNTY
AUSTIN, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Mower County was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Mower County (primary government) and its component units for which the County is financially accountable. 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 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 Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-.047.	The County appoints members, and the HRA is a financial burden.	Mower County HRA 59039 - 220th Street Austin, Minnesota 55912

**MOWER COUNTY
AUSTIN, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures described in Note 5.B. The County participates in jointly-governed organizations described in Note 5.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported in a separate column.

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

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

**MOWER COUNTY
AUSTIN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

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

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

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 agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

**MOWER COUNTY
AUSTIN, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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 as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$762,777.

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

**MOWER COUNTY
AUSTIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

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

All receivables are shown net of an allowance for uncollectibles.

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

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

3. Inventories and Prepaid Items

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**MOWER COUNTY
AUSTIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Restricted Assets

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

5. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' 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, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvements other than buildings	5 - 20
Buildings	20 - 50
Building improvements	20 - 50
Furniture, equipment, and vehicles	2 - 20
Public domain infrastructure	50 - 75

**MOWER COUNTY
AUSTIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated vacation, 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

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

8. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize loan proceeds during the current period. The face amount of the debt issued is reported as other financing sources.

9. Fund Equity

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

**MOWER COUNTY
AUSTIN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. 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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 27,393,259
Petty cash and change funds	3,130
Restricted assets	
Investments	26,307
Statement of fiduciary net assets	
Cash and pooled investments	<u>556,198</u>
Total Cash and Investments	<u>\$ 27,978,894</u>
Deposits	\$ 1,131,535
Petty cash and change funds	3,130
Investments	<u>26,844,229</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 27,978,894</u>

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk 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 deposit policy for custodial credit risk. As of December 31, 2005, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. In accordance with the County’s investment policy, investments will be sufficiently diverse to avoid risk and enhance return.

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

At December 31, 2005, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 2 Years</u>	<u>2 - 5 Years</u>	<u>5 + Years</u>
U.S. government securities	\$ 21,268,730	\$ 9,743,564	\$ 6,923,736	\$ 4,601,430
Commercial paper	1,115,877	1,115,877	-	-
Mutual funds	994,417	994,417	-	-
MAGIC Fund	2,980,141	2,980,141	-	-
Negotiable certificates of deposit	485,064	293,259	191,805	-
Total investments	<u>\$ 26,844,229</u>	<u>\$ 15,127,258</u>	<u>\$ 7,115,541</u>	<u>\$ 4,601,430</u>

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, 2005:

<u>Investment Type</u>	<u>S & P Rating</u>	<u>Fair Value</u>
U.S. government securities	AAA	\$ 21,268,730
Commercial paper	A-1	520,213
	N/A	595,664
Negotiable certificates of deposit	N/A	485,064
Mutual funds	N/R	994,417
MAGIC Fund	N/R	2,980,141
Total		<u>\$ 26,844,229</u>

N/R- Not rated
N/A- Not available

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2005, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

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

Issuer	Reported Amount
Federal Home Loan Bank	\$ 13,538,632
Federal National Mortgage Association	3,811,718
Federal Home Loan Mortgage Corporation	3,328,761

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Activities	
Accounts receivable	\$ 745,274
Less: allowance for uncollectibles	
Nursing Department	(16,900)
Social Services Department	(551,299)
	Total Governmental Activities, Net
	\$ 177,075

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,552,782	\$ -	\$ -	\$ 1,552,782
Highway right-of-way	10,157,086	106,366	-	10,263,452
Construction in progress	482,486	-	482,486	-
Total capital assets not depreciated	\$ 12,192,354	\$ 106,366	\$ 482,486	\$ 11,816,234
Capital assets depreciated				
Buildings	\$ 8,294,125	\$ -	\$ -	\$ 8,294,125
Building improvements	4,845,233	43,333	-	4,888,566
Improvements other than buildings	259,031	-	-	259,031
Machinery, furniture, and equipment	6,027,788	513,977	227,791	6,313,974
Software	78,387	-	-	78,387
Infrastructure	76,050,631	4,005,986	-	80,056,617
Total capital assets depreciated	\$ 95,555,195	\$ 4,563,296	\$ 227,791	\$ 99,890,700
Less: accumulated depreciation for				
Buildings	\$ 2,933,439	\$ 170,488	\$ -	\$ 3,103,927
Building improvements	1,850,770	255,095	-	2,105,865
Improvements other than buildings	107,126	6,534	-	113,660
Machinery, furniture, and equipment	3,306,518	595,481	171,084	3,730,915
Software	27,423	48,253	-	75,676
Infrastructure	27,240,055	2,390,174	-	29,630,229
Total accumulated depreciation	\$ 35,465,331	\$ 3,466,025	\$ 171,084	\$ 38,760,272
Total capital assets depreciated, net	\$ 60,089,864	\$ 1,097,271	\$ 56,707	\$ 61,130,428
Capital Assets, Net	\$ 72,282,218	\$ 1,203,637	\$ 539,193	\$ 72,946,662

