

AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
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YEARS ENDED DECEMBER 31, 2014 AND 2013**

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INTRODUCTION SECTION

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
ORGANIZATION SCHEDULE
DECEMBER 31, 2014**

BOARD OF DIRECTORS

| | | <u>Term Expires</u> |
|------------------|---------------------|---------------------|
| Dale Madison | Chairperson | December 31, 2016 |
| Randy Queensland | Vice-Chairperson | December 31, 2014 |
| Jeff Austin | Secretary/Treasurer | December 31, 2016 |
| Tony Bennett | Director | December 31, 2016 |
| Steve Leif | Director | December 31, 2014 |
| Kris Heichel | Director | December 31, 2014 |
| Jeremy Carolan | Director | December 31, 2015 |
| Mary Lindgren | Director | December 31, 2015 |
| Polly Glynn | Director | December 31, 2015 |

EX-OFFICIO MEMBERS

| | |
|----------------|---|
| Craig Clark | Austin City Administrator |
| Thomas Dankert | Austin Administrative Services Director |
| Holly Wallace | Austin Zoning Administrator |
| Craig Oscarson | Mower County Coordinator |
| Vacant | Mower County Human Services Director |
| Angie Knish | Mower County Planner |

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Austin/Mower County Home Ownership Fund
Austin, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Austin/Mower County Home Ownership Fund, which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Directors
Austin/Mower County Home Ownership Fund

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Austin/Mower County Home Ownership Fund as of December 31, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Austin, Minnesota
March 25, 2015

REQUIRED SUPPLEMENTARY INFORMATION

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**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014 AND 2013**

As management of the Austin/Mower County Home Ownership Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended December 31, 2014 and 2013. The information presented should be read in conjunction with the financial statements and the accompanying notes to the financial statements. The Fund was established via a joint powers agreement with Mower County and the City of Austin, and is therefore not included in the financial statements of the sponsoring entities.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Fund follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with principals generally accepted in the United States of America. The financial statements include the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

The statement of net position provides information about the nature of assets and obligations (liabilities) of the Fund as of the end of the year. The statement of revenues, expenses, and changes in net position reports revenues and expenses for the current year. The statement of cash flows reports cash receipts, cash payments, and changes in cash resulting from operating, noncapital financing activities, and investing activities.

The basic proprietary fund financial statements can be found on pages 8-10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 11-15 of this report.

FINANCIAL HIGHLIGHTS:

The majority of the Fund's net position is either invested in cash and cash equivalents (34%) or have been loaned out to the customers and users (66%) of the Fund's services. The requirement of the cash and cash equivalents to finance loan requests mandates the cash be maintained in liquid interest bearing bank accounts. As loan repayments are made from our customers, more cash becomes available to make future loans.

The Fund had another strong year, approving a total of forty-five loans for \$213,330 which makes this the largest dollar amount loaned out since the 1997 inception of the organization. Delinquencies in the Fund continue to be minimal, with only 0.50% of the total outstanding loans being listed as delinquent one or more payments.

The 2014 year saw a similar result, when comparing the revenues to 2013. The Fund had total revenues (operating and non-operating) of \$7,784 for 2014 compared to \$7,193 in 2013. On the expense side, the Fund had \$5,650 of expenses in 2014 compared to \$10,818 in 2013. There was one minor loan charged off in 2014, while two larger loans were charged off in 2013 and that resulted in a need to increase the allowance for loan loss by \$2,784. Additionally, in 2014 staff time reimbursement to the City of Austin decreased to account for the total overall operating expense decrease.

