

AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
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INTRODUCTION SECTION

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
ORGANIZATION SCHEDULE
DECEMBER 31, 2015**

BOARD OF DIRECTORS

		<u>Term Expires</u>
Randy Queensland	Chairperson	December 31, 2017
Steve Leif	Vice-Chairperson	December 31, 2017
Jeff Austin	Secretary/Treasurer	December 31, 2016
Kris Heichel	Director	December 31, 2017
Tony Bennett	Director	December 31, 2016
Sandra Sanchez	Director	December 31, 2016
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
Lisa Kocer	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, 2015 and 2014, 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 opinion.

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, 2015 and 2014, 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 8 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 15, 2016

REQUIRED SUPPLEMENTARY INFORMATION

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**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

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, 2015 and 2014. 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 9-11 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 12-16 of this report.

FINANCIAL HIGHLIGHTS:

The majority of the Fund's net position is either invested in cash and cash equivalents (22%) or have been loaned out to the customers and users (78%) 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 fifty-four loans for \$220,220 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 0.62% of the total outstanding loans being listed as delinquent one or more payments.

The 2015 year saw a slightly better result, when comparing the revenues to 2014. The Fund had total revenues (operating and non-operating) of \$9,002 for 2015 compared to \$7,784 in 2014. On the expense side, the Fund had \$6,246 of expenses in 2015 compared to \$5,650 in 2014. There were two loans charged off in 2015, while there was one minor loan charged off in 2014. This resulted in no need to increase the allowance for loan loss in either year. In 2015 staff time reimbursement to the City of Austin increased slightly to account for the total overall operating expense increase.

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

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, 2015 and 2014:

Condensed Statement of Net Position

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current Assets	\$ 253,020	\$ 309,738	\$ (56,718)	(18.31%)
Long-Term and Other Assets	340,072	280,071	60,001	21.42%
Total Assets	<u>\$ 593,092</u>	<u>\$ 589,809</u>	<u>\$ 3,283</u>	0.56%
Current Liabilities	\$ 4,668	\$ 4,141	\$ 527	12.73%
Total Liabilities	<u>\$ 4,668</u>	<u>\$ 4,141</u>	<u>\$ 527</u>	12.73%
Net Position:				
Unrestricted	\$ 588,424	\$ 585,668	\$ 2,756	0.47%
Total Net Position	<u>\$ 588,424</u>	<u>\$ 585,668</u>	<u>\$ 2,756</u>	0.47%
Total Liabilities and Net Position	<u>\$ 593,092</u>	<u>\$ 589,809</u>	<u>\$ 3,283</u>	0.56%

Condensed statement of net position highlights are as follows for the year ended December 31, 2015:

- The assets of the Austin/Mower County Home Ownership Fund exceeded liabilities by \$588,424 (Net Position). This is an increase of \$2,756 over the net position at the close of 2014.
- Current assets decreased by \$56,718 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 \$60,001 as more loans were made during 2015 than have not been repaid. Fifty-four loans were issued for \$220,220 during 2015. This was the highest dollar amount output the Fund has seen since its inception in 1997, breaking the previous record set in 2014.
- Net position increased \$2,756 primarily as a result of modest loan income gains combined with low audit and accounting costs that were incurred for managing the Fund. There were no increased needs in the provision for loan loss during 2015 that further helped keep operating expenses to a minimum.

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015 AND 2014**

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	\$ 4,141	\$ 6,535	\$ (2,394)	(36.63%)
Total Liabilities	<u>\$ 4,141</u>	<u>\$ 6,535</u>	<u>\$ (2,394)</u>	(36.63%)
Net Position:				
Unrestricted	\$ 585,668	\$ 583,534	\$ 2,134	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 assets 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, 2015 AND 2014**

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, 2015 and 2014:

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

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating Revenues:				
Interest Income on Loans	\$ 8,789	\$ 7,241	\$ 1,548	21.38%
Total Operating Revenues	<u>\$ 8,789</u>	<u>\$ 7,241</u>	<u>\$ 1,548</u>	21.38%
Operating Expenses:				
Audit/Accounting	\$ 6,208	\$ 5,650	\$ 558	9.88%
Bank Fees	38	-	38	N/A
Total Operating Expense	<u>\$ 6,246</u>	<u>\$ 5,650</u>	<u>\$ 596</u>	10.55%
Operating Income	<u>\$ 2,543</u>	<u>\$ 1,591</u>	<u>\$ 952</u>	59.84%
Non-Operating Revenues	213	543	(330)	(60.77%)
Change in Net Position	<u><u>\$ 2,756</u></u>	<u><u>\$ 2,134</u></u>	<u><u>\$ 622</u></u>	29.15%
Beginning Net Position	\$ 585,668	\$ 583,534	\$ 2,134	0.37%
Change in Net Position	2,756	2,134	622	29.15%
Ending Net Position	<u><u>\$ 588,424</u></u>	<u><u>\$ 585,668</u></u>	<u><u>\$ 2,756</u></u>	0.47%

Condensed statements of revenues, expenses, and changes in net position highlights are as follows for the year ended December 31, 2015:

- Interest income on loans increased 21.38% as loan amounts outstanding during the year have risen significantly in the last few years.
- A provision for loan loss charge was not needed again in 2015 as there were fewer charge offs than occurred in 2014, plus the outstanding balance of the loan portfolio has minimal delinquencies at December 31, 2015, lessening the need for a higher allowance for loan loss balance. At December 31, 2015 there were only 4 loans representing approximately 0.62% of the total portfolio that were considered delinquent.
- Audit and accounting costs increased slightly as the large dollar volume of loans has required additional staff time to administer the program. There were more loans issued in 2015 compared to 2014 (both in number and dollar amount) and that has mandated additional staff time to ensure the policies of the Board are enforced. Not including the audit, \$4,668 (up from \$4,140 in 2014) was charged to the Fund for administration purposes.
- Non-operating revenues decreased as our interest income on investments decreased as a result of 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, 2015 AND 2014**

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><u>\$ 2,134</u></u>	<u><u>\$ (3,625)</u></u>	<u><u>\$ 5,759</u></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><u>\$ 585,668</u></u>	<u><u>\$ 583,534</u></u>	<u><u>\$ 2,134</u></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, 2015 AND 2014**

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.

BASIC FINANCIAL STATEMENTS

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**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 127,929	\$ 201,283
Interest Receivable	-	195
Loan Interest Receivable	786	672
Loans Receivable, Current Portion	124,305	107,588
Total Current Assets	\$ 253,020	\$ 309,738
LONG-TERM ASSETS (Net of Current Maturities)		
Loans Receivable, net of allowance of \$9,040 and \$10,343 at December 31, 2015 and 2014, respectively	\$ 340,072	\$ 280,071
Total Assets	\$ 593,092	\$ 589,809
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts Payable	\$ 4,668	\$ 4,141
Total Liabilities	\$ 4,668	\$ 4,141
NET POSITION		
Unrestricted	\$ 588,424	\$ 585,668
Total Net Position	\$ 588,424	\$ 585,668
Total Liabilities and Net Position	\$ 593,092	\$ 589,809

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, 2015 AND 2014**

	2015	2014
OPERATING REVENUES		
Interest Income on Loans	\$ 8,789	\$ 7,241
Total Operating Revenues	\$ 8,789	\$ 7,241
OPERATING EXPENSES		
Audit/Accounting	\$ 6,208	\$ 5,650
Bank Fees	38	-
Total Operating Expenses	\$ 6,246	\$ 5,650
OPERATING INCOME	\$ 2,543	\$ 1,591
NON-OPERATING REVENUES		
Investment Income	\$ 213	\$ 513
Miscellaneous Income	-	30
Total Non-Operating Revenues	\$ 213	\$ 543
CHANGE IN NET POSITION	\$ 2,756	\$ 2,134
NET POSITION, BEGINNING	585,668	583,534
NET POSITION, ENDING	\$ 588,424	\$ 585,668

See accompanying Notes to Financial Statements.

**AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Users	\$ 8,789	\$ 7,271
Cash Paid to Suppliers	(5,719)	(8,044)
Net Cash Provided (Used) by Operating Activities	\$ 3,070	\$ (773)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	\$ 294	\$ 438
Loans Receivable Issued	(220,220)	(213,330)
Principal Received on Loans Receivable	143,502	154,871
Net Cash Used by Investing Activities	\$ (76,424)	\$ (58,021)
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (73,354)	\$ (58,794)
Cash and Cash Equivalents - Beginning	201,283	260,077
CASH AND CASH EQUIVALENTS - ENDING	\$ 127,929	\$ 201,283
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	\$ 2,543	\$ 1,591
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Miscellaneous Income	-	30
Increase (Decrease) in:		
Accounts Payable	527	(2,394)
Net Cash Provided (Used) by Operating Activities	\$ 3,070	\$ (773)

See accompanying Notes to Financial Statements.

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AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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, 2015 AND 2014

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, 2015 and 2014.

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, 2015 AND 2014

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 fair 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
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

	Carrying Amount	
	2015	2014
4M Mutual Fund	\$ 67,325	\$ 39,055

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, 2015 and 2014 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, 2015 and 2014:

	Carrying Amount	
	2015	2014
Deposits	\$ 60,604	\$ 162,228
Investments	67,325	39,055
Total Cash and Cash Equivalents	\$ 127,929	\$ 201,283

NOTE 3 LOANS RECEIVABLE

The Fund has 185 loans outstanding at December 31, 2015. All loans of the Fund issued are at a stated interest rate of two percent. Loans receivable at December 31, 2015 and December 31, 2014, are comprised of the following:

	December 31,	
	2015	2014
Total Loans Receivable	\$ 473,417	\$ 398,002
Less: Current Portion	124,305	107,588
Less: Allowance for Loan Losses	9,040	10,343
Net Long-Term Loans Receivable	\$ 340,072	\$ 280,071

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

AUSTIN/MOWER COUNTY HOME OWNERSHIP FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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, 2015, there were no significant changes in insurance coverage from the prior year and there have been no significant settlements for the last three years.