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	343,865
Public safety		115,320
Transportation, including depreciation of infrastructure assets		2,871,921
Sanitation		47,564
Human services		9,693
Health		14,687
Culture and recreation		58,347
Conservation of natural resources		4,628
Total Depreciation Expense - Governmental Activities	\$	3,466,025

B. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Other governmental funds	General	\$ 7,662

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Leases

Operating Leases

The County leases space for Social Services under a noncancelable operating lease. Total cost for the lease was \$116,628 for the year ended December 31, 2005. The future minimum lease payments for this lease are as follows:

Year Ending December 31	Amount
2006	\$ 139,954
2007	139,954
2008	139,954
2009	127,654
2010	73,797
2011 – 2014	295,187

The County leases equipment for the Department of Correctional Services under a noncancelable operating lease. Total cost for such lease was \$21,536 for the year ended December 31, 2005. The future minimum lease payments for this lease are as follows:

Year Ending December 31	Amount
2006	\$ 21,536
2007	12,563

2. Construction Commitments

The County has active construction projects as of December 31, 2005. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 2,692,864	\$ 323,478

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Other Postemployment Benefits

Retirees

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

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 (\$391 per month) or family (\$1,043 per month) premium. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2005, there were 16 participants for this plan at a cost of \$153,944.
2. Employees who retired after July 17, 1989, and prior to November 1, 1992, who met the eligibility requirements are eligible to receive single medical insurance coverage. For family coverage after October 31, 1993, the County will pay \$25.61 per month plus one-half of the premium increases after October 31, 1993. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2005, there were eight participants for the plan at a cost of \$68,348.
3. Employees who retire after October 31, 1992, and were hired before that date, and meet other eligibility requirements, are qualified to receive the same health insurance benefits as current County employees. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2005, there were 49 participants for the plan at a cost of \$400,655.

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits

Retirees (Continued)

4. Employees who were hired after October 31, 1992, and meet other eligibility requirements are qualified to receive employer contribution to health insurance capped at the dollar amount being paid at the date of retirement. The retiree is responsible for all premium increases. Benefits terminate when the retiree qualifies for full Social Security benefits. Under certain conditions, dependents, at their cost, can continue in this program after the death of the retiree. During 2005, this plan had no participants.

Elected Officials

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

4. Long-Term Debt

Loans Payable

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

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Loans Payable (Continued)

<u>Type of State Loans</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
1996 septic loans	2007	\$40,000	-	\$ 400,000	\$ 80,000
1998 and 2001 septic loans	2020	\$5,000 - \$10,000	-	100,000	100,000
2002 septic loans	2016	\$2,500 - \$10,000	-	100,000	70,000
2004 septic loans	2024	\$2,500 - \$14,736	-	124,712	124,712
2005 septic loans	2025	\$2,500 - \$5,400	-	54,000	54,000
Total General Obligation Capital Notes					<u>\$ 428,712</u>

5. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

<u>Year Ending December 31</u>	<u>State Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 40,000	\$ -
2007	40,000	-
2008	-	-
2009	-	-
2010	5,000	-
2011 - 2015	71,471	-
2016 - 2020	169,356	-
2021 - 2025	102,885	-
Totals	<u>\$ 428,712</u>	<u>\$ -</u>

**MOWER COUNTY
AUSTIN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	\$ 414,712	\$ 54,000	\$ 40,000	\$ 428,712	\$ 40,000
Compensated absences	852,997	120,806	52,902	920,901	50,874
Long-Term Liabilities	<u>\$ 1,267,709</u>	<u>\$ 174,806</u>	<u>\$ 92,902</u>	<u>\$ 1,349,613</u>	<u>\$ 90,874</u>

3. Pension Plans

A. 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). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**MOWER COUNTY
AUSTIN, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; 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.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State

**MOWER COUNTY
AUSTIN, MINNESOTA**

3. Pension Plans

B. Funding Policy (Continued)

Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 447,162	\$ 102,234	\$ 47,680
2004	469,693	96,987	44,841
2003	487,839	95,439	43,536

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

**MOWER COUNTY
AUSTIN, MINNESOTA**

4. 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 \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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.

**MOWER COUNTY
AUSTIN, MINNESOTA**

5. 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.

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

B. Joint Ventures

Family Services Collaborative

The Mower County Family Services Collaborative was established in 1996 under the authority of Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Mower County; the City of Austin; SEMCAC; Mower County Township Association; and Independent School District Nos. 491, 492, 495, 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 Human 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.

**MOWER COUNTY
AUSTIN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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 Todd Lysne, Mower County Social Service Collections and Financial Supervisor, Social Services Department, 201 First Street N.E., Austin, Minnesota 55912.

Austin Mower County Area Transit (AMCAT)

AMCAT was established July 2004 under the authority of Minn. Stat. § 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 County Board, and one resident of Mower County that has been mutually appointed by the City Council and the County Board 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. 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:

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Mower County paid \$77,829 to the Cooperative.

**MOWER COUNTY
AUSTIN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Southeast Minnesota Emergency Management Services (EMS)

The EMS provides various health services to several counties. During the year, the County paid \$2,000 to the EMS.

Southeast Minnesota Recyclers Exchange (SEMREX)

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

Southeastern Minnesota Community Action Council

During the year, the County made no payments to the Southeastern Minnesota Community Action Council.

Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force provides drug investigation services for member organizations. During the year, the County paid \$5,000 to the Task Force.

Southeastern Minnesota Private Industry Council

The Southeastern Minnesota Private Industry Council provides various job training services to member counties. During the year, the County paid \$326,379 to the Council.

Southeast Minnesota Water Quality Board

The Southeast Minnesota Water Quality Board provides water quality services to several counties. The County paid \$3,100 to the Board during the year.

**MOWER COUNTY
AUSTIN, MINNESOTA**

6. 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.

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.

Basis of Presentation

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

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. Investments consist of non-negotiable certificates of deposit. 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**

6. 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	
Cash and pooled investments	\$ 358,730
Investments	516,244
Restricted assets	
Cash and pooled investments	<u>965,351</u>
 Total Cash and Investments	 <u><u>\$ 1,840,325</u></u>

In accordance with Minnesota statutes, the HRA maintains deposits at depository banks authorized by the Board of Commissioners.

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, 2005, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

**MOWER COUNTY
AUSTIN, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets (Continued)

Investments

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

- direct obligations or obligations guaranteed by the United States or its agencies;
- 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;
- general obligations rated “A” or better; revenue obligations rated “AA” or better;
- general obligations of the Minnesota Housing Finance Agency rated “A” or better;
- bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System;
- 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;
- guaranteed investment contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; and

**MOWER COUNTY
AUSTIN, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Investments (Continued)

- 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, 2005, the HRA had the following restricted investments:

	<u>At Estimated Market Value</u>
Held in escrow at the MHFA	\$ 956,205

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 \$30,140 and \$26,267 for the years ended September 30, 2005 and 2004, respectively.

**MOWER COUNTY
AUSTIN, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

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	\$ 883,970
Cash on hand	150
Restricted investments – MHFA	<u>956,205</u>
Total	<u>\$ 1,840,325</u>
Cash and pooled investments	\$ 358,730
Investments	516,244
Restricted assets	<u>965,351</u>
Total	<u>\$ 1,840,325</u>

**MOWER COUNTY
AUSTIN, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Capital Assets

HRA capital asset activity for the year ended September 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets depreciated				
Equipment	\$ 3,120	\$ -	\$ -	\$ 3,120
Transportation	18,021	-	-	18,021
Total capital assets depreciated	<u>\$ 21,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,141</u>
Less: accumulated depreciation for				
Equipment	\$ 299	\$ 377	\$ -	\$ 676
Transportation	18,021	-	-	18,021
Total accumulated depreciation	<u>\$ 18,320</u>	<u>\$ 377</u>	<u>\$ -</u>	<u>\$ 18,697</u>
Total Governmental Activities Capital Assets, net	<u>\$ 2,821</u>	<u>\$ (377)</u>	<u>\$ -</u>	<u>\$ 2,444</u>

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets not depreciated				
Land	\$ 42,304	\$ -	\$ -	\$ 42,304
Capital assets depreciated				
Land improvements	\$ 260,854	\$ 10,948	\$ -	\$ 271,802
Buildings	3,690,856	39,575	-	3,730,431
Furnishings	315,316	2,369	-	317,685
Maintenance equipment	27,325	-	-	27,325
Total capital assets depreciated	<u>\$ 4,294,351</u>	<u>\$ 52,892</u>	<u>\$ -</u>	<u>\$ 4,347,243</u>
Less: accumulated depreciation for				
Land improvements	\$ 132,038	\$ 13,935	\$ -	\$ 145,973
Buildings	1,793,318	107,023	-	1,900,341
Furnishings	172,131	18,764	-	190,895
Maintenance equipment	21,626	1,541	-	23,167
Total accumulated depreciation	<u>\$ 2,119,113</u>	<u>\$ 141,263</u>	<u>\$ -</u>	<u>\$ 2,260,376</u>
Total capital assets depreciated, net	<u>\$ 2,175,238</u>	<u>\$ (88,371)</u>	<u>\$ -</u>	<u>\$ 2,086,867</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 2,217,542</u>	<u>\$ (88,371)</u>	<u>\$ -</u>	<u>\$ 2,129,171</u>

**MOWER COUNTY
AUSTIN, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes

1. Assets

Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 377
Business-Type Activities	
Housing	\$ 141,263

2. Liabilities

Long-Term Debt

Long-term debt outstanding at September 30, 2005, for the HRA consists of the following:

Type of Indebtedness	Final Maturity	Interest Rate (%)	Original Issue Amount	Remaining Commitment	Due Within One Year
Mortgage payable	2020	6.50	\$ 857,870	\$ 578,448	\$ 23,358
Mortgage payable	2024	8.75	123,000	76,900	1,682

Debt Service Requirements

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

Year Ending September 30	Principal	Interest
2006	\$ 25,040	\$ 43,573
2007	26,758	41,855
2008	28,595	40,018
2009	30,558	38,055
2010	32,657	35,956
2011 - 2015	200,234	142,831
2016 - 2020	279,440	63,625
2021 - 2025	32,066	4,894
Total	\$ 655,348	\$ 410,807

**MOWER COUNTY
AUSTIN, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes

2. 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, 2005.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Notes payable				
Mortgages payable	\$ 678,768	\$ -	\$ 23,420	\$ 655,348
Compensated absences	15,789	13,793	12,600	16,982
Long-Term Liabilities	<u>\$ 694,557</u>	<u>\$ 13,793</u>	<u>\$ 36,020</u>	<u>\$ 672,330</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,474,366	\$ 6,474,366	\$ 5,437,076	\$ (1,037,290)
Special assessments	333,723	333,723	454,364	120,641
Licenses and permits	69,826	69,826	83,085	13,259
Intergovernmental	3,110,662	3,140,662	4,090,708	950,046
Charges for services	1,719,881	1,719,881	1,860,016	140,135
Fines and forfeits	77,275	77,275	41,572	(35,703)
Gifts and contributions	-	-	12,288	12,288
Investment earnings	872,418	872,418	762,307	(110,111)
Miscellaneous	494,300	494,300	565,594	71,294
Total Revenues	\$ 13,152,451	\$ 13,182,451	\$ 13,307,010	\$ 124,559
Expenditures				
Current				
General government				
Commissioners	\$ 338,592	\$ 338,592	\$ 212,158	\$ 126,434
Courts	62,183	62,183	84,640	(22,457)
County administration	419,606	434,606	424,184	10,422
County auditor	135,821	135,821	136,596	(775)
County treasurer	224,884	227,984	223,525	4,459
County assessor	387,921	387,921	397,790	(9,869)
Elections	50,894	50,894	51,984	(1,090)
Accounting and auditing	75,000	75,000	83,388	(8,388)
Data processing	336,839	336,839	312,111	24,728
Central services	101,029	101,029	93,115	7,914
Attorney	577,171	577,171	712,691	(135,520)
Law library	70,804	70,804	57,124	13,680
Recorder	203,795	203,795	181,069	22,726
Planning and zoning	199,170	392,170	265,088	127,082
Buildings and plant	439,174	439,174	390,627	48,547
Veterans service officer	115,492	115,492	111,673	3,819
Cost allocation	7,000	7,000	-	7,000
Game and fish	-	-	12,832	(12,832)
Other	1,189,820	1,120,705	534,522	586,183
Total general government	\$ 4,935,195	\$ 5,077,180	\$ 4,285,117	\$ 792,063

**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,249,541	\$ 2,249,541	\$ 1,835,195	\$ 414,346
Coroner	47,950	47,950	37,100	10,850
E-911 system	53,476	53,476	2,345	51,131
County jail	1,393,731	1,444,270	1,385,659	58,611
Law enforcement center	433,670	433,670	432,717	953
Community corrections	490,581	490,581	687,899	(197,318)
Sentence to serve	33,500	33,500	33,895	(395)
Canteen jail fund	-	-	15,222	(15,222)
Probation and parole	225,447	225,447	-	225,447
Civil defense	91,245	121,245	54,687	66,558
Other public safety	64,386	64,386	46,981	17,405
Total public safety	\$ 5,083,527	\$ 5,164,066	\$ 4,531,700	\$ 632,366
Sanitation				
Solid waste	\$ 527,923	\$ 527,923	\$ 717,510	\$ (189,587)
Health				
Nursing service	\$ 1,529,529	\$ 1,529,529	\$ 1,288,436	\$ 241,093
Maternal and child health	57,233	57,233	42,217	15,016
County health officer	1,678	1,678	1,355	323
Women, infants, and children	174,544	174,544	182,866	(8,322)
Other	191,035	191,035	171,047	19,988
Total health	\$ 1,954,019	\$ 1,954,019	\$ 1,685,921	\$ 268,098
Culture and recreation				
Historical society	\$ 159,577	\$ 159,577	\$ 33,360	\$ 126,217
Senior citizens	33,000	33,000	33,000	-
Regional library	231,899	231,899	213,768	18,131
Other	22,450	22,450	9,493	12,957
Total culture and recreation	\$ 446,926	\$ 446,926	\$ 289,621	\$ 157,305

**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Cooperative extension	\$ 136,524	\$ 136,524	\$ 109,323	\$ 27,201
Soil and water conservation	132,537	132,537	132,537	-
Feedlot	67,559	67,559	70,010	(2,451)
Agricultural inspections	23,600	23,600	21,025	2,575
Agricultural society/County fair	36,257	36,257	73,216	(36,959)
Water planning	40,810	40,810	65,924	(25,114)
Other	-	-	17,724	(17,724)
Total conservation of natural resources	\$ 437,287	\$ 437,287	\$ 489,759	\$ (52,472)
Economic development				
Economic development	\$ 42,400	\$ 42,400	\$ 42,400	\$ -
Capital outlay				
General government	\$ -	\$ -	\$ 26,603	\$ (26,603)
Culture and recreation	250,000	250,000	48,048	201,952
Conservation of natural resources	1,832,000	1,832,000	-	1,832,000
Total capital outlay	\$ 2,082,000	\$ 2,082,000	\$ 74,651	\$ 2,007,349
Total Expenditures	\$ 15,509,277	\$ 15,731,801	\$ 12,116,679	\$ 3,615,122
Excess of Revenues Over (Under) Expenditures	\$ (2,356,826)	\$ (2,549,350)	\$ 1,190,331	\$ 3,739,681
Fund Balance - January 1	19,858,151	19,858,151	19,858,151	-
Fund Balance - December 31	\$ 17,501,325	\$ 17,308,801	\$ 21,048,482	\$ 3,739,681

**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,822,053	\$ 1,822,053	\$ 1,507,378	\$ (314,675)
Licenses and permits	12,000	12,000	11,585	(415)
Intergovernmental	6,172,755	6,172,755	5,314,909	(857,846)
Charges for services	315,000	315,000	581,553	266,553
Miscellaneous	3,700	3,700	7,794	4,094
Total Revenues	\$ 8,325,508	\$ 8,325,508	\$ 7,423,219	\$ (902,289)
Expenditures				
Current				
Transportation				
Administration	\$ 451,072	\$ 451,072	\$ 435,481	\$ 15,591
Engineering	-	-	522,903	(522,903)
Maintenance	2,810,772	2,810,772	2,409,470	401,302
Construction	4,901,933	4,901,933	3,461,597	1,440,336
Equipment maintenance and shop	591,875	591,875	685,266	(93,391)
Other	131,677	131,677	9,118	122,559
Unallocated - highway and streets	-	-	120,671	(120,671)
Total Expenditures	\$ 8,887,329	\$ 8,887,329	\$ 7,644,506	\$ 1,242,823
Excess of Revenues Over (Under) Expenditures	\$ (561,821)	\$ (561,821)	\$ (221,287)	\$ 340,534
Fund Balance - January 1	6,073,217	6,073,217	6,073,217	-
Increase (decrease) in reserved for inventories	-	-	(75,523)	(75,523)
Fund Balance - December 31	\$ 5,511,396	\$ 5,511,396	\$ 5,776,407	\$ 265,011

**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,722,194	\$ 1,722,194	\$ 1,430,521	\$ (291,673)
Intergovernmental	5,129,152	5,129,152	5,383,862	254,710
Charges for services	598,697	598,697	207,854	(390,843)
Total Revenues	\$ 7,450,043	\$ 7,450,043	\$ 7,022,237	\$ (427,806)
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,334,699	\$ 2,334,699	\$ 2,048,942	\$ 285,757
Social services	5,641,505	5,641,505	5,170,277	471,228
Total Expenditures	\$ 7,976,204	\$ 7,976,204	\$ 7,219,219	\$ 756,985
Excess of Revenues Over (Under) Expenditures	\$ (526,161)	\$ (526,161)	\$ (196,982)	\$ 329,179
Fund Balance - January 1	2,547,371	2,547,371	2,547,371	-
Fund Balance - December 31	\$ 2,021,210	\$ 2,021,210	\$ 2,350,389	\$ 329,179

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**MOWER COUNTY
AUSTIN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Heartland Express Special Revenue Fund, which is not budgeted. 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 County Board 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 County Board or County Coordinator if under \$5,000. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made expense reductions to meet unbudgeted state-aid reductions.

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

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**MOWER COUNTY
AUSTIN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Ditch 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 benefited properties.

The Heartland Express Fund accounts for the operation of the County's bus system through June 30, 2004. Effective July 1, 2004, the operation of the bus system was transferred to the City of Austin.

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

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**MOWER COUNTY
AUSTIN, MINNESOTA**

Statement 1

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

	Special Revenue Funds			Total
	Ditch	Heartland Express	Sewer Improvement	
<u>Assets</u>				
Cash and pooled investments	\$ 363,499	\$ 172,338	\$ 539,060	\$ 1,074,897
Special assessments receivable				
Current	352,000	-	-	352,000
Prior	1,341	-	-	1,341
Due from other funds	-	7,662	-	7,662
Due from other governments	4,061	-	-	4,061
Loans receivable	-	-	370,517	370,517
Restricted investments - temporary	-	-	26,307	26,307
Total Assets	<u>\$ 720,901</u>	<u>\$ 180,000</u>	<u>\$ 935,884</u>	<u>\$ 1,836,785</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 5,156	\$ -	\$ -	\$ 5,156
Due to other governments	2,386	180,000	-	182,386
Deferred revenue - unavailable	353,341	-	-	353,341
Total Liabilities	<u>\$ 360,883</u>	<u>\$ 180,000</u>	<u>\$ -</u>	<u>\$ 540,883</u>
Fund Balances				
Reserved for loans receivable	\$ -	\$ -	\$ 370,517	\$ 370,517
Reserved for debt service	-	-	40,000	40,000
Unreserved				
Designated for debt service	-	-	218,659	218,659
Undesignated	360,018	-	306,708	666,726
Total Fund Balances	<u>\$ 360,018</u>	<u>\$ -</u>	<u>\$ 935,884</u>	<u>\$ 1,295,902</u>
Total Liabilities and Fund Balances	<u>\$ 720,901</u>	<u>\$ 180,000</u>	<u>\$ 935,884</u>	<u>\$ 1,836,785</u>

**MOWER COUNTY
AUSTIN, MINNESOTA**

Statement 2

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

	Special Revenue Funds			Total
	Ditch	Heartland Express	Sewer Improvement	
Revenues				
Special assessments	\$ 104,790	\$ -	\$ -	\$ 104,790
Intergovernmental	14,896	3,571	-	18,467
Charges for services	-	94	-	94
Investment earnings	-	-	470	470
Miscellaneous	8,200	7,662	11,819	27,681
Total Revenues	\$ 127,886	\$ 11,327	\$ 12,289	\$ 151,502
Expenditures				
Current				
Transportation	\$ -	\$ 105,843	\$ -	\$ 105,843
Conservation of natural resources	119,543	-	-	119,543
Debt service				
Principal	-	-	40,000	40,000
Total Expenditures	\$ 119,543	\$ 105,843	\$ 40,000	\$ 265,386
Excess of Revenues Over (Under) Expenditures	\$ 8,343	\$ (94,516)	\$ (27,711)	\$ (113,884)
Other Financing Sources (Uses)				
Loans issued	-	-	54,000	54,000
Net Change in Fund Balance	\$ 8,343	\$ (94,516)	\$ 26,289	\$ (59,884)
Fund Balance - January 1	351,675	94,516	909,595	1,355,786
Fund Balance - December 31	\$ 360,018	\$ -	\$ 935,884	\$ 1,295,902

**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 107,000	\$ 107,000	\$ -	\$ (107,000)
Special assessments	-	-	104,790	104,790
Intergovernmental	-	-	14,896	14,896
Interest on investments	1,000	1,000	-	(1,000)
Miscellaneous	-	-	8,200	8,200
Total Revenues	\$ 108,000	\$ 108,000	\$ 127,886	\$ 19,886
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	427,628	427,628	119,543	308,085
Excess of Revenues Over (Under)				
Expenditures	\$ (319,628)	\$ (319,628)	\$ 8,343	\$ 327,971
Fund Balance - January 1	351,675	351,675	351,675	-
Fund Balance - December 31	\$ 32,047	\$ 32,047	\$ 360,018	\$ 327,971

**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
SEWER IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 140,000	\$ 140,000	\$ -	\$ (140,000)
Interest on investments	15,000	15,000	470	(14,530)
Miscellaneous	-	-	11,819	11,819
Total Revenues	\$ 155,000	\$ 155,000	\$ 12,289	\$ (142,711)
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 140,000	\$ 140,000	\$ -	\$ 140,000
Debt service				
Principal	-	-	40,000	(40,000)
Total Expenditures	\$ 140,000	\$ 140,000	\$ 40,000	\$ 100,000
Excess of Revenues Over (Under) Expenditures	\$ 15,000	\$ 15,000	\$ (27,711)	\$ (242,711)
Other Financing Sources (Uses)				
Transfers in	-	-	54,000	54,000
Net Change in Fund Balance	\$ 15,000	\$ 15,000	\$ 26,289	\$ (188,711)
Fund Balance - January 1	909,595	909,595	909,595	-
Fund Balance - December 31	\$ 924,595	\$ 924,595	\$ 935,884	\$ (188,711)

FIDUCIARY FUNDS

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**MOWER COUNTY
AUSTIN, MINNESOTA**

AGENCY FUNDS

Agency funds are used to account for assets the County holds as an agent for others.

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

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

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

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**MOWER COUNTY
AUSTIN, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 92,897</u>	<u>\$ 1,109,051</u>	<u>\$ 1,115,287</u>	<u>\$ 86,661</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 92,897</u>	<u>\$ 1,109,051</u>	<u>\$ 1,115,287</u>	<u>\$ 86,661</u>
 <u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 116,408</u>	<u>\$ 765,957</u>	<u>\$ 523,580</u>	<u>\$ 358,785</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 116,408</u>	<u>\$ 765,957</u>	<u>\$ 523,580</u>	<u>\$ 358,785</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 459,385</u>	<u>\$ 25,708,009</u>	<u>\$ 26,056,642</u>	<u>\$ 110,752</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 459,385</u>	<u>\$ 25,708,009</u>	<u>\$ 26,056,642</u>	<u>\$ 110,752</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 668,690</u>	<u>\$ 27,583,017</u>	<u>\$ 27,695,509</u>	<u>\$ 556,198</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 668,690</u>	<u>\$ 27,583,017</u>	<u>\$ 27,695,509</u>	<u>\$ 556,198</u>

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OTHER SCHEDULES

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**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 6

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

	Governmental Funds
Shared Revenue	
State	
Highway users tax	\$ 4,465,312
County program aid	2,218,339
Market value credit	1,567,737
PERA rate reimbursement	40,232
Disparity reduction aid	214,100
Police aid	95,793
Enhanced 911	91,737
	\$ 8,693,250
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 2,356,753
Payments	
Local	
Local grants	\$ 100,000
Payments in lieu of taxes	6,042
	\$ 106,042
Grants	
State	
Minnesota Department of Corrections	\$ 271,207
Public Safety	2,000
Health	241,495
Human Services	1,795,382
Office of Environmental Assistance	87,854
Pollution Control Agency	14,777
	\$ 2,412,715
Federal	
Department of Agriculture	\$ 165,851
Transportation	25,748
Environmental Protection	2,100
Homeland Security	185,880
Health and Human Services	859,607
	\$ 1,239,186
Total State and Federal Grants	\$ 3,651,901
Total Intergovernmental Revenue	\$ 14,807,946

**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 7

TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS

	2004		2005		2006	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real Property	\$ 19,977,798		\$ 22,340,333		\$ 24,446,588	
JOBZ	-		-		1,028	
Personal Property	949,993		1,018,336		1,005,698	
Tax Increment	(492,679)		(557,409)		(588,129)	
Net Tax Capacity	\$ 20,435,112		\$ 22,801,260		\$ 24,865,185	
Taxes Levied for County Purposes						
General	\$ 5,557,903	26.911	\$ 5,800,222	25.509	\$ 6,109,400	21.513
Road and Bridge	1,411,042	6.832	1,822,053	8.013	2,024,772	7.13
Social Services	1,574,433	7.623	1,722,194	7.574	1,997,092	7.003
County Buildings	336,697	1.63	395,245	1.738	395,245	1.392
County Library	226,421	2.084	231,899	1.9	232,861	1.526
Total Taxes Levied for County Purposes	\$ 9,106,496	45.08	\$ 9,971,613	44.734	\$ 10,759,370	38.564
Tax Capacity - Light and Power						
Transmission	\$ 182		\$ 141		\$ 128	
Distribution	8,588		9,955		8,603	
Total Tax Capacity - Light and Power	\$ 8,770		\$ 10,096		\$ 8,731	
Light and Power Tax Levies						
Transmission	\$ 275	0.969	\$ 130	0.916	\$ 17	0.916
Distribution	12,973	0.969	9,668	0.916	946	0.916
Total Light and Power Tax Levies	\$ 13,248		\$ 9,798		\$ 963	

**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 7
(Continued)

TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS

	<u>2004</u>		<u>2005</u>		<u>2006</u>	
	<u>Amount</u>	<u>Net Tax Capacity Rate (%)</u>	<u>Amount</u>	<u>Net Tax Capacity Rate (%)</u>	<u>Amount</u>	<u>Net Tax Capacity Rate (%)</u>
Special Assessments						
Ditch	\$ 68,750		\$ 107,000		\$ 91,800	
Sewer and Water	-		-		88,283	
Solid Waste	346,711		278,723		278,723	
ISTS	111,829		117,777		118,843	
Total Special Assessments	<u>\$ 527,290</u>		<u>\$ 503,500</u>		<u>\$ 577,649</u>	
 Percentage of Tax Collections for All Purposes	 97.95%		 98.84%			

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**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 8

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Mower County.
- B. No matters involving internal control over financial reporting were reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
- C. No instances of noncompliance material to the financial statements of Mower County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Mower County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Temporary Assistance for Needy Families	CFDA #93.558
Social Services Block Grant	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Mower County was not determined to be a low-risk auditee.

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-3 Financial Statement Preparation

Previous reports have discussed the need for the County to prepare annual financial reports on a timely basis to comply with Minnesota statutes. Our review for 2005 found some improvement, but significant work is still needed. Specifically, this would include the timely preparation of working trial balances and financial statements. To complete this work, staff may require additional guidance on accounting and reporting principles. Also, management must be committed to a specific timetable for preparing the financial statements and other related information.

We recognize that the County Board has taken steps to improve its financial reporting process. We encourage the County to continue with this process to assure timely financial reporting.

Client's Response:

Trial balances will be completed as soon as information is gathered from all funds. Financial statements will be prepared using Excel format.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Disaster Recovery Plan (97-5)

Previous reports have recommended that the County prepare a disaster recovery plan to address current business operations should they become disrupted. We recommended that strategies be formulated to guide the County through disruptive times to enable the re-establishment of operations though most likely at a reduced level.

Resolution

County officials have begun meeting with emergency personnel to identify a formal disaster recovery plan. Also, the County has been approved for a Homeland Security grant that will be used to purchase a backup server and other related hardware. These actions, together with a formal plan approved by the Board, will serve as the basis for restoring County services during business disruptions. We encourage the County Board to continue with efforts toward developing a plan for business continuation.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

Schedule 8
(Continued)

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

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

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

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

Client's Response:

The County Board has reviewed actuary reports regarding retiree insurance and will develop a funding plan in addition to the pay-as-you-go funding in place.

OTHER REQUIRED REPORTS

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

Board of County Commissioners
Mower County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mower County as of and for the year ended December 31, 2005, and have issued our report thereon dated November 3, 2006. We did not audit the financial statements of the Mower County Housing and Redevelopment Authority, the discretely presented component unit, as of and for the year ended September 30, 2005. These financial statements were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mower County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Mower County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 02-3.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 3, 2006



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

Board of County Commissioners
Mower County

Compliance

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

Mower County's financial statements include the operations of the Mower County Housing and Redevelopment Authority (HRA), which expended \$548,113 in federal awards during the year ended September 30, 2005, which are not included in the Schedule of Expenditures of Federal Awards. Our audit described below, did not include the operations of the HRA because it was audited by other auditors.

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. Our audit does not provide a legal determination on the County's compliance with those requirements.

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

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mower County as of and for the year ended December 31, 2005, and have issued our report thereon dated November 3, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 3, 2006

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**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 9

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 140,928
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	24,923
Total U.S. Department of Agriculture		\$ 165,851
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 22,177
Federal Transit Capital Assistance Grant	20.507	1,201
Formula Grants for Other Than Urbanized Areas	20.509	2,370
Total U.S. Department of Transportation		\$ 25,748
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Health Nonpoint Grant	66.460	\$ 2,100
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 6,570
Temporary Assistance for Needy Families	93.558	358,253
Child Care Development Block Grant	93.575	14,040
Child Care Mandatory and Matching Funds	93.596	24,284
Child Welfare Services - State Grants	93.645	23,672
Foster Care Title IV-E	93.658	65,737
Social Services Block Grant Title XX	93.667	261,555
Independent Living Grant	93.674	6,698
Community Mental Health Block Grant	93.958	3,480
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	47,539
Maternal and Child Health Services Block Grant	93.994	47,779
Total U.S. Department of Health and Human Services		\$ 859,607

**MOWER COUNTY
AUSTIN, MINNESOTA**

Schedule 9
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Homeland Security	97.004	\$ 45,160
State Domestic Preparedness	97.036	135,298
Disaster Assistance/Hazard Mitigation Grant	97.039	5,422
Total U.S. Department of Homeland Security		\$ 185,880
Total Federal Awards		\$ 1,239,186

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by 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 modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.