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014 AND 2013**

AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND NET POSITION

The following tables summarize the financial position of the Austin/Mower County Home Ownership Fund as of December 31, 2014 and 2013:

Condensed Statement of Net Position

| | <u>2014</u> | <u>2013</u> | <u>Dollar Change</u> | <u>Percentage Change</u> |
|------------------------------------|-------------------|-------------------|--------------------------|------------------------------|
| Current Assets | \$ 309,738 | \$ 357,346 | \$ (47,608) | (13.32%) |
| Long-Term and Other Assets | 280,071 | 232,723 | 47,348 | 20.35% |
| Total Assets | <u>\$ 589,809</u> | <u>\$ 590,069</u> | <u>\$ (260)</u> | (0.04%) |
| Current Liabilities | <u>\$ 4,141</u> | <u>\$ 6,535</u> | <u>\$ (2,394)</u> | (36.63%) |
| Total Liabilities | <u>\$ 4,141</u> | <u>\$ 6,535</u> | <u>\$ (2,394)</u> | (36.63%) |
| Net Position: | | | | |
| Unrestricted | <u>\$ 585,668</u> | <u>\$ 583,534</u> | <u>\$ 2,134</u> | 0.37% |
| Total Net Position | <u>\$ 585,668</u> | <u>\$ 583,534</u> | <u>\$ 2,134</u> | 0.37% |
| Total Liabilities and Net Position | <u>\$ 589,809</u> | <u>\$ 590,069</u> | <u>\$ (260)</u> | (0.04%) |

Condensed statement of net position highlights are as follows for the year ended December 31, 2014:

- The net position of the Austin/Mower County Home Ownership Fund exceeded liabilities by \$585,668 (Net Position). This is an increase of \$2,134 over the net position at the close of 2013.
- Current assets decreased by \$47,608 as the existing cash was used to make loans to customers of the program. Current assets consist of cash and cash equivalents, interest receivable, and the current portion of loans receivable.
- Long-term assets increased \$47,348 as more loans were made during 2014 than have not been repaid. Forty-five loans were issued for \$213,330 during 2014. This was the highest dollar amount output the Fund has seen since its inception in 1997.
- Net position increased \$2,134 primarily as a result of modest investment income gains combined with audit and accounting costs that were near record lows for managing the Fund. There were no increased needs in the provision for loan loss during 2014 that further helped keep operating expenses to a minimum.

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014 AND 2013**

The following tables summarize the financial position of the Austin/Mower County Home Ownership Fund as of December 31, 2013 and 2012:

Condensed Statement of Net Position

| | <u>2013</u> | <u>2012</u> | <u>Dollar Change</u> | <u>Percentage Change</u> |
|------------------------------------|-------------------|-------------------|--------------------------|------------------------------|
| Current Assets | \$ 357,346 | \$ 376,285 | \$ (18,939) | (5.03%) |
| Long-Term and Other Assets | 232,723 | 218,920 | 13,803 | 6.31% |
| Total Assets | <u>\$ 590,069</u> | <u>\$ 595,205</u> | <u>\$ (5,136)</u> | (0.86%) |
| Current Liabilities | <u>\$ 6,535</u> | <u>\$ 8,046</u> | <u>\$ (1,511)</u> | (18.78%) |
| Total Liabilities | <u>\$ 6,535</u> | <u>\$ 8,046</u> | <u>\$ (1,511)</u> | (18.78%) |
| Net Position: | | | | |
| Unrestricted | <u>\$ 583,534</u> | <u>\$ 587,159</u> | <u>\$ (3,625)</u> | (0.62%) |
| Total Net Position | <u>\$ 583,534</u> | <u>\$ 587,159</u> | <u>\$ (3,625)</u> | (0.62%) |
| Total Liabilities and Net Position | <u>\$ 590,069</u> | <u>\$ 595,205</u> | <u>\$ (5,136)</u> | (0.86%) |

Condensed statement of net position highlights are as follows for the year ended December 31, 2013:

- The net position of the Austin/Mower County Home Ownership Fund exceeded liabilities by \$583,534 (Net Position). This is a decrease of \$3,625 over the net position at the close of 2012.
- Current assets decreased by \$18,939 as the existing cash was used to make loans to customers of the program. Current assets consist of cash and cash equivalents, interest receivable, and the current portion of loans receivable.
- Long-term assets increased \$13,803 as more loans were made during 2013 than have not been repaid. Thirty-eight loans were issued for \$154,142 during 2013. This was the highest dollar amount output the Fund has seen since 2003.
- Net position decreased \$3,625 primarily as a result of loan charge-offs and to reimburse the City of Austin for the staff time associated with administering the program. The additional net loans requires additional staff time to both manage the portfolio and evaluate loan applications.

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014 AND 2013**

The following charts summarize operating revenues, expenses, and changes in net position of the Austin/Mower County Home Ownership Fund for the years ended December 31, 2014 and 2013:

Condensed Statements of Revenues, Expenses, and Changes in Net Position:

| | <u>2014</u> | <u>2013</u> | <u>Dollar Change</u> | <u>Percentage Change</u> |
|--------------------------|-------------------|-------------------|--------------------------|------------------------------|
| Operating Revenues: | | | | |
| Interest Income on Loans | \$ 7,241 | \$ 6,515 | \$ 726 | 11.14% |
| Total Operating Revenues | <u>\$ 7,241</u> | <u>\$ 6,515</u> | <u>\$ 726</u> | 11.14% |
| Operating Expenses: | | | | |
| Provision for Loan Loss | \$ - | \$ 2,784 | \$ (2,784) | (100.00%) |
| Audit/Accounting | 5,650 | 8,034 | (2,384) | (29.67%) |
| Total Operating Expense | <u>\$ 5,650</u> | <u>\$ 10,818</u> | <u>\$ (5,168)</u> | (47.77%) |
| Operating Income (Loss) | <u>\$ 1,591</u> | <u>\$ (4,303)</u> | <u>\$ 5,894</u> | 136.97% |
| Non-Operating Revenues | 543 | 678 | (135) | (19.91%) |
| Change in Net Position | <u>\$ 2,134</u> | <u>\$ (3,625)</u> | <u>\$ 5,759</u> | 158.87% |
| Beginning Net Position | \$ 583,534 | \$ 587,159 | \$ (3,625) | (0.62%) |
| Change in Net Position | 2,134 | (3,625) | 5,759 | 158.87% |
| Ending Net Position | <u>\$ 585,668</u> | <u>\$ 583,534</u> | <u>\$ 2,134</u> | 0.37% |

Condensed statements of revenues, expenses, and changes in net position highlights are as follows for the year ended December 31, 2014:

- Interest income on loans increased modestly as loan amounts outstanding during the year have risen significantly in the last few years.
- The provision for loan loss decreased during 2014 as there were fewer charge offs than occurred in 2013, plus the outstanding balance of the loan portfolio has minimal delinquencies at December 31, 2014, lessening the need for a higher allowance for loan loss balance. At December 31, 2014 there were only 3 loans representing approximately 0.50% of the total portfolio that were considered delinquent.
- Audit and accounting costs decreased significantly as the time spent administering the program was lower compared to time spent in 2013. There were more loans issued in 2014 compared to 2013, but a shift in staff associated with the program has streamlined the entire process. Additionally, the need for collection efforts was minimal as delinquency was close to non-existent. Not including the audit, \$4,140 was charged to the Fund for administration purposes.
- Non-operating revenues decreased as our interest income on investments decreased as a result of worsening market conditions for investments (lower rates) and due to the additional loans that have been made over the last year, further reducing the dollars that are available to invest in the marketplace.

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014 AND 2013**

The following charts summarize operating revenues, expenses, and changes in net position of the Austin/Mower County Home Ownership Fund for the years ended December 31, 2013 and 2012:

Condensed Statements of Revenues, Expenses, and Changes in Net Position:

| | <u>2013</u> | <u>2012</u> | <u>Dollar Change</u> | <u>Percentage Change</u> |
|--------------------------|-------------------|-------------------|--------------------------|------------------------------|
| Operating Revenues: | | | | |
| Interest Income on Loans | \$ 6,515 | \$ 5,812 | \$ 703 | 12.10% |
| Total Operating Revenues | <u>\$ 6,515</u> | <u>\$ 5,812</u> | <u>\$ 703</u> | <u>12.10%</u> |
| Operating Expenses: | | | | |
| Provision for Loan Loss | \$ 2,784 | \$ 4,881 | \$ (2,097) | (42.96%) |
| Audit/Accounting | 8,034 | 9,278 | (1,244) | (13.41%) |
| Total Operating Expense | <u>\$ 10,818</u> | <u>\$ 14,159</u> | <u>\$ (3,341)</u> | <u>(23.60%)</u> |
| Operating Loss | \$ (4,303) | \$ (8,347) | \$ 4,044 | 48.45% |
| Non-Operating Revenues | 678 | 1,042 | (364) | (34.93%) |
| Change in Net Position | <u>\$ (3,625)</u> | <u>\$ (7,305)</u> | <u>\$ 3,680</u> | <u>50.38%</u> |
| Beginning Net Position | \$ 587,159 | \$ 594,464 | \$ (7,305) | (1.23%) |
| Change in Net Position | <u>(3,625)</u> | <u>(7,305)</u> | <u>3,680</u> | <u>50.38%</u> |
| Ending Net Position | <u>\$ 583,534</u> | <u>\$ 587,159</u> | <u>\$ (3,625)</u> | <u>(0.62%)</u> |

Condensed statements of revenues, expenses, and changes in net position highlights are as follows for the year ended December 31, 2013:

- Interest income on loans increased considerably as loan amounts outstanding during the year have risen significantly in 2009 through 2013.
- The provision for loan loss decreased during 2013 as there were fewer charge offs than occurred in 2012, plus the outstanding balance of the loan portfolio has minimal delinquencies at December 31, 2013, lessening the need for a higher allowance for loan loss balance.
- Audit and accounting costs decreased slightly as the time spent administering the program was lower compared to time spent in 2012. Hours spent collecting on delinquent loans, evaluating loan requests, and drafting closing documents has increased over the last few years. There were fewer loans issued in 2013 compared to 2012, so staff time was reduced slightly. Not including the audit, \$6,535 was charged to the Fund for administration purposes.
- Non-operating revenues decreased as our interest income on investments decreased as a result of worsening market conditions for investments (lower rates) and due to the additional loans that have been made over the last year, further reducing the dollars that are available to invest.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the Austin/Mower County Home Ownership Fund's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, Austin/Mower County Home Ownership Fund, 500 4th Avenue NE, Austin, Minnesota 55912.

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BASIC FINANCIAL STATEMENTS

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**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

| | 2014 | 2013 |
|---|------------|------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 201,283 | \$ 260,077 |
| Interest Receivable | 195 | 219 |
| Loan Interest Receivable | 672 | 573 |
| Loans Receivable, Current Portion | 107,588 | 96,477 |
| Total Current Assets | \$ 309,738 | \$ 357,346 |
| LONG-TERM ASSETS (Net of Current Maturities) | | |
| Loans Receivable, net of allowance of \$10,343 and \$7,000 at December 31, 2014 and 2013, respectively | \$ 280,071 | \$ 232,723 |
| Total Assets | \$ 589,809 | \$ 590,069 |
| LIABILITIES AND NET POSITION | | |
| LIABILITIES | | |
| Accounts Payable | \$ 4,141 | \$ 6,535 |
| Total Liabilities | \$ 4,141 | \$ 6,535 |
| NET POSITION | | |
| Unrestricted | \$ 585,668 | \$ 583,534 |
| Total Net Position | \$ 585,668 | \$ 583,534 |
| Total Liabilities and Net Position | \$ 589,809 | \$ 590,069 |

See accompanying Notes to Financial Statements.

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | 2014 | 2013 |
|--------------------------------|------------|------------|
| OPERATING REVENUES | | |
| Interest Income on Loans | \$ 7,241 | \$ 6,515 |
| Total Operating Revenues | \$ 7,241 | \$ 6,515 |
| OPERATING EXPENSES | | |
| Provision for Loan Loss | \$ - | \$ 2,784 |
| Audit/Accounting | 5,650 | 8,034 |
| Total Operating Expenses | \$ 5,650 | \$ 10,818 |
| OPERATING INCOME (LOSS) | \$ 1,591 | \$ (4,303) |
| NON-OPERATING REVENUES | | |
| Investment Income | \$ 513 | \$ 678 |
| Miscellaneous Income | 30 | - |
| Total Non-Operating Revenues | \$ 543 | \$ 678 |
| CHANGE IN NET POSITION | \$ 2,134 | \$ (3,625) |
| NET POSITION, BEGINNING | 583,534 | 587,159 |
| NET POSITION, ENDING | \$ 585,668 | \$ 583,534 |

See accompanying Notes to Financial Statements.

AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Customers and Users | \$ 7,271 | \$ 6,515 |
| Cash Paid to Suppliers | (8,044) | (9,545) |
| Net Cash Used by Operating Activities | \$ (773) | \$ (3,030) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received on Loans and Investments | \$ 438 | \$ 553 |
| Loans Receivable Issued | (213,330) | (154,142) |
| Principal Received on Loans Receivable | 154,871 | 127,225 |
| Net Cash Used by Investing Activities | \$ (58,021) | \$ (26,364) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | \$ (58,794) | \$ (29,394) |
| Cash and Cash Equivalents - Beginning | 260,077 | 289,471 |
| CASH AND CASH EQUIVALENTS - ENDING | \$ 201,283 | \$ 260,077 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating Income (Loss) | \$ 1,591 | \$ (4,303) |
| Adjustments to Reconcile Operating Income (Loss) to | | |
| Net Cash Used by Operating Activities | | |
| Increase in Allowance for Loan Loss | - | 2,784 |
| Miscellaneous Income | 30 | - |
| Increase (Decrease) in: | | |
| Accounts Payable | (2,394) | (1,511) |
| Net Cash Used by Operating Activities | \$ (773) | \$ (3,030) |

See accompanying Notes to Financial Statements.

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AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Austin/Mower County Home Ownership Fund have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

This financial report has been prepared in conformity with GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, issued in June 1999, as amended.

B. Reporting Entity

The Austin/Mower County Home Ownership Fund (Fund) was created jointly by the City of Austin and Mower County in March 1997 pursuant to Minnesota Statute Section 471.59. The purpose of this jointly governed organization is to establish and administer a flexible revolving loan fund that will provide home ownership opportunities to families in Mower County with low and moderate income that are currently unable to purchase a home.

The Fund is governed by a nine-member Board of Directors. Directors are appointed and qualified as follows:

1. Two Directors who are members of and are appointed by the Austin City Council
2. Two Directors who are members of and are appointed by the Mower County Board of Commissioners
3. One Director who is a representative of the Development Corporation of Austin and is appointed by the Austin City Council
4. One Director who is a member of the Austin Board of Realtors and is appointed by the Austin City Council
5. One Director who is a representative of Mower County area mortgage lenders and is appointed by the Mower County Board of Commissioners
6. One Director who is a resident of Mower County and is appointed by the Austin City Council
7. One Director who is a resident of Mower County and is appointed by the Mower County Board of Commissioners

In addition to the Directors, there are six ex-officio members of the Board of Directors. These ex-officio members are not entitled to vote, however, they are entitled to attend and participate in all board meetings. The ex-officio members of the Board are as follows:

1. Austin City Administrator
2. Austin Administrative Services Director
3. Austin Zoning Administrator
4. Mower County Coordinator
5. Mower County Human Services Director
6. Mower County Planner

AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

If a member of the Board, who is also a member of the Austin City Council or the Mower County Board of Commissioners, ceases to be a member of the City Council or Board of Commissioners, then such member also ceases to be a member of the Fund's Board of Directors. The vacancy created will be filled by a member of the respective governing body for the remainder of the vacant director's unexpired term.

The Fund may be terminated at any time by the written agreement of its members, upon a majority vote of either the Austin City Council or the Mower County Board of Commissioners. All funds remaining at the time of termination are to be distributed based on each entity's total contribution.

For financial reporting purposes, the Fund has included all funds, organizations, agencies, boards, commissions, and authorities. The Fund has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Fund are such that exclusion would cause the Fund's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The Fund has no component units that meet the GASB criteria.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the related liability is incurred. The principal operating revenues are interest income on loans, while the principal operating expenses are for loan charge-off's due to nonpayment of the loans.

D. Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited into checking accounts, a savings account, certificates of deposit, and the State of Minnesota's 4M Fund. All balances are reported at fair value, which equals cost as of December 31, 2014 and 2013.

E. Allowance for Loan Loss

The allowance for loan loss is estimated based on the Fund's evaluation of delinquencies and potential losses in the loan portfolio as of the balance sheet date. Because of uncertainties in the estimation process, the Fund's estimate of credit losses inherent in the portfolio and the related allowance may change in the near term.

AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Funds' deposits may not be returned in full. The Fund does not have an investment policy, but follows Minnesota Statutes for deposits.

In accordance with Minnesota statutes, the Fund maintains deposits at banks that are authorized by the Board of Directors.

Minnesota statutes require that all of the Fund's deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must be equal to 110% of the deposits not covered by insurance or bonds. The Fund's collateral is included with the pledged collateral of the City of Austin.

Authorized collateral includes certain U.S. government securities, state or local government obligations, and other securities authorized by Minn. Stat. 118.A.03. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

The Fund's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the Fund's custodial bank in the City's name.

Investments

The Fund 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 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- 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
- 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.

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
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NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Investment balances for the Fund are as follows at December 31:

| | Carrying Amount | |
|----------------|-----------------|-----------|
| | 2014 | 2013 |
| 4M Mutual Fund | \$ 39,055 | \$ 45,389 |

Interest Rate Risk – The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The invested funds as of December 31, 2014 and 2013 consist of the Minnesota Municipal Money Market (4M Mutual Fund). This investment fund is not individually rated, but each underlying investment in the fund is allowable under Minnesota State Statute and is top rated.

Concentration of Credit Risk – The Fund places no limit on the amount the Fund may invest in any one issuer. All of the Funds' deposits are covered by FDIC insurance in each financial institution.

Balance Sheet Presentation

The following is a reconciliation of deposits and investments to cash and cash equivalents reported on the balance sheet at December 31, 2014 and 2013:

| | Carrying Amount | |
|---------------------------------|-----------------|------------|
| | 2014 | 2013 |
| Deposits | \$ 162,228 | \$ 214,688 |
| Investments | 39,055 | 45,389 |
| Total Cash and Cash Equivalents | \$ 201,283 | \$ 260,077 |

NOTE 3 LOANS RECEIVABLE

The Fund has 156 loans outstanding at December 31, 2014. All loans of the Fund issued are at a stated interest rate of two percent. Loans receivable at December 31, 2014 and December 31, 2013, are comprised of the following:

| | December 31, | |
|---------------------------------|--------------|------------|
| | 2014 | 2013 |
| Total Loans Receivable | \$ 398,002 | \$ 336,200 |
| Less: Current Portion | 107,588 | 96,477 |
| Less: Allowance for Loan Losses | 10,343 | 7,000 |
| Net Long-Term Loans Receivable | \$ 280,071 | \$ 232,723 |

Participants in the program are allowed to prepay all or a portion of their balance at any time.

AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
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NOTE 4 RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts and errors and omissions. The Fund is included in the City of Austin's insurance policies, which handle any losses arising from these risks. During the year ended December 31, 2014, there were no significant changes in insurance coverage from the prior year and there have been no significant settlements for the last three years.

