

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**OTTER TAIL COUNTY**  
**FERGUS FALLS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2011

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor 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** - 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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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**Year Ended December 31, 2011**



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

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	1	21
Statement of Activities	2	23
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	25
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	4	29
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	30
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	32
Proprietary Fund		
Waste Management Enterprise Fund		
Statement of Net Assets	7	33
Statement of Revenues, Expenses, and Changes in Fund Net Assets	8	35
Statement of Cash Flows	9	36
Fiduciary Funds		
Statement of Fiduciary Net Assets - Agency Funds	10	38
Notes to the Financial Statements		39

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
<b>Financial Section (Continued)</b>		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	92
Road and Bridge Special Revenue Fund	A-2	95
Human Services Special Revenue Fund	A-3	96
Capital Improvement Special Revenue Fund	A-4	97
Schedule of Funding Progress - Other Postemployment Benefits	A-5	99
Notes to the Required Supplementary Information		100
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	B-1	104
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	105
Combining Balance Sheet - Nonmajor Special Revenue Funds	B-3	106
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Special Revenue Funds	B-4	107
Combining Balance Sheet - Nonmajor Debt Service Funds	B-5	108
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Debt Service Funds	B-6	109
Budgetary Comparison Schedules		
County Ditch Special Revenue Fund	B-7	110
Law Library Special Revenue Fund	B-8	111
Sheriff's Contingent Special Revenue Fund	B-9	112
Chemical Dependency Debt Service Fund	B-10	113
Ethanol Plant Debt Service Fund	B-11	114
Government Service Center Debt Service Fund	B-12	115
Sheriff Operations Debt Service Fund	B-13	116
Veterans Home Debt Service Fund	B-14	117
Fiduciary Funds		
Agency Funds		
Combining Statement of Changes in Assets and Liabilities	C-1	118

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Financial Section</b>		
Supplementary Information (Continued)		
Other Schedules		
Schedule of Deposits and Investments	D-1	122
Balance Sheet - By Ditch - County Ditch Special Revenue Fund	D-2	123
Schedule of Intergovernmental Revenue	D-3	125
Schedule of Expenditures of Federal Awards	D-4	127
Notes to the Schedule of Expenditures of Federal Awards		129
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs		131
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		142
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		145

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2011

			<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Board Member	Douglas Huebsch	District 1	January 2013
Board Member	Wayne Johnson	District 2	January 2015
Chair	John Lindquist	District 3	January 2013
Board Member	Roger Froemming	District 4	January 2015
Board Member	Leland Rogness	District 5	January 2013
Attorney	David Hauser		January 2015
Auditor	Wayne Stein		January 2015
Treasurer	Steven Andrews		January 2015
County Recorder	Wendy Metcalf		January 2015
County Sheriff	Brian Schlueter		January 2015
<b>Appointed</b>			
Assessor	Doug Walvatne		Interim*
County Engineer	Richard West		May 2014
Medical Examiner	Dr. Gregory Smith		Indefinite
County Administrator	Larry Krohn		Indefinite
Veterans Service Officer	Bernard Gamber		Indefinite
Examiner of Titles	Robert Russell		Indefinite
<b>Human Services Board</b>			
Chair	John Lindquist		January 2013
Vice Chair	Leland Rogness		January 2013
Member	Roger Froemming		January 2015
Member	Douglas Heubsch		January 2013
Member	Wayne Johnson		January 2015
Human Services Director	John Dinsmore		Indefinite
Probation Officer	Charles W. Kitzman		Indefinite
Public Health Director	Diane Thorson		Indefinite

\*In January 2011, appointed as full-time County Assessor through December 31, 2012.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Otter Tail County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Otter Tail County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Otter Tail County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Otter Tail County as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.12., Otter Tail County has implemented Governmental Accounting Standards Board's Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, 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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Otter Tail County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of Otter Tail 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

/s/Greg Hierlinger

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2012



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(Unaudited)**

**INTRODUCTION**

Otter Tail County's Management's Discussion and Analysis (MD&A) provides an overview of financial activities for the fiscal year ended December 31, 2011. 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 and the notes to the financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$145,715,052, of which Otter Tail County has invested \$105,417,170 in capital assets, net of related debt, and \$23,354,087 is restricted to specific purposes/uses.
- Business-type activities have total net assets of \$9,718,376. Invested in capital assets, net of related debt, represents \$6,293,502 of the total, and \$147,947 of the total business-type net assets is restricted for specific uses (post-closure care costs).
- Otter Tail County's total net assets (governmental activities and business-type activities) total \$155,433,428 for the year ended December 31, 2011. Invested in capital assets, net of related debt, represents \$111,710,672 of the total, \$23,502,034 of the total net assets is restricted for specific uses, and \$20,220,722 is unrestricted.
- The net cost of Otter Tail County's governmental activities for the year ended December 31, 2011, was \$25,170,907. General property tax revenues and other revenue sources totaling \$38,396,239 funded the total net cost of \$25,170,907.
- Otter Tail County's governmental funds' fund balances increased by \$15,979,994. This increase was the result of a General Fund balance increase of \$939,086, a Road and Bridge Special Revenue Fund balance increase of \$1,794,530, a Human Services Special Revenue Fund balance decrease of \$88,225, a Capital Improvement Special Revenue Fund balance decrease of \$4,470,917, a Prairie Lakes Municipal Solid Waste Authority Debt Service Fund balance increase of \$10,353,623 and an increase in other governmental funds' fund balances of \$7,451,897.

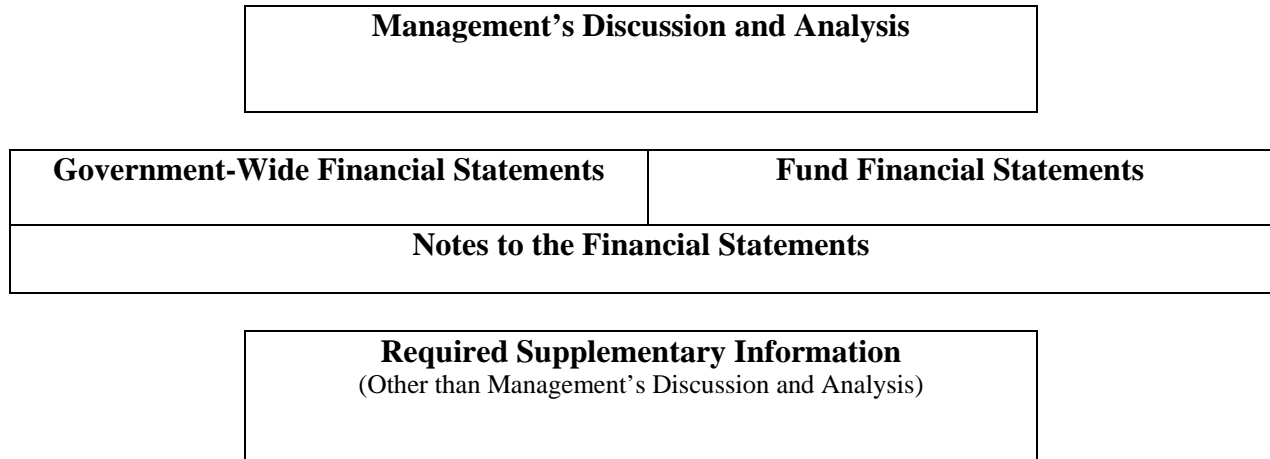
- The General Fund balance increased by \$939,086. This increase was due to excess revenues over expenditures of \$2,407,431; an operating transfer from the Sheriff's Contingent Fund of \$217, and an operating transfer from the Human Services Fund of \$31,438. The items noted above were offset by a \$1,500,000 transfer to the Construction Capital Project Fund, which will be used to fund a significant portion of the costs associated with a major renovation of the original courthouse complex.
- For the prior year ended December 31, 2010, excess General Fund revenues over expenditures were \$844,724. The \$1,562,707 increase in excess revenues over expenditures is due mainly to the following: a \$1,789,513 increase in revenues, which was offset by a \$226,806 increase in expenditures. It should be noted that property tax revenues increased by \$1,378,830, revenues from licenses and permits increased by \$7,083, revenues from fines and forfeits increased by \$9,774, revenues from gifts and contributions increased by \$12,440, investment earnings increased by \$51,123 and miscellaneous revenues increased by \$617,807; however, these increased revenues in the General Fund were offset by decreased special assessment revenues of \$2,464, decreased intergovernmental revenues of \$143,400 and decreased charges for services revenues of \$141,680. General Fund expenditures for general government-related functions/programs increased by \$364,784, expenditures for conservation of natural resource-related functions/programs increased by \$31,997 and the costs associated with debt service increased by \$9,864; however, these increased expenditures were offset by a \$112,798 decrease in public safety-related functions/programs and by a \$67,041 decrease in culture and recreation related expenditures.
- The Road and Bridge Special Revenue Fund balance increased by \$1,794,530 due to excess revenues over expenditures of \$1,814,519, which was offset by a decrease in inventory of \$19,989. For the prior year ended December 31, 2010, excess revenues over expenditures totaled \$1,873,177. The \$56,658 decrease in excess revenues over expenditures is due mainly to decreased intergovernmental revenues of \$504,326, decreased revenues from charges for services of \$545,731, decreased miscellaneous revenues of \$71,583 and increased costs associated with intergovernmental highway and street-related expenditures of \$84,665; however, these decreased revenues sources and the increased costs associated with intergovernmental highway and street-related expenditures were offset by an increase in tax revenues of \$145,415 and a decrease in the overall costs associated with the maintenance and construction of highways of \$1,002,232, which was primarily construction related costs.

- The Human Services Special Revenue Fund balance decreased by \$88,225 due to excess revenues over expenditures of \$943,213 which was offset by a transfer out to the General Revenue fund of \$31,438 and by an operating transfer of \$1,000,000 to the Construction Capital Project Fund, which will be used to fund a significant portion of the costs associated with a major renovation of the original courthouse complex. For the prior year ended December 31, 2010, excess revenues over expenditures totaled \$1,103,137. The \$159,924 decrease was due mainly to a decrease in intergovernmental revenues of \$580,670, a decrease in revenues for services provided of \$98,693, a decrease in miscellaneous revenues of \$77,550, an increase in costs associated with public safety-related programs/functions of \$702,362 and an increase in costs associated with public health-related programs/functions of \$2,153; however, these decreased revenue sources and increased costs were offset by increased tax revenues of \$115,435 and a decrease in the costs associated with human services-related programs/functions of \$1,186,069.
- The Capital Improvement Special Revenue Fund balance decreased by \$4,470,917 due to excess expenditures over revenues of \$2,287,313, plus an operating transfer of \$2,500,000 to the Construction Capital Project Fund, which will be used to fund a significant portion of the costs associated with a major renovation of the original courthouse complex. The items noted above were slightly offset by proceeds from a capital lease in the amount of \$316,396. For the prior year ended December 31, 2010, excess revenues over expenditures totaled \$948,326. The \$3,235,639 decrease was due mainly to a decrease in tax and special assessment revenues of \$26,972, a decrease in investment earnings of \$803, an increase in general government capital-related expenditures (data processing equipment, communication and building renovation costs) of \$1,380,934, an increase in public safety capital-related expenditures (radio project and dispatch enhancements) of \$1,449,729, an increase in highway and street capital-related expenditures (road maintenance, shop maintenance and equipment) of \$709,978, an increase in culture and recreation capital-related expenditures (engineering services for the Phelps Mill Park improvements) of \$67,844 and an increase in debt service costs of \$41,355, which are related to the installation of a new phone system within all county facilities. These decreased revenues and increased expenditures were offset by increased intergovernmental revenues of \$337,782 (mainly from grant revenues for the radio project), by increased revenues from charges for services of \$835, by increased miscellaneous revenues of \$49,800 and by a decrease in human services capital-related expenditures of \$53,559.
- In 2011, Otter Tail County established the Prairie Lakes Municipal Solid Waste Authority Debt Service Fund. This fund was established to account for the financial transactions associated with retirement of the bonds issued for the acquisition and improvement by the Prairie Lakes Municipal Solid Waste Authority Joint Powers Board of the solid waste disposal facilities known as the Perham Resource Recovery Facility.

- The fund balance as of December 31, 2011, for all other governmental funds increased by \$7,451,897. This increase was due mainly to operating transfers from the General Revenue Fund, the Human Services Special Revenue Fund and the Capital Improvement Special Fund totaling \$5,000,000 to the Construction Capital Projects Special Revenue Fund (which will be used to finance a significant portion of the costs associated with a major renovation of the original courthouse complex), to net bond proceeds from the issuance of Otter Tail County's \$5,400,000 General Obligation Capital Improvement Plan Bonds totaling \$5,373,540 (which were issued to provide the funds necessary to refund the outstanding Government Services Building Lease Refund Bonds, Series 2002A of the Otter Tail County Housing and Redevelopment Authority) and to a special item (bankruptcy proceeds) totaling \$3,839,126. The items noted above were offset by excess expenditures over revenues of \$171,204, a transfer out to the General Fund of \$217 and a \$6,589,348 payment to an escrow agent for the purpose of refunding the bonds noted above. For the prior year ended December 31, 2010, excess expenditures over revenues totaled \$446,544. The \$275,340 decline in excess expenditures over revenues is due mainly to an increase in tax revenues of \$329,371, an increase in intergovernmental revenues of \$15,451, an increase in fine and forfeit revenues of \$3,906, a decrease in debt cost of \$20,875 and a decrease in human services related expenditures of \$19,698; however, these increased revenues and decreased expenditures were offset by a decrease in special assessment revenue, investment earnings and miscellaneous revenues totaling \$15,227 and by an increase in general government, public safety and conservation of natural resources expenditures totaling \$98,734.
- In 2011, Otter Tail County did issue, on behalf of the Prairie Lakes Municipal Solid Waste Authority, General Obligation Disposal System Revenue Bonds in the amount of \$10,475,000. The Prairie Lakes Municipal Solid Waste Authority is a joint powers board consisting of four counties. The Prairie Lakes Municipal Solid Waste Authority Joint Powers Board will use the proceeds to finance the cost of the acquisition and improvements to the solid waste disposal facility known as the Perham Resource Recovery Facility.
- In 2011, Otter Tail County also issued \$5,400,000 General Obligation Capital Improvement Plan Bonds, Series 2011B. These bonds were issued to provide the funds necessary to refund the outstanding Government Services Building Lease Revenue Bonds, Series 2002A of the Otter Tail County Housing and Redevelopment Authority and thereby acquire title to the administration facilities described in the lease and purchase option agreement between the Housing and Redevelopment Authority and the County.
- In 2011, Otter Tail County also made plans to issue in early 2012, General Obligation Bonds totaling \$4,780,000. These bonds were issued to provide the funding necessary, in addition to the transfers noted above, for courthouse improvements/renovations (Courthouse, Government Services Center and New York Mills Building) and jail improvement/renovations.

## OVERVIEW OF THE FINANCIAL STATEMENTS

Otter Tail County's MD&A report serves as an introduction to the basic financial statements. Otter Tail County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section), certain budgetary comparison schedules, and the Schedule of Funding Progress – Other Postemployment Benefits 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 inter-related.



Otter Tail County presents two government-wide financial statements. They are the Statement of Net Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of the County's finances. The fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how the County financed these services in the short term as well as what remains for future spending. Fund financial statements also report the operations in more detail than the government-wide statements by providing information about the most significant/major funds. For proprietary activities, these statements provide detailed financial information relating to the waste management operations and facilities. The remaining statement 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**

The government-wide financial statements are designed to provide readers with a broad overview of Otter Tail County's finances in a manner similar to a private-sector business.

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 its financial condition has improved or declined as a result of the current year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies.

These two statements consider all of Otter Tail County's current year revenues and expenses regardless of when the County receives the revenue or pays the expenditure. The statements also report the County's net assets and changes in them.

You can think of the 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 property tax base and the general economic conditions of the state and County, to assess the overall health of Otter Tail County.

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

- **Governmental activities**--Otter Tail County reports its basic services in the "Governmental Activities" column of these reports. The activities reported include general government, public safety, highways and streets, sanitation (administration charges to solid waste), human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Otter Tail County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.
- **Business-type activities**--Otter Tail County charges a service fee to property owners and customers/users of the waste management facilities to help cover most of the costs to operate these facilities and pay for the services provided. The County reports its solid waste collection and disposal programs, including County-sponsored recycling programs, in the "Business-Type Activities" column.



## **Fund Financial Statements**

Otter Tail County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Significant governmental and proprietary funds may be established by the County to meet requirements of a specific state law; to help control and manage money for a particular purpose/project; or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose. Otter Tail County's two kinds of funds--governmental and proprietary--use different accounting methods.

- Most of Otter Tail County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The County reports these funds in its financial statements using an accounting method called modified accrual accounting. This accounting method measures cash and other financial assets that the County can readily convert to cash. Otter Tail County's governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides.
- Otter Tail County's governmental fund information helps determine whether there are financial resources available that the County can spend in the near future to finance various programs within the County. Otter Tail County has described the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.
- Otter Tail County charges both internal and external customers for waste management services and reports the financial activities for those services in a proprietary fund. The County reports its Waste Management Enterprise Fund in the same way that it reports all activities in the Statement of Net Assets and the Statement of Activities. In fact, the Waste Management Enterprise Fund is the same as the business-type activities the County reports in the government-wide statements but provides more detail and additional information, such as cash flows.
- Otter Tail County acts as an agent over assets that the County holds for other governmental entities. The County reports all of its fiduciary activities in a separate Statement of Fiduciary Net Assets and excludes these assets from the County's other financial statements because the County cannot use these assets to finance its operations. Otter Tail County is responsible for ensuring that the assets reported in these agency funds are used for their intended purposes.

## THE COUNTY AS A WHOLE

Otter Tail County's combined net assets for the year ended December 31, 2011, were \$155,433,428. The analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current and other assets	\$ 66,594,520	\$ 50,184,001	\$ 5,348,316	\$ 4,732,046	\$ 71,942,836	\$ 54,916,047
Capital assets	<u>120,979,850</u>	<u>115,366,707</u>	<u>6,293,502</u>	<u>6,789,259</u>	<u>127,273,352</u>	<u>122,155,966</u>
Total Assets	<u>\$ 187,574,370</u>	<u>\$ 165,550,708</u>	<u>\$ 11,641,818</u>	<u>\$ 11,521,305</u>	<u>\$ 199,216,188</u>	<u>\$ 177,072,013</u>
<b>Liabilities</b>						
Long-term debt outstanding	\$ 37,439,112	\$ 29,368,985	\$ 1,506,015	\$ 1,423,441	\$ 38,945,127	\$ 30,792,426
Other liabilities	<u>4,420,206</u>	<u>3,692,003</u>	<u>417,427</u>	<u>327,266</u>	<u>4,837,633</u>	<u>4,019,269</u>
Total Liabilities	<u>\$ 41,859,318</u>	<u>\$ 33,060,988</u>	<u>\$ 1,923,442</u>	<u>\$ 1,750,707</u>	<u>\$ 43,782,760</u>	<u>\$ 34,811,695</u>
<b>Net Assets</b>						
Invested in capital assets, net of debt	\$ 105,417,170	\$ 98,049,010	\$ 6,293,502	\$ 6,789,259	\$ 111,710,672	\$ 104,838,269
Restricted	23,354,087	4,753,409	147,947	197,586	23,502,034	4,950,995
Unrestricted	<u>16,943,795</u>	<u>29,687,301</u>	<u>3,276,927</u>	<u>2,783,753</u>	<u>20,220,722</u>	<u>32,471,054</u>
Total Net Assets	<u>\$ 145,715,052</u>	<u>\$ 132,489,720</u>	<u>\$ 9,718,376</u>	<u>\$ 9,770,598</u>	<u>\$ 155,433,428</u>	<u>\$ 142,260,318</u>

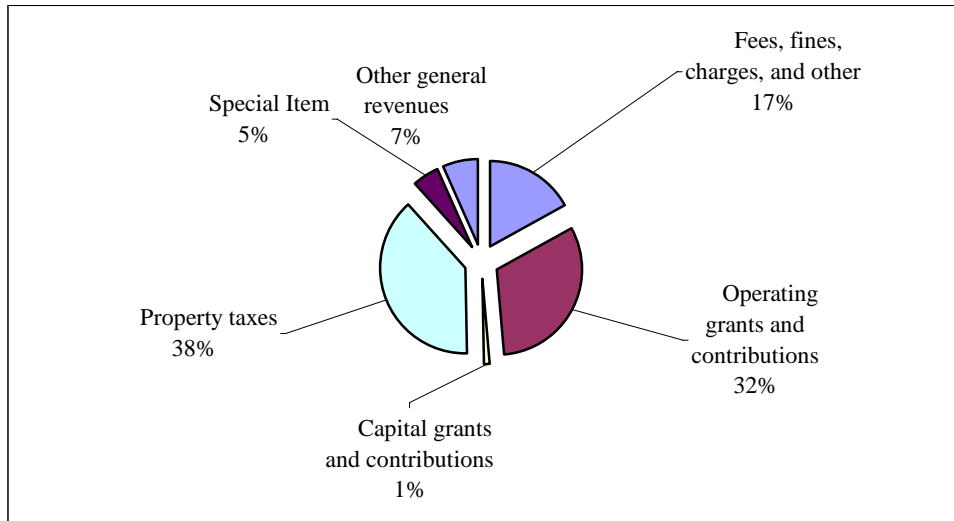
Otter Tail County's total net assets for the year ended December 31, 2011, are \$155,433,428. Unrestricted net assets totaling \$20,220,722 are available to finance day-to-day operations. Of the unrestricted net assets, \$16,943,795 is available for governmental activities, and \$3,276,927 is available for business-type activities.

**Table 2  
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
<b>Program revenues</b>						
Fees, fines charges and other	\$ 5,785,204	\$ 5,846,342	\$ 706,638	\$ 6,796,942	\$ 12,851,842	\$ 12,643,284
Operating grants and contributions	23,959,183	25,252,285	182,123	181,410	24,141,306	25,433,695
Capital grants and contributions	857,454	1,198,307	-	-	857,454	1,198,307
<b>General revenues</b>						
Property taxes	29,446,523	27,584,971	-	-	29,446,523	27,584,971
Other taxes	667,233	535,970	-	-	667,233	535,970
Grants and contributions	3,050,070	3,246,807	-	-	3,050,070	3,246,807
Special item	3,839,126	-	-	-	3,839,126	-
Other general revenues	1,393,287	1,302,380	17,783	17,557	1,411,070	1,319,937
<b>Total Revenues</b>	<b>\$ 68,998,080</b>	<b>\$ 64,967,062</b>	<b>\$ 726,654</b>	<b>\$ 6,995,909</b>	<b>\$ 76,264,624</b>	<b>\$ 71,962,971</b>
<b>Expenditures</b>						
<b>Program Expenses</b>						
General Government	\$ 11,086,646	\$ 10,904,588	\$ -	\$ -	\$ 11,086,646	\$ 10,904,588
Public Safety	11,144,278	9,767,822	-	-	11,144,278	9,767,822
Highways and Streets	12,511,094	16,202,746	-	-	12,511,094	16,202,746
Human Services	15,319,536	16,482,875	-	-	15,319,536	16,482,875
Health	2,490,706	2,488,603	-	-	2,490,706	2,488,603
Culture and Recreation	913,955	875,908	-	-	913,955	875,908
Conservation of Natural Resources	810,078	723,891	-	-	810,078	723,891
Economic Development	21,800	21,800	-	-	21,800	21,800
Interest	1,474,655	1,033,850	-	-	1,474,655	1,033,850
Landfill	-	-	7,318,766	6,891,415	7,318,766	6,891,415
<b>Total Program Expenses</b>	<b>\$ 55,772,748</b>	<b>\$ 58,502,083</b>	<b>\$ 7,318,766</b>	<b>\$ 6,891,415</b>	<b>\$ 63,091,514</b>	<b>\$ 65,393,498</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 13,225,332</b>	<b>\$ 6,464,979</b>	<b>\$ (52,222)</b>	<b>\$ 104,494</b>	<b>\$ 13,173,110</b>	<b>\$ 6,569,473</b>

Otter Tail County's total revenues for the year ended December 31, 2011, were \$76,264,624. The total cost of programs and services for the year ended December 31, 2011, was \$63,091,514. The net assets increased by \$13,173,110, due mainly to an increase in property tax revenues, an increase in revenues generated by fees, fines and charges for services, an increase in payment in lieu of tax revenues, a significant decrease in both highway and street expenditures and human services expenditures, which were offset by a decrease in operating grants, capital grants and contributions, an increase in general government, public safety, interest and landfill costs.

**Total County Revenues  
(Percent of Total)**



**Governmental Activities**

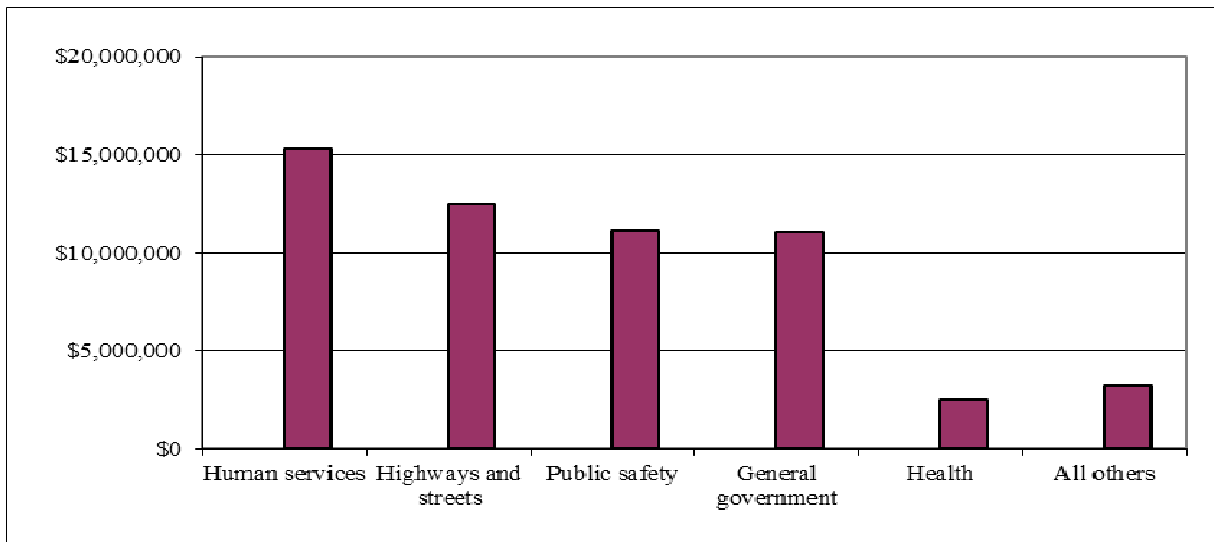
Revenues for Otter Tail County’s governmental activities for the year ended December 31, 2011, were \$68,998,080. Costs for all governmental activities for the year ended December 31, 2011, were \$55,772,748. As shown in the Statement of Activities, the amount that County taxpayers ultimately financed for these governmental activities through local property taxation was \$29,446,523, because \$5,785,204 of the costs were paid by those who directly benefited from the programs, and \$24,816,637 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Otter Tail County paid for the remaining “public benefit” portion of governmental activities with \$5,110,590 in general revenues, primarily grants and contributions not restricted to specific programs or services, and with other revenues such as investment income, mortgage registration tax, and deed tax.

Table 3 presents the cost of each of Otter Tail 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 placed on the County’s taxpayers by each of these functions.

**Table 3  
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Program expenses		
Human Services	\$ 15,319,536	\$ 5,914,968
Highways and streets	12,511,094	(1,351,996)
Public safety	11,144,278	9,122,499
General government	11,086,646	8,177,268
Health	2,490,706	654,374
All others	3,220,488	2,653,794
	<u>\$ 55,772,748</u>	<u>\$ 25,170,907</u>
<b>Total Program Expenses</b>	<u><b>\$ 55,772,748</b></u>	<u><b>\$ 25,170,907</b></u>

**Governmental Activities Expenses  
2011**



**Business-Type Activities**

Revenues of Otter Tail County’s business-type activities (see Table 2) for the year ended December 31, 2011, were \$7,266,544. This compares with total operating revenues of \$6,796,942 and total non-operating revenues of \$198,967 for the year ended December 31, 2010. Operating revenues increased by \$269,696, and non-operating revenues increased by \$939, resulting in an overall increase in revenues of \$270,635.

Expenses of business-type activities (see Table 2) for the year ended December 31, 2011, were \$7,318,766. This compares with total operating expenses of \$6,883,758 and total non-operating expenses of \$7,657 for the year ended December 31, 2010. Operating expenses increased by \$398,504, and non-operating expenses increased by \$28,847, resulting in an overall increase in expenses of \$427,351, which is due mainly to increased SCORE costs of \$122,429, increased waste management costs of \$244,535, increased household hazardous waste costs of \$4,763, increased processing costs of \$43,600, increased landfill closure and post-closure costs of \$78,847 and a decrease in other non-operating expenses of \$36,959, which was offset by a decrease in depreciation costs of \$95,670 and a decrease in interest costs of \$8,112.

### **The County's Funds**

As Otter Tail County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$58,193,182, which is greater than last year's total of \$42,213,188. The fund balance change of \$15,979,994 is due to an increase in the General Fund balance of \$939,086, an increase in the Road and Bridge Special Revenue Fund balance of \$1,794,530, a decrease in the Human Services Special Revenue Fund balance of \$88,225, a decrease in the Capital Improvement Special Revenue Fund balance of \$4,470,917, an increase in the Prairie Lakes Municipal Solid Waste Authority Debt Service Fund balance of \$10,353,623 and an increase in the other governmental funds fund balances of \$7,451,897.

As you will note, there were significant changes within individual funds. The overall fund balance change represented a 37.86 percent increase. The significant items impacting the individual fund balance changes were previously noted.

Included in this year's total fund balance is the General Fund balance of \$17,769,052, an increase of \$939,086 from 2010. The General Fund balance is classified as either non-spendable - \$978,152, restricted for specific purposes - \$1,699,228, assigned to specific uses - \$358,658 or unassigned - \$14,733,014. The Capital Improvement Special Revenue Fund fund balance decreased by \$4,470,917, as a result of transferring \$2,500,000 to the Construction Capital Project Fund and the use of accumulated fund balance to finance current capital equipment and building needs as identified by management.

### **General Fund Budgetary Highlights**

The Otter Tail County Board of Commissioners, over the course of a budget year, may amend/revise the County's overall operating budget of the General Fund to reflect changes in revenue sources and expenditures that were not anticipated when the budget was established in the prior year. In 2011, the Board of Commissioners did not make any significant budget revisions to the General Fund budget. If the Board had made changes to the budget as originally adopted on Tuesday, December 28, 2010, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or expenditures, or final agreement reached on employee contracts.

In Otter Tail County's General Fund, the budgeted revenues exceeded the actual revenues by \$229,093. Total actual expenditures in the General Fund were under the budgeted expenditures by \$908,698. The budgeted operating transfers in was more than the actual operating transfers in by \$40,698, and budgeted operating transfers out were less than actual operating transfers out by \$1,345,650. The significant difference between the budget transfer out amount and the actual amount transferred out of the General Fund is the result of a decision made late in the year to fund a significant portion of courthouse improvement/renovation costs with General Fund cash. A formal motion to transfer the funds was approved by the County Board of Commissioners; however, a formal motion to amend the current budget was not considered. The variances between the budgeted amounts and the actual amounts are noted by functional area on Exhibit A-1.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2011, Otter Tail County had \$127,273,352 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 \$5,117,386, or a 4.19 percent increase, over last year.

**Table 4**  
**Capital Assets at Year-End**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 4,146,172	\$ 3,357,784	\$ 195,934	\$ 195,934	\$ 4,342,106	\$ 3,553,718
Construction in progress	3,869,441	-	-	-	3,869,441	-
Land improvements	237,683	311,623	-	-	237,683	311,623
Buildings and improvements	22,734,414	23,535,342	4,207,067	4,434,250	26,941,481	27,969,592
Machinery, furniture, and equipment	4,216,891	3,555,164	669,705	842,777	4,886,596	4,397,941
Infrastructure	85,775,249	84,606,794	-	-	85,775,249	84,606,794
Landfill	-	-	1,220,796	1,316,298	1,220,796	1,316,298
Totals	<u>\$ 120,979,850</u>	<u>\$ 115,366,707</u>	<u>\$ 6,293,502</u>	<u>\$ 6,789,259</u>	<u>\$ 127,273,352</u>	<u>\$ 122,155,966</u>

During calendar year 2011, Otter Tail County's governmental activities' capital assets, net of depreciation, increased a total of \$5,613,143. This year's major additions include the addition of equipment and the completion of road and bridge projects for grading, bituminous, bridge construction, and right-of-way purchases, which are reported as infrastructure (see Table 4). There were a number of remodeling and improvement projects started, in progress and completed in 2011.

Remodeling/construction plans for the original courthouse structure, Government Services Center, New York Mills office building, dispatch center, and building security issues have been prepared and a number of these projects were started in 2011 with anticipated completion in the late spring of 2013. More detailed information about Otter Tail County's capital assets can be found in Note 3.A.4. to the financial statements.

## Bonded Debt

As of December 31, 2011, Otter Tail County had \$30,795,306 in bonds and notes outstanding, compared with \$23,044,276 as of December 31, 2010, an increase of 33.64 percent--as shown in Table 5.

**Table 5**  
**Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Bonds payable						
General obligation bonds	\$ 10,535,000	\$ 5,715,000	\$ -	\$ -	\$ 10,535,000	\$ 5,715,000
Revenue bonds	15,685,000	12,325,000	-	-	15,685,000	12,325,000
Lease revenue bonds	4,735,000	5,030,000	-	-	4,735,000	5,030,000
Plus: Unamortized premium	21,573	24,037	-	-	21,573	24,037
Less: Unamortized discount	(181,267)	(49,761)	-	-	(181,267)	(49,761)
Totals	<u>\$ 30,795,306</u>	<u>\$ 23,044,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,795,306</u>	<u>\$ 23,044,276</u>

The state limits the amount of net debt that the County can issue to three percent of the market value of all taxable property. Otter Tail County's outstanding net debt is significantly below this \$245,456,484 state-imposed limit. The County's financial advisor annually reviews the outstanding debt issues to determine which, if any, issues should be considered for refinancing.

Other obligations include capital leases, compensated absences, other postemployment benefits liability, and landfill closure and postclosure care costs. The notes to the financial statements provide detailed information about the County's long-term liabilities.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials consider many factors when setting the budget, tax rates, and fees that will be charged for the governmental and business-type activities.

- Otter Tail County continues to have a very balanced and strong seasonal, residential, commercial/industrial, and agricultural tax base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.
- Cost of fuel for vehicles, heating, and any related petroleum products used for highway maintenance and construction projects vary from year to year. Significant increases will impact a number of departmental budgets, as well as potentially influence which projects and the number of project undertaken in any given year.



- Legislative actions by the State of Minnesota can have a significant impact on future County budgets. Major revenue sources are state-paid aids and grants. Should the State of Minnesota significantly reduce these revenues or pass on costs to Otter Tail County, it would have a significant impact on next year's budget.

In the past, Otter Tail County's net tax capacity rates have not seen significant change even though the overall net tax levy has continued to increase. The overall County rate for Pay 2011 is 37.013, which is a 7.4 percent increase over the Pay 2010 County rate of 34.458. The overall County rate for Pay 2012 did increase in part due to a recent legislative action which eliminates the market value-based residential homestead credit (a state funded program) and replaces that program with a homestead market value exclusion program (a locally funded program), which significantly reduced the total net tax capacity of the County; thereby increasing the overall County net tax capacity rate.

- Currently the County is not subject to State-imposed levy limits. If levy limitations should be imposed in the future careful review would be undertaken to ensure that Otter Tail County has adequate funding to provide the desired level of services and to meet the demands of the public. Consideration and discussions regarding the availability of special levies will be an important part of the overall budget review and levy adoption process. Limitations on the availability of property tax revenue can result in increasing fees charged for services and/or reducing the level of service provided.
- State-imposed levy limitations did not exist for budget year 2012 and will also not be in place for budget year 2013; however, other legislative changes and current economic conditions require that, as the budget is developed for 2013, a careful review must be made of revenue sources other than property taxes, as well as reviewing proposed expenditures and how services and programs are delivered to the public.
- The net property tax levy for 2012 did not increase from 2011 and the 2013 tax levy is proposed to increase by approximately 4%.
- Otter Tail County's unemployment rate for 2012 averaged 6.1 percent through July 31, 2012. However, it should be noted that the unemployment rate for the month of July was 5.2 percent. The County's unemployment rate for 2011 averaged 6.3%, for 2010 averaged 7.2 percent, for 2009 averaged 8.3 percent, for 2008 averaged 6.1 percent, and for 2007 averaged 5.4 percent. An increasing unemployment rate could impact the level of services requested by residents and on the County's ability to generate the revenues necessary to pay for these additional services.
- Settling union contracts and employment-related cost/issues will impact future budgets.
- The cross training of current staff, determining the appropriate level for future staffing, moving the current organizational structure to the redesigned organization structure has played and will continue to play an important role in the budget development process.

- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of programs and services will influence the development of future budgets.
- Future facility needs will impact the County's budget, as consideration has been given to various remodeling needs at the old law enforcement center and the original courthouse. Facility needs are reviewed annually as operating and capital budgets are developed.
- With limited financial resources and the desire by the Otter Tail County Board of Commissioners to minimize the increase in local property taxation, the prioritization and review of programs and services will be extremely important as future budgets are developed and efforts are made to control expenditures.
- Outstanding debt issues and refinancing options are reviewed.
- Recent high water issues throughout many parts of Otter Tail County have had significant impact on the County's infrastructure, specifically the County's road system and the County drainage systems. Repairing and building up the roads to keep the County's road system open, functional, and safe has become very expensive. Adequate funding for these specific highway needs is reviewed during budget preparation and development. Addressing issues related to the various drainage systems is time consuming and often costly. If high water issues continue into the future, it may become necessary to add staff with engineering expertise. Drainage system projects generally are paid for by the benefited properties through special assessments; however, budgetary consideration needs to be given as to how the upfront (development, repair and/or construction) costs of these projects are financed prior to the special assessments being levied to reimburse the County for the costs of the projects.
- The implementation of new technology and the costs associated with implementing the technology and with training staff in the proper use of technology.
- Other factors considered include:
  - planning and financing for facility needs and the maintenance of existing facilities;
  - planning and financing for building security;
  - planning and financing for the continued delivery of County-provided services given the uncertainty of state funding;
  - prioritizing the services provided and the method of delivery;
  - the level of funding provided to outside agencies;
  - land development and regulation (ordinance) issues;

- salary classification study;
- organizational structure (including planning, considering, and discussing with neighboring counties the possibility of shared services and personnel);
- a greater demand for services which has resulted from the growth that Otter Tail County has experienced over the years;
- economic conditions, market conditions, and unemployment rates need to be monitored to ensure that the County expenditure levels do not exceed our ability to generate the necessary revenues to finance costs;
- legislative changes which impact County programs and services;
- policies and procedures necessary to comply with state and federal rules and regulations;
- reviewing comparative financial data from other Minnesota counties; and
- the need to improve both internal and external administrative and financial reporting to ensure that the most current information is available to the decision makers.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

Otter Tail County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances, and it shows accountability for the money it receives and spends. If you have questions about this report, or need additional financial information, contact Wayne Stein, County Auditor (218-998-8041); Jim Myhre, Assistant County Auditor (218-998-8039); or Dawn Godel, Accounting Supervisor (218-998-8037) at the Otter Tail County Government Services Center, 510 Fir Avenue W., Fergus Falls, Minnesota 56537.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT 1*

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<b>Primary Government</b>			<b>Discretely Presented Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and pooled investments	\$ 46,803,961	\$ 4,388,138	\$ 51,192,099	\$ 3,094,800
Taxes receivable				
Current	558,644	-	558,644	-
Prior	368,270	-	368,270	-
Special assessments receivable				
Current	1,986	-	1,986	-
Prior	2,004	-	2,004	-
Deferred	39,822	-	39,822	-
Accounts receivable	212,524	434,801	647,325	176,159
Accrued interest receivable	72,911	-	72,911	-
Internal balances	922,166	(922,166)	-	-
Due from other governments	5,058,071	162,675	5,220,746	72,282
Due from component unit	71,153	14,554	85,707	-
Due from primary government	-	-	-	246,958
Lease receivable	81,820	-	81,820	-
Inventories	294,477	-	294,477	-
Restricted assets				
Temporarily restricted				
Cash with escrow agent	304,540	-	304,540	-
Permanently restricted				
Cash and pooled investments	-	1,270,314	1,270,314	-
Advance to other governments	-	-	-	-
Deferred charges	235,485	-	235,485	-
Advance to component unit	10,475,000	-	10,475,000	-
Long-term lease receivable	1,091,686	-	1,091,686	-
Capital assets				
Non-depreciable	8,015,613	195,934	8,211,547	986,343
Depreciable - net of accumulated depreciation	112,964,237	6,097,568	119,061,805	6,750,851
<b>Total Assets</b>	<b>\$ 187,574,370</b>	<b>\$ 11,641,818</b>	<b>\$ 199,216,188</b>	<b>\$ 11,327,393</b>



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<b>Primary Government</b>			<b>Discretely Presented Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b><u>Liabilities</u></b>				
Accounts payable	\$ 1,387,396	\$ 94,888	\$ 1,482,284	\$ 255,092
Salaries payable	1,160,593	69,090	1,229,683	-
Contracts payable	724,086	-	724,086	-
Due to other governments	210,301	6,998	217,299	73,319
Due to component unit	507	246,451	246,958	-
Due to primary government	-	-	-	85,707
Accrued interest payable	227,395	-	227,395	-
Unearned revenue	523,874	-	523,874	-
Employee deposits	186,054	-	186,054	-
Capital lease - current	-	-	-	13,393
Advance from primary government	-	-	-	10,475,000
Long-term liabilities				
Due within one year	2,941,980	72,189	3,014,169	-
Due in more than one year	34,497,132	1,433,826	35,930,958	-
<b>Total Liabilities</b>	<b>\$ 41,859,318</b>	<b>\$ 1,923,442</b>	<b>\$ 43,782,760</b>	<b>\$ 10,902,511</b>
<b><u>Net Assets</u></b>				
Invested in capital assets - net of related debt	\$ 105,417,170	\$ 6,293,502	\$ 111,710,672	\$ 1,406,726
Restricted for				
General government	1,816,915	-	1,816,915	-
Public safety	600,853	-	600,853	-
Highways and streets	3,930,980	-	3,930,980	-
Postclosure care	-	147,947	147,947	-
Conservation of natural resources	166,297	-	166,297	-
Debt service	16,663,834	-	16,663,834	-
Held in trust for other purposes	175,208	-	175,208	-
Unrestricted	16,943,795	3,276,927	20,220,722	(981,844)
<b>Total Net Assets</b>	<b>\$ 145,715,052</b>	<b>\$ 9,718,376</b>	<b>\$ 155,433,428</b>	<b>\$ 424,882</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Fees Charges, Fines, and Other	Program Revenues Operating Grants and Contributions
<b><u>Functions/Programs</u></b>			
<b>Governmental activities</b>			
General government	\$ 11,086,646	\$ 2,519,495	\$ 389,883
Public safety	11,144,278	284,287	1,737,492
Highways and streets	12,511,094	790,561	12,215,075
Sanitation	-	40,572	-
Human services	15,319,536	1,288,071	8,116,497
Health	2,490,706	690,971	1,145,361
Culture and recreation	913,955	-	184,109
Conservation of natural resources	810,078	171,247	170,766
Economic development	21,800	-	-
Interest	1,474,655	-	-
	<b>\$ 55,772,748</b>	<b>\$ 5,785,204</b>	<b>\$ 23,959,183</b>
<b>Business-type activities</b>			
Solid waste	7,318,766	7,066,638	182,123
	<b>\$ 63,091,514</b>	<b>\$ 12,851,842</b>	<b>\$ 24,141,306</b>
<b>Component unit</b>			
Prairie Lakes Municipal Solid Waste Authority	\$ 2,563,290	\$ 2,371,050	\$ -

**General Revenues**

Property taxes  
Property taxes - debt service  
Mortgage registry and deed tax  
Taxes - other  
Grants and contributions not restricted to specific programs  
Payments in lieu of tax  
Investment earnings  
Miscellaneous  
Special item

**Total general revenues**

**Change in Net Assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**EXHIBIT 2**

Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets			Discretely Presented Component Unit
	Governmental Activities	Primary Government Business-Type Activities	Total	
\$ -	\$ (8,177,268)	\$ -	\$ (8,177,268)	
-	(9,122,499)	-	(9,122,499)	
857,454	1,351,996	-	1,351,996	
-	40,572	-	40,572	
-	(5,914,968)	-	(5,914,968)	
-	(654,374)	-	(654,374)	
-	(729,846)	-	(729,846)	
-	(468,065)	-	(468,065)	
-	(21,800)	-	(21,800)	
-	(1,474,655)	-	(1,474,655)	
<b>\$ 857,454</b>	<b>\$ (25,170,907)</b>	<b>\$ -</b>	<b>\$ (25,170,907)</b>	
-	-	(70,005)	(70,005)	
<b>\$ 857,454</b>	<b>\$ (25,170,907)</b>	<b>\$ (70,005)</b>	<b>\$ (25,240,912)</b>	
<u>\$ 600,000</u>				<u>\$ 407,760</u>
	\$ 27,331,409	\$ -	\$ 27,331,409	\$ -
	2,115,114	-	2,115,114	-
	54,028	-	54,028	-
	70,402	-	70,402	-
	3,050,070	-	3,050,070	-
	542,803	-	542,803	-
	325,821	17,783	343,604	17,122
	1,067,466	-	1,067,466	-
	3,839,126	-	3,839,126	-
	<b>\$ 38,396,239</b>	<b>\$ 17,783</b>	<b>\$ 38,414,022</b>	<b>\$ 17,122</b>
	<b>\$ 13,225,332</b>	<b>\$ (52,222)</b>	<b>\$ 13,173,110</b>	<b>\$ 424,882</b>
	<b>132,489,720</b>	<b>9,770,598</b>	<b>142,260,318</b>	<b>-</b>
	<b>\$ 145,715,052</b>	<b>\$ 9,718,376</b>	<b>\$ 155,433,428</b>	<b>\$ 424,882</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<b>General</b>	<b>Road and Bridge</b>
<u><b>Assets</b></u>		
Cash and pooled investments	\$ 15,811,545	\$ 4,046,938
Petty cash and change funds	11,350	50
Undistributed cash in agency funds (taxes and other)	491,976	42,734
Taxes receivable		
Current	290,289	48,614
Prior	186,029	27,398
Special assessments		
Current	-	122
Prior	-	384
Deferred	-	-
Accounts receivable	12,972	4,320
Accrued interest receivable	72,911	-
Due from other funds	125,715	432,518
Due from other governments	163,476	3,179,406
Due from component unit	-	-
Lease receivable	1,173,506	-
Advance to other funds	978,152	-
Inventories	-	294,477
Advance to component unit	-	-
Restricted assets		
Temporarily restricted		
Cash with escrow agent	47,854	-
	<u>\$ 19,365,775</u>	<u>\$ 8,076,961</u>
<b>Total Assets</b>	<b>\$ 19,365,775</b>	<b>\$ 8,076,961</b>
<u><b>Liabilities and Fund Balances</b></u>		
<b>Liabilities</b>		
Accounts payable	\$ 332,327	\$ 625,913
Salaries payable	620,021	144,548
Compensated absences	22,128	6,221
Contracts payable	-	540,956
Due to other funds	10,404	580
Due to other governments	23,642	49,647
Due to component unit	507	-
Deferred revenue - unavailable	401,640	2,611,942
Deferred revenue - unearned	-	54,420
Advance from other funds	-	-
Employee deposits	186,054	-
	<u>\$ 1,596,723</u>	<u>\$ 4,034,227</u>
<b>Total Liabilities</b>	<b>\$ 1,596,723</b>	<b>\$ 4,034,227</b>



**EXHIBIT 3**

<u>Human Services</u>	<u>Capital Improvement</u>	<u>Prairie Lakes Municipal Solid Waste Authority Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 11,207,196	\$ 3,705,847	\$ -	\$ 11,289,112	\$ 46,060,638
200	-	-	-	11,600
133,474	26,678	-	36,861	731,723
149,731	29,522	-	40,488	558,644
107,620	24,448	-	22,775	368,270
-	-	-	1,864	1,986
-	-	-	1,620	2,004
-	-	-	39,822	39,822
195,232	-	-	-	212,524
-	-	-	-	72,911
-	7,868	-	-	566,101
1,171,852	538,567	-	4,770	5,058,071
-	-	71,153	-	71,153
-	-	-	-	1,173,506
-	-	-	-	978,152
-	-	-	-	294,477
-	-	10,475,000	-	10,475,000
-	-	-	256,686	304,540
<u>\$ 12,965,305</u>	<u>\$ 4,332,930</u>	<u>\$ 10,546,153</u>	<u>\$ 11,693,998</u>	<u>\$ 66,981,122</u>
\$ 357,877	\$ 23,456	\$ -	\$ 47,823	\$ 1,387,396
396,024	-	-	-	1,160,593
-	-	-	-	28,349
-	183,130	-	-	724,086
12,979	431,232	-	-	455,195
136,942	-	-	-	210,231
-	-	-	-	507
601,577	239,334	-	90,200	3,944,693
276,924	-	192,530	-	523,874
-	-	-	166,962	166,962
-	-	-	-	186,054
<u>\$ 1,782,323</u>	<u>\$ 877,152</u>	<u>\$ 192,530</u>	<u>\$ 304,985</u>	<u>\$ 8,787,940</u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances (Continued)</u></b>		
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 294,477
Advances to other funds	978,152	-
Restricted		
Debt service	-	-
Law library	-	-
Recorder's technology equipment	594,155	-
Real estate shortfall	155,099	-
E-911	-	-
Recorder's compliance	686,000	-
Equipment purchase	-	-
HAVA	1,844	-
Veteran's van	16,670	-
County state-aid highway system	-	2,590,460
Handgun permits	70,252	-
Ditch maintenance and construction	-	-
General government	-	-
Public safety	-	-
Sheriff's contingencies	-	-
Missing heirs	175,208	-
Assigned		
Property and casualty insurance	224,638	105,019
Workers compensation	134,020	141,564
General government	-	-
Public safety	-	-
Highways and streets	-	911,214
Human services	-	-
Health	-	-
Culture and recreation	-	-
Conservation of natural resources	-	-
Capital outlay	-	-
Unassigned	14,733,014	-
<b>Total Fund Balances</b>	<b>\$ 17,769,052</b>	<b>\$ 4,042,734</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 19,365,775</b>	<b>\$ 8,076,961</b>

**EXHIBIT 3**  
**(Continued)**

<u>Human Services</u>	<u>Capital Improvement</u>	<u>Prairie Lakes Municipal Solid Waste Authority Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 294,477
-	-	-	-	978,152
-	-	10,353,623	6,310,211	16,663,834
-	-	-	103,247	103,247
-	-	-	-	594,155
-	-	-	-	155,099
-	237,086	-	-	237,086
-	-	-	-	686,000
-	-	-	236,692	236,692
-	-	-	-	1,844
-	-	-	-	16,670
-	-	-	-	2,590,460
-	-	-	-	70,252
-	-	-	166,297	166,297
-	23,208	-	-	23,208
-	288,515	-	-	288,515
-	-	-	5,000	5,000
-	-	-	-	175,208
50,121	-	-	-	379,778
53,241	-	-	-	328,825
-	791,199	-	-	791,199
1,044,615	605,594	-	7,241	1,657,450
-	1,243,066	-	-	2,154,280
8,766,510	87,192	-	-	8,853,702
1,268,495	31,553	-	-	1,300,048
-	130,468	-	-	130,468
-	17,897	-	-	17,897
-	-	-	4,723,802	4,723,802
-	-	-	(163,477)	14,569,537
<u>\$ 11,182,982</u>	<u>\$ 3,455,778</u>	<u>\$ 10,353,623</u>	<u>\$ 11,389,013</u>	<u>\$ 58,193,182</u>
<u>\$ 12,965,305</u>	<u>\$ 4,332,930</u>	<u>\$ 10,546,153</u>	<u>\$ 11,693,998</u>	<u>\$ 66,981,122</u>

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**EXHIBIT 4**

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

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$ 58,193,182</b>
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.		120,979,850
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,944,693
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (10,535,000)	
Revenue bonds	(15,685,000)	
Other postemployment benefits	(686,132)	
Facility lease revenue bonds	(4,735,000)	
Bond discount	181,268	
Bond premiums	(21,574)	
Deferred charges	235,485	
Accrued interest payable	(227,395)	
Compensated absences	(4,429,375)	
Capital leases payable	(1,499,950)	(37,402,673)
	<hr/>	<hr/>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b>\$ 145,715,052</b>
		<hr/> <hr/>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 15,563,847	\$ 2,524,927
Special assessments	21,129	-
Licenses and permits	363,208	-
Intergovernmental	3,211,586	14,330,888
Charges for services	1,209,959	816,241
Fines and forfeits	18,114	-
Gifts and contributions	12,865	-
Investment earnings	301,982	-
Miscellaneous	1,358,454	23,579
	<b>\$ 22,061,144</b>	<b>\$ 17,695,635</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 10,110,476	\$ -
Public safety	7,956,141	-
Highways and streets	-	14,765,285
Human services	-	-
Health	-	-
Culture and recreation	805,177	-
Conservation of natural resources	678,299	-
Economic development	21,800	-
<b>Intergovernmental</b>		
Highways and streets	-	1,115,831
<b>Capital outlay</b>		
General government	-	-
<b>Debt service</b>		
Principal	81,820	-
Interest	-	-
Bond issuance costs	-	-
	<b>\$ 19,653,713</b>	<b>\$ 15,881,116</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 2,407,431</b>	<b>\$ 1,814,519</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 31,655	\$ -
Transfers out	(1,500,000)	-
Bonds issued	-	-
Payment to refunded bond escrow agent	-	-
Discount on bonds/notes issued	-	-
Capital lease	-	-
Special item	-	-
	<b>\$ (1,468,345)</b>	<b>\$ -</b>
<b>Change in Fund Balance</b>	<b>\$ 939,086</b>	<b>\$ 1,814,519</b>
<b>Fund Balance - January 1, as restated (Note 2.C)</b>	<b>16,829,966</b>	<b>2,248,204</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(19,989)</b>
	<b>\$ 17,769,052</b>	<b>\$ 4,042,734</b>
<b>Fund Balance - December 31</b>	<b>\$ 17,769,052</b>	<b>\$ 4,042,734</b>

The notes to the financial statements are an integral part of this statement.

**EXHIBIT 5**

<b>Human Services</b>	<b>Capital Improvement</b>	<b>Prairie Lakes Municipal Solid Waste Authority Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
\$ 7,805,195	\$ 1,539,765	\$ -	\$ 2,115,114	\$ 29,548,848
-	12	-	50,757	71,898
-	-	-	-	363,208
10,455,803	760,507	-	129,017	28,887,801
1,641,834	1,609	-	-	3,669,643
-	-	-	65,738	83,852
-	-	-	-	12,865
-	42,129	-	853	344,964
421,828	123,385	244,408	548,159	2,719,813
<b>\$ 20,324,660</b>	<b>\$ 2,467,407</b>	<b>\$ 244,408</b>	<b>\$ 2,909,638</b>	<b>\$ 65,702,892</b>
\$ -	\$ 1,603,365	\$ -	\$ 47,515	\$ 11,761,356
1,767,958	1,962,631	-	9,896	11,696,626
-	997,207	-	-	15,762,492
15,165,255	41,666	-	-	15,206,921
2,448,234	-	-	-	2,448,234
-	108,496	-	-	913,673
-	-	-	129,459	807,758
-	-	-	-	21,800
-	-	-	-	1,115,831
-	-	-	39,506	39,506
-	37,806	-	1,820,000	1,939,626
-	3,549	177,942	987,037	1,168,528
-	-	75,539	47,429	122,968
<b>\$ 19,381,447</b>	<b>\$ 4,754,720</b>	<b>\$ 253,481</b>	<b>\$ 3,080,842</b>	<b>\$ 63,005,319</b>
<b>\$ 943,213</b>	<b>\$ (2,287,313)</b>	<b>\$ (9,073)</b>	<b>\$ (171,204)</b>	<b>\$ 2,697,573</b>
\$ -	\$ -	\$ -	\$ 5,000,000	\$ 5,031,655
(1,031,438)	(2,500,000)	-	(217)	(5,031,655)
-	-	10,475,000	5,400,000	15,875,000
-	-	-	(6,589,348)	(6,589,348)
-	-	(112,304)	(26,460)	(138,764)
-	316,396	-	-	316,396
-	-	-	3,839,126	3,839,126
<b>\$ (1,031,438)</b>	<b>\$ (2,183,604)</b>	<b>\$ 10,362,696</b>	<b>\$ 7,623,101</b>	<b>\$ 13,302,410</b>
\$ (88,225)	\$ (4,470,917)	\$ 10,353,623	\$ 7,451,897	\$ 15,999,983
11,271,207	7,926,695	-	3,937,116	42,213,188
-	-	-	-	(19,989)
<b>\$ 11,182,982</b>	<b>\$ 3,455,778</b>	<b>\$ 10,353,623</b>	<b>\$ 11,389,013</b>	<b>\$ 58,193,182</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 15,999,983**

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 3,944,693	
Deferred revenue - January 1	<u>(4,488,631)</u>	(543,938)

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 and infrastructure	\$ 11,104,943	
Current year depreciation	<u>(5,491,800)</u>	5,613,143

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net assets.

Proceeds of new debt		
General obligation bonds issued	\$ (5,400,000)	
Revenue bonds issued	(10,475,000)	
Capital lease/installment purchase issued	(316,396)	
Deferred debt issuance costs	122,967	
Discounts on bonds issued	<u>138,764</u>	(15,929,665)

Principal repayments		
General obligation bonds	\$ 580,000	
Revenue bonds	945,000	
Facility lease revenue bonds	295,000	
Capital lease	<u>119,626</u>	1,939,626

Bonds refunded		6,170,000
----------------	--	-----------

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 accrued interest payable	\$ 118,017	
Amortization of premiums, discounts, and deferred issuance charges	(20,289)	
Change in compensated absences	51,588	
Change in other postemployment benefits	(153,144)	
Change in inventories	<u>(19,989)</u>	<u>(23,817)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 13,225,332**



**PROPRIETARY FUND**

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF NET ASSETS  
WASTE MANAGEMENT ENTERPRISE FUND  
DECEMBER 31, 2011**

<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 4,288,239
Petty cash and change funds	18,740
Undistributed cash in agency funds	81,159
Accounts receivable	434,801
Due from other funds	1,180
Due from other governments	162,675
Due from component unit	14,554
<b>Total current assets</b>	<b>\$ 5,001,348</b>
Restricted assets	
Cash and pooled investments	<b>\$ 1,270,314</b>
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 195,934
Depreciable - net	6,097,568
<b>Total noncurrent assets</b>	<b>\$ 6,293,502</b>
<b>Total Assets</b>	<b>\$ 12,565,164</b>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 94,888
Salaries payable	69,090
Compensated absences payable	72,189
Due to other funds	112,156
Due to other governments	6,998
Advance from other funds	202,798
Due to component unit	246,451
<b>Total current liabilities</b>	<b>\$ 804,570</b>
Noncurrent liabilities	
Compensated absences payable	\$ 267,912
Advance from other funds	608,392
Estimated liability for landfill closure/postclosure care	1,122,367
Other postemployment benefits liability	43,547
<b>Total noncurrent liabilities</b>	<b>\$ 2,042,218</b>
<b>Total Liabilities</b>	<b>\$ 2,846,788</b>

The notes to the financial statements are an integral part of this statement.

Page 33

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

***EXHIBIT 7  
(Continued)***

**STATEMENT OF NET ASSETS  
WASTE MANAGEMENT ENTERPRISE FUND  
DECEMBER 31, 2011**

<u>Net Assets</u>	
Invested in capital assets	\$ 6,293,502
Restricted for postclosure care costs	147,947
Unrestricted	<u>3,276,927</u>
<b>Total Net Assets</b>	<b><u><u>\$ 9,718,376</u></u></b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
WASTE MANAGEMENT ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Operating Revenues</b>	
Charges for services	\$ 6,024,432
Licenses and permits	2,060
Sale of recyclable materials	1,039,472
Miscellaneous	<u>674</u>
<b>Total Operating Revenues</b>	<b><u>\$ 7,066,638</u></b>
<b>Operating Expenses</b>	
SCORE	\$ 1,260,160
Waste management	3,641,798
Household hazardous waste	151,282
Processing costs	1,660,087
Depreciation	512,435
Landfill closure and postclosure care costs	<u>56,500</u>
<b>Total Operating Expenses</b>	<b><u>\$ 7,282,262</u></b>
<b>Operating Income (Loss)</b>	<b><u>\$ (215,624)</u></b>
<b>Nonoperating Revenues (Expenses)</b>	
Intergovernmental	\$ 176,057
Interest income	17,783
Interest income restricted for sanitation	6,066
Interest expense	<u>(36,504)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>\$ 163,402</u></b>
<b>Change in Net Assets</b>	<b><u>\$ (52,222)</u></b>
<b>Net Assets - January 1</b>	<b><u>9,770,598</u></b>
<b>Net Assets - December 31</b>	<b><u><u>\$ 9,718,376</u></u></b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF CASH FLOWS  
WASTE MANAGEMENT ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 7,076,793
Payments to suppliers	(5,000,086)
Payments to employees	<u>(1,569,120)</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ 507,587</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Intergovernmental	<b><u>\$ 176,057</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchases of capital assets	\$ (16,678)
Interest paid on advance	(36,504)
Payment on advance from other funds	<u>(202,798)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>\$ (255,980)</u></b>
<b>Cash Flows from Investing Activities</b>	
Investment earnings received	<b><u>\$ 23,849</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 451,513</b>
<b>Cash and Cash Equivalents at January 1</b>	<b><u>5,206,939</u></b>
<b>Cash and Cash Equivalents at December 31</b>	<b><u><u>\$ 5,658,452</u></u></b>
<b>Cash and Cash Equivalents - Exhibit 7</b>	
Cash and pooled investments	\$ 4,288,239
Petty cash and change funds	18,740
Undistributed cash in agency funds	81,159
Restricted cash and pooled investments	<u>1,270,314</u>
<b>Total Cash and Cash Equivalents</b>	<b><u><u>\$ 5,658,452</u></u></b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
WASTE MANAGEMENT ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Reconciliation of Operating Income (Loss) to Net Cash</b>	
<b>Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b>\$ <u>(215,624)</u></b>
<b>Adjustments to reconcile operating income (loss) to net cash</b>	
<b>provided by (used in) operating activities</b>	
Depreciation expense	\$ 512,435
(Increase) decrease in accounts receivable	(43,730)
(Increase) decrease in due from other governments	67,447
(Increase) decrease in due from component unit	(14,554)
(Increase) decrease in due from other funds	992
Increase (decrease) in accounts payable	(12,636)
Increase (decrease) in salaries payable	6,036
Increase (decrease) in compensated absences - current	2,683
Increase (decrease) in due to other funds	27,886
Increase (decrease) in due to other governments	(149,690)
Increase (decrease) in due to component unit	246,451
Increase (decrease) in compensated absences - long-term	12,821
Increase (decrease) in other postemployment benefits liability	10,570
Increase (decrease) in landfill closure/postclosure care costs	<u>56,500</u>
<b>Total adjustments</b>	<b>\$ <u>723,211</u></b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ <u><u>507,587</u></u></b>

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**FIDUCIARY FUNDS**

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT 10*

**STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2011**

<u>Assets</u>	
Cash and pooled investments	\$ 1,448,000
Due from other funds	<u>113,270</u>
<b>Total Assets</b>	<b><u>\$ 1,561,270</u></b>
 <u>Liabilities</u>	
Accounts payable	\$ 11,252
Due to other funds	113,200
Due to other governments	<u>1,436,818</u>
<b>Total Liabilities</b>	<b><u>\$ 1,561,270</u></b>

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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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, 2011. 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 (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Otter Tail County was established March 18, 1858, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. 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.

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 Otter Tail County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements Available at</u>
Prairie Lakes Municipal Solid Waste Authority	The County appoints members and is financially accountable for Prairie Lakes Municipal Solid Waste Authority	Prairie Lakes Municipal Solid Waste Authority 115 North Tower Road Fergus Falls, Minnesota 56537

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures described in Note 8.B. The County also participates in the jointly-governed organizations described in Note 8.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 County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are 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 and different business-type activities are offset by program revenues. Direct expenses are those 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 restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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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, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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 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. Revenues include property taxes, intergovernmental assistance and charges for services.

The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs. Revenues include property taxes, intergovernmental assistance and charges for services.

The Capital Improvement Special Revenue Fund is used to finance equipment acquisition or repair of buildings and other capital improvements. Financing will be provided by a tax levy and appropriations from other County funds.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Prairie Lakes Municipal Solid Waste Authority Debt Service Fund is used to account for the retirement of the bonds issued for the acquisition and improvement by the Prairie Lakes Municipal Solid Waste Authority Joint Powers Board, of the solid waste disposal facilities known as the Perham Resource Recovery Facility.

The County reports the following major enterprise fund:

The Waste Management Enterprise Fund is used to account for the financial activities relating to the operation of waste disposal sites owned by Otter Tail County.

Additionally, the County reports the following fund types:

Debt service funds account for resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Capital Projects Funds are used to account for the financial resources to be used for costs associated with the acquisition, remodeling, renovation, and improvements to the County capital facilities.

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, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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. Otter Tail 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. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. 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 fair value at December 31, 2011, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Investment earnings on business-type activities are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2011 were \$380,000.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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.

No allowance has been made for uncollectible receivables.

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.

4. Advance to Component Unit

In 2011, Otter Tail County agreed to issue \$10,475,000 in General Obligation Disposal System Revenue Bonds in order to finance the acquisition/expansion of the Resource Recovery Facility, which is owned by the Prairie Lakes Municipal Solid Waste Authority Component Unit. The proceeds from the sale of these bonds will be recognized by the County. The annual payments on the advance are essentially the principal payments due on the bonds each year. There were no principal payments due or advance payments made in 2011.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and 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.

6. 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.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type 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 one year. 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Capital Assets (Continued)

Property, plant, and equipment of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5 - 20
Buildings	40
Building improvements	Up to 30
Public domain infrastructure	20 - 100
Furniture, equipment, and vehicles	3 - 20

The County landfill is depreciated based on capacity used.

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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 and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds for up to the annual accrual of vacation and vested sick leave if matured, for example, as a result of employee resignations and retirements.

9. 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 not considered as available to liquidate liabilities of the current period.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Classification of Net Assets

Net assets in the government-wide financial statements are classified in the following categories:

- Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net assets - the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances

In 2011, Otter Tail County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund types.

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts in which constraints have been placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board, the County Administrator, the County Treasurer, or the County Auditor who have been delegated that authority by Board resolution.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Classification of Fund Balances (Continued)

Unassigned – the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

13. Minimum Fund Balance

Otter Tail County is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. Otter Tail County has adopted a minimum fund balance policy to address cash flow or working capital needs. The County is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County will maintain an unrestricted fund balance level of no less than five months of the General Fund operating expenditures.

14. 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.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

A. Ditch Fund Deficits

Of 31 drainage systems, 5 have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue Fund as of December 31, 2011.

Account balances	\$	166,297
Account deficits		(163,477)
Fund Balance	\$	2,820

For internal purposes, the County accounts for its ditches on the accrual basis. Under the full accrual basis where revenues are recognized when earned, the Ditch Special Revenue Fund reports a positive fund balance of \$44,687, with five ditches reporting a deficit.

B. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2011.

	Expenditures	Final Budget	Excess
Capital Improvement Special Revenue Fund	\$ 4,754,720	\$ 2,154,110	\$ 2,600,610
Debt Service Funds			
Chemical Dependency	549,828	547,828	2,000
Ethanol Plant	700,875	697,840	3035
Government Service Center	991,067	942,538	48,529
Sheriff Operations	490,850	490,300	550
Veterans Home	121,846	121,415	431



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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2. Stewardship, Compliance, and Accountability (Continued)

C. Reclassification/Restatement

The implementation of GASB Statement No. 54 required the County to report certain funds that were previously reported as nonmajor special revenue funds as part of the General Fund. The Postemployment Obligation Special Revenue Fund was reclassified to the General Fund. As a result, the January 1, 2011, fund balances of the General Fund and the other governmental funds have been restated. The reclassification/restatement is as follows:

	General Fund	Other Governmental Funds
Fund Balance - January 1, as previously reported	\$ 16,025,319	\$ 992,836
Reclassification		
Postemployment Obligation Fund	804,647	(804,647)
Fund Balance - January 1, as restated	\$ 16,829,966	\$ 188,189

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 51,192,099
Restricted assets	
Cash with escrow agent	304,540
Cash and pooled investments	1,270,314
Component unit	
Cash and pooled investments	3,094,800
Less: Amount held by City of Perham	(707,687)
Fiduciary assets	
Cash and pooled investments	
Agency funds	1,448,000
Total Cash and Investments	\$ 56,602,066

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit 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 and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk for 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, 2011, the County's deposits were not exposed to custodial credit risk.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (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.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The County does not have additional policies for the investment risks described below beyond complying with the requirements of Minnesota statutes.

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. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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. The County invests only in securities that meet the ratings requirements set by state statute.

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 in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2011, \$21,612 of government securities and \$10,353,066 of U.S. Treasuries were exposed to custodial credit risk because they were held by the counterparty.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. Typically, the County invests in U.S. Treasury securities, U.S. agency securities, and obligations backed by the U.S. Treasury and/or U.S. agency securities without limit.

The following table represents the County's deposit and investment balances at December 31, 2011, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association	N/R	N/A		08/25/2018	\$ 8,369
Federal National Mortgage Association	N/R	N/A		08/25/2018	888
Federal National Mortgage Association	N/R	N/A		06/25/2022	14,291
Total Federal National Mortgage Association			<5.0%		\$ 23,548
U.S. Treasury Note	N/A	N/A		4/30/2012	\$ 2,277,105
U.S. Treasury Note	N/A	N/A		5/31/2012	1,003,047
U.S. Treasury Note	N/A	N/A		9/30/2012	1,002,071
U.S. Treasury Note	N/A	N/A		10/31/2012	1,002,149
U.S. Treasury Note	N/A	N/A		12/31/2012	1,004,844
U.S. Treasury Note	N/A	N/A		8/31/2013	998,399
U.S. Treasury Note	N/A	N/A		11/30/2013	1,000,120
U.S. Treasury Note	N/A	N/A		11/30/2014	3,014,619
Total U.S. Treasury Notes			N/A		\$ 11,302,354
U.S. Treasury Bond – Stripped	N/A	N/A		08/15/2017	\$ 15,047
U.S. Treasury Bond – Stripped	N/A	N/A		08/15/2019	33,729
Total U.S. Treasury Bonds – Stripped			N/A		\$ 48,776
Total investments					\$ 11,374,678
Deposits					44,892,509
Cash with escrow agent					304,539
Change funds					30,340
Total Cash and Investments					\$ 56,602,066

N/R – Not Rated; N/A – Not Applicable

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 926,914	\$ -
Special assessments	43,812	-
Accounts	212,524	-
Interest	72,911	-
Due from other governments	5,058,071	-
Due from component unit	71,153	-
Advance to component unit	10,475,000	10,070,000
Total Governmental Activities	\$ 16,860,385	\$ 10,070,000
Business-Type Activities		
Accounts	\$ 434,801	\$ -
Due from other governments	162,675	-
Due from component unit	14,554	-
Total Business-Type Activities	\$ 612,030	\$ -

3. Leases Receivable

Otter Tail County has provided funding to the Viking Library System for the purpose of constructing a new headquarters office building for the Library. Viking Library System pays lease amounts to the County that equal the annual debt service (principal plus interest) for the Public Purpose Lease Revenue Bonds, Series 2009A.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

3. Leases Receivable (Continued)

Otter Tail County has leased seven vehicles for use by West Central Minnesota Narcotics Task Force. The vehicles were then subleased to the Task Force. The Task Force is responsible for making the quarterly lease payments on behalf of the County.

Amounts due from the Viking Library System and West Central Minnesota Narcotics Task Force have been recorded as leases receivable in the General Fund at December 31, 2011. The amounts for 2012 are considered current and due within one year. Amounts remaining to be paid are as follows:

<u>Year Due</u>	<u>Viking Library System</u>	<u>Narcotics Task Force</u>
2012	\$ 40,000	\$ 41,820
2013	40,000	41,820
2014	45,000	12,720
2015	45,000	-
2016	50,000	-
2017 – 2021	275,000	-
2022 – 2026	360,000	-
2027 – 2029	270,000	-
	<hr/>	<hr/>
Total leases	\$ 1,125,000	\$ 96,360
Funds in escrow	<hr/> (47,854)	<hr/> -
Total Leases Receivable	<hr/> <u>\$ 1,077,146</u>	<hr/> <u>\$ 96,360</u>
Due Within One Year	<hr/> <u>\$ 40,000</u>	<hr/> <u>\$ 41,820</u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

4. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 3,357,784	\$ 788,388	\$ -	\$ 4,146,172
Construction in progress	-	3,869,441	-	3,869,441
Total capital assets not depreciated	<u>\$ 3,357,784</u>	<u>\$ 4,657,829</u>	<u>\$ -</u>	<u>\$ 8,015,613</u>
Capital assets depreciated				
Land improvements	\$ 924,757	\$ -	\$ -	\$ 924,757
Buildings	28,054,342	-	-	28,054,342
Building improvements	3,877,179	-	-	3,877,179
Machinery, furniture, and equipment	13,255,771	1,682,981	527,220	14,411,532
Infrastructure	132,211,302	4,764,133	-	136,975,435
Total capital assets depreciated	<u>\$ 178,323,351</u>	<u>\$ 6,447,114</u>	<u>\$ 527,220</u>	<u>\$ 184,243,245</u>
Less: accumulated depreciation for				
Land improvements	\$ 613,134	\$ 73,940	\$ -	\$ 687,074
Buildings	7,565,330	691,024	-	8,256,354
Building improvements	830,849	109,904	-	940,753
Machinery, furniture, and equipment	9,700,607	1,021,254	527,220	10,194,641
Infrastructure	47,604,508	3,595,678	-	51,200,186
Total accumulated depreciation	<u>\$ 66,314,428</u>	<u>\$ 5,491,800</u>	<u>\$ 527,220</u>	<u>\$ 71,279,008</u>
Total capital assets depreciated, net	<u>\$ 112,008,923</u>	<u>\$ 955,314</u>	<u>\$ -</u>	<u>\$ 112,964,237</u>
Governmental Activities Capital Assets, Net	<u>\$ 115,366,707</u>	<u>\$ 5,613,143</u>	<u>\$ -</u>	<u>\$ 120,979,850</u>



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 195,934	\$ -	\$ -	\$ 195,934
Capital assets depreciated				
Buildings	\$ 6,710,609	\$ -	\$ -	\$ 6,710,609
Landfill	2,883,578	-	-	2,883,578
Machinery, furniture, and equipment	2,494,825	44,333	31,282	2,507,876
Total capital assets depreciated	\$ 12,089,012	\$ 44,333	\$ 31,282	\$ 12,102,063
Less: accumulated depreciation for				
Buildings	\$ 2,276,359	\$ 227,183	\$ -	\$ 2,503,542
Landfill	1,567,280	95,502	-	1,662,782
Machinery, furniture, and equipment	1,652,048	217,405	31,282	1,838,171
Total accumulated depreciation	\$ 5,495,687	\$ 540,090	\$ 31,282	\$ 6,004,495
Total capital assets depreciated, net	\$ 6,593,325	\$ (495,757)	\$ -	\$ 6,097,568
Business-Type Activities				
Capital Assets, Net	\$ 6,789,259	\$ (495,757)	\$ -	\$ 6,293,502

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

Governmental Activities	
General government	\$ 886,312
Public safety	569,532
Highways and streets, including depreciation of infrastructure assets	3,976,108
Human services	40,943
Culture and recreation	5,572
Health	13,333
Total Depreciation Expense - Governmental Activities	\$ 5,491,800
Business-Type Activities	
Solid waste	\$ 540,090

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 580
	Human Services Special Revenue Fund	12,979
	Waste Management Enterprise Fund	112,156
Total due to General Fund		\$ 125,715
Road and Bridge Special Revenue Fund	General Fund	\$ 1,286
	Capital Improvement Special Revenue Fund	431,232
Total due to General Fund		\$ 432,518
Capital Improvement Special Revenue Fund	General Fund	\$ 7,868
Waste Management Enterprise Fund	General Fund	\$ 1,180
Agency Funds	Agency Funds	
State Tax	Taxes and Penalties Fund	\$ 113,189
Taxes and Penalties	State Tax	11
Family Services Collaborative	General Fund	70
Total due to Agency Funds		\$ 113,270
Total Due To/From Other Funds		\$ 680,551

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	County Ditch Special Revenue Fund Waste Management Enterprise Fund	\$ 166,962 811,190
Total General Fund		\$ 978,152

The County Ditch Special Revenue Fund advance is to provide working capital to ditch systems with low reserves and operating costs in excess of revenues. This balance will be paid from future ditch special assessments.

The Waste Management Enterprise Fund advance is to partially fund the Fergus Falls transfer station project. This balance will be paid back with annual principal and semi-annual interest payments through July 1, 2015.

3. Interfund Transfers

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

Transfer to General Fund from Human Services Special Revenue Fund	\$ 31,438	To transfer funds posted to the incorrect fund.
Transfer to General Fund from Sheriff's Contingent Special Revenue Fund	217	To transfer excess funds from the contingent fund balance.
Transfer to Construction Capital Projects Fund from General Fund	1,500,000	To transfer funds to use for courthouse remodeling project.
Transfer to Construction Capital Projects Fund from Human Services Special Revenue Fund	1,000,000	To transfer funds to use for the New York Mills building project.
Transfer to Construction Capital Projects Fund from Capital Improvement Special Revenue Fund	2,500,000	To transfer funds to use for courthouse remodeling project.
Total Transfers Between Funds	\$ 5,031,655	

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 1,387,396	\$ 94,888
Salaries	1,160,593	69,090
Contracts	724,086	-
Due to other governments	210,301	6,998
Due to component unit	507	246,451
Interest	227,395	-
Employee deposits	186,054	-
	<hr/>	<hr/>
Total Payables	\$ 3,896,332	\$ 417,427

2. Deferred Revenue

Deferred revenue as of December 31, 2011, for the County's governmental funds is as follows:

	Deferred Unavailable	Deferred Unearned
Governmental funds		
Taxes	\$ 755,383	\$ -
State-aid highway allotments	2,184,364	-
Charges for services	80,999	-
Grants	887,959	331,344
Accrued interest	35,988	-
Other	-	192,530
	<hr/>	<hr/>
Total Governmental Funds	\$ 3,944,693	\$ 523,874

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction Commitments

The government has active construction projects as of December 31, 2011.

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Courthouse Remodeling	\$ 1,076,333	\$ 23,208
Radio Equipment and console	835,995	288,515
Chiller replacement	-	236,692
Total Construction Commitments	\$ 1,912,328	\$ 548,415

4. Other Postemployment Benefits - Retirees

The County provides post-retirement health care benefits for employees who retire or resign in good standing. Seventy-five percent of the employees' accumulated sick leave may be applied toward health insurance premiums. Benefits start from the date they leave the County's employment until death or the balance of their sick leave is depleted, whichever comes first. The rates are based on the County's group health policy rates. After ten years of service, employees have the option of being paid for a portion of their sick leave balance in accordance with the personnel policy instead of applying it toward health insurance.

As of year-end, the County has three eligible participants. The County finances the plan on a pay-as-you-go basis. During 2011, the County expended \$7,266 for these benefits.

5. Capital Leases

The County has entered into lease agreements as a lessee for financing the acquisition of a new headquarters office building for the Viking Library System for seven vehicles for the West Central Minnesota Narcotics Task Force, and for a new phone system for the county offices. These capital leases consist of the following at December 31, 2011:

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Capital Leases (Continued)

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original Amount</u>	<u>Balance</u>
Governmental Activities					
2011 Cisco phone system	2014	Monthly	\$78,164- \$101,645 \$40,000 -	\$ 316,396	\$ 278,590
2010 Viking Library System	2029	Annually	\$95,000	1,200,000	1,125,000
2009 Task Force vehicles	2013	Quarterly	\$29,100	130,950	58,200
2010 Task Force vehicles	2014	Quarterly	\$12,720	57,240	38,160
Total Governmental Activities					<u>\$ 1,499,950</u>

The future minimum lease obligations as of December 31, 2011, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2012	\$ 180,601
2013	183,465
2014	135,884
2015	45,000
2016	50,000
2017 - 2021	275,000
2022 - 2026	360,000
2027 - 2029	270,000
Total Payments	<u>\$ 1,499,950</u>

As shown in Note 3.A.3., the Viking Library System and the West Central Minnesota Narcotics Task Force pay lease amounts to the County that equal the annual debt service (principal plus interest). To offset these receivables, the County liability is shown as the total of the scheduled payments rather than the present value of their future lease payments.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2004 Veterans Home Refunding Bonds	2016	\$100,000 - \$125,000	2.05 - 3.70	\$ 1,050,000	\$ 570,000
2007 Tax Abatement Bonds	2019	\$480,000 - \$640,000	4.05 - 5.00	5,245,000	4,565,000
2011 Capital Improvement Bonds	2019	\$500,000- \$850,000	0.50 - 1.75	<u>5,400,000</u>	<u>5,400,000</u>
Total general obligation bonds				<u>\$ 11,695,000</u>	\$ 10,535,000
Add: unamortized premium					10,146
Less: unamortized discount					<u>(26,152)</u>
Total General Obligation Bonds, Net					<u>\$ 10,518,994</u>
Revenue bonds					
2007 Public Project Housing and Redevelopment Authority Revenue Bonds	2024	\$320,000 - \$515,000	3.40 - 4.50	\$ 6,140,000	\$ 5,210,000
2011 Disposal System Revenue Bonds	2030	\$380,000 - \$1,475,000	3.00 - 5.00	<u>10,475,000</u>	<u>10,475,000</u>
Total revenue bonds				<u>\$ 16,615,000</u>	\$ 15,685,000
Less: unamortized discount					<u>(155,115)</u>
Total Revenue Bonds, Net					<u>\$ 15,529,885</u>
Lease revenue bonds					
2007 Law Enforcement Lease Housing and Redevelopment Authority Revenue Bonds	2023	\$295,000 - \$495,000	4.00	<u>\$ 5,590,000</u>	\$ 4,735,000
Add: unamortized premium					<u>11,427</u>
Total Lease Revenue Bonds, Net					<u>\$ 4,746,427</u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 605,000	\$ 249,370	\$ 735,000	\$ 636,214
2013	1,460,000	243,543	725,000	612,229
2014	1,490,000	212,685	745,000	587,741
2015	1,520,000	179,116	775,000	562,326
2016	1,560,000	141,957	800,000	535,596
2017 - 2021	3,900,000	180,687	4,435,000	2,221,687
2022 - 2026	-	-	3,990,000	1,279,100
2027 - 2030	-	-	3,480,000	432,350
Total	<u>\$ 10,535,000</u>	<u>\$ 1,207,358</u>	<u>\$ 15,685,000</u>	<u>\$ 6,867,243</u>

Year Ending December 31	Lease Revenue Bonds	
	Principal	Interest
2012	\$ 310,000	\$ 183,200
2013	320,000	170,600
2014	335,000	157,500
2015	350,000	143,800
2016	365,000	129,500
2017 - 2021	2,085,000	409,900
2022 - 2023	970,000	39,200
Total	<u>\$ 4,735,000</u>	<u>\$ 1,233,700</u>



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 5,715,000	\$ 5,400,000	\$ 580,000	\$ 10,535,000	\$ 605,000
Revenue bonds	12,325,000	10,475,000	7,115,000	15,685,000	735,000
Lease revenue bonds	5,030,000	-	295,000	4,735,000	310,000
Add: unamortized premium	24,037	-	2,464	21,573	-
Less: unamortized discount	(49,761)	(138,764)	(7,258)	(181,267)	-
Total bonds payable	\$ 23,044,276	\$ 15,736,236	\$ 7,985,206	\$ 30,795,306	\$ 1,650,000
Capital leases	1,303,180	316,396	119,626	1,499,950	180,601
Compensated absences	4,488,541	2,121,336	2,152,153	4,457,724	1,111,379
OPEB liability	532,988	153,144	-	686,132	-
Governmental Activities Long-Term Liabilities	<u>\$ 29,368,985</u>	<u>\$ 18,327,112</u>	<u>\$ 10,256,985</u>	<u>\$ 37,439,112</u>	<u>\$ 2,941,980</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure/postclosure care costs	\$ 1,065,867	\$ 56,500	\$ -	\$ 1,122,367	\$ -
Compensated absences	324,597	126,625	111,121	340,101	72,189
OPEB liability	32,977	10,570	-	43,547	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,423,441</u>	<u>\$ 193,695</u>	<u>\$ 111,121</u>	<u>\$ 1,506,015</u>	<u>\$ 72,189</u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

9. Advance Refunding - Governmental Activities

In 2011, the County has defeased the Government Services Building Lease Revenue Bonds, series 2002A, which were accounted for in the Government Service Center Debt Service Fund. New debt has been issued, and the proceeds have been placed in an escrow account. The escrow principal investments and interest earnings are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the Lease Revenue Bonds, Series 2002A, are considered defeased and, therefore, removed as a liability from the County's financial statements. As of December 31, 2011, the amount of defeased debt outstanding but removed from financial statements amounts to \$6,170,000. This advance refunding was undertaken to reduce total debt service payments over the next eight years by \$443,386, and resulted in an economic gain of \$417,648.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Otter Tail County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (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.

General 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 new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employees Retirement Fund 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.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For all General Employees Retirement Fund members hired prior to July 1, 1989, 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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General 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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	2011	2010	2009
General Employees Retirement Fund	\$ 1,212,301	\$ 1,206,029	\$ 1,054,631
Public Employees Police and Fire Fund	308,541	308,116	289,511
Public Employees Correctional Fund	142,241	141,357	131,732

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

B. Defined Contribution Plan

Three Otter Tail County Commissioners are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,385	\$ 5,385
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Otter Tail County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Otter Tail County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees.

This results in the retirees receiving an implicit rate subsidy. For 2011, there were approximately 421 participants in the plan, including 34 retirees and surviving spouses.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	305,833
Interest on net OPEB obligation		25,468
Adjustment to ARC		(34,539)
		_____
Annual OPEB cost (expense)	\$	296,762
Contributions made		(133,048)
		_____
Increase in net OPEB obligation	\$	163,714
Net OPEB Obligation - Beginning of Year		565,965
		_____
Net OPEB Obligation - End of Year	\$	729,679

The County's annual OPEB cost for December 31, 2011, was \$296,762. The percentage of annual OPEB cost contributed to the plan was 44.8 percent, and the net OPEB obligation for 2011 was \$729,679.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009, 2010, and 2011, was as follows:

Fiscal Year Ending	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed (%)	Net OPEB Obligation
December 31, 2009	\$ 293,084	\$ 126,009	43.0	\$ 356,895
December 31, 2010	300,270	91,200	30.0	565,965
December 31, 2011	296,762	133,048	45.0	729,679

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$2,667,501, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,667,501. The covered payroll (annual payroll of active employees covered by the plan) was \$19,419,051, and the ratio of the UAAL to the covered payroll was 13.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Otter Tail County's implicit rate of return on the General Fund. The annual health care cost trend is 8.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 7 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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5. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,122,367 landfill closure and postclosure care liability at December 31, 2011, represents the cumulative amount reported to date based on the use of 76 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$184,527 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. The Board expects to close the landfill in 2028. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements. At December 31, 2011, investments of \$1,270,314 are held for these purposes. These are reported as restricted assets on the statement of net assets. Otter Tail County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

6. 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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. 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.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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6. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011 and \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. 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.

7. Conduit Debt

In 2005, Productive Alternatives, Inc., issued a \$775,000 Health Care Facilities Revenue Note, Series 2005, to refinance the financing on the Willows Day Program building in order to build a new facility to operate its detox operations for the benefit of Otter Tail County as well as other counties. The project is deemed to be in the public interest. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2011, the outstanding principal amount payable was \$676,016.

In 2001, the Lake Region Healthcare Corporation issued a \$6,000,000 Health Care Facilities Revenue Note, Series 2001, to finance the remodeling and equipping of the Corporation's nursing home and 108-bed hospital and the remodeling of a portion of the Corporation's nursing home for use as an inpatient rehabilitation unit. The project is deemed to be in the public interest. The note is secured by the property financed through a series of loan agreements and is payable solely from revenues of the entity. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2011, the outstanding principal amount payable was \$3,256,207.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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8. 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, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigation. The County Attorney identified no potential claims against the County that would materially affect the financial statements.

B. Joint Ventures

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1992, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in the carrying out of this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of withdrawal.

Control is vested in the West Central Board on Aging. The Board consists of one Commissioner from each of the counties. The County Commissioners of the county he or she represents appoint each member of the Board.

Complete financial information can be obtained from:

West Central Area Agency on Aging  
313 South Mill Street  
Fergus Falls, Minnesota 56537

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Minnesota River Basin

The Minnesota River Basin Joint Powers Board was established July 12, 1995, by an agreement between Otter Tail County and 30 other counties. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Joint Powers Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

Control is vested in an Executive Board of five officers elected from the membership of the Joint Powers Board, consisting of one representative and alternate from each County Board of Commissioners included in this agreement.

During 2011, Otter Tail County did not contribute any funds to the Joint Powers Board.

Separate financial information can be obtained from:

Minnesota River Basin Joint Powers Board  
Administration Building No. 14  
600 East 4th Street  
Chaska, Minnesota 55318

West Central Minnesota Drug Task Force

The West Central Minnesota Drug Task Force was established in 1996 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Clay, Douglas, Grant, Otter Tail, and Todd Counties, and the Cities of Alexandria, Breckenridge, Detroit Lakes, Fargo, Fergus Falls, Moorhead, Pelican Rapids, Perham, and Wahpeton. The Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the six-county area.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Minnesota Drug Task Force (Continued)

Control of the Task Force is vested in a Board of Directors. The Board of Directors consists of department heads or a designee from each participating full-time member agency. In the event of dissolution of the Task Force, the equipment will be divided and returned to the appropriate agencies. If only one agency terminates its agreement and the unit continues, all equipment will remain with the Task Force.

Fiscal agent responsibilities for the Task Force are with Douglas County. Financing and equipment will be provided by the full-time and associate member agencies. Otter Tail County did not contribute any funds to this organization in 2011.

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, by an agreement between Otter Tail County and five other counties and their respective soil and water conservation districts. The agreement was made to develop and implement plans to protect property from damage of flooding; control erosion of land; protect streams and lakes from sedimentation and pollution; and maintain or improve the quality of water in the streams, lakes, and ground water lying within the boundaries of the watershed of the Pomme de Terre River. Administrative costs are apportioned equally to the soil and water conservation districts based on actual costs.

Central Minnesota Emergency Services Board

The Central Minnesota Emergency Services Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Member include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

The purpose of the Central Minnesota Emergency Services Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

The Central Minnesota Emergency Services Board is composed of one Commissioner of each county appointed by their respective County Board and one City Council member from each city appointed by their respective City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

In the event of dissolution of the Central Minnesota Regional Radio Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Central Minnesota Regional Radio Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. During 2011, Otter Tail County did not contribute to the Board.

Complete financial information can be obtained from:

Central Minnesota Emergency Services Board  
City of St. Cloud  
Office of the Mayor  
City Hall  
400 Second Street South  
St. Cloud, Minnesota 56303

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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8. Summary of Significant Contingencies and Other Items (Continued)

C. Jointly-Governed Organizations

Otter Tail County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below:

District IV Transportation Planning

Otter Tail County and 13 other cities and counties entered into a joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

Otter Tail County Family Services Collaborative

The Otter Tail County Family Services Collaborative was established in 1999 under the authority of Minn. Stat. §§ 124D.23 and 245.491. The Collaborative includes the Otter Tail County Human Services Board, Court Services, Public Health, and Social Services, nine school districts within the County, and ten private agencies. The purpose of the Collaborative is to establish an integrated fund to support interventions, services, and programs for children and families in the County.

Control of the Otter Tail County Family Services Collaborative is vested in a Board of Directors comprised of one representative from each participating agency. The representatives come from the elected board of the governmental entities and from the boards of the private agencies.

Any party may withdraw from the agreement by the passage of a resolution by its governing board declaring its intent to withdraw. A party exercising its option to withdraw shall remain liable for financial obligations incurred prior to its withdrawal and shall not be entitled to a refund of contributions to the integrated fund. Upon termination of the agreement, any surplus funds will be distributed by resolution of the governing board in accordance with law in a manner to best accomplish the continuing purposes of the Collaborative.

Financing is provided by state and federal grants and cash and in-kind contributions from its member parties. Otter Tail County, in an agent capacity, reports the cash transactions of the Collaborative as an agency fund on its financial statements. During 2011, the County did not contribute any funds to the Collaborative.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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9. Subsequent Event

General Obligation Bonds Issued

On January 6, 2012, the County issued General Obligation Bonds, Series 2012A, of \$4,780,000. The purpose of the bonds is to finance the cost of courthouse improvements and jail improvements.

10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, Prairie Lakes has the following significant disclosures.

1. Financial Reporting Entity

Prairie Lakes is a joint enterprise operation of Becker, Otter Tail, Todd, and Wadena Counties (the Counties). Prairie Lakes was established by a Joint Powers Agreement dated May 4, 2010, pursuant to Minn. Stat. § 471.59, Joint Powers Act.

Each of the Counties is authorized and obligated pursuant to Minn. Stat. chs. 115A and 400, to provide for the management and disposal of solid waste in its respective county. It is the intention of the Counties to cooperate in a joint venture to operate and manage a waste management system within the Counties. This purpose, without limitation, shall include ownership and operation of the Perham Resource Recovery Facility. The facility is located in Perham, Minnesota and the administrative office is located in Fergus Falls, Minnesota. Prairie Lakes also has a Management Agreement with the City of Perham for the operations of the facility. They are located in the City of Perham offices in Perham, Minnesota.

Prairie Lakes is governed by a five-member Board of Directors--one member appointed from Becker, Todd, and Wadena Counties and two from Otter Tail County. Receipts and disbursements for the day-to-day operations are recorded by the City of Perham as a fund in their general ledger. Receipts and disbursements related to the expansion of the facility are recorded in the Prairie Lakes Municipal Solid Waste Authority Fund by Otter Tail County. Contribution percentages for the Counties were set up in the Joint Powers Agreement: Becker 26.42 percent, Otter Tail 45.26 percent, Todd 16.19 percent, and Wadena 12.13 percent.



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

A. Summary of Significant Accounting Policies

1. Financial Reporting Entity (Continued)

Prairie Lakes is a discrete component unit of Otter Tail County because Otter Tail County is financially accountable for Prairie Lakes. Prairie Lakes' financial statements are discretely presented in the Otter Tail County financial statements.

2. Basic Financial Statements

The accounts of Prairie Lakes are organized as an enterprise fund. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activities of Prairie Lakes. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income, result from nonexchange transactions or incidental activities. Prairie Lakes' 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.

3. Measurement Focus and Basis of Accounting

Prairie Lakes' 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is Prairie Lakes' policy to use restricted resources first and then unrestricted resources as needed.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

A. Summary of Significant Accounting Policies (Continued)

4. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash and pooled investments. Prairie Lakes' cash is pooled and invested with Otter Tail County and the City of Perham and is treated as a cash equivalent because Prairie Lakes can deposit or effectively withdraw cash at any time without prior notice or penalty. Interest is credited to the Prairie Lakes Fund. Otter Tail County and the City of Perham obtain collateral to cover the deposits in excess of insurance coverage.

Receivables

All receivables are shown net of an allowance for uncollectibles.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Prairie Lakes does not have a formal policy in place to define Capital assets. Instead, they currently use the capital asset listing developed by the City of Perham at the time of the sale of the facility from the City of Perham to the Counties. 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. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the current period, Prairie Lakes did not have any capitalized interest.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Assets or Equity

Capital Assets (Continued)

Property, plant, and equipment of Prairie Lakes are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 40
Machinery, furniture, equipment, and vehicles	3 - 20

Classification of Net Assets

Net assets in the government-wide financial statements are classified in the following categories:

- Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net assets - the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Operating Revenues and Expenses

Prairie Lakes' statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing services. Nonexchange revenues, including member county appropriations, interest income, grants, and contributions received for purposes other than for

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Assets or Equity

Operating Revenues and Expenses (Continued)

capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide services. Expenses not meeting this definition are reported as nonoperating expenses.

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.

B. Detailed Notes

1. Assets

Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 176,159	\$ -
Due from other governments	72,282	-
Due from primary government	246,958	-
Total	\$ 495,399	\$ -

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

B. Detailed Notes

1. Assets (Continued)

Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ -	\$ 25,489	\$ -	\$ 25,489
Construction in progress	-	960,854	-	960,854
Total capital assets not depreciated	\$ -	\$ 986,343	\$ -	\$ 986,343
Capital assets depreciated				
Buildings	\$ -	\$ 5,563,415	\$ -	\$ 5,563,415
Machinery, furniture, and equipment	-	1,548,682	-	1,548,682
Total capital assets depreciated	\$ -	\$ 7,112,097	\$ -	\$ 7,112,097
Less: accumulated depreciation for				
Buildings	\$ -	\$ 269,828	\$ -	\$ 269,828
Machinery, furniture, and equipment	-	91,418	-	91,418
Total accumulated depreciation	\$ -	\$ 361,246	\$ -	\$ 361,246
Total capital assets depreciated, net	\$ -	\$ 6,750,851	\$ -	\$ 6,750,851
Capital Assets, Net	\$ -	\$ 7,737,194	\$ -	\$ 7,737,194

Depreciation expense for the year was \$ 361,246.

2. Liabilities

Payables

Payables at December 31, 2011, were as follows:

Accounts	\$ 255,092
Due to other governments	73,319
Due to primary government	85,707
Total Payables	<u>\$ 414,118</u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

B. Detailed Notes

2. Liabilities (Continued)

Advance From Primary Government

Prairie Lakes Municipal Solid Waste Authority has entered into an advance arrangement with Otter Tail County. Otter Tail County agreed to issue \$10,475,000 in General Obligation Disposal System Revenue Bonds in order to finance the acquisition/expansion of the facility. The proceeds from the sale of these bonds will be recognized by Otter Tail County. Prairie Lakes advance payment is essentially equal to the principal and interest on the bonds for the year. The advance balance consists of the following at December 31, 2011:

<u>Type of Indebtedness</u>	<u>Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate %</u>	<u>Original</u>	<u>Balance</u>
Advance from primary government	2030	\$405,000- 755,000	3.0 to 5.0	<u>\$ 10,475,000</u>	<u>\$ 10,475,000</u>

The future minimum obligations and the net present value of these minimum payments as of December 31, 2011, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2012	\$ 824,906
2013	788,132
2014	786,581
2015	789,656
2016	787,357
2017 - 2021	3,921,700
2022 - 2026	3,912,953
2027 - 2030	<u>3,912,350</u>
Total future minimum lease payments	\$ 15,723,635
Less: amount representing interest	<u>(5,248,635)</u>
Present Value of Minimum Lease Payments	<u>\$ 10,475,000</u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

B. Detailed Notes

2. Liabilities (Continued)

Capital Lease

Prairie Lakes at the time of the purchase of the facility from the City of Perham assumed a lease for financing the acquisition of a loader. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The capital lease consists of the following at December 31, 2011:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2007 Loader	2012	Semi- annual	\$ 13,750	<u>\$ 122,040</u>	<u>\$ 13,393</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2012	\$ 13,750
Less: amount representing interest	<u>(357)</u>
Present Value of Minimum Lease Payments	<u>\$ 13,393</u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

B. Detailed Notes

2. Liabilities (Continued)

Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advance from primary government	\$ -	\$ 10,475,000	\$ -	\$ 10,475,000	\$ 405,000
Capital lease	-	39,272	25,879	13,393	13,393
Long-Term Liabilities	<u>\$ -</u>	<u>\$ 10,514,272</u>	<u>\$ 25,879</u>	<u>\$ 10,488,393</u>	<u>\$ 418,393</u>

3. Risk Management

Prairie Lakes purchases commercial insurance coverage through Western National Mutual Insurance Company. Prairie Lakes pays an annual premium for its insurance coverage. Prairie Lakes retains the risk for the deductible portion of the policies, which is considered immaterial to the financial statements. At December 31, 2011, there are no other claims liabilities reported in the financial statements based on the requirements of Government Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated.



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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10. Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes)

B. Detailed Notes (Continued)

4. Other Items

Operating Budgets

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 2,689,028	\$ 2,371,050	\$ (317,978)
Operating Expenses	3,061,825	2,313,547	748,278
Operating Income (Loss)	\$ (372,797)	\$ 57,503	\$ 430,300
Nonoperating Revenues (Expenses) and Contributions	17,500	367,379	349,879
Change in Net Assets	\$ (355,297)	\$ 424,882	\$ 780,179

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 16,183,147	\$ 16,183,147	\$ 15,563,847	\$ (619,300)
Special assessments	20,742	20,742	21,129	387
Licenses and permits	337,500	337,500	363,208	25,708
Intergovernmental	3,289,453	3,289,453	3,211,586	(77,867)
Charges for services	1,390,150	1,390,150	1,209,959	(180,191)
Fines and forfeits	35,000	35,000	18,114	(16,886)
Gifts and contributions	-	-	12,865	12,865
Investment earnings	380,000	380,000	301,982	(78,018)
Miscellaneous	654,245	654,245	1,358,454	704,209
<b>Total Revenues</b>	<b>\$ 22,290,237</b>	<b>\$ 22,290,237</b>	<b>\$ 22,061,144</b>	<b>\$ (229,093)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 346,143	\$ 346,143	\$ 327,013	\$ 19,130
Courts	30,000	30,000	18,583	11,417
Public defender	233,520	233,520	128,676	104,844
County coordinator	444,539	444,539	511,578	(67,039)
County auditor	764,154	764,154	774,305	(10,151)
License bureau	386,533	386,533	392,241	(5,708)
County treasurer	325,463	325,463	303,016	22,447
County assessor	971,447	971,447	892,494	78,953
Elections	40,600	40,600	44,217	(3,617)
Accounting and auditing	115,000	115,000	122,441	(7,441)
Board of adjustments	24,526	24,526	22,737	1,789
Data processing	966,632	966,632	995,295	(28,663)
Attorney	1,243,296	1,243,296	1,258,615	(15,319)
Recorder	394,598	394,598	564,003	(169,405)
Planning and zoning	986,016	986,016	1,034,955	(48,939)
Environmental services	31,867	31,867	23,752	8,115
Buildings and plant	1,818,810	1,818,810	1,859,192	(40,382)
Geographical information survey	310,746	310,746	283,105	27,641
Veterans service officer	321,063	321,063	327,190	(6,127)
Appropriations	4,500	4,500	-	4,500
Unallocated	1,064,253	1,064,253	227,068	837,185
<b>Total general government</b>	<b>\$ 10,823,706</b>	<b>\$ 10,823,706</b>	<b>\$ 10,110,476</b>	<b>\$ 713,230</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 4,996,757	\$ 4,996,757	\$ 4,919,186	\$ 77,571
Boat and water safety	115,946	115,946	105,729	10,217
Coroner	80,472	80,472	104,553	(24,081)
County jail	3,042,036	3,042,036	2,746,098	295,938
DARE program	9,700	9,700	-	9,700
Civil defense	119,029	119,029	77,489	41,540
Tobacco comp	4,500	4,500	3,086	1,414
<b>Total public safety</b>	<b>\$ 8,368,440</b>	<b>\$ 8,368,440</b>	<b>\$ 7,956,141</b>	<b>\$ 412,299</b>
<b>Culture and recreation</b>				
Historical society	\$ 48,273	\$ 48,273	\$ 48,273	\$ -
Tourism	30,000	30,000	30,000	-
County fairs	32,000	32,000	32,000	-
Phelps Mill Park	45,924	45,924	43,271	2,653
Humane society	57,159	57,159	57,159	-
Viking Library	481,478	481,478	481,478	-
Snowmobile trails	-	-	112,996	(112,996)
<b>Total culture and recreation</b>	<b>\$ 694,834</b>	<b>\$ 694,834</b>	<b>\$ 805,177</b>	<b>\$ (110,343)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 325,426	\$ 325,426	\$ 347,746	\$ (22,320)
Soil and water conservation	162,410	162,410	162,414	(4)
Lake improvement districts	165,795	165,795	164,474	1,321
Other conservation	-	-	3,665	(3,665)
<b>Total conservation of natural resources</b>	<b>\$ 653,631</b>	<b>\$ 653,631</b>	<b>\$ 678,299</b>	<b>\$ (24,668)</b>
<b>Economic development</b>				
Community development	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Rural life outreach	1,000	1,000	1,000	-
Other economic development	800	800	800	-
<b>Total economic development</b>	<b>\$ 21,800</b>	<b>\$ 21,800</b>	<b>\$ 21,800</b>	<b>\$ -</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 81,820	\$ (81,820)
<b>Total Expenditures</b>	<b>\$ 20,562,411</b>	<b>\$ 20,562,411</b>	<b>\$ 19,653,713</b>	<b>\$ 908,698</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 1,727,826</b>	<b>\$ 1,727,826</b>	<b>\$ 2,407,431</b>	<b>\$ 679,605</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 72,353	\$ 72,353	\$ 31,655	\$ (40,698)
Transfers out	(154,350)	(154,350)	(1,500,000)	(1,345,650)
<b>Total Other Financing Sources   (Uses)</b>	<b>\$ (81,997)</b>	<b>\$ (81,997)</b>	<b>\$ (1,468,345)</b>	<b>\$ (1,386,348)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,645,829</b>	<b>\$ 1,645,829</b>	<b>\$ 939,086</b>	<b>\$ (706,743)</b>
<b>Fund Balance - January 1, as restated (Note 2.C)</b>	<b>16,829,966</b>	<b>16,829,966</b>	<b>16,829,966</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 18,475,795</b>	<b>\$ 18,475,795</b>	<b>\$ 17,769,052</b>	<b>\$ (706,743)</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,579,640	\$ 2,579,640	\$ 2,524,927	\$ (54,713)
Intergovernmental	13,821,410	13,821,410	14,330,888	509,478
Charges for services	196,000	196,000	816,241	620,241
Miscellaneous	22,200	22,200	23,579	1,379
<b>Total Revenues</b>	<b>\$ 16,619,250</b>	<b>\$ 16,619,250</b>	<b>\$ 17,695,635</b>	<b>\$ 1,076,385</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 522,350	\$ 522,350	\$ 549,829	\$ (27,479)
Maintenance	4,559,750	4,559,750	5,039,430	(479,680)
Construction	9,444,900	9,444,900	7,992,838	1,452,062
Equipment maintenance and shop	1,081,250	1,081,250	1,181,004	(99,754)
Materials and services for resale	1,000	1,000	2,184	(1,184)
<b>Total highways and streets</b>	<b>\$ 15,609,250</b>	<b>\$ 15,609,250</b>	<b>\$ 14,765,285</b>	<b>\$ 843,965</b>
<b>Intergovernmental</b>				
Highways and streets	1,010,000	1,010,000	1,115,831	(105,831)
<b>Total Expenditures</b>	<b>\$ 16,619,250</b>	<b>\$ 16,619,250</b>	<b>\$ 15,881,116</b>	<b>\$ 738,134</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,814,519</b>	<b>\$ 1,814,519</b>
<b>Fund Balance - January 1</b>	<b>2,248,204</b>	<b>2,248,204</b>	<b>2,248,204</b>	<b>-</b>
<b>Increase (decrease) for inventories</b>	<b>-</b>	<b>-</b>	<b>(19,989)</b>	<b>(19,989)</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,248,204</b>	<b>\$ 2,248,204</b>	<b>\$ 4,042,734</b>	<b>\$ 1,794,530</b>



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 7,946,675	\$ 7,946,675	\$ 7,805,195	\$ (141,480)
Intergovernmental	10,217,655	10,217,655	10,455,803	238,148
Charges for services	1,778,112	1,778,112	1,641,834	(136,278)
Miscellaneous	523,200	523,200	421,828	(101,372)
<b>Total Revenues</b>	<b>\$ 20,465,642</b>	<b>\$ 20,465,642</b>	<b>\$ 20,324,660</b>	<b>\$ (140,982)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Community corrections	\$ 1,915,637	\$ 1,915,637	\$ 1,767,958	\$ 147,679
<b>Human services</b>				
Income maintenance	\$ 4,335,272	\$ 4,335,272	\$ 4,180,989	\$ 154,283
Social services	11,824,079	11,824,079	10,984,266	839,813
<b>Total human services</b>	<b>\$ 16,159,351</b>	<b>\$ 16,159,351</b>	<b>\$ 15,165,255</b>	<b>\$ 994,096</b>
<b>Health</b>				
Nursing service	\$ 2,390,654	\$ 2,390,654	\$ 2,448,234	\$ (57,580)
<b>Total Expenditures</b>	<b>\$ 20,465,642</b>	<b>\$ 20,465,642</b>	<b>\$ 19,381,447</b>	<b>\$ 1,084,195</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ 943,213	\$ 943,213
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(1,031,438)	(1,031,438)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (88,225)</b>	<b>\$ (88,225)</b>
<b>Fund Balance - January 1</b>	<b>11,271,207</b>	<b>11,271,207</b>	<b>11,271,207</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 11,271,207</b>	<b>\$ 11,271,207</b>	<b>\$ 11,182,982</b>	<b>\$ (88,225)</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,570,115	\$ 1,570,115	\$ 1,539,765	\$ (30,350)
Special assessments	-	-	12	12
Intergovernmental	227,074	227,074	760,507	533,433
Charges for services	-	-	1,609	1,609
Investment earnings	34,200	34,200	42,129	7,929
Miscellaneous	51,960	51,960	123,385	71,425
<b>Total Revenues</b>	<b>\$ 1,883,349</b>	<b>\$ 1,883,349</b>	<b>\$ 2,467,407</b>	<b>\$ 584,058</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Data processing	\$ 200,000	\$ 200,000	\$ 328,264	\$ (128,264)
Planning and zoning	9,000	9,000	-	9,000
Buildings and plant	-	-	1,275,048	(1,275,048)
Geographical information survey	15,000	15,000	-	15,000
Other general government	-	-	53	(53)
<b>Total general government</b>	<b>\$ 224,000</b>	<b>\$ 224,000</b>	<b>\$ 1,603,365</b>	<b>\$ (1,379,365)</b>
<b>Public safety</b>				
Sheriff	\$ 458,410	\$ 458,410	\$ 353,721	\$ 104,689
Boat and water safety	30,000	30,000	28,319	1,681
Emergency services	-	-	877,188	(877,188)
Radio board	-	-	697,157	(697,157)
County jail	50,000	50,000	-	50,000
Court services	60,300	60,300	6,246	54,054
<b>Total public safety</b>	<b>\$ 598,710</b>	<b>\$ 598,710</b>	<b>\$ 1,962,631</b>	<b>\$ (1,363,921)</b>
<b>Highways and streets</b>				
Maintenance	\$ 47,800	\$ 47,800	\$ 431,232	\$ (383,432)
Construction	200,000	200,000	-	200,000
Equipment and maintenance shop	823,500	823,500	565,975	257,525
<b>Total highways and streets</b>	<b>\$ 1,071,300</b>	<b>\$ 1,071,300</b>	<b>\$ 997,207</b>	<b>\$ 74,093</b>
<b>Human services</b>				
Social services	\$ 74,000	\$ 74,000	\$ 41,666	\$ 32,334
<b>Health</b>				
Nursing service	\$ 14,000	\$ 14,000	\$ -	\$ 14,000

The notes to the required supplementary information are an integral part of this schedule.

Page 97

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-4  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Culture and recreation</b>				
Phelps Mill Park	\$ 156,100	\$ 156,100	\$ 108,496	\$ 47,604
<b>Conservation of natural resources</b>				
Extension	\$ 16,000	\$ 16,000	\$ -	\$ 16,000
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 37,806	\$ (37,806)
Interest	\$ -	\$ -	\$ 3,549	\$ (3,549)
<b>Total Expenditures</b>	<b>\$ 2,154,110</b>	<b>\$ 2,154,110</b>	<b>\$ 4,754,720</b>	<b>\$ (2,600,610)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (270,761)</b>	<b>\$ (270,761)</b>	<b>\$ (2,287,313)</b>	<b>\$ (2,016,552)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 154,000	\$ 154,000	\$ -	\$ (154,000)
Transfers out	-	-	(2,500,000)	(2,500,000)
Capital lease	-	-	316,396	316,396
<b>Total Other Financing Sources     (Uses)</b>	<b>\$ 154,000</b>	<b>\$ 154,000</b>	<b>\$ (2,183,604)</b>	<b>\$ (2,337,604)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (116,761)</b>	<b>\$ (116,761)</b>	<b>\$ (4,470,917)</b>	<b>\$ (4,354,156)</b>
<b>Fund Balance - January 1</b>	<b>7,926,695</b>	<b>7,926,695</b>	<b>7,926,695</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 7,809,934</b>	<b>\$ 7,809,934</b>	<b>\$ 3,455,778</b>	<b>\$ (4,354,156)</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**EXHIBIT A-5**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 2,496,957	\$ 2,496,957	0.0%	\$ 17,216,511	14.50%
January 1, 2010	-	2,566,299	2,566,299	0.0%	18,471,873	13.89%

Business-Type Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 85,955	\$ 85,955	0.0%	\$ 909,490	9.45%
January 1, 2010	-	101,202	101,202	0.0%	947,178	10.68%

See Note 4.C., Other Postemployment Benefits, for more information.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Prairie Lakes Municipal Solid Waste Authority Debt Service Fund and the Construction Capital Projects Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before October 31, 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. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

Encumbrances (such as purchase orders and 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.

2. Excess of Expenditures Over Budget

The following major fund had expenditures in excess of budget for the year ended December 31, 2011.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Capital Improvement Special Revenue Fund	\$ 4,754,720	\$ 2,154,110	\$ 2,600,610

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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3. Other Postemployment Benefits

Otter Tail County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2008. See Note 4.C. to the financial statements for more information.

GASB Statement 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported.

Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

**SUPPLEMENTARY INFORMATION**

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

County Ditch - to account for the financing of repairs to the ditch system that are deemed to benefit the properties against which special assessments are levied.

Law Library - to account for the financial activities relating to the operation of the County's law library. Financing is provided by a charge for services levied on cases in district and County court. Expenditures for law library books and periodicals are made from the Law Library Fund upon approval of the Law Library Board of Trustees.

Sheriff's Contingent - to account for both the advance and reimbursement of travel expenses by the County Sheriff and one-quarter of liquor and narcotics fines to be used for investigating violations of liquor and narcotics laws.

DEBT SERVICE FUNDS

Chemical Dependency - to account for the retirement of bonds issued for the construction of the Chemical Dependency Facility.

Ethanol Plant - to account for the retirement of bonds issued for the construction of the ethanol plant and road.

Government Service Center - to account for the retirement of bonds issued for the remodeling of the Government Service Center.

Sheriff Operations - to account for the retirement of bonds issued for the construction of a Sheriff's Operations Center.

Veterans Home - to account for the retirement of bonds issued for the construction of a veterans home.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS  
(Continued)**

**CAPITAL PROJECTS FUND**

Construction - to account for the costs associated with remodeling, renovations, and improvements to the Otter Tail County Courthouse, the Government Services Center, and the New York Mills office building.

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**EXHIBIT B-1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<b>Special Revenue (Exhibit B-3)</b>	<b>Debt Service (Exhibit B-5)</b>	<b>Construction Capital Projects</b>	<b>Total (Exhibit 3)</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 289,321	\$ 6,008,669	\$ 4,991,122	\$ 11,289,112
Undistributed cash in agency funds	850	36,011	-	36,861
Taxes receivable				
Current	-	40,488	-	40,488
Prior	-	22,775	-	22,775
Special assessments receivable				
Current	1,864	-	-	1,864
Prior	1,620	-	-	1,620
Deferred	39,822	-	-	39,822
Due from other governments	4,770	-	-	4,770
Restricted assets				
Temporarily restricted				
Cash with escrow agent	-	256,686	-	256,686
<b>Total Assets</b>	<b>\$ 338,247</b>	<b>\$ 6,364,629</b>	<b>\$ 4,991,122</b>	<b>\$ 11,693,998</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 11,110	\$ 6,085	\$ 30,628	\$ 47,823
Deferred revenue - unavailable	41,867	48,333	-	90,200
Advance from other funds	166,962	-	-	166,962
<b>Total Liabilities</b>	<b>\$ 219,939</b>	<b>\$ 54,418</b>	<b>\$ 30,628</b>	<b>\$ 304,985</b>
<b>Fund Balances</b>				
Restricted				
Debt service	\$ -	\$ 6,310,211	\$ -	\$ 6,310,211
Law library	103,247	-	-	103,247
Equipment purchase	-	-	236,692	236,692
Ditch maintenance and construction	166,297	-	-	166,297
Sheriff's contingencies	5,000	-	-	5,000
Assigned				
Public safety	7,241	-	-	7,241
Capital outlay	-	-	4,723,802	4,723,802
Unassigned	(163,477)	-	-	(163,477)
<b>Total Fund Balances</b>	<b>\$ 118,308</b>	<b>\$ 6,310,211</b>	<b>\$ 4,960,494</b>	<b>\$ 11,389,013</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 338,247</b>	<b>\$ 6,364,629</b>	<b>\$ 4,991,122</b>	<b>\$ 11,693,998</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Special Revenue (Exhibit B-4)</b>	<b>Debt Service (Exhibit B-6)</b>	<b>Construction Capital Projects</b>	<b>Total (Exhibit 5)</b>
<b>Revenues</b>				
Taxes	\$ -	\$ 2,115,114	\$ -	\$ 2,115,114
Special assessments	50,757	-	-	50,757
Intergovernmental	-	129,017	-	129,017
Fines and forfeits	65,738	-	-	65,738
Investment earnings	-	853	-	853
Miscellaneous	711	547,448	-	548,159
<b>Total Revenues</b>	<b>\$ 117,206</b>	<b>\$ 2,792,432</b>	<b>\$ -</b>	<b>\$ 2,909,638</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ 47,515	\$ -	\$ -	\$ 47,515
Public safety	9,896	-	-	9,896
Conservation of natural resources	129,459	-	-	129,459
<b>Capital outlay</b>				
General government	-	-	39,506	39,506
<b>Debt service</b>				
Principal	-	1,820,000	-	1,820,000
Interest	-	987,037	-	987,037
Bond issuance costs	-	47,429	-	47,429
<b>Total Expenditures</b>	<b>\$ 186,870</b>	<b>\$ 2,854,466</b>	<b>\$ 39,506</b>	<b>\$ 3,080,842</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (69,664)</b>	<b>\$ (62,034)</b>	<b>\$ (39,506)</b>	<b>\$ (171,204)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 5,000,000	\$ 5,000,000
Transfers out	(217)	-	-	(217)
Bonds issued	-	5,400,000	-	5,400,000
Payment to refunded bond escrow agent	-	(6,589,348)	-	(6,589,348)
Discount on bonds issued	-	(26,460)	-	(26,460)
Special item	-	3,839,126	-	3,839,126
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (217)</b>	<b>\$ 2,623,318</b>	<b>\$ 5,000,000</b>	<b>\$ 7,623,101</b>
<b>Net Change in Fund Balance</b>	<b>\$ (69,881)</b>	<b>\$ 2,561,284</b>	<b>\$ 4,960,494</b>	<b>\$ 7,451,897</b>
<b>Fund Balance - January 1, as restated (Note 2.C)</b>	<b>188,189</b>	<b>3,748,927</b>	<b>-</b>	<b>3,937,116</b>
<b>Fund Balance - December 31</b>	<b>\$ 118,308</b>	<b>\$ 6,310,211</b>	<b>\$ 4,960,494</b>	<b>\$ 11,389,013</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-3*

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
DECEMBER 31, 2011**

	<b>County Ditch</b>	<b>Law Library</b>	<b>Sheriff's Contingent</b>	<b>Total</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 171,436	\$ 106,109	\$ 11,776	\$ 289,321
Undistributed cash in agency funds	850	-	-	850
Special assessments receivable				
Current	1,864	-	-	1,864
Prior	1,620	-	-	1,620
Deferred	39,822	-	-	39,822
Due from other governments	-	4,305	465	4,770
<b>Total Assets</b>	<b>\$ 215,592</b>	<b>\$ 110,414</b>	<b>\$ 12,241</b>	<b>\$ 338,247</b>
 <b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 3,943	\$ 7,167	\$ -	\$ 11,110
Deferred revenue - unavailable	41,867	-	-	41,867
Advance from other funds	166,962	-	-	166,962
<b>Total Liabilities</b>	<b>\$ 212,772</b>	<b>\$ 7,167</b>	<b>\$ -</b>	<b>\$ 219,939</b>
<b>Fund Balances</b>				
Restricted				
Law library	\$ -	\$ 103,247	\$ -	\$ 103,247
Ditch maintenance and construction	166,297	-	-	166,297
Sheriff's contingencies	-	-	5,000	5,000
Assigned				
Public safety	-	-	7,241	7,241
Unassigned	(163,477)	-	-	(163,477)
<b>Total Fund Balances</b>	<b>\$ 2,820</b>	<b>\$ 103,247</b>	<b>\$ 12,241</b>	<b>\$ 118,308</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 215,592</b>	<b>\$ 110,414</b>	<b>\$ 12,241</b>	<b>\$ 338,247</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-4*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>County Ditch</u>	<u>Law Library</u>	<u>Sheriff's Contingent</u>	<u>Total</u>
<b>Revenues</b>				
Special assessments	\$ 50,757	\$ -	\$ -	\$ 50,757
Fines and forfeits	-	58,860	6,878	65,738
Miscellaneous	711	-	-	711
	<u>711</u>	<u>-</u>	<u>-</u>	<u>711</u>
<b>Total Revenues</b>	<b>\$ 51,468</b>	<b>\$ 58,860</b>	<b>\$ 6,878</b>	<b>\$ 117,206</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ -	\$ 47,515	\$ -	\$ 47,515
Public safety	-	-	9,896	9,896
Conservation of natural resources	129,459	-	-	129,459
	<u>129,459</u>	<u>-</u>	<u>-</u>	<u>129,459</u>
<b>Total Expenditures</b>	<b>\$ 129,459</b>	<b>\$ 47,515</b>	<b>\$ 9,896</b>	<b>\$ 186,870</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (77,991)</b>	<b>\$ 11,345</b>	<b>\$ (3,018)</b>	<b>\$ (69,664)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(217)	(217)
	<u>-</u>	<u>-</u>	<u>(217)</u>	<u>(217)</u>
<b>Net Change in Fund Balance</b>	<b>\$ (77,991)</b>	<b>\$ 11,345</b>	<b>\$ (3,235)</b>	<b>\$ (69,881)</b>
<b>Fund Balance - January 1, as restated (Note 2.C)</b>	<b>80,811</b>	<b>91,902</b>	<b>15,476</b>	<b>188,189</b>
	<u>80,811</u>	<u>91,902</u>	<u>15,476</u>	<u>188,189</u>
<b>Fund Balance - December 31</b>	<b>\$ 2,820</b>	<b>\$ 103,247</b>	<b>\$ 12,241</b>	<b>\$ 118,308</b>
	<u>2,820</u>	<u>103,247</u>	<u>12,241</u>	<u>118,308</u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-5*

**COMBINING BALANCE SHEET  
NONMAJOR DEBT SERVICE FUNDS  
DECEMBER 31, 2011**

	<b>Chemical Dependency</b>	<b>Ethanol Plant</b>	<b>Government Service Center</b>	<b>Sheriff Operations</b>	<b>Veterans Home</b>	<b>Total</b>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 173,657	\$ 5,199,077	\$ 63,030	\$ 435,757	\$ 137,148	\$ 6,008,669
Undistributed cash in agency funds	-	12,648	14,222	7,479	1,662	36,011
Taxes receivable						
Current	-	14,401	15,948	8,303	1,836	40,488
Prior	-	4,998	11,800	4,755	1,222	22,775
Restricted assets						
Temporarily restricted						
Cash with escrow agent	256,681	-	5	-	-	256,686
<b>Total Assets</b>	<b>\$ 430,338</b>	<b>\$ 5,231,124</b>	<b>\$ 105,005</b>	<b>\$ 456,294</b>	<b>\$ 141,868</b>	<b>\$ 6,364,629</b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 2,000	\$ 2,585	\$ 1,500	\$ -	\$ -	\$ 6,085
Deferred revenue - unavailable	-	14,519	21,500	9,953	2,361	48,333
<b>Total Liabilities</b>	<b>\$ 2,000</b>	<b>\$ 17,104</b>	<b>\$ 23,000</b>	<b>\$ 9,953</b>	<b>\$ 2,361</b>	<b>\$ 54,418</b>
<b>Fund Balance</b>						
Restricted						
Debt service	\$ 428,338	\$ 5,214,020	\$ 82,005	\$ 446,341	\$ 139,507	\$ 6,310,211
<b>Total Liabilities and Fund Balances</b>	<b>\$ 430,338</b>	<b>\$ 5,231,124</b>	<b>\$ 105,005</b>	<b>\$ 456,294</b>	<b>\$ 141,868</b>	<b>\$ 6,364,629</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-6*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR DEBT SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Chemical Dependency</u>	<u>Ethanol Plant</u>	<u>Government Service Center</u>	<u>Sheriff Operations</u>	<u>Veterans Home</u>	<u>Total</u>
<b>Revenues</b>						
Taxes	\$ -	\$ 752,792	\$ 829,924	\$ 436,134	\$ 96,264	\$ 2,115,114
Intergovernmental	-	45,883	50,822	26,462	5,850	129,017
Investment earnings	-	853	-	-	-	853
Miscellaneous	547,448	-	-	-	-	547,448
<b>Total Revenues</b>	<b>\$ 547,448</b>	<b>\$ 799,528</b>	<b>\$ 880,746</b>	<b>\$ 462,596</b>	<b>\$ 102,114</b>	<b>\$ 2,792,432</b>
<b>Expenditures</b>						
<b>Debt service</b>						
Principal	\$ 320,000	\$ 480,000	\$ 625,000	\$ 295,000	\$ 100,000	\$ 1,820,000
Interest	229,828	220,875	318,638	195,850	21,846	987,037
Bond issuance costs	-	-	47,429	-	-	47,429
<b>Total Expenditures</b>	<b>\$ 549,828</b>	<b>\$ 700,875</b>	<b>\$ 991,067</b>	<b>\$ 490,850</b>	<b>\$ 121,846</b>	<b>\$ 2,854,466</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (2,380)</b>	<b>\$ 98,653</b>	<b>\$ (110,321)</b>	<b>\$ (28,254)</b>	<b>\$ (19,732)</b>	<b>\$ (62,034)</b>
<b>Other Financing Sources (Uses)</b>						
Bonds issued	\$ -	\$ -	\$ 5,400,000	\$ -	\$ -	\$ 5,400,000
Payment to refunded bond escrow agent	-	-	(6,589,348)	-	-	(6,589,348)
Discount on bonds issued	-	-	(26,460)	-	-	(26,460)
Special item	-	3,839,126	-	-	-	3,839,126
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 3,839,126</b>	<b>\$ (1,215,808)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,623,318</b>
<b>Net Change in Fund Balance</b>	<b>\$ (2,380)</b>	<b>\$ 3,937,779</b>	<b>\$ (1,326,129)</b>	<b>\$ (28,254)</b>	<b>\$ (19,732)</b>	<b>\$ 2,561,284</b>
<b>Fund Balance - January 1</b>	<b>430,718</b>	<b>1,276,241</b>	<b>1,408,134</b>	<b>474,595</b>	<b>159,239</b>	<b>3,748,927</b>
<b>Fund Balance - December 31</b>	<b>\$ 428,338</b>	<b>\$ 5,214,020</b>	<b>\$ 82,005</b>	<b>\$ 446,341</b>	<b>\$ 139,507</b>	<b>\$ 6,310,211</b>



**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-7*

**BUDGETARY COMPARISON SCHEDULE  
COUNTY DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 367,851	\$ 367,851	\$ 50,757	\$ (317,094)
Miscellaneous	-	-	711	711
<b>Total Revenues</b>	<b>\$ 367,851</b>	<b>\$ 367,851</b>	<b>\$ 51,468</b>	<b>\$ (316,383)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Drainage ditches	364,480	364,480	129,459	235,021
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 3,371</b>	<b>\$ 3,371</b>	<b>\$ (77,991)</b>	<b>\$ (81,362)</b>
<b>Fund Balance - January 1</b>	<b>80,811</b>	<b>80,811</b>	<b>80,811</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 84,182</b>	<b>\$ 84,182</b>	<b>\$ 2,820</b>	<b>\$ (81,362)</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-8*

**BUDGETARY COMPARISON SCHEDULE  
LAW LIBRARY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Fines and forfeits	\$ 56,000	\$ 56,000	\$ 58,860	\$ 2,860
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Law library	54,400	54,400	47,515	6,885
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ 1,600	\$ 1,600	\$ 11,345	\$ 9,745
<b>Fund Balance - January 1</b>	<u>91,902</u>	<u>91,902</u>	<u>91,902</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 93,502</u></u>	<u><u>\$ 93,502</u></u>	<u><u>\$ 103,247</u></u>	<u><u>\$ 9,745</u></u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-9*

**BUDGETARY COMPARISON SCHEDULE  
SHERIFF'S CONTINGENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Fines and forfeits	\$ 8,000	\$ 8,000	\$ 6,878	\$ (1,122)
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Sheriff	11,600	11,600	9,896	1,704
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (3,600)</b>	<b>\$ (3,600)</b>	<b>\$ (3,018)</b>	<b>\$ 582</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 350	\$ 350	\$ -	\$ (350)
Transfers out	-	-	(217)	(217)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 350</b>	<b>\$ 350</b>	<b>\$ (217)</b>	<b>\$ (567)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (3,250)</b>	<b>\$ (3,250)</b>	<b>\$ (3,235)</b>	<b>\$ 15</b>
<b>Fund Balance - January 1</b>	<b>15,476</b>	<b>15,476</b>	<b>15,476</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 12,226</b>	<b>\$ 12,226</b>	<b>\$ 12,241</b>	<b>\$ 15</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-10*

**BUDGETARY COMPARISON SCHEDULE  
CHEMICAL DEPENDENCY DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Miscellaneous	\$ 547,448	\$ 547,448	\$ 547,448	\$ -
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 320,000	\$ 320,000	\$ 320,000	\$ -
Interest	227,828	227,828	229,828	(2,000)
<b>Total Expenditures</b>	<b>\$ 547,828</b>	<b>\$ 547,828</b>	<b>\$ 549,828</b>	<b>\$ (2,000)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (380)</b>	<b>\$ (380)</b>	<b>\$ (2,380)</b>	<b>\$ (2,000)</b>
<b>Fund Balance - January 1</b>	<b>430,718</b>	<b>430,718</b>	<b>430,718</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 430,338</b>	<b>\$ 430,338</b>	<b>\$ 428,338</b>	<b>\$ (2,000)</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-11*

**BUDGETARY COMPARISON SCHEDULE  
ETHANOL PLANT DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 771,460	\$ 771,460	\$ 752,792	\$ (18,668)
Intergovernmental	44,293	44,293	45,883	1,590
Investment earnings	-	-	853	853
<b>Total Revenues</b>	<b>\$ 815,753</b>	<b>\$ 815,753</b>	<b>\$ 799,528</b>	<b>\$ (16,225)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 480,000	\$ 480,000	\$ 480,000	\$ -
Interest	217,840	217,840	220,875	(3,035)
<b>Total Expenditures</b>	<b>\$ 697,840</b>	<b>\$ 697,840</b>	<b>\$ 700,875</b>	<b>\$ (3,035)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 117,913</b>	<b>\$ 117,913</b>	<b>\$ 98,653</b>	<b>\$ (19,260)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ 72,353	\$ 72,353	\$ -	\$ (72,353)
Special item	-	-	3,839,126	3,839,126
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 72,353</b>	<b>\$ 72,353</b>	<b>\$ 3,839,126</b>	<b>\$ 3,766,773</b>
<b>Net Change in Fund Balance</b>	<b>\$ 190,266</b>	<b>\$ 190,266</b>	<b>\$ 3,937,779</b>	<b>\$ 3,747,513</b>
<b>Fund Balance - January 1</b>	<b>1,276,241</b>	<b>1,276,241</b>	<b>1,276,241</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,466,507</b>	<b>\$ 1,466,507</b>	<b>\$ 5,214,020</b>	<b>\$ 3,747,513</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-12*

**BUDGETARY COMPARISON SCHEDULE  
GOVERNMENT SERVICE CENTER DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 846,587	\$ 846,587	\$ 829,924	\$ (16,663)
Intergovernmental	49,062	49,062	50,822	1,760
<b>Total Revenues</b>	<b>\$ 895,649</b>	<b>\$ 895,649</b>	<b>\$ 880,746</b>	<b>\$ (14,903)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 625,000	\$ 625,000	\$ 625,000	\$ -
Interest	317,538	317,538	318,638	(1,100)
Bond issuance costs	-	-	47,429	(47,429)
<b>Total Expenditures</b>	<b>\$ 942,538</b>	<b>\$ 942,538</b>	<b>\$ 991,067</b>	<b>\$ (48,529)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (46,889)</b>	<b>\$ (46,889)</b>	<b>\$ (110,321)</b>	<b>\$ (63,432)</b>
<b>Other Financing Sources (Uses)</b>				
Bonds issued	\$ -	\$ -	\$ 5,400,000	\$ 5,400,000
Payment to refunded bond escrow agent	-	-	(6,589,348)	(6,589,348)
Discount on bonds issued	-	-	(26,460)	(26,460)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,215,808)</b>	<b>\$ (1,215,808)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (46,889)</b>	<b>\$ (46,889)</b>	<b>\$ (1,326,129)</b>	<b>\$ (1,279,240)</b>
<b>Fund Balance - January 1</b>	<b>1,408,134</b>	<b>1,408,134</b>	<b>1,408,134</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,361,245</b>	<b>\$ 1,361,245</b>	<b>\$ 82,005</b>	<b>\$ (1,279,240)</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-13*

**BUDGETARY COMPARISON SCHEDULE  
SHERIFF OPERATIONS DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 445,324	\$ 445,324	\$ 436,134	\$ (9,190)
Intergovernmental	25,546	25,546	26,462	916
<b>Total Revenues</b>	<b>\$ 470,870</b>	<b>\$ 470,870</b>	<b>\$ 462,596</b>	<b>\$ (8,274)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 295,000	\$ 295,000	\$ 295,000	\$ -
Interest	195,300	195,300	195,850	(550)
<b>Total Expenditures</b>	<b>\$ 490,300</b>	<b>\$ 490,300</b>	<b>\$ 490,850</b>	<b>\$ (550)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (19,430)</b>	<b>\$ (19,430)</b>	<b>\$ (28,254)</b>	<b>\$ (8,824)</b>
<b>Fund Balance - January 1</b>	<b>474,595</b>	<b>474,595</b>	<b>474,595</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 455,165</b>	<b>\$ 455,165</b>	<b>\$ 446,341</b>	<b>\$ (8,824)</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT B-14*

**BUDGETARY COMPARISON SCHEDULE  
VETERANS HOME DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 98,353	\$ 98,353	\$ 96,264	\$ (2,089)
Intergovernmental	5,647	5,647	5,850	203
<b>Total Revenues</b>	<b>\$ 104,000</b>	<b>\$ 104,000</b>	<b>\$ 102,114</b>	<b>\$ (1,886)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Interest	21,415	21,415	21,846	(431)
<b>Total Expenditures</b>	<b>\$ 121,415</b>	<b>\$ 121,415</b>	<b>\$ 121,846</b>	<b>\$ (431)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (17,415)</b>	<b>\$ (17,415)</b>	<b>\$ (19,732)</b>	<b>\$ (2,317)</b>
<b>Fund Balance - January 1</b>	<b>159,239</b>	<b>159,239</b>	<b>159,239</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 141,824</b>	<b>\$ 141,824</b>	<b>\$ 139,507</b>	<b>\$ (2,317)</b>



**FIDUCIARY FUNDS**

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>FAMILY SERVICES COLLABORATIVE FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 272,807	\$ 301,193	\$ 243,529	\$ 330,471
Due from other funds	116	70	116	70
<b>Total Assets</b>	<b>\$ 272,923</b>	<b>\$ 301,263</b>	<b>\$ 243,645</b>	<b>\$ 330,541</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 22,480	\$ 11,252	\$ 22,480	\$ 11,252
Due to other governments	250,443	290,011	221,165	319,289
<b>Total Liabilities</b>	<b>\$ 272,923</b>	<b>\$ 301,263</b>	<b>\$ 243,645</b>	<b>\$ 330,541</b>
 <b><u>HOSPITAL DISTRICTS FUND</u></b>				
<b><u>Assets</u></b>				
Due from other funds	\$ 12,974	\$ -	\$ 12,974	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 12,974	\$ -	\$ 12,974	\$ -
 <b><u>MORTGAGE REGISTRATION FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 118,744	\$ 1,107,533	\$ 1,133,128	\$ 93,149
<b><u>Liabilities</u></b>				
Due to other governments	\$ 118,744	\$ 1,107,533	\$ 1,133,128	\$ 93,149

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>OTTER TAIL LAKES AREA SEWER DISTRICT FUND</u></b>				
<b><u>Assets</u></b>				
Due from other funds	\$ 679	\$ -	\$ 679	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 679	\$ -	\$ 679	\$ -
 <b><u>PRAIRIE LAKES MUNICIPAL SOLID WASTE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 8,274	\$ -	\$ 8,274	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 8,274	\$ -	\$ 8,274	\$ -
 <b><u>SCHOOL DISTRICT FUND</u></b>				
<b><u>Assets</u></b>				
Due from other funds	\$ 306,123	\$ -	\$ 306,123	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 306,123	\$ -	\$ 306,123	\$ -

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>STATE TAX FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 133,646	\$ 9,126,107	\$ 9,127,845	\$ 131,908
Due from other funds	68,653	113,189	68,653	113,189
<b>Total Assets</b>	<b>\$ 202,299</b>	<b>\$ 9,239,296</b>	<b>\$ 9,196,498</b>	<b>\$ 245,097</b>
<b><u>Liabilities</u></b>				
Due to other funds	\$ -	\$ 11	\$ -	\$ 11
Due to other governments	202,299	9,239,285	9,196,498	245,086
<b>Total Liabilities</b>	<b>\$ 202,299</b>	<b>\$ 9,239,296</b>	<b>\$ 9,196,498</b>	<b>\$ 245,097</b>
 <b><u>TAXES AND PENALTIES FUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 826,837	\$ 75,418,222	\$ 75,352,587	\$ 892,472
Accounts receivable	41	-	41	-
Due from other funds	-	11	-	11
<b>Total Assets</b>	<b>\$ 826,878</b>	<b>\$ 75,418,233</b>	<b>\$ 75,352,628</b>	<b>\$ 892,483</b>
<b><u>Liabilities</u></b>				
Due to other funds	\$ 746,003	\$ 30,679,549	\$ 31,312,363	\$ 113,189
Due to other governments	80,875	44,738,684	44,040,265	779,294
<b>Total Liabilities</b>	<b>\$ 826,878</b>	<b>\$ 75,418,233</b>	<b>\$ 75,352,628</b>	<b>\$ 892,483</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**EXHIBIT C-1  
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>TOWNS AND CITIES FUND</u></b>				
<b><u>Assets</u></b>				
Due from other funds	\$ 355,305	\$ -	\$ 355,305	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 355,305	\$ -	\$ 355,305	\$ -
 <b><u>WATERSHED DISTRICT FUND</u></b>				
<b><u>Assets</u></b>				
Due from other funds	\$ 2,269	\$ -	\$ 2,269	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 2,269	\$ -	\$ 2,269	\$ -
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,360,308	\$ 85,953,055	\$ 85,865,363	\$ 1,448,000
Accounts receivable	41	-	41	-
Due from other funds	746,119	113,270	746,119	113,270
<b>Total Assets</b>	<b>\$ 2,106,468</b>	<b>\$ 86,066,325</b>	<b>\$ 86,611,523</b>	<b>\$ 1,561,270</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 22,480	\$ 11,252	\$ 22,480	\$ 11,252
Due to other funds	746,003	30,679,560	31,312,363	113,200
Due to other governments	1,337,985	55,375,513	55,276,680	1,436,818
<b>Total Liabilities</b>	<b>\$ 2,106,468</b>	<b>\$ 86,066,325</b>	<b>\$ 86,611,523</b>	<b>\$ 1,561,270</b>

## **OTHER SCHEDULES**

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT D-1*

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
DECEMBER 31, 2011**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
<b>Cash and Pooled Investments</b>				
Noninterest-bearing checking	-	-	Continuous	\$ 50,000
Interest-bearing checking	Seven	Varies	Continuous	25,264,823
Certificates of deposit	Forty-three	0.12 to 2.00	January 27, 2012 to September 2, 2013	16,406,404
Money market savings	Seven	0.15 to 0.49	Continuous	3,171,282
U.S. Treasury notes	Eight	0.13 to 2.13	April 30, 2012 to November 30, 2014	11,302,354
U.S. Treasury bonds - stripped interest payment	Two	-	August 15, 2017 to August 15, 2019	48,776
Federal National Mortgage Association	Three	4.50 to 7.50	August 25, 2018 to June 25, 2022	23,548
<b>Total Cash and Pooled Investments</b>				<b>\$ 56,267,187</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH  
COUNTY DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2011**

	Assets				
	Cash and Pooled Investments	Undistributed Cash	Special Assessments Receivable		
			Current	Delinquent	Deferred
<b>Judicial Ditches</b>					
2	\$ 26,892	\$ 2	\$ 29	\$ 3	\$ 6,631
3	92	-	-	-	-
<b>County Ditches</b>					
4	29,749	386	1,382	219	4,961
5	10,305	-	-	-	1,845
8	162	-	-	-	-
11	5,030	-	-	-	847
12	19,699	92	64	137	2,000
14	68	-	-	-	-
16	-	-	-	-	-
17	475	-	-	-	-
19	217	-	-	-	-
21	15,469	71	16	-	4,420
29	3,106	93	80	-	1,452
37	1,337	55	146	120	4,019
38	17,343	137	68	333	4,114
39	-	-	-	-	1,029
41	-	-	-	-	-
43	2,864	-	1	-	1,299
44	15	-	-	-	-
45	225	-	-	-	-
48	25	-	-	-	-
52	1,871	-	59	-	2,123
53	12,617	-	19	796	2,541
54	92	-	-	-	-
56	10,957	-	-	-	2,541
59	146	-	-	-	-
62	154	-	-	-	-
63	12,034	14	-	12	-
64	11	-	-	-	-
68	481	-	-	-	-
70	-	-	-	-	-
<b>Total</b>	<b>\$ 171,436</b>	<b>\$ 850</b>	<b>\$ 1,864</b>	<b>\$ 1,620</b>	<b>\$ 39,822</b>

EXHIBIT D-2

Total	Liabilities				Fund Balance	Total Liabilities and Fund Balance
	Accounts Payable	Deferred Revenue	Advance from Other Funds	Total		
\$ 33,557	\$ -	\$ 6,637	\$ -	\$ 6,637	\$ 26,920	\$ 33,557
92	-	-	-	-	92	92
36,697	-	5,346	3,682	9,028	27,669	36,697
12,150	-	1,845	-	1,845	10,305	12,150
162	-	-	-	-	162	162
5,877	-	847	-	847	5,030	5,877
21,992	-	2,200	-	2,200	19,792	21,992
68	-	-	-	-	68	68
-	-	-	124,926	124,926	(124,926)	-
475	-	-	-	-	475	475
217	-	-	-	-	217	217
19,976	100	4,435	-	4,535	15,441	19,976
4,731	400	1,452	-	1,852	2,879	4,731
5,677	-	4,210	9,937	14,147	(8,470)	5,677
21,995	-	4,476	-	4,476	17,519	21,995
1,029	1,165	1,029	2,986	5,180	(4,151)	1,029
-	968	-	11,459	12,427	(12,427)	-
4,164	-	1,299	-	1,299	2,865	4,164
15	-	-	-	-	15	15
225	-	-	-	-	225	225
25	-	-	-	-	25	25
4,053	-	2,182	469	2,651	1,402	4,053
15,973	-	3,357	-	3,357	12,616	15,973
92	-	-	-	-	92	92
13,498	1,310	2,541	-	3,851	9,647	13,498
146	-	-	-	-	146	146
154	-	-	-	-	154	154
12,060	-	11	-	11	12,049	12,060
11	-	-	-	-	11	11
481	-	-	-	-	481	481
-	-	-	13,503	13,503	(13,503)	-
<b>\$ 215,592</b>	<b>\$ 3,943</b>	<b>\$ 41,867</b>	<b>\$ 166,962</b>	<b>\$ 212,772</b>	<b>\$ 2,820</b>	<b>\$ 215,592</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT D-3*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>All Funds</u>
<b>Shared Revenue</b>			
<b>State</b>			
Highway users tax	\$ 11,720,371	\$ -	\$ 11,720,371
County program aid	1,255,125	-	1,255,125
PERA rate reimbursement	64,946	-	64,946
Police aid	206,770	-	206,770
Market value credit	1,699,019	-	1,699,019
Market value credit - mobile home	9,426	-	9,426
Disparity reduction aid	13,254	-	13,254
Disaster credit	8,300	-	8,300
<b>Total shared revenue</b>	<b>\$ 14,977,211</b>	<b>\$ -</b>	<b>\$ 14,977,211</b>
<b>Reimbursement for Services</b>			
<b>State</b>			
Minnesota Department of Human Services	<b>\$ 1,096,601</b>	<b>\$ -</b>	<b>\$ 1,096,601</b>
<b>Payments</b>			
<b>Local</b>			
Payments in lieu of taxes	<b>\$ 542,803</b>	<b>\$ -</b>	<b>\$ 542,803</b>
<b>Grants</b>			
<b>State</b>			
Minnesota Department/Board of			
Agriculture	\$ 64,525	\$ -	\$ 64,525
Corrections	246,387	-	246,387
Public Safety	241,999	-	241,999
Transportation	1,118,747	-	1,118,747
Health	593,536	-	593,536
Veterans Affairs	4,200	-	4,200
Natural Resources	224,447	-	224,447
Human Services	3,724,889	-	3,724,889
Water and Soil Resources	106,241	-	106,241
Peace Officer Standards and Training Board	11,741	-	11,741
Minnesota Pollution Control Agency	-	176,057	176,057
<b>Total state</b>	<b>\$ 6,336,712</b>	<b>\$ 176,057</b>	<b>\$ 6,512,769</b>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT D-3  
(Continued)*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>All Funds</u>
<b>Grants (Continued)</b>			
<b>Federal</b>			
Department of			
Agriculture	\$ 677,629	\$ -	\$ 677,629
Commerce	30,507	-	30,507
Justice	15,149	-	15,149
Transportation	792,088	-	792,088
Health and Human Services	3,637,376	-	3,637,376
Homeland Security	781,725	-	781,725
<b>Total federal</b>	<u>\$ 5,934,474</u>	<u>\$ -</u>	<u>\$ 5,934,474</u>
<b>Total state and federal grants</b>	<u>\$ 12,271,186</u>	<u>\$ 176,057</u>	<u>\$ 12,447,243</u>
<b>Total Intergovernmental Revenue</b>	<u>\$ 28,887,801</u>	<u>\$ 176,057</u>	<u>\$ 29,063,858</u>

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

*EXHIBIT D-4*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 283,925
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	393,704
<b>Total U.S. Department of Agriculture</b>		<b>\$ 677,629</b>
<b>U.S. Department of Commerce</b>		
Passed Through Minnesota Department of Public Safety and City of St. Cloud Public Safety Interoperable Communication Grant Program	11.555	<b>\$ 30,507</b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Trial Courts Drug Court Discretionary Grant Program	16.585	<b>\$ 15,149</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	\$ 7,024
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	6,708
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	9,174
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	768,491
<b>Total U.S. Department of Transportation</b>		<b>\$ 791,397</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 69,062
Universal Newborn Hearing Screening Immunization Cluster	93.251	425
Immunization Cooperative Agreements	93.268	2,100
Immunization - ARRA	93.712	3,639
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	9,875
PPHF 2012 National Public Health Improvement Initiative	93.507	2,500
Temporary Assistance for Needy Families	93.558	75,831
Maternal and Child Health Services Block Grant to the States	93.994	65,720

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**EXHIBIT D-4  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	44,684
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	478,628
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	27,770
Child Support Enforcement	93.563	1,008,307
Refugee and Entrant Assistance - State Administered Programs	93.566	68
Child Care and Development Cluster		
Child Care and Development Block Grant	93.575	8,754
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	12,792
Foster Care Title IV-E Cluster		
Foster Care Title IV-E	93.658	107,080
Foster Care Title IV-E - ARRA	93.658	1,527
Social Services Block Grant	93.667	405,309
Chafee Foster Care Independence Program	93.674	8,687
Children's Health Insurance Program	93.767	256
Medical Assistance Program	93.778	1,236,307
Block Grants for Community Mental Health Services	93.958	9,630
Passed Through West Central Area Agency on Aging		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	58,425
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 3,637,376</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 82,020
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	300,273
Homeland Security Grant Program	97.067	215,000
Passed Through Minnesota Department of Public Safety and the City of St. Cloud		
Homeland Security Grant Program	97.067	152,517
Passed Through Minnesota Department of Public Safety and West Central Minnesota EMS Corporation		
Homeland Security Grant Program	97.067	19,264
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 769,074</b>
<b>Total Federal Awards</b>		<b>\$ 5,921,132</b>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Otter Tail County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Otter Tail County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Otter Tail County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Otter Tail County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Safety Cluster	\$	13,732
Immunization Cluster		5,739
Temporary Assistance for Needy Families Cluster		582,229
Child Care and Development Cluster		21,546
Foster Care Title IV-E Cluster		108,607

**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 5,934,474
Grant received more than 60 days after year-end, deferred in 2011	
Highway Planning and Construction	128,826
Grants deferred in 2010, recognized as revenue in 2011	
Highway Planning and Construction	(129,517)
Disaster Assistance – Public Assistance (Presidentially Declared Disasters)	<u>(12,651)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,921,132</u>

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

7. Subrecipients

Otter Tail County did not pass any federal awards through to subrecipients in 2011.



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**OTTER TAIL COUNTY  
FERGUS FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for Temporary Assistance For Needy Families State Program – ARRA	CFDA #93.714
Medical Assistance Program	CFDA #93.778
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	CFDA #97.036
Homeland Security Grant Program	CFDA #97.067

The threshold for distinguishing between Types A and B programs was \$300,000.

Otter Tail County qualified as low-risk auditee? **No**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 96-6 Segregation of Duties

**Criteria:** Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

**Condition:** Due to the limited number of personnel within several Otter Tail County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

**Context:** This is not unusual in operations the size of Otter Tail County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The size of Otter Tail County and its staffing limits the internal control that management can design and implement into the organization.

**Recommendation:** We recommend Otter Tail County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

*Otter Tail County's management is aware that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal accounting control point of view. Otter Tail County's management does concur with the recommendation and will work toward formalizing existing oversight procedures and will implement additional oversight procedures as necessary, to ensure that internal control policies and procedures are being followed as directed.*

96-7 Disaster Recovery Plan for Data Processing

**Criteria:** There should be a detailed disaster recovery plan in place to assist in a fast recovery of data processing in the event of a disaster. Disaster recovery planning involves predetermined methods and procedures to restore and continue operations in the event of a catastrophic emergency in the data processing area. A written plan should cover the loss of any or all programs, data, forms, computer media, operating instructions, details on an alternate site for operations, staffing requirements, and a schedule of priorities.

**Condition:** Otter Tail County does not have a formal written disaster recovery plan in place. Although some disaster recovery procedures are operational, the effectiveness of these recovery procedures may be hindered if a key individual from the Information Technology staff is not available during or immediately following a catastrophic emergency.

**Context:** Otter Tail County relies on their systems for processing a huge amount of data, so it is essential that the recovery of data processing is not delayed. Some elements of disaster recovery procedures are operational: off-site storage of back-up programs and data, off-site supply of special forms, an automated back-up and recovery management system, and the County has entered a "High Availability Agreement" with the City of Fergus Falls as an alternative processing site.

**Effect:** The lack of a formal written disaster recovery plan could adversely affect the County's ability to efficiently recover data processing operations disrupted during a disaster, especially if a key individual from the Information Technology staff is not available during or immediately following a catastrophic emergency.

**Cause:** Lack of directive by the Information Technology Director to complete a formal document that would provide guidance as needed. The Information Technology Director has stated that he wants the document to be comprehensive, making it more difficult to complete.

**Recommendation:** We recommend that the Information Technology Department continue its efforts in developing a detailed plan that will ensure continued operations in the event of a disaster. We also recommend the plan include all computer systems and be coordinated with other County departments.

Client's Response:

*Otter Tail County acknowledges and agrees with the conclusions of the State Audit in regards to the lack of a disaster recovery plan for data processing. The Information Technology staff will inventory all of the County's hardware, identify the software products used and where they reside, compile a list of all vendors and contacts the Information Technology Department relies upon for support and guidance, and will work with all departments and the Emergency Manager to determine the procedures that will be followed in the event of a disaster that interrupts our data and communication systems. This information will be compiled into a disaster recovery document that will be available to all county personnel and will be reviewed and updated annually.*

06-2 Audit Adjustment

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect and correct misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified a material adjustment that resulted in significant changes to the County's financial statements. The County provides a general ledger and supporting schedules necessary to adjust to the modified accrual basis for fund level financial statements and to the full accrual basis for the government-wide financial statements.

**Context:** In 2011, Otter Tail County issued \$10,475,000 G.O. Disposal System Revenue Bonds on behalf of the Prairie Lakes Municipal Solid Waste Authority to obtain lower interest rates. The proceeds of the bonds, net of discount and issuance costs, are being used to pay off old outstanding debt and fund an expansion project at the Resource Recovery Facility purchased by Prairie Lakes Solid Waste Authority in 2011.

**Effect:** An audit adjustment was necessary in the Prairie Lakes Municipal Solid Waste Authority Debt Service Fund to properly reflect the County issuance of debt for Prairie Lakes Municipal Solid Waste Authority. The adjustment reflects an advance to Prairie Lakes Municipal Solid Waste Authority in the amount of \$10,475,000. The advance was offset with an increase in proceeds from the sale of bonds in the amount of \$2,800,000 correcting for the proceeds transferred to Prairie Lakes for the expansion project, a decrease in principal expense in the amount of \$7,482,470 for the retirement of the old debt on behalf of Prairie Lakes, and an increase in deferred revenue unearned in the amount of \$192,530 for the net effect of fees, issuance costs and discounts.



**Cause:** Otter Tail County issued debt on behalf of Prairie Lakes Solid Waste Authority. This was an unusual transaction for Otter Tail County, resulting in the audit adjustment.

**Recommendation:** We recommend that the County establish internal controls necessary to ensure the County's annual financial statements are reported in accordance with GAAP.

Client's Response:

*Otter Tail County Management, the Otter Tail County Auditor, and the Otter Tail County Auditor's staff will continue to work to reinforce existing procedures and to implement new and/or improved procedures to ensure all postings to the account activities report are accurate and complete. Efforts have been made to bring those portions of the chart of accounts which are not in compliance with the COFARS numbering scheme into compliance by contracting for assistance with an outside resource. A concerted effort will be made to review IFS monthly financial reports at the detailed level to help ensure that all financial transactions are being posted to the proper accounts and are in accordance with generally accepted accounting principles and procedures.*

08-1 Documenting and Monitoring Internal Controls

**Criteria:** County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

**Condition:** Otter Tail County maintains narratives to document the controls in place over their significant transaction cycles, however there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure.

**Context:** Local governments tend to establish controls, but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

**Effect:** The internal control environment is constantly changing with changes in staffing, information systems, processes, and the services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without a formal and timely risk assessment process in place.

**Cause:** Lack of resources dedicated to establish a formal process for assessing risks, documenting the internal controls established to reduce those risks and monitoring of those controls.

**Recommendation:** Otter Tail County management should document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. A formal plan should be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

*Otter Tail County's management is aware of the significance and importance of routinely reviewing and monitoring internal controls in our accounting system for the purposes of identifying weaknesses, assessing the risk of any weaknesses identified within our existing accounting procedures and policies, establishing procedures and policies to address identified internal control weakness, and monitoring if changes are necessary due to staffing changes, technology and/or legal compliance changes. Otter Tail County's management also realizes that documenting and monitoring the county's internal controls will help to address other issues within your report, for example – audit finding 96-6.*

*The Otter Tail County Auditor's office does meet on a regular basis (approximately once every six weeks) to review the internal control procedures and policies within the Auditor's office, and how those procedures and policies relate to our processes, both internally and when working with other departments, regarding accounting and financial record keeping and reporting.*

ITEM ARISING THIS YEAR

11-1 Network/Application Password Controls

**Criteria:** County management is responsible for the County's internal controls over their information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls that have been established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

**Condition:** Otter Tail County recently updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web based application and may be run on a server or a mainframe system. For an employee of Otter Tail County to access the new IFS application the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM AS-400 system, so the mainframe security settings do not apply to the application. Otter Tail County has not reviewed the network controls or assessed risks from the change to a web based application to ensure password controls are working as intended.

**Context:** The IFS application is the general ledger for Otter Tail County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year end certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

**Effect:** Normal password controls in place in the IBM AS-400 system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

**Cause:** Otter Tail County recently updated to a new web based version of the IFS application software. County management was not aware of some of the password implications of this change.

**Recommendation:** We recommend Otter Tail County management review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

*Otter Tail County's management agrees with this State Audit Finding and will review the password controls currently in place to assure that these controls are adequate to protect County data, specifically the IFS application, and where weakness are identified, appropriate corrective measures will be taken to ensure that all County data is protected and access is limited to those individuals requiring access and at the level necessary for the performance of their duties and responsibilities.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Preparation of Financial Statements (06-1)**

The County needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

**Resolution**

The County provides a general ledger, accruals, and other supporting schedules necessary for preparing fund level and government-wide financial statements. The County has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

**Schedule of Expenditures of Federal Awards (10-1)**

The County needed to improve its system of identifying federal award information to facilitate preparation of the Schedule of Expenditures of Federal Awards (SEFA).

### **Resolution**

The County has improved its system of identifying federal award information to provide sufficient information for the preparation of the SEFA.

## **III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

### ITEMS ARISING THIS YEAR

#### 11-2 Supervisory Review Over Reporting

**Programs:** Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), and Homeland Security Grant Program (CFDA No. 97.067)

**Criteria:** Standard internal control procedures should include a review process of the reports submitted for reimbursement of program expenditures to ensure accurate and timely reporting.

**Condition:** During our testing of controls over the TANF Family Home Visiting Program and the Homeland Security Grant Program, we noted no documented review process over reporting.

**Questioned Costs:** None.

**Context:** The Public Health Financial Manager and an Administrative Lieutenant for the Sheriff's Department prepare their reports for reimbursement of the program and administrative costs based on expenditures posted to the County's general ledger and other records. These expenditures were approved by the respective department supervisors and the Board prior to payment, however there is no documentation of a review of the reports submitted for reimbursement to the granting agencies to ensure they reconcile and are submitted timely.

**Effect:** Without formal documentation of a review of the reports, there is no assurance the reviews are being completed as intended, which may increase the risk that the reports could contain errors and may not be submitted timely.

**Cause:** The County does not have a procedure in place to ensure that reports are reviewed and approved.

**Recommendation:** We recommend Otter Tail County establish a review process for all reports submitted to granting agencies for reimbursement. The review of reports should be documented and the documentation should be retained in accordance with the County record retention schedule.

Corrective Action Plan:

Name of Contact Persons Responsible for Corrective Action:

*Wayne Stein, County Auditor, Diane Thorson, Director of Public Health, and Brian Schlueter, County Sheriff*

Corrective Actions Planned:

*Otter Tail County's Management will require the following: a review, by appropriate county personnel, of the reports submitted for reimbursement of program/grant related expenditures, and formal documentation of the review process. The documentation will be attached to the reports being submitted indicating that these reports were reviewed and approved by appropriate county personnel prior to their submission.*

Anticipated Completion Dates:

*Immediately – (As soon as reasonably possible, the appropriate County personnel will be notified of the required procedures.)*

11-3 Payment of Projected Services for Employment Services

**Programs:** Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), and Emergency Contingency Fund for TANF (CFDA No. 93.714)

**Criteria:** Costs reported for the program should represent actual costs, not budgeted or projected amounts.

**Condition:** On December 14, 2011, Otter Tail County Human Services paid an invoice in the amount of \$88,464 to Rural Minnesota CEP for employment services including projected services in the amount of \$55,522 for December. The invoice amount of \$88,464 was reported on their DHS 2902 report submitted January 18, 2012. Rural Minnesota CEP provided an amended report with supporting documentation of actual expenditures on February 10, 2012. The adjusted report from Rural Minnesota CEP only showed a shift in the amount of \$2,279 from Diversionary Work Program services to Minnesota Family Investment Program services, however, we could not locate supporting documentation for \$1,193 of the transportation expenses reported for the Diversionary Work Program.

**Questioned Costs:** \$1,193.

**Context:** The only invoice paid to Rural Minnesota CEP that contained estimated services was the invoice paid on December 14, 2011. All other invoices were prepared based on actual costs.

**Effect:** Noncompliance with federal allowable costs requirements.

**Cause:** Rural Minnesota CEP included projected costs to maximize the funds for 2011 and avoid shifting of costs to the 2012 allocation.

**Recommendation:** We recommend Otter Tail County Human Services only pay and report invoices supported by actual costs.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Leon Anderson, Director of Business Management, Otter Tail County Human Services*

Corrective Action Planned:

*Otter Tail County Human Services will only pay and report Employment Services invoices supported by actual costs*

Anticipated Completion Date:

*Immediately*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

**A. MINNESOTA LEGAL COMPLIANCE**

**PREVIOUSLY REPORTED ITEM RESOLVED**

**Collateral Pledged to Secure Deposits (09-1)**

At December 31, 2010, deposits with First National Bank of Henning were not in compliance with the requirements of Minn. Stat. § 118A.03, subd. 3. The amount on deposit exceeded the amount of federal deposit insurance and collateral pledged by \$36,409.

**Resolution**

All banks had sufficient federal deposit insurance and collateral pledged to cover deposits and comply with Minn. Stat. § 118A.03, subd. 3., in 2011.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-2 Ditch Fund Balance Deficits

**Criteria:** Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Under Minn. Stat. § 103E.655, drainage project costs must be paid from the drainage system account. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

**Condition:** As of December 31, 2011, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

**Context:** Five of the 31 individual ditch systems had deficit fund balances as of December 31, 2011, totaling \$163,477, which is an increase from the \$87,648 deficit reported in the prior year.

**Effect:** Allowing a ditch system to maintain a deficit fund balance, in effect, constitutes an interest-free loan from other individual ditch systems and may be inconsistent with Minn. Stat. § 103E.655.

**Cause:** Ditch expenditures were necessary, and the ditch levies were not sufficient to cover all costs.

**Recommendation:** We recommend the County eliminate the ditch fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair costs of a ditch system.

Client's Response:

*Otter Tail County Management is aware of the provisions of Minnesota Statute 103E.735 Subdivision 1. Otter Tail County has implemented annual maintenance assessments on a number of drainage systems and will continue to levy an annual assessment for the purpose of establishing individual drainage accounts with funds sufficient to finance normal and routine repair and maintenance costs. The drainage systems referenced in the above comment are systems that are in the process of undergoing major repairs and which have not had an annual maintenance assessment established. It is anticipated that project assessments will be levied on these drainage systems in December of 2012. Once project assessments are in place, the policy of the county is to continue with annual maintenance assessments.*

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REBECCA OTTO  
STATE AUDITOR

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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  
Otter Tail County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Otter Tail County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2012. 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

Management of Otter Tail County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Otter Tail County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-2 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-6, 96-7, 08-1, and 11-1 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Otter Tail 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 Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because Otter Tail County has no tax increment financing.

The results of our tests indicate that, for the items tested, Otter Tail County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to Otter Tail County, and it is reported for that purpose.

Otter Tail County's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Otter Tail County, 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

September 27, 2012

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REBECCA OTTO  
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### **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Otter Tail County

#### Compliance

We have audited Otter Tail County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Otter Tail 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.

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 Otter Tail County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Otter Tail County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 11-3.

### Internal Control Over Compliance

Management of Otter Tail County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 11-2 and 11-3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Otter Tail County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management and others within the County, 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

September 27, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR