

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

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.

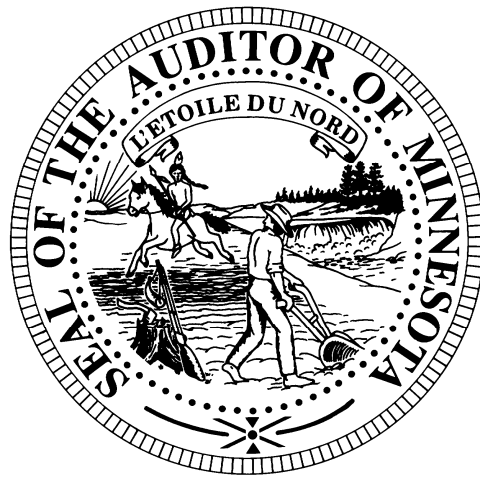
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Year Ended December 31, 2012



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

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2012

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Otter Tail County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and are 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, 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* in considering Otter Tail County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. 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

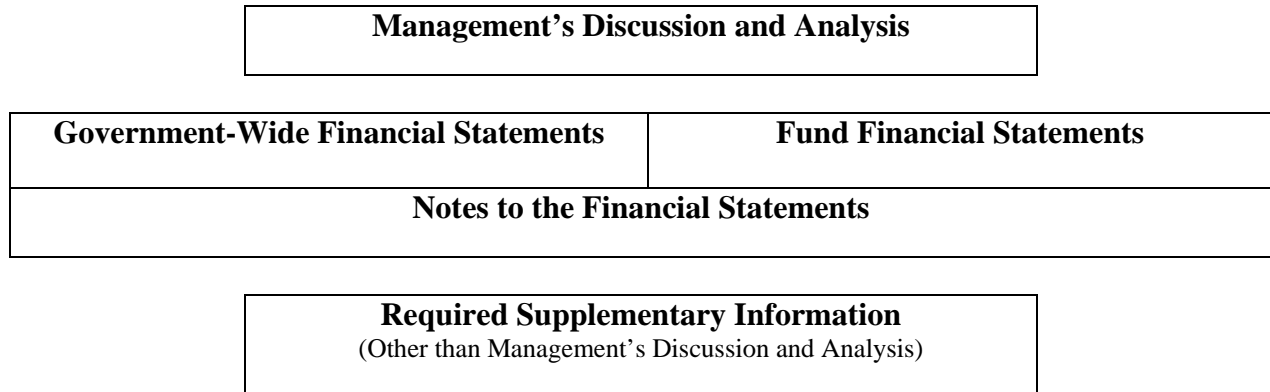
- Governmental activities' total net position is \$154,211,616, of which Otter Tail County has a net investment in capital assets of \$113,361,185 and \$4,916,590 is restricted to specific purposes/uses.
- Business-type activities' total net position is \$9,544,710. Net investment in capital assets represents \$5,946,385 of the total, and \$134,756 of the total business-type net position is restricted for specific uses (postclosure care costs).
- Otter Tail County's net position (governmental activities and business-type activities) totals \$163,756,326 for the year ended December 31, 2012. Net investment in capital assets represents \$119,307,570 of the total, \$5,051,346 of the total net position is restricted for specific uses, and \$39,397,410 is unrestricted.
- The net cost of Otter Tail County's governmental activities for the year ended December 31, 2012, was \$26,687,174. General property tax revenues and other revenue sources totaling \$35,183,738 funded the total net cost of \$26,687,174.
- Otter Tail County's governmental funds' fund balances increased by \$704,505. This increase was the result of a General Fund balance increase of \$850,942, a Road and Bridge Special Revenue Fund balance decrease of \$1,659,603, a Human Services Special Revenue Fund balance increase of \$704,211, a Capital Improvement Special Revenue Fund balance decrease of \$197,129, a Prairie Lakes Municipal Solid Waste Authority Debt Service Fund balance decrease of \$476,153, and an increase in other governmental funds' fund balances of \$1,482,237.

- The General Fund balance increased by \$850,942. This increase was due to excess revenues over expenditures of \$857,718; an operating transfer to the Sheriff's Contingent Fund of \$2,224, and an operating transfer to the County Drainage (Ditch) Fund of \$4,552. For the prior year ended December 31, 2011, excess General Fund revenues over expenditures were \$2,407,431. The \$1,549,713 decrease in excess revenues over expenditures is due mainly to the following: a \$1,342,969 decrease in revenues and a \$206,744 increase in expenditures. It should be noted that revenues from licenses and permits increased by \$58,018, revenues from charges for services increased by \$154,469, revenues from fines and forfeits increased by \$13,951; however, these increased revenues in the General Fund were offset by decreased tax revenues of \$263,795, decreased special assessment revenues of \$409, decreased intergovernmental revenues of \$621,695, decreased gifts and contributions of \$12,645, decreased interest earning of \$235,761, and decreased miscellaneous revenues of \$435,102. General Fund expenditures for public safety-related functions/programs increased by \$6,453, expenditures for culture and recreation-related functions/programs increased by \$92,145, and expenditures for conservation of natural resource-related functions/programs increased by \$110,304; however, these increased expenditures were offset by a \$2,158 decrease in cost associated with general government-related functions/programs.
- The Road and Bridge Special Revenue Fund balance decreased by \$1,659,603 due to excess expenditures over revenues of \$1,711,557, which was offset by an increase in inventory of \$51,954. For the prior year ended December 31, 2011, excess revenues over expenditures totaled \$1,814,519. The \$3,526,076 decrease in excess revenues over expenditures is due mainly to decreased revenues from charges for services of \$41,638 and increased costs associated with intergovernmental highway and street-related expenditures of \$4,695,940, which was primarily construction related costs; however, this decreased revenue source and the increased costs associated with intergovernmental highway and street-related expenditures were offset by an increase in tax revenues of \$358,311, an increase in intergovernmental revenues of \$790,930 and an increase in miscellaneous revenues of \$62,261.
- The Human Services Special Revenue Fund balance increased by \$704,211 due to excess revenues over expenditures of \$727,250, which was offset by a transfer out to the Capital Improvement fund of \$23,039. For the prior year ended December 31, 2011, excess revenues over expenditures totaled \$943,213. The \$215,963 decrease was due mainly to a decrease in intergovernmental revenues of \$463,607, an increase in public safety-related functions/programs costs of \$124,653, and an increase in human services-related functions/program costs of \$1,056,633. However, the decreased revenue and increased costs associated with public safety and human services-related functions/programs were offset by an increase in tax revenues of \$1,047,270, an increase in revenues for charges for services of \$119,140, an increase in miscellaneous revenues of \$209,945, and a decrease in health-related functions/programs costs of \$52,575.

- The Capital Improvement Special Revenue Fund balance decreased by \$197,129 due to excess expenditures over revenues of \$220,168, offset by an operating transfer of \$23,039 from the Human Services Fund. For the prior year ended December 31, 2011, excess expenditures over revenues totaled \$2,287,313. The \$2,067,145 improvement was due mainly to an increase in tax and special assessment revenues of \$867,663, an increase in miscellaneous revenues of \$100,497, a decrease in general government capital-related expenditures of \$1,456,137, which were primarily building related, a decrease in public safety capital-related expenditures of \$435,579, which were primarily related to the radio system, a decrease in human services capital-related expenditures of \$41,666, and a decrease in culture and recreation capital-related expenditure of \$9,826. These increased revenues and decreased expenditures were offset by decreased intergovernmental revenues of \$189,170, decreased revenues from charges for services of \$217, decreased interest earnings of \$28,604, increased highways and streets capital-related expenditures of \$562,122, which were primarily equipment-related, and increased debt service costs associated with the 2012 installation of a new phone system in all County facilities of \$64,110.
- The Prairie Lakes Municipal Solid Waste Authority Debt Service Fund balance decreased by \$476,153 due to excess expenditures over revenues of \$476,153. For the prior year ended December 31, 2011, excess expenditures over revenues totaled \$9,073. The \$467,080 decrease is due to an increase in debt service costs (principal and interest) of \$647,414, which was offset by increased miscellaneous revenues of \$104,795 and decreased bond issuance costs of \$75,539.
- The fund balance as of December 31, 2012, for all other governmental funds increased by \$1,482,237. This increase was due mainly to bond proceeds of \$4,780,000 (which will be used to finance a significant portion of the costs associated with a major renovation of the original courthouse complex), \$6,776 in operating transfers from the General Revenue Fund to the Sheriff's Contingent Fund of \$2,224, and an operating transfer to the County Drainage (Ditch) Fund of \$4,552. For the prior year ended December 31, 2011, excess expenditures over revenues totaled \$171,204. The \$3,096,481 increase in excess expenditures over revenues is due mainly to a decrease in tax and special assessment revenues of \$215,626, a decrease in intergovernmental revenues of \$95,933, a decrease in interest earning revenues of \$115, an increase in general government-related expenditures of \$5,757, and an increase in general government capital outlay-related expenditures of \$3,671,969; however, these decreased revenues and increased expenditures were offset by an increase in fines and forfeits revenue of \$112, an increase in miscellaneous revenues of \$5,684, a decrease in public safety-related expenditures of \$2,791, a decrease in conservation of natural resources-related expenditures of \$36,050, and a decrease in debt service-related expenditures (including bond issuance costs) of \$848,282.
- In 2012, Otter Tail County issued General Obligation Bonds totaling \$4,780,000. These bonds were issued to provide the funding necessary 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 Position 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 Position 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 position and changes in it.

You can think of net position--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 position is 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 Position 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 Position 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 Position 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 Position 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 position for the year ended December 31, 2012 was \$163,756,326. The analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County’s governmental and business-type activities.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 66,357,852	\$ 66,594,520	\$ 5,541,616	\$ 5,348,316	\$ 71,899,468	\$ 71,942,836
Capital assets	132,937,098	120,979,850	5,946,385	6,293,502	138,883,483	127,273,352
Total Assets	\$ 199,294,950	\$ 187,574,370	\$ 11,488,001	\$ 11,641,818	\$ 210,782,951	\$ 199,216,188
Liabilities						
Long-term debt outstanding	\$ 40,452,055	\$ 37,439,112	\$ 1,553,207	\$ 1,506,015	\$ 42,005,262	\$ 38,945,127
Other liabilities	4,631,279	4,420,206	390,084	417,427	5,021,363	4,837,633
Total Liabilities	\$ 45,083,334	\$ 41,859,318	\$ 1,943,291	\$ 1,923,442	\$ 47,026,625	\$ 43,782,760
Net Position						
Net investment in capital assets	\$ 113,361,185	\$ 105,417,170	\$ 5,946,385	\$ 6,293,502	\$ 119,307,570	\$ 111,710,672
Restricted	4,916,590	23,354,087	134,756	147,947	5,051,346	23,502,034
Unrestricted	35,933,841	16,943,795	3,463,569	3,276,927	39,397,410	20,220,722
Total Net Position	\$ 154,211,616	\$ 145,715,052	\$ 9,544,710	\$ 9,718,376	\$ 163,756,326	\$ 155,433,428

(Unaudited)

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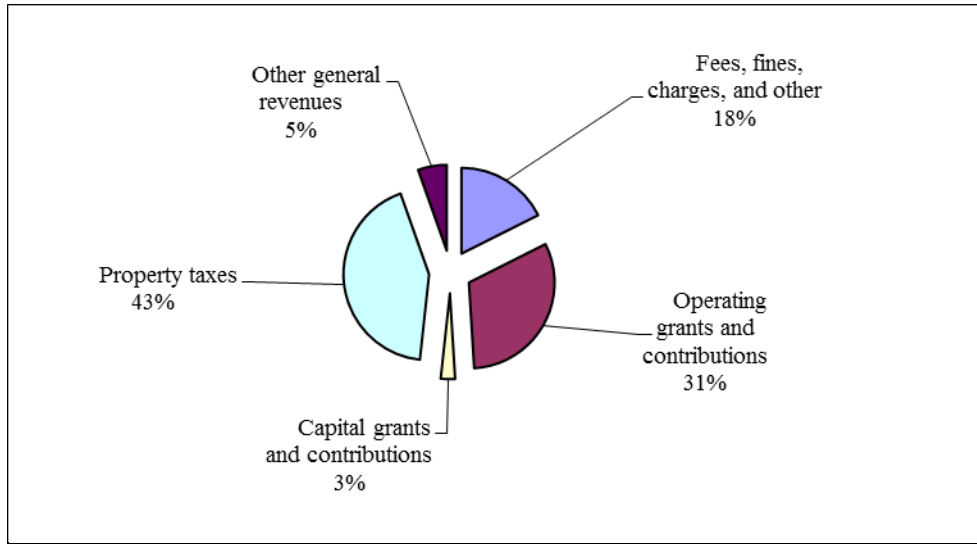
Otter Tail County's total net position for the year ended December 31, 2012, is \$163,756,326. Unrestricted net position totaling \$39,397,410 is available to finance day-to-day operations. Of the unrestricted net position, \$35,933,841 is available for governmental activities, and \$3,463,569 is available for business-type activities.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Fees, fines, charges and other	\$ 6,073,401	\$ 5,785,204	\$ 6,750,775	\$ 7,066,638	\$ 12,824,176	\$ 12,851,842
Operating grants and contributions	22,720,540	23,959,183	182,840	182,123	22,903,380	24,141,306
Capital grants and contributions	1,964,658	857,454	-	-	1,964,658	857,454
General revenues						
Property taxes	31,242,749	29,446,523	-	-	31,242,749	29,446,523
Other taxes	690,589	667,233	-	-	690,589	667,233
Grants and contributions	1,834,480	3,050,070	-	-	1,834,480	3,050,070
Special item	154,087	3,839,126	-	-	154,087	3,839,126
Other general revenues	1,261,833	1,393,287	10,167	17,783	1,272,000	1,411,070
Total Revenues	\$ 65,942,337	\$ 68,998,080	\$ 6,943,782	\$ 7,266,544	\$ 72,886,119	\$ 76,264,624
Expenses						
Program expenses						
General government	\$ 11,040,066	\$ 11,086,646	\$ -	\$ -	\$ 11,040,066	\$ 11,086,646
Public safety	11,627,444	11,144,278	-	-	11,627,444	11,144,278
Highways and streets	13,048,472	12,511,094	-	-	13,048,472	12,511,094
Human services	16,252,667	15,319,536	-	-	16,252,667	15,319,536
Health	2,361,748	2,490,706	-	-	2,361,748	2,490,706
Culture and recreation	961,148	913,955	-	-	961,148	913,955
Conservation of natural resources	882,284	810,078	-	-	882,284	810,078
Economic development	21,800	21,800	-	-	21,800	21,800
Interest	1,250,144	1,474,655	-	-	1,250,144	1,474,655
Landfill	-	-	7,117,448	7,318,766	7,117,448	7,318,766
Total Program Expenses	\$ 57,445,773	\$ 55,772,748	\$ 7,117,448	\$ 7,318,766	\$ 64,563,221	\$ 63,091,514
Increase (Decrease) in Net Position	\$ 8,496,564	\$ 13,225,332	\$ (173,666)	\$ (52,222)	\$ 8,322,898	\$ 13,173,110

Otter Tail County's total revenues for the year ended December 31, 2012, were \$72,886,119. The total cost of programs and services for the year ended December 31, 2012, was \$64,563,221. The net position increased by \$8,322,898, due mainly to an increase in property and other tax revenues, an increase in program revenue capital grants and contributions, a decrease in general government expenditures, health expenditures, interest expenditures, and landfill expenditures, which were offset by a decrease in operating grants, special items, and an increase in public safety expenditures, highway and street expenditures, human services expenditures, culture and recreation expenditures, and conservation of natural resource expenditures.

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



Governmental Activities

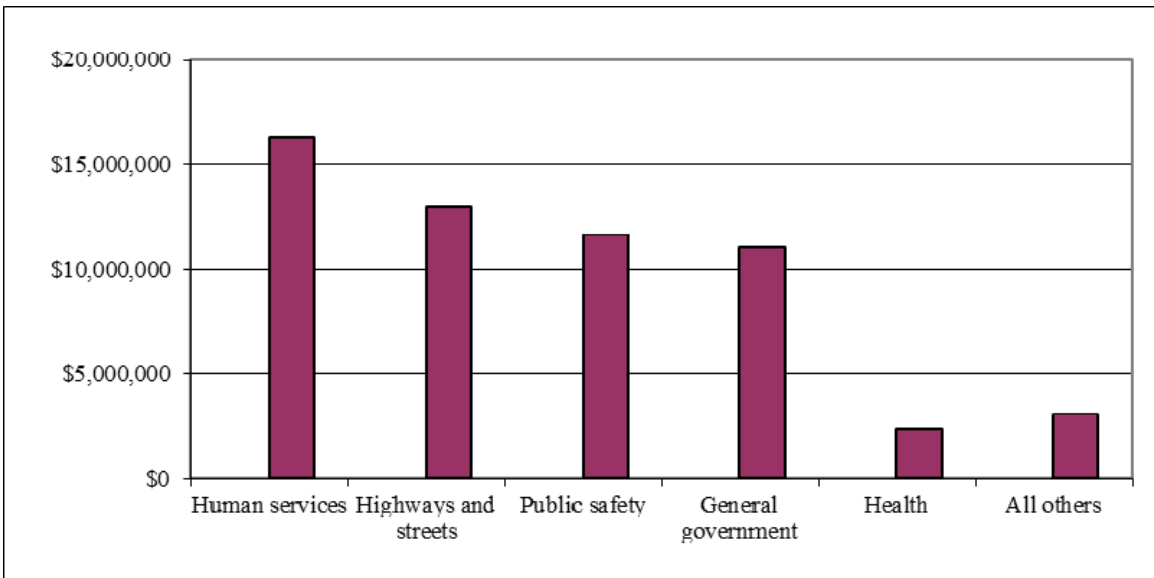
Revenues for Otter Tail County’s governmental activities for the year ended December 31, 2012, were \$65,942,337. Costs for all governmental activities for the year ended December 31, 2012, were \$57,445,773. As shown in the Statement of Activities, the amount that County taxpayers ultimately financed for these governmental activities through local property taxation was \$31,242,749, because \$6,073,401 of the costs were paid by those who directly benefited from the programs, and \$24,685,198 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 \$3,940,989 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	\$ 16,252,667	\$ 6,717,170
Highways and streets	13,048,472	(1,755,964)
Public safety	11,627,444	10,259,937
General government	11,040,066	8,212,960
Health	2,361,748	636,378
All others	3,115,376	2,616,693
	<hr/>	<hr/>
Total Program Expenses	<u>\$ 57,445,773</u>	<u>\$ 26,687,174</u>

**Governmental Activities Expenses
2012**



Business-Type Activities

Revenues of Otter Tail County’s business-type activities (see Table 2) for the year ended December 31, 2012, were \$6,943,782. This compares with total operating revenues of \$7,066,638 and total non-operating revenues of \$199,906 for the year ended December 31, 2011. Operating revenues decreased by \$315,863, and non-operating revenues decreased by \$6,899, resulting in an overall decrease in revenues of \$322,762.

Expenses of business-type activities (see Table 2) for the year ended December 31, 2012, were \$7,117,448. This compares with total operating expenses of \$7,282,262 and total non-operating expenses of \$36,504 for the year ended December 31, 2011. Operating expenses decreased by \$193,206, and non-operating expenses decreased by \$8,112, resulting in an overall decrease in expenses of \$201,318, which is due mainly to decreased SCORE costs of \$57,889, decreased processing costs of \$73,714, decreased depreciation expense of \$83,411, decreased landfill closure and postclosure costs of \$39,902, which was offset by an increase in waste management costs of \$59,560, increased household hazardous waste costs of \$2,150, 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 \$58,897,687, which is greater than last year's total of \$58,193,182. The fund balance change of \$704,505 is due to an increase in the General Fund balance of \$850,942, a decrease in the Road and Bridge Special Revenue Fund balance of \$1,659,603, an increase in the Human Services Special Revenue Fund balance of \$704,211, a decrease in the Capital Improvement Special Revenue Fund balance of \$197,129, a decrease in the Prairie Lakes Municipal Solid Waste Authority Debt Service Fund balance of \$476,153, and an increase in the other governmental funds fund balances of \$1,482,237.

As you will note, there were significant changes within individual funds. The overall fund balance change represented a 1.22 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 \$18,619,994, an increase of \$850,942 from 2011. The General Fund balance is classified as either nonspendable - \$828,831, restricted for specific purposes - \$2,066,984, assigned to specific uses - \$367,674, or unassigned - \$15,356,505.

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 2012, 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 20, 2011, 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 \$315,936. Total actual expenditures in the General Fund were under the budgeted expenditures by \$983,884. The budgeted operating transfers out was less than the actual operating transfers out by \$6,276.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, Otter Tail County had \$138,883,483 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 \$11,610,131, or a 9.12 percent increase, over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ 4,324,010	\$ 4,146,172	\$ 195,934	\$ 195,934	\$ 4,519,944	\$ 4,342,106
Construction in progress	4,671,688	3,869,441	50,904	-	4,722,592	3,869,441
Land improvements	163,785	237,683	-	-	163,785	237,683
Buildings and improvements	22,858,333	22,734,414	3,979,883	4,207,067	26,838,216	26,941,481
Machinery, furniture, and equipment	4,471,639	4,216,891	567,057	669,705	5,038,696	4,886,596
Infrastructure	96,447,643	85,775,249	-	-	96,447,643	85,775,249
Landfill	-	-	1,152,607	1,220,796	1,152,607	1,220,796
Totals	<u>\$ 132,937,098</u>	<u>\$ 120,979,850</u>	<u>\$ 5,946,385</u>	<u>\$ 6,293,502</u>	<u>\$ 138,883,483</u>	<u>\$ 127,273,352</u>

During calendar year 2012, Otter Tail County's governmental activities' capital assets, net of depreciation, increased a total of \$11,957,248. 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 2012.

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 and will be completed in late 2012/early 2013 with an anticipated completion date for all of these projects in the spring of 2014. 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, 2012, Otter Tail County had \$33,901,672 in bonds and notes outstanding, compared with \$30,795,306 as of December 31, 2011, an increase of 10.09 percent--as shown in Table 5.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Bonds payable						
General obligation bonds	\$ 14,710,000	\$ 10,535,000	\$ -	\$ -	\$ 14,710,000	\$ 10,535,000
Revenue bonds	14,950,000	15,685,000	-	-	14,950,000	15,685,000
Lease revenue bonds	4,425,000	4,735,000	-	-	4,425,000	4,735,000
Plus: Unamortized premium	19,110	21,573	-	-	19,110	21,573
Less: Unamortized discount	(202,438)	(181,627)	-	-	(202,438)	(181,267)
Total	<u>\$ 33,901,672</u>	<u>\$ 30,795,306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,901,672</u>	<u>\$ 30,795,306</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 \$240,033,324 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 post-closure 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 varies from year to year. Significant increases will impact a number of departmental budgets, as well as potentially influence which projects and the number of projects 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. It should be noted that the Pay 2012 net levy was \$869 less than the Pay 2011 net levy. However, the overall County rate for Pay 2012 is 39.147, which is a 5.8 percent increase over the Pay 2011 County rate of 37.013. 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.
- For taxes payable year 2012, the County was not subject to state-imposed levy limits and will not be subject to state-imposed levy limits for taxes payable year 2013; however, for taxes payable year 2014, the County will be subject to state-imposed levy limits. The imposition of levy limitations for taxes payable year 2014 will require that the County carefully review its current financial position 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.
- As noted above, state-imposed levy limitations did not exist for budget year 2012 or for budget year 2013; however, a state-imposed levy limitation will exist for budget year 2014. In addition to the limitation that will exist for budget year 2014, other legislative changes and current economic conditions require that, as the County operates under the adopted budget for 2013 and develops the 2014 budget, a careful review must be made of revenue sources other than property taxes, as well as reviewing current and proposed expenditures and how services and programs are delivered to the public to help ensure that a sound financial position is maintained.
- The net property tax levy for 2012 decreased from 2011 by \$869, and the 2013 net property tax levy increased by \$1,270,849, or by approximately 4 percent. The net property tax levy for 2014 is scheduled to increase by 3.65 percent.

- Otter Tail County's unemployment rate for 2013 averaged 6.2 percent through July 31, 2013. However, it should be noted that the unemployment rate for the month of July was 4.2 percent. The County's unemployment rate for 2012 averaged 5.6 percent, 2011 averaged 6.3 percent, 2010 averaged 7.2 percent, 2009 averaged 8.3 percent, 2008 averaged 6.1 percent, and 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 needs, continuing to transition the current organizational structure to the divisional 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 and 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, the costs associated with implementation, and the costs associated with training staff in the proper use of technology are important factors considered when allocating budgetary resources. The County is currently involved with a project to rewrite our existing assessment and property tax software, which will allow the County to use existing technology more effectively.
- 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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 47,871,177	\$ 4,501,617	\$ 52,372,794	\$ 1,364,509
Taxes receivable delinquent	933,916	-	933,916	-
Special assessments receivable				
Prior	3,225	-	3,225	-
Deferred	43,384	-	43,384	-
Accounts receivable	451,307	316,356	767,663	151,061
Accrued interest receivable	18,964	-	18,964	-
Internal balances	711,773	(711,773)	-	-
Due from other governments	4,263,635	161,695	4,425,330	558,778
Due from primary government	-	-	-	143,760
Lease receivable	81,820	-	81,820	-
Inventories	346,431	-	346,431	-
Restricted assets				
Temporarily restricted				
Cash with escrow agent	304,540	-	304,540	-
Permanently restricted				
Cash and pooled investments	-	1,273,721	1,273,721	-
Deferred charges	247,814	-	247,814	-
Advance to component unit	10,070,000	-	10,070,000	-
Long-term lease receivable	1,009,866	-	1,009,866	-
Capital assets				
Non-depreciable	8,995,698	246,838	9,242,536	3,167,311
Depreciable - net of accumulated depreciation	123,941,400	5,699,547	129,640,947	6,131,573
Total Assets	\$ 199,294,950	\$ 11,488,001	\$ 210,782,951	\$ 11,516,992

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Liabilities</u>				
Accounts payable	\$ 1,202,063	\$ 176,336	\$ 1,378,399	\$ 292,318
Salaries payable	1,149,186	66,013	1,215,199	-
Contracts payable	1,412,360	-	1,412,360	193,441
Due to other governments	185,909	4,170	190,079	71,725
Due to component unit	195	143,565	143,760	-
Due to primary government	-	-	-	88,928
Accrued interest payable	314,337	-	314,337	-
Unearned revenue	207,005	-	207,005	-
Employee deposits	160,224	-	160,224	-
Advance from primary government	-	-	-	10,070,000
Long-term liabilities				
Due within one year	3,822,120	71,675	3,893,795	-
Due in more than one year	36,629,935	1,481,532	38,111,467	-
Total Liabilities	\$ 45,083,334	\$ 1,943,291	\$ 47,026,625	\$ 10,716,412
<u>Net Position</u>				
Net investment in capital assets	\$ 113,361,185	\$ 5,946,385	\$ 119,307,570	\$ 586,809
Restricted for				
General government	3,991,406	-	3,991,406	-
Public safety	402,126	-	402,126	-
Highways and streets	172,021	-	172,021	-
Postclosure care	-	134,756	134,756	-
Conservation of natural resources	175,829	-	175,829	-
Held in trust for other purposes	175,208	-	175,208	-
Unrestricted	35,933,841	3,463,569	39,397,410	213,771
Total Net Position	\$ 154,211,616	\$ 9,544,710	\$ 163,756,326	\$ 800,580

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Expenses	Fees Charges, Fines, and Other	Program Revenues Operating Grants and Contributions
<u>Functions/Programs</u>			
Governmental activities			
General government	\$ 11,040,066	\$ 2,358,824	\$ 468,282
Public safety	11,627,444	352,134	1,015,373
Highways and streets	13,048,472	869,997	11,969,781
Sanitation	-	32,448	-
Human services	16,252,667	1,489,388	8,046,109
Health	2,361,748	800,662	924,708
Culture and recreation	961,148	-	119,033
Conservation of natural resources	882,284	169,948	177,254
Economic development	21,800	-	-
Interest	1,250,144	-	-
	\$ 57,445,773	\$ 6,073,401	\$ 22,720,540
Business-type activities			
Solid waste	7,117,448	6,750,775	182,840
	\$ 64,563,221	\$ 12,824,176	\$ 22,903,380
Component unit			
Prairie Lakes Municipal Solid Waste Authority	\$ 4,729,486	\$ 4,197,596	\$ -

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 Position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position			Discretely Presented Component Unit
	Governmental Activities	Primary Government Business-Type Activities	Total	
\$ -	\$ (8,212,960)	\$ -	\$ (8,212,960)	
-	(10,259,937)	-	(10,259,937)	
1,964,658	1,755,964	-	1,755,964	
-	32,448	-	32,448	
-	(6,717,170)	-	(6,717,170)	
-	(636,378)	-	(636,378)	
-	(842,115)	-	(842,115)	
-	(535,082)	-	(535,082)	
-	(21,800)	-	(21,800)	
-	(1,250,144)	-	(1,250,144)	
\$ 1,964,658	\$ (26,687,174)	\$ -	\$ (26,687,174)	
-	-	(183,833)	(183,833)	
\$ 1,964,658	\$ (26,687,174)	\$ (183,833)	\$ (26,871,007)	
<u>\$ 895,799</u>				<u>\$ 363,909</u>
	\$ 29,333,937	\$ -	\$ 29,333,937	\$ -
	1,908,812	-	1,908,812	-
	70,005	-	70,005	-
	77,853	-	77,853	-
	1,834,480	-	1,834,480	-
	542,731	-	542,731	-
	96,134	10,167	106,301	11,789
	1,165,699	-	1,165,699	-
	154,087	-	154,087	-
	\$ 35,183,738	\$ 10,167	\$ 35,193,905	\$ 11,789
	\$ 8,496,564	\$ (173,666)	\$ 8,322,898	\$ 375,698
	145,715,052	9,718,376	155,433,428	424,882
	\$ 154,211,616	\$ 9,544,710	\$ 163,756,326	\$ 800,580

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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, 2012**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 17,003,706	\$ 2,025,171
Petty cash and change funds	11,350	50
Undistributed cash in agency funds (taxes and other)	382,013	54,211
Taxes receivable delinquent	460,780	82,011
Special assessments		
Prior	-	615
Deferred	-	-
Accounts receivable	33,552	12,453
Accrued interest receivable	18,964	-
Due from other funds	118,932	553
Due from other governments	104,961	2,848,105
Lease receivable	1,091,686	-
Advance to other funds	828,831	-
Inventories	-	346,431
Advance to component unit	-	-
Restricted assets		
Temporarily restricted		
Cash with escrow agent	47,854	-
Total Assets	\$ 20,102,629	\$ 5,369,600
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 277,275	\$ 351,306
Salaries payable	600,595	148,051
Contracts payable	-	759,813
Due to other funds	5,417	507
Due to other governments	15,132	34,282
Due to component unit	195	-
Deferred revenue - unavailable	423,797	1,692,510
Deferred revenue - unearned	-	-
Advance from other funds	-	-
Employee deposits	160,224	-
Total Liabilities	\$ 1,482,635	\$ 2,986,469

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>
\$ 11,448,161	\$ 3,246,734	\$ -	\$ 13,451,455	\$ 47,175,227
200	-	-	-	11,600
167,027	44,098	-	37,001	684,350
265,812	66,176	-	59,137	933,916
-	-	-	2,610	3,225
-	-	-	43,384	43,384
251,215	154,087	-	-	451,307
-	-	-	-	18,964
-	4,142	-	-	123,627
1,080,383	225,239	-	4,947	4,263,635
-	-	-	-	1,091,686
-	-	-	-	828,831
-	-	-	-	346,431
-	-	10,070,000	-	10,070,000
-	-	-	256,686	304,540
\$ 13,212,798	\$ 3,740,476	\$ 10,070,000	\$ 13,855,220	\$ 66,350,723
\$ 400,727	\$ 154,856	\$ -	\$ 17,899	\$ 1,202,063
400,540	-	-	-	1,149,186
-	-	-	652,547	1,412,360
13,837	553	-	-	20,314
136,428	-	-	-	185,842
-	-	-	-	195
359,598	326,418	-	93,086	2,895,409
14,475	-	192,530	-	207,005
-	-	-	220,438	220,438
-	-	-	-	160,224
\$ 1,325,605	\$ 481,827	\$ 192,530	\$ 983,970	\$ 7,453,036

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Road and Bridge
<u>Liabilities and Fund Balances (Continued)</u>		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 346,431
Advances to other funds	828,831	-
Restricted		
Debt service	-	-
Law library	-	-
Recorder's technology equipment	648,028	-
Real estate shortfall	253,529	-
E-911	-	-
Recorder's compliance	864,450	-
Equipment purchase	-	-
HAVA	19,912	-
Veteran's van	16,665	-
County state-aid highway system	-	172,021
Handgun permits	89,192	-
Ditch maintenance and construction	-	-
General government	-	-
Sheriff's contingencies	-	-
Missing heirs	175,208	-
Assigned		
Property and casualty insurance	227,016	107,469
Workers compensation	140,658	130,061
General government	-	-
Public safety	-	-
Highways and streets	-	1,627,149
Human services	-	-
Health	-	-
Culture and recreation	-	-
Conservation of natural resources	-	-
Capital outlay	-	-
Unassigned	15,356,505	-
Total Fund Balances	\$ 18,619,994	\$ 2,383,131
Total Liabilities and Fund Balances	\$ 20,102,629	\$ 5,369,600

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>
\$ -	\$ -	\$ -	\$ -	\$ 346,431
-	-	-	-	828,831
-	-	9,877,470	6,897,890	16,775,360
-	-	-	109,553	109,553
-	-	-	-	648,028
-	-	-	-	253,529
-	307,934	-	-	307,934
-	-	-	-	864,450
-	-	-	1,870,269	1,870,269
-	-	-	-	19,912
-	-	-	-	16,665
-	-	-	-	172,021
-	-	-	-	89,192
-	-	-	175,829	175,829
-	209,000	-	-	209,000
-	-	-	5,000	5,000
-	-	-	-	175,208
47,339	-	-	-	381,824
56,322	-	-	-	327,041
-	785,088	-	-	785,088
1,088,120	394,563	-	8,632	1,491,315
-	1,343,694	-	-	2,970,843
9,246,067	68,590	-	-	9,314,657
1,449,345	21,455	-	-	1,470,800
-	112,067	-	-	112,067
-	16,258	-	-	16,258
-	-	-	4,024,510	4,024,510
-	-	-	(220,433)	15,136,072
\$ 11,887,193	\$ 3,258,649	\$ 9,877,470	\$ 12,871,250	\$ 58,897,687
\$ 13,212,798	\$ 3,740,476	\$ 10,070,000	\$ 13,855,220	\$ 66,350,723

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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 POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)		\$	58,897,687
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			132,937,098
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			2,895,409
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	\$	(14,710,000)	
Revenue bonds		(14,950,000)	
Other postemployment benefits		(855,512)	
Facility lease revenue bonds		(4,425,000)	
Bond discount		202,438	
Bond premiums		(19,110)	
Deferred charges		247,814	
Accrued interest payable		(314,337)	
Compensated absences		(4,375,522)	
Capital leases payable		(1,319,349)	
		<u>(40,518,578)</u>	
Net Position of Governmental Activities (Exhibit 1)			<u>\$ 154,211,616</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Road and Bridge
Revenues		
Taxes	\$ 15,300,052	\$ 2,883,238
Special assessments	20,720	-
Licenses and permits	421,226	-
Intergovernmental	2,589,891	15,121,818
Charges for services	1,364,428	774,603
Fines and forfeits	32,065	-
Gifts and contributions	220	-
Investment earnings	66,221	-
Miscellaneous	923,352	85,840
	\$ 20,718,175	\$ 18,865,499
Expenditures		
Current		
General government	\$ 10,108,318	\$ -
Public safety	7,962,594	-
Highways and streets	-	19,403,822
Human services	-	-
Health	-	-
Culture and recreation	897,322	-
Conservation of natural resources	788,603	-
Economic development	21,800	-
Intergovernmental		
Highways and streets	-	1,173,234
Capital outlay		
General government	-	-
Debt service		
Principal	81,820	-
Interest	-	-
Bond issuance costs	-	-
	\$ 19,860,457	\$ 20,577,056
Excess of Revenues Over (Under) Expenditures	\$ 857,718	\$ (1,711,557)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(6,776)	-
Bonds issued	-	-
Discount on bonds/notes issued	-	-
	\$ (6,776)	\$ -
Net Change in Fund Balance	\$ 850,942	\$ (1,711,557)
Fund Balance - January 1	17,769,052	4,042,734
Increase (decrease) in inventories	-	51,954
Fund Balance - December 31	\$ 18,619,994	\$ 2,383,131

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

EXHIBIT 5

Human Services	Capital Improvement	Prairie Lakes Municipal Solid Waste Authority Debt Service	Other Governmental Funds	Total
\$ 8,852,465	\$ 2,407,440	\$ -	\$ 1,908,812	\$ 31,352,007
-	-	-	41,433	62,153
-	-	-	-	421,226
9,992,196	571,337	-	33,084	28,308,326
1,760,974	1,392	-	-	3,901,397
-	-	-	65,850	97,915
-	-	-	-	220
-	13,525	-	738	80,484
631,773	223,882	349,203	553,843	2,767,893
\$ 21,237,408	\$ 3,217,576	\$ 349,203	\$ 2,603,760	\$ 66,991,621
\$ -	\$ 147,228	\$ -	\$ 53,272	\$ 10,308,818
1,892,611	1,527,052	-	7,105	11,389,362
-	1,559,329	-	-	20,963,151
16,221,888	-	-	-	16,221,888
2,395,659	-	-	-	2,395,659
-	98,670	-	-	995,992
-	-	-	93,409	882,012
-	-	-	-	21,800
-	-	-	-	1,173,234
-	-	-	3,711,475	3,711,475
-	98,781	405,000	1,245,000	1,830,601
-	6,684	420,356	722,942	1,149,982
-	-	-	38,242	38,242
\$ 20,510,158	\$ 3,437,744	\$ 825,356	\$ 5,871,445	\$ 71,082,216
\$ 727,250	\$ (220,168)	\$ (476,153)	\$ (3,267,685)	\$ (4,090,595)
\$ -	\$ 23,039	\$ -	\$ 6,776	\$ 29,815
(23,039)	-	-	-	(29,815)
-	-	-	4,780,000	4,780,000
-	-	-	(36,854)	(36,854)
\$ (23,039)	\$ 23,039	\$ -	\$ 4,749,922	\$ 4,743,146
\$ 704,211	\$ (197,129)	\$ (476,153)	\$ 1,482,237	\$ 652,551
11,182,982	3,455,778	10,353,623	11,389,013	58,193,182
-	-	-	-	51,954
\$ 11,887,193	\$ 3,258,649	\$ 9,877,470	\$ 12,871,250	\$ 58,897,687

**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, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 652,551

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	\$ 2,895,409	
Deferred revenue - January 1	<u>(3,944,693)</u>	(1,049,284)

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	\$ 17,799,488	
Current year depreciation	<u>(5,842,240)</u>	11,957,248

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 position. 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 position.

Proceeds of new debt		
General obligation bonds issued	\$ (4,780,000)	
Deferred debt issuance costs	38,242	
Discounts on bonds issued	<u>36,854</u>	(4,704,904)

Principal repayments		
General obligation bonds	\$ 605,000	
Revenue bonds	735,000	
Facility lease revenue bonds	310,000	
Capital lease	<u>180,601</u>	1,830,601

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	\$ (86,942)	
Amortization of premiums, discounts, and deferred issuance charges	(39,133)	
Change in compensated absences	53,853	
Change in other postemployment benefits	(169,380)	
Change in inventories	<u>51,954</u>	<u>(189,648)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 8,496,564

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

PROPRIETARY FUND

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
WASTE MANAGEMENT ENTERPRISE FUND
DECEMBER 31, 2012**

<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 4,415,640
Petty cash and change funds	18,740
Undistributed cash in agency funds	67,237
Accounts receivable	316,356
Due from other funds	1,208
Due from other governments	161,695
Total current assets	\$ 4,980,876
Restricted assets	
Cash and pooled investments	\$ 1,273,721
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 246,838
Depreciable - net	5,699,547
Total noncurrent assets	\$ 5,946,385
Total Assets	\$ 12,200,982
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 176,336
Salaries payable	66,013
Compensated absences payable	71,675
Due to other funds	104,588
Due to other governments	4,170
Advance from other funds	202,798
Due to component unit	143,565
Total current liabilities	\$ 769,145
Noncurrent liabilities	
Compensated absences payable	\$ 281,278
Advance from other funds	405,595
Estimated liability for landfill closure/postclosure care	1,138,965
Other postemployment benefits liability	61,289
Total noncurrent liabilities	\$ 1,887,127
Total Liabilities	\$ 2,656,272
Net Position	
Net investment in capital assets	\$ 5,946,385
Restricted for postclosure care costs	134,756
Unrestricted	3,463,569
Total Net Position	\$ 9,544,710

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

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
WASTE MANAGEMENT ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

Operating Revenues	
Charges for services	\$ 6,049,711
Licenses and permits	320
Sale of recyclable materials	<u>700,744</u>
Total Operating Revenues	<u>\$ 6,750,775</u>
Operating Expenses	
SCORE	\$ 1,202,271
Waste management	3,701,358
Household hazardous waste	153,432
Processing costs	1,586,373
Depreciation	429,024
Landfill closure and postclosure care costs	<u>16,598</u>
Total Operating Expenses	<u>\$ 7,089,056</u>
Operating Income (Loss)	<u>\$ (338,281)</u>
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 179,651
Interest income	10,167
Interest income restricted for sanitation	3,189
Interest expense	<u>(28,392)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 164,615</u>
Change in Net Position	\$ (173,666)
Net Position - January 1	<u>9,718,376</u>
Net Position - December 31	<u>\$ 9,544,710</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
WASTE MANAGEMENT ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 6,884,754
Payments to suppliers	(5,088,227)
Payments to employees	<u>(1,601,231)</u>
Net cash provided by (used in) operating activities	<u>\$ 195,296</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental	<u>\$ 179,651</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	\$ (36,143)
Interest paid on advance	(32,448)
Payment on advance from other funds	<u>(202,798)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (271,389)</u>
Cash Flows from Investing Activities	
Investment earnings received	<u>\$ 13,328</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 116,886
Cash and Cash Equivalents at January 1	<u>5,658,452</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 5,775,338</u></u>
Cash and Cash Equivalents - Exhibit 7	
Cash and pooled investments	\$ 4,415,640
Petty cash and change funds	18,740
Undistributed cash in agency funds	67,237
Restricted cash and pooled investments	<u>1,273,721</u>
Total Cash and Cash Equivalents	<u><u>\$ 5,775,338</u></u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
WASTE MANAGEMENT ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of Operating Income (Loss) to Net Cash	
Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (338,281)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 429,024
(Increase) decrease in accounts receivable	118,445
(Increase) decrease in due from other governments	980
(Increase) decrease in due from component unit	14,554
Increase (decrease) in accounts payable	35,685
Increase (decrease) in salaries payable	(3,077)
Increase (decrease) in compensated absences - current	(514)
Increase (decrease) in due to other funds	(3,512)
Increase (decrease) in due to other governments	(2,828)
Increase (decrease) in due to component unit	(102,886)
Increase (decrease) in compensated absences - long-term	13,366
Increase (decrease) in other postemployment benefits liability	17,742
Increase (decrease) in landfill closure/postclosure care costs	<u>16,598</u>
Total adjustments	<u>\$ 533,577</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 195,296</u></u>

FIDUCIARY FUNDS

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012**

<u>Assets</u>	
Cash and pooled investments	\$ 1,549,164
Due from other funds	<u>67</u>
Total Assets	<u><u>\$ 1,549,231</u></u>
 <u>Liabilities</u>	
Accounts payable	\$ 15,801
Due to other governments	<u>1,533,430</u>
Total Liabilities	<u><u>\$ 1,549,231</u></u>

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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**

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 position 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 position, 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities 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**

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**

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**

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 Position 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, 2012, 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 2012 were \$99,169.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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 nonspendable 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. The principal payments made in 2012 were \$405,000.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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 position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

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**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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**

1. Summary of Significant Accounting Policies

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

Net position in the government-wide financial statements is classified in the following categories:

- Net investment in capital assets - the amount of net position representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted - the amount of net position 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 - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances

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**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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**

2. Stewardship, Compliance, and Accountability

A. Ditch Fund Deficits

Of 29 drainage systems, 6 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, 2012.

Account balances	\$	175,829
Account deficits		(220,433)
Fund Balance	\$	(44,604)

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, 2012.

	Expenditures	Final Budget	Excess
Special Revenue Funds			
Capital Improvement	\$ 3,437,744	\$ 2,830,670	\$ 607,074
Ditch	93,409	37,700	55,709
Debt Service Funds			
Chemical Dependency	548,308	546,308	2,000
Ethanol Plant	700,660	697,625	3,035
Government Service Center	35,085	33,535	1,550
Sheriff Operations	495,650	493,200	2,450
Veterans Home	123,641	123,210	431
Master Facility Construction	64,598	65,148	550

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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	\$ 52,372,794
Restricted assets	
Cash with escrow agent	304,540
Cash and pooled investments	1,273,721
Component unit	
Cash and pooled investments	1,364,509
Less: Amount held by City of Perham	(447,900)
Fiduciary assets	
Cash and pooled investments	
Agency funds	<u>1,549,164</u>
Total Cash and Investments	<u>\$ 56,416,828</u>

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2012, the County's deposits were not exposed to custodial credit risk.

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2012, none of the County's investments were exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. 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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table represents the County's deposit and investment balances at December 31, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest Rate	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5 Percent of Portfolio	Risk Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association	N/R	N/A	<5.0%	06/25/2022	\$ 13,132
U.S. Treasury Note	N/A	N/A		03/31/2013	\$ 2,504,000
U.S. Treasury Note	N/A	N/A		08/31/2013	999,770
U.S. Treasury Note	N/A	N/A		10/31/2013	2,553,025
U.S. Treasury Note	N/A	N/A		11/30/2013	1,000,590
U.S. Treasury Note	N/A	N/A		10/15/2014	1,004,530
U.S. Treasury Note	N/A	N/A		11/15/2014	1,002,340
U.S. Treasury Note	N/A	N/A		11/30/2014	2,971,684
U.S. Treasury Note	N/A	N/A		12/31/2014	1,047,190
U.S. Treasury Note	N/A	N/A		02/28/2015	2,612,500
U.S. Treasury Note	N/A	N/A		03/15/2015	2,505,075
U.S. Treasury Note	N/A	N/A		04/30/2015	2,627,350
Total U.S. Treasury Notes			N/A		\$ 20,828,054
U.S. Treasury Bond - Stripped	N/A	N/A		08/15/2017	\$ 15,490
U.S. Treasury Bond - Stripped	N/A	N/A		08/15/2019	35,264
Total U.S. Treasury Bonds - Stripped			N/A		\$ 50,754
Total investments					\$ 20,891,940
Deposits					35,190,008
Cash with escrow agent					304,540
Change funds					30,340
Total Cash and Investments					\$ 56,416,828

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, 2012, 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	\$ 933,916	\$ -
Special assessments	46,609	-
Accounts	451,307	-
Interest	18,964	-
Due from other governments	4,263,635	-
Advance to component unit	10,070,000	9,690,000
Total Governmental Activities	\$ 15,784,431	\$ 9,690,000
Business-Type Activities		
Accounts	\$ 316,356	\$ -
Due from other governments	161,695	-
Total Business-Type Activities	\$ 478,051	\$ -

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**

3. Detailed Notes on All Funds

A. Assets

3. Leases Receivable (Continued)

Otter Tail County has leased seven vehicles for use by the 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 the West Central Minnesota Narcotics Task Force have been recorded as leases receivable in the General Fund at December 31, 2012. The amounts for 2013 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>
2013	\$ 40,000	\$ 41,820
2014	45,000	12,720
2015	45,000	-
2016	50,000	-
2017	50,000	-
2018 - 2022	290,000	-
2023 - 2027	380,000	-
2028 - 2029	185,000	-
Total leases	\$ 1,085,000	\$ 54,540
Funds in escrow	(47,854)	-
Total Leases Receivable	<u>\$ 1,037,146</u>	<u>\$ 54,540</u>
Due Within One Year	<u>\$ 40,000</u>	<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, 2012, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 4,146,172	\$ 177,838	\$ -	\$ 4,324,010
Construction in progress	3,869,441	3,524,604	2,722,357	4,671,688
Total capital assets not depreciated	\$ 8,015,613	\$ 3,702,442	\$ 2,722,357	\$ 8,995,698
Capital assets depreciated				
Land improvements	\$ 924,757	\$ -	\$ -	\$ 924,757
Buildings	28,054,342	41,327	-	28,095,669
Building improvements	3,877,179	893,986	-	4,771,165
Machinery, furniture, and equipment	14,411,532	1,218,934	517,446	15,113,020
Infrastructure	136,975,435	14,665,156	-	151,640,591
Total capital assets depreciated	\$ 184,243,245	\$ 16,819,403	\$ 517,446	\$ 200,545,202
Less: accumulated depreciation for				
Land improvements	\$ 687,074	\$ 73,898	\$ -	\$ 760,972
Buildings	8,256,354	691,276	-	8,947,630
Building improvements	940,753	120,118	-	1,060,871
Machinery, furniture, and equipment	10,194,641	964,186	517,446	10,641,381
Infrastructure	51,200,186	3,992,762	-	55,192,948
Total accumulated depreciation	\$ 71,279,008	\$ 5,842,240	\$ 517,446	\$ 76,603,802
Total capital assets depreciated, net	\$ 112,964,237	\$ 10,977,163	\$ -	\$ 123,941,400
Governmental Activities Capital Assets, Net	\$ 120,979,850	\$ 14,679,605	\$ 2,722,357	\$ 132,937,098

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 195,934	\$ -	\$ -	\$ 195,934
Construction in progress	-	50,904	-	50,904
Total capital assets not depreciated	\$ 195,934	\$ 50,904	\$ -	\$ 246,838
Capital assets depreciated				
Buildings	\$ 6,710,609	\$ -	\$ -	\$ 6,710,609
Landfill	2,883,578	-	-	2,883,578
Machinery, furniture, and equipment	2,507,876	31,003	39,114	2,499,765
Total capital assets depreciated	\$ 12,102,063	\$ 31,003	\$ 39,114	\$ 12,093,952
Less: accumulated depreciation for				
Buildings	\$ 2,503,542	\$ 227,184	\$ -	\$ 2,730,726
Landfill	1,662,782	68,189	-	1,730,971
Machinery, furniture, and equipment	1,838,171	133,651	39,114	1,932,708
Total accumulated depreciation	\$ 6,004,495	\$ 429,024	\$ 39,114	\$ 6,394,405
Total capital assets depreciated, net	\$ 6,097,568	\$ (398,021)	\$ -	\$ 5,699,547
Business-Type Activities				
Capital Assets, Net	\$ 6,293,502	\$ (347,117)	\$ -	\$ 5,946,385

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

Governmental Activities	
General government	\$ 801,328
Public safety	567,945
Highways and streets, including depreciation of infrastructure assets	4,413,079
Human services	40,072
Culture and recreation	6,483
Health	13,333
Total Depreciation Expense - Governmental Activities	\$ 5,842,240
Business-Type Activities	
Solid waste	\$ 429,024

**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, 2012, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 507
	Human Services Special Revenue Fund	13,837
	Waste Management Enterprise Fund	104,588
Total due to General Fund		\$ 118,932
Road and Bridge Special Revenue Fund	Capital Improvement Special Revenue Fund	\$ 553
Capital Improvement Special Revenue Fund	General Fund	\$ 4,142
Waste Management Enterprise Fund	General Fund	\$ 1,208
Agency funds		
State Tax	General Fund	\$ 9
Family Services Collaborative	General Fund	58
Total due to agency funds		\$ 67
Total Due To/From Other Funds		\$ 124,902

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**

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	\$ 220,438
	Waste Management Enterprise Fund	608,393
Total General Fund		\$ 828,831

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, 2012, consisted of the following:

Transfer to Capital Improvement Special Revenue Fund from Human Services Special Revenue Fund	\$ 23,039	To reimburse for capital purchases.
Transfer to Sheriff's Contingent Special Revenue Fund from General Fund	2,224	To bring the fund balance up to the minimum fund balance.
Transfer to Ditch Special Revenue Fund from General Fund	4,552	To cover expenditures not allocated to a specific ditch.
Total Transfers Between Funds	\$ 29,815	

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 1,202,063	\$ 176,336
Salaries	1,149,186	66,013
Contracts	1,412,360	-
Due to other governments	185,909	4,170
Due to component unit	195	143,565
Interest	314,337	-
Employee deposits	160,224	-
	<hr/>	<hr/>
Total Payables	\$ 4,424,274	\$ 390,084

2. Deferred Revenue

Deferred revenue as of December 31, 2012, for the County's governmental funds is as follows:

	Deferred Unavailable	Deferred Unearned
Governmental funds		
Taxes	\$ 797,314	\$ -
State-aid highway allotments	1,309,650	-
Charges for services	66,184	-
Grants	516,531	14,475
Accrued interest	51,643	-
Other	154,087	192,530
	<hr/>	<hr/>
Total Governmental Funds	\$ 2,895,409	\$ 207,005

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction Commitments

The government has active construction projects as of December 31, 2012.

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Courthouse Remodeling	\$ 2,299,102	\$ 1,870,269
Correct Drainage at Chemical Dependency	-	209,000
Total Construction Commitments	\$ 2,299,102	\$ 2,079,269

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 2012, the County expended \$5,652 for these benefits.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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, 2012.

<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	\$ 179,809
2010 Viking Library System	2029	Annually	\$95,000	1,200,000	1,085,000
2009 Task Force vehicles	2013	Quarterly	\$29,100	130,950	29,100
2010 Task Force vehicles	2014	Quarterly	\$12,720	57,240	<u>25,440</u>
Total Governmental Activities					<u>\$ 1,319,349</u>

The future minimum lease obligations as of December 31, 2012, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2013	\$ 183,465
2014	135,884
2015	45,000
2016	50,000
2017	50,000
2018 - 2022	290,000
2023 - 2027	380,000
2028 - 2029	<u>185,000</u>
Total Payments	<u>\$ 1,319,349</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, 2012
General obligation bonds					
2004 Veterans Home Refunding Bonds	2016	\$100,000 - \$125,000	2.05 - 3.70	\$ 1,050,000	\$ 465,000
2007 Tax Abatement Bonds	2019	\$480,000 - \$500,000	4.05 - 5.00	5,245,000	4,065,000
2011 Capital Improvement Bonds	2019	\$850,000 - \$170,000	1.75 - 2.00	5,400,000	5,400,000
2012 Courthouse and Jail Improvement	2025	\$1,215,000	2.65	4,780,000	4,780,000
Total general obligation bonds				<u>\$ 16,475,000</u>	\$ 14,710,000
Add: unamortized premium					8,714
Less: unamortized discount					<u>(56,682)</u>
Total General Obligation Bonds, Net					<u>\$ 14,662,032</u>
Revenue bonds					
2007 Public Project Housing and Redevelopment Authority Revenue Bonds	2024	\$320,000 - \$515,000	3.40 - 4.50	\$ 6,140,000	\$ 4,880,000
2011 Disposal System Revenue Bonds	2030	\$380,000 - \$1,475,000	3.00 - 5.00	10,475,000	10,070,000
Total Revenue Bonds				<u>\$ 16,615,000</u>	\$ 14,950,000
Less: unamortized discount					<u>(145,756)</u>
Total Revenue Bonds, Net					<u>\$ 14,804,244</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>	\$ 4,425,000
Add: unamortized premium					<u>10,396</u>
Total Lease Revenue Bonds, Net					<u>\$ 4,435,396</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, 2012, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 1,460,000	\$ 356,193	\$ 725,000	\$ 612,229
2014	1,490,000	325,335	745,000	587,741
2015	1,520,000	291,766	775,000	562,326
2016	1,560,000	254,607	800,000	535,596
2017	1,465,000	214,337	825,000	507,596
2018 - 2022	4,220,000	584,505	4,600,000	2,050,937
2023 - 2027	2,995,000	131,150	3,620,000	1,099,978
2028 - 2030	-	-	2,860,000	274,625
Total	\$ 14,710,000	\$ 2,157,893	\$ 14,950,000	\$ 6,231,028

Year Ending December 31	Lease Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2013	\$ 320,000	\$ 170,600	\$ 183,465	\$ 3,820
2014	335,000	157,500	135,884	935
2015	350,000	143,800	45,000	-
2016	365,000	129,500	50,000	-
2017	380,000	114,600	50,000	-
2018 - 2022	2,180,000	324,600	290,000	-
2023 - 2027	495,000	9,900	380,000	-
2028 - 2029	-	-	185,000	-
Total	\$ 4,425,000	\$ 1,050,500	\$ 1,319,349	\$ 4,755

**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, 2012, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 10,535,000	\$ 4,780,000	\$ 605,000	\$ 14,710,000	\$ 1,460,000
Revenue bonds	15,685,000	-	735,000	14,950,000	725,000
Lease revenue bonds	4,735,000	-	310,000	4,425,000	320,000
Add: unamortized premium	21,573	-	2,463	19,110	-
Less: unamortized discount	(181,267)	(36,854)	(15,683)	(202,438)	-
Total bonds payable	\$ 30,795,306	\$ 4,743,146	\$ 1,636,780	\$ 33,901,672	\$ 2,505,000
Capital leases	1,499,950	-	180,601	1,319,349	183,465
Compensated absences	4,457,724	2,128,183	2,210,385	4,375,522	1,133,655
OPEB liability	686,132	169,380	-	855,512	-
Governmental Activities Long-Term Liabilities	<u>\$ 37,439,112</u>	<u>\$ 7,040,709</u>	<u>\$ 4,027,766</u>	<u>\$ 40,452,055</u>	<u>\$ 3,822,120</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure/postclosure care costs	\$ 1,122,367	\$ 16,598	\$ -	\$ 1,138,965	\$ -
Compensated absences	340,101	125,303	112,451	352,953	71,675
OPEB liability	43,547	17,742	-	61,289	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,506,015</u>	<u>\$ 159,643</u>	<u>\$ 112,451</u>	<u>\$ 1,553,207</u>	<u>\$ 71,675</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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, 2012, the amount of defeased debt outstanding but removed from the financial statements amounts to \$5,520,000.

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**

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**

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 General 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; 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 are 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**

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 2012:

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, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	2012	2011	2010
General Employees Retirement Fund	\$ 1,221,302	\$ 1,212,301	\$ 1,206,029
Public Employees Police and Fire Fund	310,176	308,541	308,116
Public Employees Correctional Fund	149,610	142,241	141,357

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**

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, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,422	\$ 5,422
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 2012, there were approximately 398 participants in the plan, including 24 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	\$	362,668
Interest on net OPEB obligation		32,836
Adjustment to ARC		<u>(44,962)</u>
Annual OPEB cost (expense)	\$	350,542
Contributions made		<u>(163,420)</u>
Increase in net OPEB obligation	\$	187,122
Net OPEB Obligation - Beginning of Year		<u>729,679</u>
Net OPEB Obligation - End of Year	\$	<u>916,801</u>

The County's annual OPEB cost for December 31, 2012, was \$350,542. The percentage of annual OPEB cost contributed to the plan was 46.6 percent, and the net OPEB obligation for 2012 was \$916,801.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2011, and 2012, was as follows:

Fiscal Year Ending	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed (%)	Net OPEB Obligation
December 31, 2010	\$ 300,270	\$ 91,200	30.0%	\$ 565,965
December 31, 2011	296,762	133,048	45.0	729,679
December 31, 2012	350,542	163,420	46.6	916,801

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$3,130,658, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,130,658. The covered payroll (annual payroll of active employees covered by the plan) was \$19,309,720, and the ratio of the UAAL to the covered payroll was 16.2 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, 2012, 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 6 years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 25 years.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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 \$1,138,965 landfill closure and postclosure care liability at December 31, 2012, represents the cumulative amount reported to date based on the use of 77 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$174,369 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2012. The Board expects to close the landfill in 2034 or later. 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, 2012, investments of \$1,273,721 are held for these purposes. These are reported as restricted assets on the statement of net position. 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**

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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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, 2012, the outstanding principal amount payable was \$649,149.

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, 2012, the outstanding principal amount payable was \$2,784,699.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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**

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 2012, 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**

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 contributed \$5,000 to this organization in 2012.

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**

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 2012, 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**

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 2012, the County did not contribute any funds to the Collaborative.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

9. Subsequent Event

General Obligation Bonds Issued

On April 25, 2013, the County issued General Obligation Waste Disposal Revenue Bonds, Series 2013A, of \$19,380,000. The purpose of the bonds is to finance the cost of improvements to the solid waste disposal facility known as the Perham Resource Recovery Facility. The bonds are being issued on behalf of Prairie Lakes Municipal Solid Waste Authority.

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 as follows: Becker - 26.42 percent, Otter Tail - 45.26 percent, Todd - 16.19 percent, and Wadena - 12.13 percent.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

A. Summary of Significant Accounting Policies

1. Financial Reporting Entity (Continued)

Prairie Lakes is a 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

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**

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

A. Summary of Significant Accounting Policies (Continued)

4. Assets, Liabilities, and Net Position 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**

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

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Position 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

Liabilities

Long-term liabilities consist of an advance from the primary government.

Equity Classifications

Equity is classified as net position. Unrestricted net position is net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Operating Revenues and Expenses

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

A. Summary of Significant Accounting Policies

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

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

Deposits and Investments

Prairie Lakes' total cash and cash equivalents are reported as follows:

Cash and pooled investments	\$ 1,364,509
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Prairie Lakes is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Prairie Lakes 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 or 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 not owned or controlled by the financial institution furnishing the collateral.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

B. Detailed Notes

1. Assets

Deposits and Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, Prairie Lakes' deposits may not be returned to it. Prairie Lakes does not have a deposit policy for custodial credit risk. As of December 31, 2012, its deposits were not exposed to custodial credit risk.

Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 151,061	\$ -
Due from other governments	558,778	-
Due from primary government	143,760	-
Total	\$ 853,599	\$ -

**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, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 25,489	\$ -	\$ -	\$ 25,489
Construction in progress	960,854	2,180,968	-	3,141,822
Total capital assets not depreciated	\$ 986,343	\$ 2,180,968	\$ -	\$ 3,167,311
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	\$ 462,562	\$ -	\$ 732,390
Machinery, furniture, and equipment	91,418	156,716	-	248,134
Total accumulated depreciation	\$ 361,246	\$ 619,278	\$ -	\$ 980,524
Total capital assets depreciated, net	\$ 6,750,851	\$ (619,278)	\$ -	\$ 6,131,573
Capital Assets, Net	\$ 7,737,194	\$ 1,561,690	\$ -	\$ 9,298,884

Depreciation expense for the period was \$ 619,278.

2. Liabilities

Payables

Payables at December 31, 2012, were as follows:

Accounts	\$ 292,318
Contracts	193,441
Due to other governments	71,725
Due to primary government	88,928
Total Payables	\$ 646,412

**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. The County issued \$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 were recognized by Otter Tail County. Prairie Lakes' advance payment back to the County is essentially equal to the principal and interest on the bonds for the year. The advance balance consists of the following at December 31, 2012:

<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>\$ 10,070,000</u>

The future minimum obligations as of December 31, 2012, were as follows:

<u>Year Ending December 31</u>	<u>Future Minimum Obligations</u>
2013	\$ 788,132
2014	786,581
2015	789,656
2016	787,356
2017	784,756
2018 - 2022	3,918,063
2023 - 2027	3,909,559
2028 - 2030	<u>3,134,625</u>
Total future minimum advance payments	\$ 14,898,728
Less: amount representing interest	<u>(4,828,728)</u>
Advance Balance	<u>\$ 10,070,000</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advance from primary government	\$ 10,475,000	\$ -	\$ 405,000	\$ 10,070,000	\$ 380,000
Capital lease	13,393	-	13,393	-	-
Long-Term Liabilities	<u>\$ 10,488,393</u>	<u>\$ -</u>	<u>\$ 418,393</u>	<u>\$ 10,070,000</u>	<u>\$ 380,000</u>

Construction and Other Significant Commitments

Prairie Lakes has active construction project commitments as of December 31, 2012.

	Spent-to-Date	Remaining Commitment
WTE Expansion	\$ 565,912	\$ 13,109,661
MRF Expansion	225,986	3,573,161
Total	<u>\$ 791,898</u>	<u>\$ 16,682,822</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, 2012, there are no other claims liabilities reported in the financial statements based on the requirements of GASB Statement 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**

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	\$ 4,573,308	\$ 4,197,596	\$ (375,712)
Operating Expenses	4,139,057	4,311,419	(172,362)
Operating Income (Loss)	\$ 434,251	\$ (113,823)	\$ (548,074)
Nonoperating Revenues (Expenses) and Contributions	(388,041)	489,521	877,562
Change in Net Position	\$ 46,210	\$ 375,698	\$ 329,488

5. Subsequent Events

Bond Issue

Otter Tail County issued \$19,380,000 General Obligation Waste Disposal Revenue Bonds, Series 2013A, on behalf of Prairie Lakes Municipal Solid Waste Authority.

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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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 15,908,617	\$ 15,908,617	\$ 15,300,052	\$ (608,565)
Special assessments	20,742	20,742	20,720	(22)
Licenses and permits	373,350	373,350	421,226	47,876
Intergovernmental	2,066,620	2,066,620	2,589,891	523,271
Charges for services	1,229,370	1,229,370	1,364,428	135,058
Fines and forfeits	32,500	32,500	32,065	(435)
Gifts and contributions	7,680	7,680	220	(7,460)
Investment earnings	363,832	363,832	66,221	(297,611)
Miscellaneous	1,031,400	1,031,400	923,352	(108,048)
Total Revenues	\$ 21,034,111	\$ 21,034,111	\$ 20,718,175	\$ (315,936)
Expenditures				
Current				
General government				
Commissioners	\$ 358,056	\$ 358,056	\$ 353,830	\$ 4,226
Courts	30,000	30,000	29,083	917
Public defender	150,000	150,000	160,133	(10,133)
County coordinator	491,485	491,485	511,628	(20,143)
County auditor	784,095	784,095	789,091	(4,996)
License bureau	401,643	401,643	401,941	(298)
County treasurer	330,948	330,948	314,025	16,923
County assessor	962,108	962,108	949,636	12,472
Elections	190,995	190,995	191,652	(657)
Accounting and auditing	100,000	100,000	97,824	2,176
Board of adjustments	24,384	24,384	22,716	1,668
Data processing	1,016,222	1,016,222	984,911	31,311
Attorney	1,178,184	1,178,184	1,208,616	(30,432)
Recorder	392,718	392,718	513,575	(120,857)
Planning and zoning	1,031,026	1,031,026	923,516	107,510
Environmental services	29,122	29,122	20,871	8,251
Buildings and plant	1,850,221	1,850,221	1,476,733	373,488
Geographical information survey	318,323	318,323	279,350	38,973
Veterans service officer	340,926	340,926	323,455	17,471
Unallocated	800,595	800,595	555,732	244,863
Total general government	\$ 10,781,051	\$ 10,781,051	\$ 10,108,318	\$ 672,733

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 5,252,435	\$ 5,252,435	\$ 4,723,399	\$ 529,036
Boat and water safety	136,821	136,821	113,761	23,060
Coroner	80,472	80,472	106,922	(26,450)
County jail	2,953,079	2,953,079	2,930,017	23,062
DARE program	6,700	6,700	-	6,700
Civil defense	163,953	163,953	84,466	79,487
Tobacco comp	4,500	4,500	4,029	471
Total public safety	\$ 8,597,960	\$ 8,597,960	\$ 7,962,594	\$ 635,366
Culture and recreation				
Historical society	\$ 48,273	\$ 48,273	\$ 48,273	\$ -
Tourism	30,000	30,000	30,000	-
County fairs	34,000	34,000	34,000	-
Phelps Mill Park	50,247	50,247	46,242	4,005
Humane Society	61,888	61,888	57,553	4,335
Viking Library	491,108	491,108	491,108	-
Snowmobile trails	-	-	190,146	(190,146)
Total culture and recreation	\$ 715,516	\$ 715,516	\$ 897,322	\$ (181,806)
Conservation of natural resources				
County extension	\$ 327,454	\$ 327,454	\$ 341,710	\$ (14,256)
Soil and water conservation	162,410	162,410	207,414	(45,004)
Lake improvement districts	238,150	238,150	236,070	2,080
Other conservation	-	-	3,409	(3,409)
Total conservation of natural resources	\$ 728,014	\$ 728,014	\$ 788,603	\$ (60,589)
Economic development				
Community development	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Rural life outreach	1,000	1,000	1,000	-
Other economic development	800	800	800	-
Total economic development	\$ 21,800	\$ 21,800	\$ 21,800	\$ -
Debt service				
Principal	\$ -	\$ -	\$ 81,820	\$ (81,820)
Total Expenditures	\$ 20,844,341	\$ 20,844,341	\$ 19,860,457	\$ 983,884

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under)				
Expenditures	\$ 189,770	\$ 189,770	\$ 857,718	\$ 667,948
Other Financing Sources (Uses)				
Transfers out	(500)	(500)	(6,776)	(6,276)
Net Change in Fund Balance	\$ 189,270	\$ 189,270	\$ 850,942	\$ 661,672
Fund Balance - January 1	<u>17,769,052</u>	<u>17,769,052</u>	<u>17,769,052</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 17,958,322</u>	<u>\$ 17,958,322</u>	<u>\$ 18,619,994</u>	<u>\$ 661,672</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,929,971	\$ 2,929,971	\$ 2,883,238	\$ (46,733)
Intergovernmental	18,268,838	18,268,838	15,121,818	(3,147,020)
Charges for services	275,000	275,000	774,603	499,603
Miscellaneous	16,000	16,000	85,840	69,840
Total Revenues	\$ 21,489,809	\$ 21,489,809	\$ 18,865,499	\$ (2,624,310)
Expenditures				
Current				
Highways and streets				
Administration	\$ 584,648	\$ 584,648	\$ 602,419	\$ (17,771)
Maintenance	4,871,087	4,871,087	3,984,390	886,697
Construction	13,571,101	13,571,101	13,760,781	(189,680)
Equipment maintenance and shop	1,251,973	1,251,973	1,052,917	199,056
Materials and services for resale	1,000	1,000	3,315	(2,315)
Total highways and streets	\$ 20,279,809	\$ 20,279,809	\$ 19,403,822	\$ 875,987
Intergovernmental				
Highways and streets	1,210,000	1,210,000	1,173,234	36,766
Total Expenditures	\$ 21,489,809	\$ 21,489,809	\$ 20,577,056	\$ 912,753
Net Change in Fund Balance	\$ -	\$ -	\$ (1,711,557)	\$ (1,711,557)
Fund Balance - January 1	4,042,734	4,042,734	4,042,734	-
Increase (decrease) for inventories	-	-	51,954	51,954
Fund Balance - December 31	\$ 4,042,734	\$ 4,042,734	\$ 2,383,131	\$ (1,659,603)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 8,975,676	\$ 8,975,676	\$ 8,852,465	\$ (123,211)
Intergovernmental	9,513,591	9,513,591	9,992,196	478,605
Charges for services	1,570,204	1,570,204	1,760,974	190,770
Miscellaneous	579,700	579,700	631,773	52,073
Total Revenues	\$ 20,639,171	\$ 20,639,171	\$ 21,237,408	\$ 598,237
Expenditures				
Current				
Public safety				
Community corrections	\$ 1,935,948	\$ 1,935,948	\$ 1,892,611	\$ 43,337
Human services				
Income maintenance	\$ 4,549,790	\$ 4,549,790	\$ 4,361,403	\$ 188,387
Social services	11,730,428	11,730,428	11,860,485	(130,057)
Total human services	\$ 16,280,218	\$ 16,280,218	\$ 16,221,888	\$ 58,330
Health				
Nursing service	\$ 2,423,005	\$ 2,423,005	\$ 2,395,659	\$ 27,346
Total Expenditures	\$ 20,639,171	\$ 20,639,171	\$ 20,510,158	\$ 129,013
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 727,250	\$ 727,250
Other Financing Sources (Uses)				
Transfers out	-	-	(23,039)	(23,039)
Net Change in Fund Balance	\$ -	\$ -	\$ 704,211	\$ 704,211
Fund Balance - January 1	11,182,982	11,182,982	11,182,982	-
Fund Balance - December 31	\$ 11,182,982	\$ 11,182,982	\$ 11,887,193	\$ 704,211

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,417,651	\$ 2,417,651	\$ 2,407,440	\$ (10,211)
Intergovernmental	323,055	323,055	571,337	248,282
Charges for services	1,800	1,800	1,392	(408)
Investment earnings	40,000	40,000	13,525	(26,475)
Miscellaneous	51,160	51,160	223,882	172,722
Total Revenues	\$ 2,833,666	\$ 2,833,666	\$ 3,217,576	\$ 383,910
Expenditures				
Current				
General government				
Elections	\$ 84,500	\$ 84,500	\$ -	\$ 84,500
Data processing	257,465	257,465	76,523	180,942
Elections	84,500	84,500	-	84,500
Planning and zoning	9,000	9,000	-	9,000
Buildings and plant	5,500	5,500	67,342	(61,842)
Other general government	22,200	22,200	3,363	18,837
Total general government	\$ 463,165	\$ 463,165	\$ 147,228	\$ 315,937
Public safety				
Sheriff	\$ 412,985	\$ 412,985	\$ 377,642	\$ 35,343
Boat and water safety	30,000	30,000	-	30,000
Emergency services	-	-	815,659	(815,659)
Radio board	-	-	248,567	(248,567)
Court services	33,500	33,500	85,184	(51,684)
Total public safety	\$ 476,485	\$ 476,485	\$ 1,527,052	\$ (1,050,567)
Highways and streets				
Maintenance	\$ 55,020	\$ 55,020	\$ -	\$ 55,020
Construction	1,130,200	1,130,200	-	1,130,200
Equipment and maintenance shop	405,000	405,000	1,559,329	(1,154,329)
Total highways and streets	\$ 1,590,220	\$ 1,590,220	\$ 1,559,329	\$ 30,891
Human services				
Social services	\$ 78,000	\$ 78,000	\$ -	\$ 78,000
Health				
Nursing service	\$ 12,800	\$ 12,800	\$ -	\$ 12,800

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-4
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Culture and recreation				
Phelps Mill Park	\$ 210,000	\$ 210,000	\$ 98,670	\$ 111,330
Debt service				
Principal	\$ -	\$ -	\$ 98,781	\$ (98,781)
Interest	-	-	6,684	(6,684)
Total debt service	\$ -	\$ -	\$ 105,465	\$ (105,465)
Total Expenditures	\$ 2,830,670	\$ 2,830,670	\$ 3,437,744	\$ (607,074)
Excess of Revenues Over (Under)				
Expenditures	\$ 2,996	\$ 2,996	\$ (220,168)	\$ (223,164)
Other Financing Sources (Uses)				
Transfers in	-	-	23,039	23,039
Net Change in Fund Balance	\$ 2,996	\$ 2,996	\$ (197,129)	\$ (200,125)
Fund Balance - January 1	<u>3,455,778</u>	<u>3,455,778</u>	<u>3,455,778</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 3,458,774</u>	<u>\$ 3,458,774</u>	<u>\$ 3,258,649</u>	<u>\$ (200,125)</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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
January 1, 2012	-	2,942,819	2,942,819	0.0	18,297,611	16.09

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
January 1, 2012	-	187,839	187,839	0.0	1,012,109	18.56

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, 2012**

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.

2. Excess of Expenditures Over Budget

The following major fund had expenditures in excess of budget for the year ended December 31, 2012.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Capital Improvement Special Revenue Fund	\$ 3,437,744	\$ 2,830,670	\$ 607,074

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.

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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.

Master Facility Construction - to account for the retirement of bonds issued for the improvements on the jail and courthouse facilities.

**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, 2012**

	Special Revenue (Exhibit B-3)	Debt Service (Exhibit B-5)	Construction Capital Projects	Total (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 302,489	\$ 6,595,347	\$ 6,553,619	\$ 13,451,455
Undistributed cash in agency funds	393	36,608	-	37,001
Taxes receivable				
Prior	-	59,137	-	59,137
Special assessments receivable				
Prior	2,610	-	-	2,610
Deferred	43,384	-	-	43,384
Due from other governments	4,947	-	-	4,947
Restricted assets				
Temporarily restricted				
Cash with escrow agent	-	256,686	-	256,686
	\$ 353,823	\$ 6,947,778	\$ 6,553,619	\$ 13,855,220
Total Assets	\$ 353,823	\$ 6,947,778	\$ 6,553,619	\$ 13,855,220
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 9,606	\$ 2,000	\$ 6,293	\$ 17,899
Contracts payable	-	-	652,547	652,547
Deferred revenue - unavailable	45,198	47,888	-	93,086
Advance from other funds	220,438	-	-	220,438
	\$ 275,242	\$ 49,888	\$ 658,840	\$ 983,970
Total Liabilities	\$ 275,242	\$ 49,888	\$ 658,840	\$ 983,970
 Fund Balances				
Restricted				
Debt service	\$ -	\$ 6,897,890	\$ -	\$ 6,897,890
Law library	109,553	-	-	109,553
Equipment purchase	-	-	1,870,269	1,870,269
Ditch maintenance and construction	175,829	-	-	175,829
Sheriff's contingencies	5,000	-	-	5,000
Assigned				
Public safety	8,632	-	-	8,632
Capital outlay	-	-	4,024,510	4,024,510
Unassigned	(220,433)	-	-	(220,433)
	\$ 78,581	\$ 6,897,890	\$ 5,894,779	\$ 12,871,250
Total Fund Balances	\$ 78,581	\$ 6,897,890	\$ 5,894,779	\$ 12,871,250
Total Liabilities and Fund Balances	\$ 353,823	\$ 6,947,778	\$ 6,553,619	\$ 13,855,220

**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, 2012**

	Special Revenue (Exhibit B-4)	Debt Service (Exhibit B-6)	Construction Capital Projects	Total (Exhibit 5)
Revenues				
Taxes	\$ -	\$ 1,908,812	\$ -	\$ 1,908,812
Special assessments	41,433	-	-	41,433
Intergovernmental	-	33,084	-	33,084
Fines and forfeits	65,850	-	-	65,850
Investment earnings	-	738	-	738
Miscellaneous	-	548,839	5,004	553,843
Total Revenues	\$ 107,283	\$ 2,491,473	\$ 5,004	\$ 2,603,760
Expenditures				
Current				
General government	\$ 53,272	\$ -	\$ -	\$ 53,272
Public safety	7,105	-	-	7,105
Conservation of natural resources	93,409	-	-	93,409
Capital outlay				
General government	-	-	3,711,475	3,711,475
Debt service				
Principal	-	1,245,000	-	1,245,000
Interest	-	722,942	-	722,942
Bond issuance costs	-	-	38,242	38,242
Total Expenditures	\$ 153,786	\$ 1,967,942	\$ 3,749,717	\$ 5,871,445
Excess of Revenues Over (Under) Expenditures	\$ (46,503)	\$ 523,531	\$ (3,744,713)	\$ (3,267,685)
Other Financing Sources (Uses)				
Transfers in	\$ 6,776	\$ -	\$ -	\$ 6,776
Bonds issued	-	64,148	4,715,852	4,780,000
Discount on bonds issued	-	-	(36,854)	(36,854)
Total Other Financing Sources (Uses)	\$ 6,776	\$ 64,148	\$ 4,678,998	\$ 4,749,922
Net Change in Fund Balance	\$ (39,727)	\$ 587,679	\$ 934,285	\$ 1,482,237
Fund Balance - January 1	118,308	6,310,211	4,960,494	11,389,013
Fund Balance - December 31	\$ 78,581	\$ 6,897,890	\$ 5,894,779	\$ 12,871,250

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2012**

	County Ditch	Law Library	Sheriff's Contingent	Total
<u>Assets</u>				
Cash and pooled investments	\$ 174,645	\$ 114,656	\$ 13,188	\$ 302,489
Undistributed cash in agency funds	393	-	-	393
Special assessments receivable				
Prior	2,610	-	-	2,610
Deferred	43,384	-	-	43,384
Due from other governments	-	4,503	444	4,947
	\$ 221,032	\$ 119,159	\$ 13,632	\$ 353,823
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 9,606	\$ -	\$ 9,606
Deferred revenue - unavailable	45,198	-	-	45,198
Advance from other funds	220,438	-	-	220,438
	\$ 265,636	\$ 9,606	\$ -	\$ 275,242
 Fund Balances				
Restricted				
Law library	\$ -	\$ 109,553	\$ -	\$ 109,553
Ditch maintenance and construction	175,829	-	-	175,829
Sheriff's contingencies	-	-	5,000	5,000
Assigned				
Public safety	-	-	8,632	8,632
Unassigned	(220,433)	-	-	(220,433)
	\$ (44,604)	\$ 109,553	\$ 13,632	\$ 78,581
Total Liabilities and Fund Balances	\$ 221,032	\$ 119,159	\$ 13,632	\$ 353,823

**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, 2012**

	<u>County Ditch</u>	<u>Law Library</u>	<u>Sheriff's Contingent</u>	<u>Total</u>
Revenues				
Special assessments	\$ 41,433	\$ -	\$ -	\$ 41,433
Fines and forfeits	-	59,578	6,272	65,850
Total Revenues	\$ 41,433	\$ 59,578	\$ 6,272	\$ 107,283
Expenditures				
Current				
General government	\$ -	\$ 53,272	\$ -	\$ 53,272
Public safety	-	-	7,105	7,105
Conservation of natural resources	93,409	-	-	93,409
Total Expenditures	\$ 93,409	\$ 53,272	\$ 7,105	\$ 153,786
Excess of Revenues Over (Under) Expenditures	\$ (51,976)	\$ 6,306	\$ (833)	\$ (46,503)
Other Financing Sources (Uses)				
Transfers in	4,552	-	2,224	6,776
Net Change in Fund Balance	\$ (47,424)	\$ 6,306	\$ 1,391	\$ (39,727)
Fund Balance - January 1	2,820	103,247	12,241	118,308
Fund Balance - December 31	\$ (44,604)	\$ 109,553	\$ 13,632	\$ 78,581

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-5

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2012**

	<u>Chemical Dependency</u>	<u>Ethanol Plant</u>	<u>Government Service Center</u>	<u>Sheriff Operations</u>	<u>Veterans Home</u>	<u>Master Facility Construction</u>	<u>Total</u>
<u>Assets</u>							
Cash and pooled investments	\$ 172,354	\$ 4,797,558	\$ 963,296	\$ 460,108	\$ 145,489	\$ 56,542	\$ 6,595,347
Undistributed cash in agency funds	-	6,380	17,354	9,535	2,396	943	36,608
Taxes receivable Prior	-	12,131	28,076	14,294	3,624	1,012	59,137
Restricted assets							
Temporarily restricted							
Cash with escrow agent	256,681	-	5	-	-	-	256,686
Total Assets	<u>\$ 429,035</u>	<u>\$ 4,816,069</u>	<u>\$ 1,008,731</u>	<u>\$ 483,937</u>	<u>\$ 151,509</u>	<u>\$ 58,497</u>	<u>\$ 6,947,778</u>
<u>Liabilities and Fund Balances</u>							
Liabilities							
Accounts payable	\$ 2,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000
Deferred revenue - unavailable	-	10,256	22,653	11,383	2,879	717	47,888
Total Liabilities	<u>\$ 2,000</u>	<u>\$ 10,256</u>	<u>\$ 22,653</u>	<u>\$ 11,383</u>	<u>\$ 2,879</u>	<u>\$ 717</u>	<u>\$ 49,888</u>
Fund Balance							
Restricted							
Debt service	427,035	4,805,813	986,078	472,554	148,630	57,780	6,897,890
Total Liabilities and Fund Balances	<u>\$ 429,035</u>	<u>\$ 4,816,069</u>	<u>\$ 1,008,731</u>	<u>\$ 483,937</u>	<u>\$ 151,509</u>	<u>\$ 58,497</u>	<u>\$ 6,947,778</u>

**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, 2012**

	<u>Chemical Dependency</u>	<u>Ethanol Plant</u>	<u>Government Service Center</u>	<u>Sheriff Operations</u>	<u>Veterans Home</u>	<u>Master Facility Construction</u>	<u>Total</u>
Revenues							
Taxes	\$ -	\$ 285,057	\$ 923,121	\$ 512,922	\$ 130,488	\$ 57,224	\$ 1,908,812
Intergovernmental	-	4,829	16,032	8,941	2,276	1,006	33,084
Investment earnings	-	733	5	-	-	-	738
Miscellaneous	547,005	1,834	-	-	-	-	548,839
Total Revenues	\$ 547,005	\$ 292,453	\$ 939,158	\$ 521,863	\$ 132,764	\$ 58,230	\$ 2,491,473
Expenditures							
Debt service							
Principal	\$ 330,000	\$ 500,000	\$ -	\$ 310,000	\$ 105,000	\$ -	\$ 1,245,000
Interest	218,308	200,660	35,085	185,650	18,641	64,598	722,942
Total Expenditures	\$ 548,308	\$ 700,660	\$ 35,085	\$ 495,650	\$ 123,641	\$ 64,598	\$ 1,967,942
Excess of Revenues Over (Under)							
Expenditures	\$ (1,303)	\$ (408,207)	\$ 904,073	\$ 26,213	\$ 9,123	\$ (6,368)	\$ 523,531
Other Financing Sources (Uses)							
Bonds issued	-	-	-	-	-	64,148	64,148
Net Change in Fund Balance	\$ (1,303)	\$ (408,207)	\$ 904,073	\$ 26,213	\$ 9,123	\$ 57,780	\$ 587,679
Fund Balance - January 1	428,338	5,214,020	82,005	446,341	139,507	-	6,310,211
Fund Balance - December 31	\$ 427,035	\$ 4,805,813	\$ 986,078	\$ 472,554	\$ 148,630	\$ 57,780	\$ 6,897,890

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-7

**BUDGETARY COMPARISON SCHEDULE
COUNTY DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 43,311	\$ 43,311	\$ 41,433	\$ (1,878)
Expenditures				
Current				
Conservation of natural resources				
Drainage ditches	<u>37,700</u>	<u>37,700</u>	<u>93,409</u>	<u>(55,709)</u>
Excess of Revenues Over (Under) Expenditures	\$ 5,611	\$ 5,611	\$ (51,976)	\$ (57,587)
Other Financing Sources (Uses)				
Transfers in	<u>-</u>	<u>-</u>	<u>4,552</u>	<u>4,552</u>
Net Change in Fund Balance	\$ 5,611	\$ 5,611	\$ (47,424)	\$ (53,035)
Fund Balance - January 1	<u>2,820</u>	<u>2,820</u>	<u>2,820</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 8,431</u></u>	<u><u>\$ 8,431</u></u>	<u><u>\$ (44,604)</u></u>	<u><u>\$ (53,035)</u></u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-8

**BUDGETARY COMPARISON SCHEDULE
LAW LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Fines and forfeits	\$ 56,000	\$ 56,000	\$ 59,578	\$ 3,578
Expenditures				
Current				
General government				
Law library	55,600	55,600	53,272	2,328
Net Change in Fund Balance	\$ 400	\$ 400	\$ 6,306	\$ 5,906
Fund Balance - January 1	103,247	103,247	103,247	-
Fund Balance - December 31	<u>\$ 103,647</u>	<u>\$ 103,647</u>	<u>\$ 109,553</u>	<u>\$ 5,906</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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Fines and forfeits	\$ 8,000	\$ 8,000	\$ 6,272	\$ (1,728)
Expenditures				
Current				
Public safety				
Sheriff	<u>10,000</u>	<u>10,000</u>	<u>7,105</u>	<u>2,895</u>
Excess of Revenues Over (Under)				
Expenditures	\$ (2,000)	\$ (2,000)	\$ (833)	\$ 1,167
Other Financing Sources (Uses)				
Transfers in	<u>500</u>	<u>500</u>	<u>2,224</u>	<u>1,724</u>
Net Change in Fund Balance	\$ (1,500)	\$ (1,500)	\$ 1,391	\$ 2,891
Fund Balance - January 1	<u>12,241</u>	<u>12,241</u>	<u>12,241</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 10,741</u>	<u>\$ 10,741</u>	<u>\$ 13,632</u>	<u>\$ 2,891</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-10

**BUDGETARY COMPARISON SCHEDULE
CHEMICAL DEPENDENCY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 547,005	\$ 547,005	\$ 547,005	\$ -
Expenditures				
Debt service				
Principal	\$ 330,000	\$ 330,000	\$ 330,000	\$ -
Interest	216,308	216,308	218,308	(2,000)
Total Expenditures	\$ 546,308	\$ 546,308	\$ 548,308	\$ (2,000)
Net Change in Fund Balance	\$ 697	\$ 697	\$ (1,303)	\$ (2,000)
Fund Balance - January 1	428,338	428,338	428,338	-
Fund Balance - December 31	\$ 429,035	\$ 429,035	\$ 427,035	\$ (2,000)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-11

**BUDGETARY COMPARISON SCHEDULE
ETHANOL PLANT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 281,945	\$ 281,945	\$ 285,057	\$ 3,112
Intergovernmental	-	-	4,829	4,829
Investment earnings	-	-	733	733
Miscellaneous	-	-	1,834	1,834
Total Revenues	\$ 281,945	\$ 281,945	\$ 292,453	\$ 10,508
Expenditures				
Debt service				
Principal	\$ 500,000	\$ 500,000	\$ 500,000	\$ -
Interest	197,625	197,625	200,660	(3,035)
Total Expenditures	\$ 697,625	\$ 697,625	\$ 700,660	\$ (3,035)
Net Change in Fund Balance	\$ (415,680)	\$ (415,680)	\$ (408,207)	\$ 7,473
Fund Balance - January 1	5,214,020	5,214,020	5,214,020	-
Fund Balance - December 31	\$ 4,798,340	\$ 4,798,340	\$ 4,805,813	\$ 7,473

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-12

**BUDGETARY COMPARISON SCHEDULE
GOVERNMENT SERVICE CENTER DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 935,392	\$ 935,392	\$ 923,121	\$ (12,271)
Intergovernmental	-	-	16,032	16,032
Investment earnings	-	-	5	5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 935,392	\$ 935,392	\$ 939,158	\$ 3,766
Expenditures				
Debt service				
Interest	\$ 33,535	\$ 33,535	\$ 35,085	\$ (1,550)
Net Change in Fund Balance	\$ 901,857	\$ 901,857	\$ 904,073	\$ 2,216
Fund Balance - January 1	82,005	82,005	82,005	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 983,862	\$ 983,862	\$ 986,078	\$ 2,216
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-13

**BUDGETARY COMPARISON SCHEDULE
SHERIFF OPERATIONS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 521,850	\$ 521,850	\$ 512,922	\$ (8,928)
Intergovernmental	-	-	8,941	8,941
Total Revenues	\$ 521,850	\$ 521,850	\$ 521,863	\$ 13
Expenditures				
Debt service				
Principal	\$ 310,000	\$ 310,000	\$ 310,000	\$ -
Interest	183,200	183,200	185,650	(2,450)
Total Expenditures	\$ 493,200	\$ 493,200	\$ 495,650	\$ (2,450)
Net Change in Fund Balance	\$ 28,650	\$ 28,650	\$ 26,213	\$ (2,437)
Fund Balance - January 1	446,341	446,341	446,341	-
Fund Balance - December 31	\$ 474,991	\$ 474,991	\$ 472,554	\$ (2,437)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-14

**BUDGETARY COMPARISON SCHEDULE
VETERANS HOME DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 132,900	\$ 132,900	\$ 130,488	\$ (2,412)
Intergovernmental	-	-	2,276	2,276
Total Revenues	\$ 132,900	\$ 132,900	\$ 132,764	\$ (136)
Expenditures				
Debt service				
Principal	\$ 105,000	\$ 105,000	\$ 105,000	\$ -
Interest	18,210	18,210	18,641	(431)
Total Expenditures	\$ 123,210	\$ 123,210	\$ 123,641	\$ (431)
Net Change in Fund Balance	\$ 9,690	\$ 9,690	\$ 9,123	\$ (567)
Fund Balance - January 1	139,507	139,507	139,507	-
Fund Balance - December 31	\$ 149,197	\$ 149,197	\$ 148,630	\$ (567)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-15

**BUDGETARY COMPARISON SCHEDULE
MASTER FACILITY CONSTRUCTION DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 59,142	\$ 59,142	\$ 57,224	\$ (1,918)
Intergovernmental	-	-	1,006	1,006
Total Revenues	\$ 59,142	\$ 59,142	\$ 58,230	\$ (912)
Expenditures				
Debt service				
Interest	\$ 64,148	\$ 64,148	\$ 64,598	\$ (450)
Excess of Revenues Over (Under) Expenditures	\$ (5,006)	\$ (5,006)	\$ (6,368)	\$ (1,362)
Other Financing Sources (Uses)				
Bonds issued	64,148	64,148	64,148	-
Net Change in Fund Balance	\$ 59,142	\$ 59,142	\$ 57,780	\$ (1,362)
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ 59,142	\$ 59,142	\$ 57,780	\$ (1,362)

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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, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 330,471	\$ 197,779	\$ 255,360	\$ 272,890
Due from other funds	70	58	70	58
Total Assets	<u>\$ 330,541</u>	<u>\$ 197,837</u>	<u>\$ 255,430</u>	<u>\$ 272,948</u>
<u>Liabilities</u>				
Accounts payable	\$ 11,252	\$ 15,801	\$ 11,252	\$ 15,801
Due to other governments	319,289	182,036	244,178	257,147
Total Liabilities	<u>\$ 330,541</u>	<u>\$ 197,837</u>	<u>\$ 255,430</u>	<u>\$ 272,948</u>
 <u>MORTGAGE REGISTRATION FUND</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 93,149</u>	<u>\$ 1,343,671</u>	<u>\$ 1,308,191</u>	<u>\$ 128,629</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 93,149</u>	<u>\$ 1,343,671</u>	<u>\$ 1,308,191</u>	<u>\$ 128,629</u>

**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, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 131,908	\$ 9,827,940	\$ 9,798,787	\$ 161,061
Due from other funds	113,189	9	113,189	9
Total Assets	\$ 245,097	\$ 9,827,949	\$ 9,911,976	\$ 161,070
<u>Liabilities</u>				
Due to other funds	\$ 11	\$ -	\$ 11	\$ -
Due to other governments	245,086	9,827,949	9,911,965	161,070
Total Liabilities	\$ 245,097	\$ 9,827,949	\$ 9,911,976	\$ 161,070
 <u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 892,472	\$ 80,661,667	\$ 80,567,555	\$ 986,584
Due from other funds	11	-	11	-
Total Assets	\$ 892,483	\$ 80,661,667	\$ 80,567,566	\$ 986,584
<u>Liabilities</u>				
Due to other funds	\$ 113,189	\$ -	\$ 113,189	\$ -
Due to other governments	779,294	80,661,667	80,454,377	986,584
Total Liabilities	\$ 892,483	\$ 80,661,667	\$ 80,567,566	\$ 986,584

**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, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,448,000	\$ 92,031,057	\$ 91,929,893	\$ 1,549,164
Due from other funds	113,270	67	113,270	67
Total Assets	\$ 1,561,270	\$ 92,031,124	\$ 92,043,163	\$ 1,549,231
<u>Liabilities</u>				
Accounts payable	\$ 11,252	\$ 15,801	\$ 11,252	\$ 15,801
Due to other funds	113,200	-	113,200	-
Due to other governments	1,436,818	92,015,323	91,918,711	1,533,430
Total Liabilities	\$ 1,561,270	\$ 92,031,124	\$ 92,043,163	\$ 1,549,231

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OTHER SCHEDULES

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2012**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Noninterest-bearing checking	-	-	Continuous	\$ 50,000
Interest-bearing checking	Seven	Varies	Continuous	14,647,541
Certificates of deposit	Forty-two	0.12 to 1.25	January 12, 2013 to July 28, 2014	16,156,404
Money market savings	Seven	0.03 to 0.34	Continuous	3,319,804
Cash held with broker	One	-	Continuous	1,016,259
U.S. Treasury notes	Eleven	.0125 to 2.75	March 31, 2013 to April 30, 2015	20,828,054
U.S. Treasury bonds - stripped interest payment	Two	-	August 15, 2017 to August 15, 2019	50,754
Federal National Mortgage Association	One	7.50	June 25, 2022	<u>13,132</u>
Total Cash and Pooled Investments				<u>\$ 56,081,948</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
COUNTY DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2012**

	Assets				
	Cash and Pooled Investments	Undistributed Cash	Special Assessments Receivable		Total
			Delinquent	Deferred	
Judicial Ditches					
2	\$ 34,753	\$ 1	\$ 11	\$ 7,294	\$ 42,059
3	92	-	-	-	92
County Ditches					
4	31,876	165	1,136	5,457	38,634
5	8,838	-	-	2,030	10,868
11	5,883	-	-	932	6,815
12	21,888	40	28	2,000	23,956
14	68	-	-	-	68
16	-	-	-	-	-
17	58	-	-	-	58
21	18,645	66	36	4,861	23,608
25	-	-	-	-	-
29	3,503	-	31	1,597	5,131
37	-	2	8	4,421	4,431
38	3,277	100	388	4,525	8,290
39	-	-	-	914	914
41/65	-	-	-	-	-
43	4,148	18	-	1,428	5,594
44	15	-	-	-	15
48	24	-	-	-	24
52	3,377	-	124	2,335	5,836
53	15,139	-	837	2,795	18,771
54	91	-	-	-	91
56	12,197	-	-	2,795	14,992
59	146	-	-	-	146
62	154	-	-	-	154
63	10,098	1	11	-	10,110
64	11	-	-	-	11
68	364	-	-	-	364
70	-	-	-	-	-
Total	\$ 174,645	\$ 393	\$ 2,610	\$ 43,384	\$ 221,032

EXHIBIT D-2

		Liabilities				Total			
Deferred		Advance		Fund		Liabilities			
Revenue		from	Total	Balance		and Fund	Balance		
Other Funds		Other Funds		Balance		Balance			
\$	7,305	\$	-	\$	7,305	\$	34,754	\$	42,059
	-		-		-		92		92
	5,938		-		5,938		32,696		38,634
	2,030		-		2,030		8,838		10,868
	932		-		932		5,883		6,815
	2,029		-		2,029		21,927		23,956
	-		-		-		68		68
	-		133,155		133,155		(133,155)		-
	-		-		-		58		58
	4,894		-		4,894		18,714		23,608
	-		9,344		9,344		(9,344)		-
	1,618		-		1,618		3,513		5,131
	4,426		12,235		16,661		(12,230)		4,431
	4,910		-		4,910		3,380		8,290
	914		12,076		12,990		(12,076)		914
	-		31,541		31,541		(31,541)		-
	1,429		-		1,429		4,165		5,594
	-		-		-		15		15
	-		-		-		24		24
	2,335		-		2,335		3,501		5,836
	3,632		-		3,632		15,139		18,771
	-		-		-		91		91
	2,795		-		2,795		12,197		14,992
	-		-		-		146		146
	-		-		-		154		154
	11		-		11		10,099		10,110
	-		-		-		11		11
	-		-		-		364		364
	-		22,087		22,087		(22,087)		-
\$	45,198	\$	220,438	\$	265,636	\$	(44,604)	\$	221,032

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>All Funds</u>
Shared Revenue			
State			
Highway users tax	\$ 13,022,500	\$ -	\$ 13,022,500
County program aid	1,255,124	-	1,255,124
PERA rate reimbursement	64,946	-	64,946
Police aid	198,491	-	198,491
Local government aid	16,044	-	16,044
Market value credit	470,709	-	470,709
Disparity reduction aid	13,256	-	13,256
Disaster credit	14,401	-	14,401
Total shared revenue	\$ 15,055,471	\$ -	\$ 15,055,471
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 1,186,843	\$ -	\$ 1,186,843
Payments			
Local			
Payments in lieu of taxes	\$ 542,731	\$ -	\$ 542,731
Grants			
State			
Minnesota Department/Board of			
Agriculture	\$ 63,263	\$ -	\$ 63,263
Corrections	248,876	-	248,876
Public Safety	421,088	-	421,088
Transportation	235,171	-	235,171
Health	276,722	-	276,722
Natural Resources	231,711	-	231,711
Human Services	3,681,910	-	3,681,910
Water and Soil Resources	106,241	-	106,241
Secretary of State	19,898	-	19,898
Peace Officer Standards and Training Board	10,295	-	10,295
Minnesota Pollution Control Agency	-	179,651	179,651
Total state	\$ 5,295,175	\$ 179,651	\$ 5,474,826

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

*EXHIBIT D-3
(Continued)*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Governmental Funds	Enterprise Fund	All Funds
Grants (Continued)			
Federal			
Department of			
Agriculture	\$ 606,629	\$ -	\$ 606,629
Commerce	35,118	-	35,118
Interior	7,750	-	7,750
Justice	14,431	-	14,431
Transportation	1,713,538	-	1,713,538
Health and Human Services	3,779,824	-	3,779,824
Homeland Security	70,816	-	70,816
Total federal	\$ 6,228,106	\$ -	\$ 6,228,106
Total state and federal grants	\$ 11,523,281	\$ 179,651	\$ 11,702,932
Total Intergovernmental Revenue	\$ 28,308,326	\$ 179,651	\$ 28,487,977

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT D-4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 272,867
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>333,762</u>
Total U.S. Department of Agriculture		<u>\$ 606,629</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety and the City of St. Cloud Public Safety Interoperable Communication Grant Program	11.555	<u>\$ 35,118</u>
U.S. Department of the Interior, Fish and Wildlife Service		
Passed Through Minnesota Department of Natural Resources Great Lakes Restoration	15.662	<u>\$ 7,750</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Trial Courts Drug Court Discretionary Grant Program	16.585	<u>\$ 14,431</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,718,629
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	7,158
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	15,853
Occupant Protection Incentive Grants	20.602	3,000
Safety Belt Performance Grants	20.609	5,493
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>13,271</u>
Total U.S. Department of Transportation		<u>\$ 1,763,404</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**EXHIBIT D-4
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
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	\$ 56,943
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	34,079
Universal Newborn Hearing Screening	93.251	825
Immunization Cooperative Agreements	93.268	2,280
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	41,092
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	13,371
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$500,747)	93.558	56,873
Maternal and Child Health Services Block Grant to the States	93.994	64,510
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	16,099
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$500,747)	93.558	443,874
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	24,839
Child Support Enforcement	93.563	1,095,447
Refugee and Entrant Assistance - State Administered Programs	93.566	819
Child Care and Development Block Grant	93.575	15,027
Community-Based Child Abuse Prevention Grants	93.590	25,000
Stephanie Tubbs Jones Child Welfare Services Program	93.645	8,669
Foster Care Title IV-E	93.658	61,530
Social Services Block Grant	93.667	404,828
Chafee Foster Care Independence Program	93.674	5,454
Children's Health Insurance Program	93.767	106
Medical Assistance Program	93.778	1,418,211
Total U.S. Department of Health and Human Services		\$ 3,789,876

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**EXHIBIT D-4
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 8,000
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	24,959
Passed Through Minnesota Department of Public Safety and the City of St. Cloud Homeland Security Grant Program (Total for Homeland Security Grant Program 97.067 \$157,791)	97.067	120,654
Passed Through Minnesota Department of Public Safety and West Central Minnesota EMS Corporation Homeland Security Grant Program (Total for Homeland Security Grant Program 97.067 \$157,791)	97.067	37,137
Total U.S. Department of Homeland Security		\$ 190,750
Total Federal Awards		\$ 6,407,958

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012. 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 position, 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	\$	31,504
Temporary Assistance for Needy Families Cluster		525,586

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 6,228,106
Grant received more than 60 days after year-end, deferred in 2012	
Highway Planning and Construction	178,692
Foster Care Title IV-E	1,821
Medical Assistance Program	8,231
Homeland Security Grant Program	119,934
Grants deferred in 2011, recognized as revenue in 2012	
Highway Planning and Construction	<u>(128,826)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 6,407,958</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 2012.

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

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? **No**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

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
Child Support Enforcement	CFDA #93.563

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

Otter Tail County qualified as a 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 County informed us that it is not practical to collect fees for services provided in various departments only at one collection point. Having collection points within the departments provides a convenience to the customer and cost savings to the County, which otherwise would have to establish a billing system for collecting fees for services provided throughout the County. In departments that collect larger amounts of fees, such as Motor Vehicle, the County uses cash registers to record the transactions and limit access to the collections. The Land and Resource Department has established a policy that it will only collect checks, so any cash payments are made at the Treasurer's Office. For the various landfills and transfer stations throughout the County, collections are deposited at a local bank daily to limit the cash on hand. Although, the County has established procedures to limit risks, some of the departments are limited in staff so it is not practical to segregate the record keeping function from the custody function for fees collected.

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 its 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 recommendation of the State Audit finding regarding 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 the 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 Adjustments

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. Auditing standards define 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 material adjustments 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: The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: An audit adjustment was necessary in the Prairie Lakes Municipal Solid Waste Authority Debt Service Fund to properly reflect beginning balances, including a \$10,475,000 advance to component unit, a \$71,153 receivable from component unit related to interest costs, a \$192,530 deferred revenue and a \$10,353,623 beginning fund balance restricted for debt service. Entries were also made to reverse the \$71,153 receivable from component unit and to reclassify \$405,000 from miscellaneous revenue to properly reflect payments received on the advance to component unit. An adjustment was necessary in the Road and Bridge Special Revenue Fund to reclassify \$1,052,244 of fund balance restricted for state aid

highway allotments to fund balance assigned for highways and streets. At the government-wide level an adjustment was necessary to reclassify \$2,104,488 from net position restricted for highways and streets to net position unrestricted.

Cause: Otter Tail County issued debt on behalf of Prairie Lakes Municipal Solid Waste Authority. This was an unusual transaction for Otter Tail County, resulting in an audit adjustment. The reclassifications of fund balance and net position for the Road and Bridge Special Revenue Fund resulted in an error in the working paper used to determine the restricted amounts.

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, 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 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.

Through the County's ongoing reorganization efforts and the establishment of a finance division it would be management's intent to document, create and monitor internal controls at the division directors' level for the purpose of assessing risk within the County's accounting systems and for the purpose of reviewing, developing and implementing additional procedures and policies, as necessary, to assure sound internal controls over the County's financial reporting system.

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 uses the Integrated Financial System - Platform Independent (IFS-PI) application software for their general ledger. 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 IFS-PI application, the user must be signed on to the County network and have a current sign-on for the IFS-PI 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-PI 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-PI application is the key source of information used for the preparation of the County's annual financial statements. Otter Tail County uses other web-based applications that should also be considered; however, those applications are not key applications for financial statement reporting.

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

Cause: Otter Tail County was recently updated to the IFS-PI 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 any of the web-based applications used by the County to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

Otter Tail County's management agrees with the 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 weaknesses 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.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS RESOLVED

Supervisory Review Over Reporting (11-2)

During our testing of controls over the TANF Family Home Visiting Program (TANF) (CFDA No. 93.558) and the Homeland Security Grant Program (CFDA No. 97.067), we noted no documented review process over reporting.

Resolution

The Public Health Nurse Director now signs off on the quarterly reports submitted for the TANF Family Home Visiting Program to indicate review and approval for submission. For 2012, the fiscal host for the Homeland Security Grant Program did not require the counties to submit quarterly or monthly reports. Supporting documentation of the expenditure is submitted with a reimbursement request.

Payment of Projected Services for Employment Services (11-3)

During our testing of compliance over Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), and Emergency Contingency Fund for TANF (CFDA No. 93.714), we noted Otter Tail County Human Services paid an invoice to Rural Minnesota CEP for employment services including projected services for December that was reported on their DHS 2902 report submitted January 18, 2012.

Resolution

For 2012, we noted no instances of invoices paid for employment services that included projected services. All invoices supporting expenditures reported on the DHS 2902 report were supported by actual costs.

IV. OTHER FINDINGS AND RECOMMENDATIONS

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 appropriate 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, 2012, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

Context: Six of the 29 individual ditch systems had deficit fund balances as of December 31, 2012, totaling \$220,433, which is an increase from the \$163,477 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 Minn. Stat. § 103E.735, subd. 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 assessment established. Project assessments were levied on these drainage systems in December of 2012 and billed early in 2013. Once project assessments are in place, the policy of the County is to continue with annual maintenance assessments.

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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*

Independent Auditor's Report

Board of County Commissioners
Otter Tail County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Otter Tail County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions of tax increment financing because Otter Tail County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Otter Tail County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Otter Tail County's responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 25, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Otter Tail County

Report on Compliance for Each Major Federal Program

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 the County's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Otter Tail County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Otter Tail County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. 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 the attention of those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 25, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR