

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

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 150 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 650 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, 2016



**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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FERGUS FALLS, MINNESOTA**

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FERGUS FALLS, MINNESOTA**

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2016

		<u>Term Expires</u>
Elected		
Commissioners		
Vice Chair	Douglas Huebsch	District 1 January 2017
Board Member	Wayne Johnson	District 2 January 2019
Board Member	John Lindquist	District 3 January 2017
Board Member	Roger Froemming	District 4 January 2019
Chair	Leland Rogness	District 5 January 2017
Attorney	David Hauser	January 2019
Auditor-Treasurer	Wayne Stein	January 2019
County Recorder	Carol Schmaltz	January 2019
County Sheriff	Brian Schlueter	January 2019
Appointed		
Assessor	Doug Walvatne	December 2016
County Engineer	Richard West	May 2018
Medical Examiner	Dr. Gregory Smith	Indefinite
County Administrator	Larry Krohn	Indefinite
Veterans Service Officer	Charlie Kampa	August 2017
Examiner of Titles	Robert Russell	Indefinite
Solid Waste Director	Mike Hanan	Indefinite
Human Services Board		
Chair	Leland Rogness	January 2017
Vice Chair	Douglas Heubsch	January 2017
Member	John D. Lindquist	January 2017
Member	Wayne D. Johnson	January 2019
Member	Roger Froemming	January 2019
Human Services Director	Deb Sjoström	Indefinite
Probation Officer	Desta K. Lutzwick	Indefinite
Public Health Director	Diane Thorson	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Otter Tail County
Fergus Falls, Minnesota

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, Minnesota, as of and for the year ended December 31, 2016, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2016, 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 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 is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 8, 2017, 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 the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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 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

September 8, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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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, 2016
(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, 2016. 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 \$182,572,870, of which Otter Tail County has a net investment in capital assets of \$147,568,875, and \$13,070,752 is restricted to specific purposes/uses.
- Business-type activities' total net position is \$7,478,241. Net investment in capital assets represents \$5,649,444 of the total, and \$95,734 of the total business-type net position is restricted for specific uses (post-closure care costs).
- Otter Tail County's net position (governmental activities and business-type activities) totals \$190,051,111 for the year ended December 31, 2016. Net investment in capital assets represents \$153,218,319 of the total, \$13,166,486 of the total net position is restricted for specific uses, and \$23,666,306 is unrestricted.
- The net cost of Otter Tail County's governmental activities for the year ended December 31, 2016, was \$29,588,794. General property tax revenues and other revenue sources totaling \$45,160,816 funded the total net cost of \$29,588,794.
- Otter Tail County's governmental funds' fund balances increased by \$1,772,531. This increase was the result of a General Fund balance increase of \$932,293, a Road and Bridge Special Revenue Fund balance decrease of \$1,106,693, a Human Services Special Revenue Fund balance increase of \$366,694, a Capital Improvement Special Revenue Fund balance increase of \$1,231,425, a Construction Capital Projects Special Revenue Fund balance increase of \$75,949, a Prairie Lakes Municipal Solid Waste Authority Debt Service Fund balance decrease of \$1,059,392, and an increase in other governmental funds' fund balances of \$1,332,255.

- The General Fund balance increased by \$932,293. This increase was due to excess of revenues over expenditures of \$964,085, which was offset by an operating transfer to the Ethanol Plant Debt Service Fund totaling \$104 to pay interest earned on invested debt service funds and a payment in the amount of \$989,632 to an escrow agent for refunded bonds. The excess of revenues over expenditure and the operating transfer were offset by proceeds from the issuance of refunding bonds totaling \$954,519 (including bond premium) and from the transfer of excess funds in the Sheriff's Contingent Special Revenue Fund totaling \$3,425. For the prior year ended December 31, 2015, excess of General Fund revenues over expenditures were \$1,462,009. The \$497,924 decrease in excess of revenues over expenditures is due mainly to a \$1,411,864 increase in revenues, which was offset by an \$1,909,788 increase in expenditures. It should be noted that revenues from taxes increased by \$1,321,414, revenues from charges for services increased by \$82,360, revenues from fines and forfeits increased by \$2,827, revenues from gifts and contributions increased by \$13,750, and revenues from investment earnings increased by \$208,169. However, these increased revenues in the General Fund were offset by decreased revenues from special assessments of \$495, decreased revenues from licenses and permits of \$22,120, decreased revenues from intergovernmental sources of \$10,468 and decreased revenues from miscellaneous other revenues sources of \$183,573. General Fund expenditures for general government-related functions/programs increased by \$1,237,578, public safety-related functions/programs increased by \$336,191, expenditures for culture and recreation-related functions/programs increased by \$28,910, expenditures for conservation of natural resource-related functions/programs increased by \$234,113, expenditures for economic development-related function/programs increased by \$57,419, and expenditures for debt service costs increased by \$17,338. However, these increased expenditures were offset by a \$1,761 decrease in costs associated with human services-related functions/programs.
- The Road and Bridge Special Revenue Fund balance decreased by \$1,106,693 due to excess of expenditures over revenues of \$1,083,008 and a decrease in inventories of \$23,685. For the prior year ended December 31, 2015, excess of revenues over expenditures totaled \$6,399,418. The \$7,482,426 decrease in excess of revenues over expenditures is due mainly to increased highways and streets-related expenditures of \$14,795,359, increased intergovernmental highways and streets-related expenditures of \$51,721 and a decrease in miscellaneous revenue sources of \$32,421. However, these increased expenditures and decreased revenue source were offset by an increase in revenues from taxes totaling \$3,347,593, in revenues from intergovernmental sources totaling \$3,499,654, and in revenues from charges for services totaling \$549,828.
- The Human Services Special Revenue Fund balance increased by \$366,694 due to excess of revenues over expenditures of \$366,694. For the prior year ended December 31, 2015, excess of revenues over expenditures totaled \$456,884. The \$90,190 decrease was due mainly to a decrease in revenues for gifts and contributions totaling \$40,146, a decrease in miscellaneous revenues totaling \$61,594, an increase in the costs for public safety-related functions/programs totaling \$85,655, an increase in the costs for human services-related functions/programs totaling \$1,587,051 and an increase in the costs for health-related

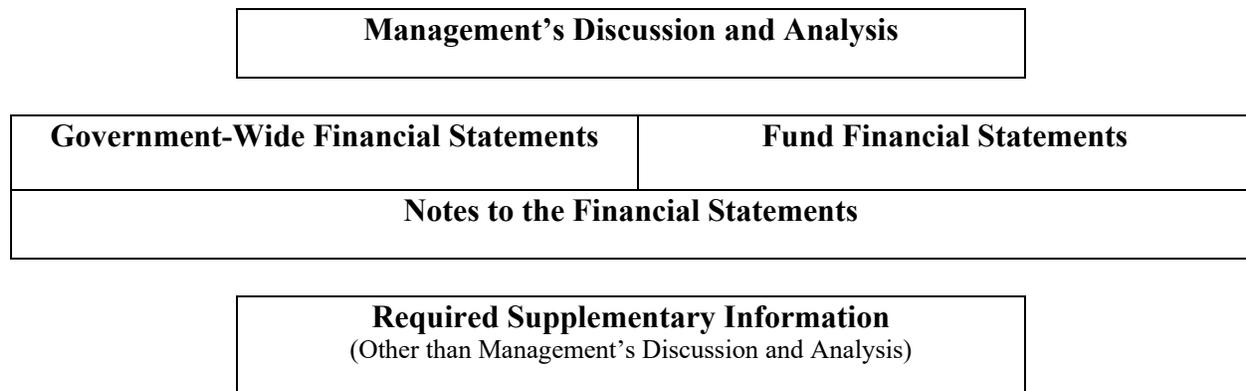
functions/programs totaling \$584,496. However, the increased expenditures and decreased revenues were offset by an increase in tax revenues of \$319,672, an increase in licenses and permits of \$50, an increase in intergovernmental revenues of \$1,893,993, and an increase in charges for services revenues of \$55,037.

- The Capital Improvement Special Revenue Fund balance increased by \$1,231,425 due to excess of revenues over expenditures of \$1,231,425. For the prior year ended December 31, 2015, excess of revenues over expenditures totaled \$906,968. The \$324,457 increase in excess of revenues over expenditures was due mainly to an increase in tax revenues of \$26,308, an increase in special assessment revenues of \$19, an increase in intergovernmental revenues of \$31,819, an increase in charges for services of \$1,997, an increase in interest earnings of \$3,499, a decrease in highways and streets-related expenditures of \$719,575, and a decrease in economic development-related capital expenditures of \$1,619. These increased revenues and decreased expenditures were offset by decreased revenues from miscellaneous revenue sources of \$75,566, increased general government-related expenditures of \$16,720, increased public safety-related expenditures of \$315,033, increased human services-related expenditures of \$17,196, and increased health-related expenditures of \$25,222, increased culture and recreation-related expenditures of \$2,421, and increased conservation of natural resources-related expenditures of \$8,221.
- The Construction Capital Projects Fund balance increased by \$75,949 mainly due to excess of revenues over expenditures of \$75,949. For the prior year ended December 31, 2015, excess of expenditures over revenues totaled \$95,709. The increase in excess of revenues over expenditures of \$171,658 was due mainly to an increase in intergovernmental revenues of \$309,029, an increase in miscellaneous revenue sources of \$29,656 and a decrease in general government-related expenditures of \$19,759, which was offset by an increase in conservation of natural resources-related construction expenditures of \$186,786. The primary revenue sources for the Construction Capital Projects Fund in 2016 and forward is a Department of Natural Resources grant to fund a drainage project in a local lake improvement district. The primary purpose of this fund in 2016 and forward will be to account for the revenues and expenditures associated with this drainage project, as well as any other major capital projects that will be undertaken in the future.
- The Prairie Lakes Municipal Solid Waste Authority Debt Service Fund balance decreased by \$1,059,392 due to excess of expenditures over revenues of \$1,059,392. For the prior year ended December 31, 2015, excess of expenditures over revenues totaled \$1,035,950. The \$23,442 increase in excess of expenditures over revenues is due to decreased miscellaneous revenues totaling \$27,880, an increase in investment earnings of \$43 and a decrease in debt service costs (principal and interest) of \$4,395.

- The fund balance as of December 31, 2016, for all other governmental funds increased by \$1,332,255. This increase was due mainly to excess of expenditures over revenues of \$1,171,603, a transfer from the Sheriff's Contingent Special Revenue Fund to the General Fund in the amount of \$3,425, and a payment in the amount of \$3,547,939 to an escrow agent for refunded bonds which was offset by a \$104 operating transfer from the General Fund to the Ethanol Plant Debt Service Fund and by proceeds from the issuance of bonds totaling \$6,055,118 (including bond premium). For the prior year ended December 31, 2015, excess of expenditures over revenues totaled \$588,697. The \$582,906 decrease in excess of expenditures over revenues is due mainly to an increase in special assessment revenues of \$82,892, an increase in interest earning revenues of \$415 and a decrease in general government-related expenditures of \$3,439. These increased revenues and decreased expenditure were offset by a decrease in tax revenues of \$131,267, a decrease in intergovernmental revenues of \$5,302, a decrease in fines and forfeits and miscellaneous revenue sources of \$34,118, an increase in public safety-related expenditures of \$331, an increase in conservation of natural resources-related expenditures of \$403,242 and an increase in debt service costs (principal, interest and bond issuance costs) of \$95,392.

OVERVIEW OF THE FINANCIAL STATEMENTS

Otter Tail County's MD&A 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, the Schedule of Funding Progress - Other Postemployment Benefits, and schedules of the County's proportionate share of net pension liability and of the County's contributions for the defined benefit pension plans 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 Position 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 full 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/deferred outflows of resources and liabilities/deferred inflows of resources--as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net position are an 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, 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, 2016, was \$190,051,111. 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	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 100,781,878	\$ 94,482,974	\$ 5,256,329	\$ 5,232,503	\$ 106,038,207	\$ 99,715,477
Capital assets	160,893,882	146,468,832	5,649,444	6,092,385	166,543,326	152,561,217
Total Assets	\$ 261,675,760	\$ 240,951,806	\$ 10,905,773	\$ 11,324,888	\$ 272,581,533	\$ 252,276,694
Deferred Outflows of Resources						
Deferred amount of refunding	\$ 235,878	\$ -	\$ -	\$ -	\$ 235,878	\$ -
Deferred pension outflows	21,094,373	3,201,029	803,146	164,644	21,897,519	3,365,673
Total Deferred Outflows of Resources	\$ 21,330,251	\$ 3,201,029	\$ 803,146	\$ 164,644	\$ 22,133,397	\$ 3,365,673
Liabilities						
Long-term debt outstanding	\$ 90,912,283	\$ 71,112,529	\$ 3,672,357	\$ 2,941,467	\$ 94,584,640	\$ 74,053,996
Other liabilities	5,816,111	4,089,952	373,372	351,837	6,189,483	4,441,789
Total Liabilities	\$ 96,728,394	\$ 75,202,481	\$ 4,045,729	\$ 3,293,304	\$ 100,774,123	\$ 78,495,785
Deferred Inflows of Resources						
Deferred pension inflows	\$ 3,704,747	\$ 1,949,506	\$ 184,949	\$ 107,614	\$ 3,889,696	\$ 2,057,120
Net Position						
Net investment in capital assets	\$ 147,568,875	\$ 131,626,120	\$ 5,649,444	\$ 6,092,385	\$ 153,218,319	\$ 137,718,505
Restricted	13,070,752	14,788,214	95,734	67,870	13,166,486	14,856,084
Unrestricted	21,933,243	20,586,514	1,733,063	1,928,359	23,666,306	22,514,873
Total Net Position	\$ 182,572,870	\$ 167,000,848	\$ 7,478,241	\$ 8,088,614	\$ 190,051,111	\$ 175,089,462

Otter Tail County's total net position for the year ended December 31, 2016, is \$190,051,111. Unrestricted net position totaling \$23,666,306 is available to finance day-to-day operations. Of the unrestricted net position, \$21,933,243 is available for governmental activities, and \$1,733,063 is available for business-type activities.

As of December 31, 2015, Otter Tail County's total net position was \$175,089,462. The increase of \$14,961,649 is due mainly to an increase in total assets and deferred outflows of resources in the amount of \$39,072,563, which is offset by an increase in total liabilities and deferred inflows of resources in the amount of \$24,110,914. (See the Financial Statements and the Notes to the Financial Statement for Additional Information).

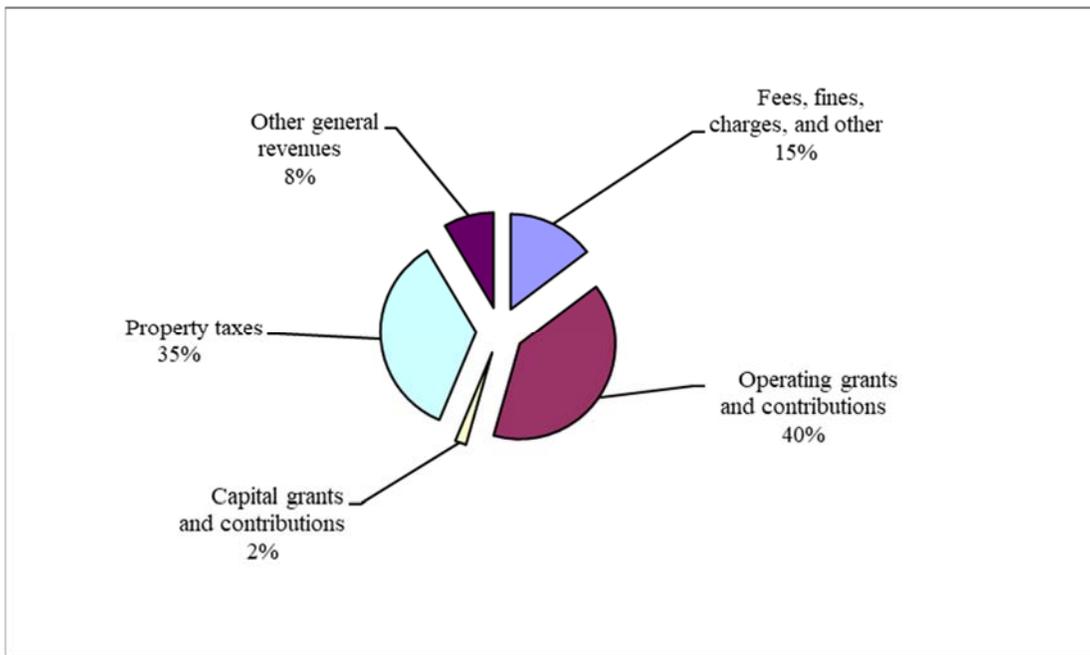
Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Fees, fines charges and other	\$ 8,803,692	\$ 7,593,108	\$ 6,366,664	\$ 6,657,384	\$ 15,170,356	\$ 14,250,492
Operating grants and contributions	40,814,749	35,322,976	261,855	212,795	41,076,604	35,535,771
Capital grants and contributions	1,948,529	1,556,956	-	-	1,948,529	1,556,956
General revenues						
Property taxes	36,359,651	34,786,398	-	-	36,359,651	34,786,398
Other taxes	3,982,265	758,097	-	-	3,982,265	758,097
Grants and contributions	3,614,641	3,625,080	-	-	3,614,641	3,625,080
Other general revenues	1,204,259	1,419,462	1,384	8,988	1,205,643	1,428,450
Total Revenues	\$ 96,727,786	\$ 85,062,077	\$ 6,629,903	\$ 6,879,167	\$ 103,357,689	\$ 91,941,244
Expenditures						
Program Expenses						
General government	\$ 16,438,091	\$ 13,646,314	\$ -	\$ -	\$ 16,438,091	\$ 13,646,314
Public safety	15,116,987	12,685,049	-	-	15,116,987	12,685,049
Highways and streets	20,211,916	18,380,146	-	-	20,211,916	18,380,146
Human services	20,325,508	18,177,390	-	-	20,325,508	18,177,390
Health	3,971,681	3,169,396	-	-	3,971,681	3,169,396
Culture and recreation	779,868	752,170	-	-	779,868	752,170
Conservation of natural resources	2,655,306	1,823,563	-	-	2,655,306	1,823,563
Economic development	145,667	87,270	-	-	145,667	87,270
Interest	1,510,740	1,610,100	-	-	1,510,740	1,610,100
Landfill	-	-	7,240,276	7,369,883	7,240,276	7,369,883
Total Program Expenses	\$ 81,155,764	\$ 70,331,398	\$ 7,240,276	\$ 7,369,883	\$ 88,396,040	\$ 77,701,281
Increase (Decrease) in Net Position	\$ 15,572,022	\$ 14,730,679	\$ (610,373)	\$ (490,716)	\$ 14,961,649	\$ 14,239,963

Otter Tail County's total revenues for the year ended December 31, 2016, were \$103,357,689, which is an increase over the total revenues for 2015 of \$11,416,445. The total cost of programs and services for the year ended December 31, 2016, were \$88,396,040, which is an increase over the total cost of programs in 2015 of \$10,694,759. In 2015, the net position for governmental activities and business-type activities increased \$14,239,963 and in 2016, the net position for governmental and business-type activities increased \$14,961,649. (Please see the financial statements and the notes to the financial statements for additional information.)

The \$11,416,445 increase in revenues from 2015 is due mainly to increases in programs revenues such as capital and operating grants and contributions, property and other taxes, and fees, fines, charges and other which were offset by decreases in general revenues such as grants and contributions and other general revenues. The \$10,694,759 increase in program expenses is due to increased general government, public safety, highways and streets, human services, health, culture and recreation, conservation of natural resources, and economic development-related program expenses, which were offset slightly by decreased interest cost, and decreased business-type activities program expenses.

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



Governmental Activities

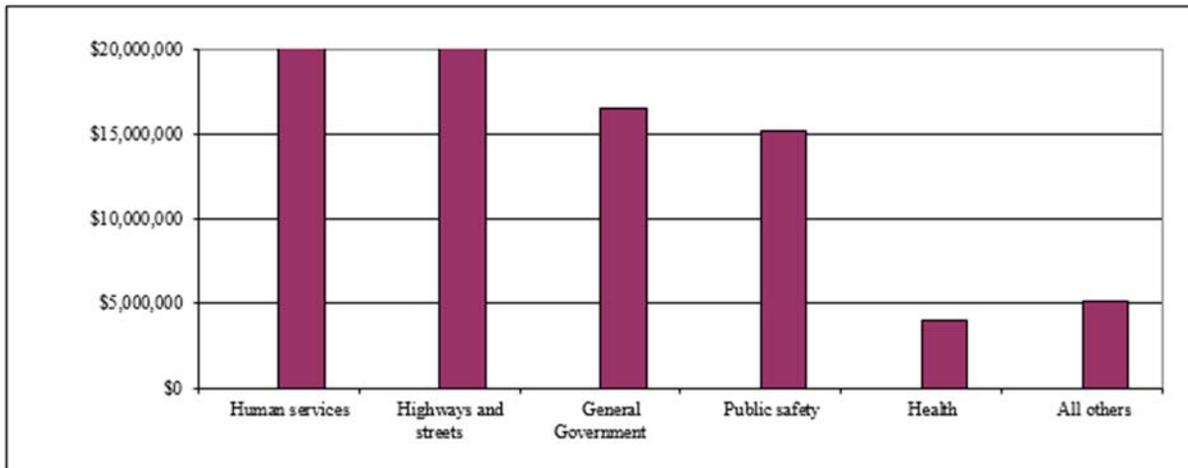
Revenues for Otter Tail County’s governmental activities for the year ended December 31, 2016, were \$96,727,786. Costs for all governmental activities for the year ended December 31, 2016, were \$81,155,764. As shown in the Statement of Activities, the amount that County taxpayers ultimately financed for these governmental activities through local property taxation was \$36,359,651, because \$8,803,692 of the costs were paid by those who directly benefited from the programs, and \$42,763,278 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 \$8,801,165 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, deed tax, transportation sales and use tax and wheelage 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**

	Total Cost of Services 2016	Net Cost of Services 2016
	<u>2016</u>	<u>2016</u>
Program expenses		
Human services	\$ 20,325,508	\$ 8,668,289
Highways and streets	20,211,916	(8,889,882)
General Government	16,438,091	11,357,775
Public safety	15,116,987	13,833,367
Health	3,971,681	753,049
All others	<u>5,091,581</u>	<u>3,866,196</u>
 Total Program Expenses	 <u>\$ 81,155,764</u>	 <u>\$ 29,588,794</u>

**Governmental Activities Expenses
2016**



Business-Type Activities

Revenues of Otter Tail County’s business-type activities (see Table 2) for the year ended December 31, 2016, were \$6,629,903. This compares with total operating revenues of \$6,657,384 and total nonoperating revenues of \$221,783 for the year ended December 31, 2015. Operating revenues decreased by \$290,720, and nonoperating revenues increased by \$41,456, resulting in an overall decrease in revenues of \$249,264.

Expenses of business-type activities (see Table 2) for the year ended December 31, 2016, were \$7,240,276. This compares with total operating expenses of \$7,365,928 and total nonoperating expenses of \$4,056 for the year ended December 31, 2015. Operating expenses decreased by \$125,652, and nonoperating expenses decreased by \$4,056, resulting in an overall decrease in expenses of \$129,708, which is due mainly to decreased waste management-related expenditures of \$964,283, decreased landfill closure and post-closure care costs of \$23,043, and decreased interest expense of \$4,056; which were offset by increased SCORE-related expenditures of \$154,873, increased household hazardous waste-related expenditures of \$35,677, increased processing costs-related expenditures of \$594,096, and increased depreciation expense of \$77,028.

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 \$85,299,355, which is more than last year's total of \$83,526,824. The increased fund balance of \$1,772,531 is due to an increase in the General Fund balance of \$932,293, a decrease in the Road and Bridge Special Revenue Fund balance of \$1,106,693, an increase in the Human Services Special Revenue Fund balance of \$366,694, an increase in the Capital Improvement Special Revenue Fund balance of \$1,231,425, an increase in the Construction Capital Projects Fund balance of \$75,949, a decrease in the Prairie Lakes Municipal Solid Waste Authority Debt Service Fund balance of \$1,059,392, and an increase in the other governmental funds' fund balances of \$1,332,255.

As you will note, there were changes within individual funds. The overall fund balance change represented a 2.1 percent increase. The experienced fund balance increase in the Capital Improvement Special Revenue was a planned increase for future anticipated capital projects. The other nonmajor governmental funds experienced a total fund balance increase of \$1,332,255. The primary reason the other nonmajor governmental funds experienced an increase is the net result of the proceeds received from the issuance of refunding bonds that were used to refinance three outstanding issues.

Included in this year's total fund balance is the General Fund balance of \$22,668,795, an increase of \$932,293 from 2015. The General Fund balance is classified as either non-spendable - \$1,149,652, restricted for specific purposes - \$1,550,361, assigned to specific uses - \$367,942, or unassigned - \$19,600,840.

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 2016, the Board of Commissioners did not make any significant budget revisions to the General Fund budget.

If the Board had made significant changes to the budget as originally adopted on Tuesday, December 15, 2015, 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 \$127,020. Total actual expenditures in the General Fund were under the budgeted expenditures by \$836,634. The actual other financing sources and uses were (\$31,792) and exceeded the budgeted amount by \$29,792 primarily because of the net effect of the issuance of refunding bonds to refinance three outstanding issues and unanticipated excess funds in the Sheriff's Contingent Special Revenue Fund. For additional information regarding budget to actual comparison for the budgeted special revenue funds please reference the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, Otter Tail County had \$166,543,326 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 \$13,982,109, or a 9.16 percent increase, over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 4,793,207	\$ 4,414,001	\$ 195,934	\$ 195,934	\$ 4,989,141	\$ 4,609,935
Construction in progress	-	258,986	-	-	-	258,986
Land improvements	100,914	111,057	-	-	100,914	111,057
Buildings and improvements	31,152,340	32,228,300	3,153,715	3,319,318	34,306,055	35,547,618
Machinery, furniture, and equipment	6,169,343	5,629,022	722,568	818,727	6,891,911	6,447,749
Infrastructure	118,678,078	103,827,466	127,693	136,310	118,805,771	103,963,776
Landfill	-	-	1,449,534	1,622,096	1,449,534	1,622,096
Totals	<u>\$ 160,893,882</u>	<u>\$ 146,468,832</u>	<u>\$ 5,649,444</u>	<u>\$ 6,092,385</u>	<u>\$ 166,543,326</u>	<u>\$ 152,561,217</u>

During calendar year 2016, Otter Tail County's governmental activities' capital assets, net of depreciation, increased a total of \$14,425,050. This year's major additions include the addition of machinery, furniture, and 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).

Remodeling/construction plans for the addition of holding cells and an elevator in the detention building have been prepared, approved and the project is currently underway. Other construction plans under consideration are a new highway maintenance building in the Pelican Rapids Area,

improvements to the Henning Transfer Station and repurposing parts of the New York Mills Building for daycare use. 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, 2016, Otter Tail County had \$45,583,799 in bonds and notes outstanding, compared with \$45,347,519 as of December 31, 2015, an increase of 0.52 percent--as shown in Table 5.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Bonds payable						
General obligation bonds	\$ 15,355,000	\$ 10,240,000	\$ -	\$ -	\$ 15,355,000	\$ 10,240,000
Revenue bonds	26,585,000	31,455,000	-	-	26,585,000	31,455,000
Lease revenue bonds	3,055,000	3,420,000	-	-	3,055,000	3,420,000
Plus: Unamortized premium	700,192	387,904	-	-	700,192	387,904
Less: Unamortized discount	(111,393)	(155,385)	-	-	(111,393)	(155,385)
Totals	\$ 45,583,799	\$ 45,347,519	\$ -	\$ -	\$ 45,583,799	\$ 45,347,519

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 \$274,945,125 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, landfill closure and post-closure care costs, and net pension liability. The notes to the financial statements (Notes 3.C.3-7 and Note 4) 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 many departmental budgets, as well as potentially influence which projects and the number of projects will be undertaken in any given year.

- Otter Tail County uses technology whenever possible to reduce employee travel and time away from work attending meetings.
- Otter Tail County has undertaken several building projects in the recent past to make the County's facilities more energy efficient, secure and more service friendly.
- Legislative actions by federal and state governments can have a significant impact on future County budgets. As you will note from Exhibit 5, intergovernmental revenues represent approximately 47 percent of the County's total 2016 revenues. Major revenue sources are state-paid aids and grants. Should the State of Minnesota or the federal government 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 recent 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 2016 net levy was \$1,623,905 more than the Pay 2015 net levy, which was a 4.68 percent increase. The overall County rate for Pay 2016 is 42.129 percent, which is an approximate 1.47 percent increase over the Pay 2015 County rate of 41.517. The Pay 2016 net tax capacity rate was held fairly constant due to a 3.1 percent increase in the County's total taxable net tax capacity.
- The possible imposition of levy limitations for future taxes payable years 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, the issuance of debt, and/or capital notes 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.
- In addition to possible state-imposed levy limitations, other legislative changes and current economic conditions require that, as the County operates under the adopted budget for 2017 and develops the 2018 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 meaningful services and programs are delivered in the most cost-effective manner possible and that the County maintains a sound financial position.
- The net property tax levy for 2017 is scheduled to increase by 2.73 percent, or approximately \$992,105, and will result in a County tax rate of 41.858 percent.
- Otter Tail County's 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. Otter Tail County is very concerned with providing economic

development, growth and job opportunities to help maintain are strong and balanced tax base. Otter Tail County is taking steps to ensure that there is an adequate workforce to fill open industrial jobs and is working to ensure that there is adequate housing for the workforce.

- Settling union contracts and employment-related cost/issues are carefully considered as they can, and will, significantly impact future budgets. Providing health coverage for employees and the ever-increasing cost of health care is a budgetary concern for County officials. Employee health coverage is undergoing significant review in 2016 and 2017.
- The cross-training of current staff, determining the appropriate level for future staffing needs, succession planning and 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.
- Developing, training, and staffing the Finance Division to properly manage (budget, accounting, and timely internal/external reporting) the County's growing programs and functions will be critical to the future financial success of the County.
- 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 at least annually.
- Past high-water issues in many parts of Otter Tail County have identified to administration the need to re-determine the benefits of many of the County's drainage systems, the need to complete minor maintenance/repairs to a number of these drainage systems, the need to levy assessments to cover these maintenance/repair costs, and to build a maintenance fund for future maintenance/repairs to these drainage systems. Addressing issues related to the various drainage systems is time consuming and often costly. The repair and maintenance of drainage systems and the financial management of those costs may require additional staffing to meet the ever-increasing demand. 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.

- Repairing and building up the roads to keep the County’s road system open, functional, and safe is very expensive. Adequate funding for these specific highway needs is reviewed during budget preparation and development. To address County road maintenance and construction funding issues, Otter Tail County has implemented the Local Transit Sales and Use Tax, as well as the \$20.00 Vehicle Excise Tax. Funding from these two new sources of revenues will be used to fund projects as identified in Otter Tail County’s 2016-2025 Transportation Program. Additional information regarding the County’s transportation plan can be found at <http://www.co.otter-tail.mn.us/1126/Transportation-Plan>. The County will also consider the possible issuance of bonded debt to assist with the financing of road maintenance and road reconstruction issues.

- 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 its existing assessment and property tax software, which will allow the County to use existing technology more effectively. This project is approximately 18 months behind schedule, and the delay would result in added cost to maintain the existing system. Conversion to the new software is anticipated to begin in mid-to-late 2018 and should be completed by 2019.

- Adequate housing, availability of childcare, broadband availability, and assistance for economic development have been identified as issues that, in some cases, are hindering economic growth. An important consideration when developing future budgets will be a discussion as to the options available to the County that can help minimize these issues. Options that will be considered are economic development tax abatements and tax increment financing. Otter Tail County has hired an economic development and tourism director to help secure other funding sources, etc.

- Otter Tail County has a significant investment in the Perham Resource Recovery Facility, which is managed by the Prairie Lakes Municipal Solid Waste Authority. The Prairie Lakes Municipal Solid Waste Authority is a joint powers organization consisting of five counties. The Perham Resource Recovery Facility is an essential component in the management of Otter Tail County’s solid waste and a significant supplier of energy to local businesses. The future financial success of the Perham Resource Recovery Facility is important to the repayment of Otter Tail County’s investment.

- Other factors considered include:
 - planning and financing for facility needs and the maintenance of existing facilities;
 - planning and financing for building security, which is becoming an increasingly important issue;
 - 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, specifically as these regulations relate to the expansion of the County's resort industry and other economic development opportunities;
- the need to develop long term plans and goals for the County;
- 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's expenditure levels do not exceed its 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-Treasurer (218-998-8041); Jim Myhre, Assistant County Auditor (218-998-8039); or Dawn Godel, Accounting Supervisor (218-998-8037) at the Otter Tail County Government Services Center, 510 Fir Avenue W., Fergus Falls, Minnesota 56537.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Primary Government			Prairie Lakes Municipal Solid Waste Authority Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 59,143,392	\$ 702,812	\$ 59,846,204	\$ -
Taxes receivable - delinquent	870,773	-	870,773	-
Special assessments receivable				
Delinquent	7,810	-	7,810	-
Noncurrent	324,861	-	324,861	-
Accounts receivable	197,677	307,539	505,216	149,474
Accrued interest receivable	91,537	-	91,537	-
Internal balances	(4,070)	4,070	-	-
Due from other governments	11,445,610	125,260	11,570,870	283,753
Due from component unit	298,381	2,157	300,538	-
Due from primary government	-	-	-	166,059
Lease receivable	108,089	-	108,089	-
Inventories	482,261	-	482,261	-
Prepaid item	310,540	-	310,540	-
Restricted assets				
Permanently restricted				
Cash and pooled investments	-	1,325,871	1,325,871	-
Advance to component unit	26,585,000	2,788,620	29,373,620	-
Long-term lease receivable	920,017	-	920,017	-
Capital assets				
Non-depreciable	4,793,207	195,934	4,989,141	29,120,951
Depreciable - net of accumulated depreciation	156,100,675	5,453,510	161,554,185	3,803,707
Total Assets	\$ 261,675,760	\$ 10,905,773	\$ 272,581,533	\$ 33,523,944
<u>Deferred Outflows of Resources</u>				
Deferred amount on refunding	\$ 235,878	\$ -	\$ 235,878	\$ -
Deferred pension outflows	21,094,373	803,146	21,897,519	1,080,789
Total Deferred Outflows	\$ 21,330,251	\$ 803,146	\$ 22,133,397	\$ 1,080,789

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Primary Government			Prairie Lakes Municipal Solid Waste Authority Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Liabilities</u>				
Accounts payable	\$ 1,423,694	\$ 111,567	\$ 1,535,261	\$ 226,666
Salaries payable	1,532,145	91,425	1,623,570	85,427
Contracts payable	2,061,612	-	2,061,612	181,656
Due to other governments	229,921	4,321	234,242	82,137
Due to component unit	-	166,059	166,059	-
Due to primary government	-	-	-	300,538
Accrued interest payable	318,165	-	318,165	-
Unearned revenue	26,127	-	26,127	-
Employee deposits	224,447	-	224,447	-
Advance from primary government	-	-	-	29,373,620
Long-term liabilities				
Due within one year	7,015,999	90,837	7,106,836	118,810
Due in more than one year	43,759,477	1,575,178	45,334,655	199,691
Other postemployment benefits	1,282,284	115,944	1,398,228	-
Net pension liability	38,854,523	1,890,398	40,744,921	2,094,832
Total Liabilities	\$ 96,728,394	\$ 4,045,729	\$ 100,774,123	\$ 32,663,377
<u>Deferred Inflows of Resources</u>				
Deferred pension inflows	\$ 3,704,747	\$ 184,949	\$ 3,889,696	\$ 168,606
<u>Net Position</u>				
Net investment in capital assets	\$ 147,568,875	\$ 5,649,444	\$ 153,218,319	\$ 8,657,121
Restricted for				
General government	1,243,243	-	1,243,243	-
Public safety	620,598	-	620,598	-
Highways and streets	10,068,965	-	10,068,965	-
Human services	291,402	-	291,402	-
Postclosure care	-	95,734	95,734	-
Conservation of natural resources	670,276	-	670,276	-
Held in trust for other purposes	176,268	-	176,268	-
Unrestricted	21,933,243	1,733,063	23,666,306	(6,884,371)
Total Net Position	\$ 182,572,870	\$ 7,478,241	\$ 190,051,111	\$ 1,772,750

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Expenses	Fees, Charges, Fines, and Other	Program Revenues Operating Grants and Contributions
<u>Functions/Programs</u>			
Primary Government			
Governmental activities			
General government	\$ 16,438,091	\$ 4,570,681	\$ 509,635
Public safety	15,116,987	443,038	826,582
Highways and streets	20,211,916	1,161,605	26,038,883
Human services	20,325,508	1,319,998	10,308,080
Health	3,971,681	772,637	2,441,917
Culture and recreation	779,868	-	-
Conservation of natural resources	2,655,306	395,733	689,652
Economic development	145,667	140,000	-
Interest	1,510,740	-	-
	\$ 81,155,764	\$ 8,803,692	\$ 40,814,749
Business-type activities			
Solid waste	7,240,276	6,366,664	261,855
	\$ 88,396,040	\$ 15,170,356	\$ 41,076,604
Component unit			
Prairie Lakes Municipal Solid Waste Authority	\$ 7,591,494	\$ 6,854,886	\$ -

General Revenues

Property taxes
Transportation sales and use tax
Taxes - other
Wheelage taxes
Grants and contributions not restricted to specific programs
Payments in lieu of tax
Investment earnings
Miscellaneous

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Change in Net Position</u>			<u>Discretely Presented Component Unit</u>
	<u>Primary Government</u>		<u>Total</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		
\$ -	\$ (11,357,775)	\$ -	\$ (11,357,775)	
14,000	(13,833,367)	-	(13,833,367)	
1,901,310	8,889,882	-	8,889,882	
29,141	(8,668,289)	-	(8,668,289)	
4,078	(753,049)	-	(753,049)	
-	(779,868)	-	(779,868)	
-	(1,569,921)	-	(1,569,921)	
-	(5,667)	-	(5,667)	
-	(1,510,740)	-	(1,510,740)	
<u>\$ 1,948,529</u>	<u>\$ (29,588,794)</u>	<u>\$ -</u>	<u>\$ (29,588,794)</u>	
-	-	(611,757)	(611,757)	
<u>\$ 1,948,529</u>	<u>\$ (29,588,794)</u>	<u>\$ (611,757)</u>	<u>\$ (30,200,551)</u>	
<u>\$ 911,843</u>				<u>\$ 175,235</u>
	\$ 36,359,651	\$ -	\$ 36,359,651	\$ -
	2,663,064	-	2,663,064	-
	188,453	-	188,453	-
	587,777	-	587,777	-
	3,614,641	-	3,614,641	-
	542,971	-	542,971	-
	14,517	1,384	15,901	-
	1,189,742	-	1,189,742	-
	<u>\$ 45,160,816</u>	<u>\$ 1,384</u>	<u>\$ 45,162,200</u>	<u>\$ -</u>
	\$ 15,572,022	\$ (610,373)	\$ 14,961,649	\$ 175,235
	<u>167,000,848</u>	<u>8,088,614</u>	<u>175,089,462</u>	<u>1,597,515</u>
	<u>\$ 182,572,870</u>	<u>\$ 7,478,241</u>	<u>\$ 190,051,111</u>	<u>\$ 1,772,750</u>

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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, 2016**

	General	Road and Bridge	Human Services
<u>Assets</u>			
Cash and pooled investments	\$ 21,150,095	\$ 10,853,343	\$ 13,701,170
Petty cash and change funds	3,400	50	200
Undistributed cash in agency funds	385,820	57,335	166,426
Taxes receivable - delinquent	442,128	81,757	238,466
Special assessments			
Delinquent	-	340	-
Noncurrent	-	-	-
Accounts receivable	61,029	7,068	129,580
Accrued interest receivable	91,537	-	-
Due from other funds	4,821	8,202	-
Due from other governments	92,683	9,476,446	1,839,649
Due from component unit	135,719	-	-
Lease receivable	1,028,106	-	-
Advance to other funds	662,844	-	-
Inventories	-	482,261	-
Prepaid items	310,540	-	-
Advance to component unit	-	-	-
Total Assets	\$ 24,368,722	\$ 20,966,802	\$ 16,075,491
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 343,054	\$ 443,551	\$ 491,317
Salaries payable	728,674	233,338	570,133
Contracts payable	-	2,047,383	-
Due to other funds	5,667	-	4,803
Due to other governments	13,904	35,873	179,836
Unearned revenues	-	-	26,127
Advance from other funds	-	-	-
Employee deposits	224,447	-	-
Total Liabilities	\$ 1,315,746	\$ 2,760,145	\$ 1,272,216
Deferred Inflows of Resources			
Unavailable revenues	\$ 384,181	\$ 8,598,341	\$ 424,856

EXHIBIT 3

<u>Capital Improvement</u>	<u>Construction Capital Projects</u>	<u>Prairie Lakes Municipal Solid Waste Authority Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,432,218	\$ -	\$ -	\$ 7,315,456	\$ 58,452,282
-	-	-	-	3,650
47,571	-	-	30,308	687,460
67,914	-	-	40,508	870,773
-	-	-	7,470	7,810
-	-	-	324,861	324,861
-	-	-	-	197,677
-	-	-	-	91,537
1,153	-	-	-	14,176
11,844	21,280	-	3,708	11,445,610
-	-	-	-	135,719
-	-	-	-	1,028,106
-	-	-	-	662,844
-	-	-	-	482,261
-	-	-	-	310,540
-	-	26,585,000	-	26,585,000
<u>\$ 5,560,700</u>	<u>\$ 21,280</u>	<u>\$ 26,585,000</u>	<u>\$ 7,722,311</u>	<u>\$ 101,300,306</u>
\$ 48,886	\$ 21,280	\$ -	\$ 75,606	\$ 1,423,694
-	-	-	-	1,532,145
-	-	-	14,229	2,061,612
-	-	-	8,084	18,554
-	-	-	-	229,613
-	-	-	-	26,127
-	-	-	662,844	662,844
-	-	-	-	224,447
<u>\$ 48,886</u>	<u>\$ 21,280</u>	<u>\$ -</u>	<u>\$ 760,763</u>	<u>\$ 6,179,036</u>
<u>\$ 52,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 362,493</u>	<u>\$ 9,821,915</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General	Road and Bridge	Human Services
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
(Continued)			
Fund Balances			
Nonspendable			
Inventories	\$ -	\$ 482,261	\$ -
Prepaid items	310,540	-	-
Advances to other funds	662,844	-	-
Missing heirs	176,268	-	-
Restricted			
Debt service	-	-	-
Law library	-	-	-
Recorder's technology equipment	313,866	-	-
Real estate shortfall	291,433	-	-
E-911	-	-	-
Recorder's compliance	502,976	-	-
Veteran's van	14,194	-	-
County state-aid highway system	-	14,186	-
Handgun permits	12,510	-	-
Ditch maintenance and construction	-	-	-
Sheriff's contingencies	-	-	-
Snowmobile trails	46,445	-	-
Emergency management	48,541	-	-
Aquatic invasive species	320,396	-	-
County turnback	-	5,760,110	-
Child protection	-	-	291,402
Assigned			
Property and casualty insurance	246,148	99,411	47,522
Workers' compensation	121,794	86,018	49,077
Debt service	-	-	-
General government	-	-	-
Public safety	-	-	-
Highways and streets	-	3,166,330	-
Human services	-	-	12,328,059
Health	-	-	1,683,862
Sanitation	-	-	-
Culture and recreation	-	-	-
Conservation of natural resources	-	-	-
Unassigned	19,600,840	-	(21,503)
Total Fund Balances	\$ 22,668,795	\$ 9,608,316	\$ 14,378,419
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 24,368,722	\$ 20,966,802	\$ 16,075,491

EXHIBIT 3
(Continued)

<u>Capital Improvement</u>	<u>Construction Capital Projects</u>	<u>Prairie Lakes Municipal Solid Waste Authority Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 482,261
-	-	-	-	310,540
-	-	-	-	662,844
-	-	-	-	176,268
-	-	26,585,000	6,668,192	33,253,192
-	-	-	120,774	120,774
-	-	-	-	313,866
-	-	-	-	291,433
508,102	-	-	-	508,102
-	-	-	-	502,976
-	-	-	-	14,194
-	-	-	-	14,186
-	-	-	-	12,510
-	-	-	349,880	349,880
-	-	-	5,000	5,000
-	-	-	-	46,445
-	-	-	-	48,541
-	-	-	-	320,396
-	-	-	-	5,760,110
-	-	-	-	291,402
-	-	-	-	393,081
-	-	-	-	256,889
-	-	-	97,752	97,752
905,165	-	-	-	905,165
1,208,703	-	-	10,588	1,219,291
2,444,637	-	-	-	5,610,967
187,173	-	-	-	12,515,232
71,304	-	-	-	1,755,166
14,360	-	-	-	14,360
109,927	-	-	-	109,927
10,399	-	-	-	10,399
-	-	-	(653,131)	18,926,206
<u>\$ 5,459,770</u>	<u>\$ -</u>	<u>\$ 26,585,000</u>	<u>\$ 6,599,055</u>	<u>\$ 85,299,355</u>
<u>\$ 5,560,700</u>	<u>\$ 21,280</u>	<u>\$ 26,585,000</u>	<u>\$ 7,722,311</u>	<u>\$ 101,300,306</u>

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Fund balances - total governmental funds (Exhibit 3)	\$	85,299,355
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.		160,893,882
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		21,094,373
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		9,821,915
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		162,662
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	\$ (15,355,000)	
Revenue bonds	(26,585,000)	
Facility lease revenue bonds	(3,055,000)	
Deferred amount on refunding	235,878	
Bond discounts	111,393	
Bond premiums	(700,192)	
Accrued interest payable	(318,165)	
Compensated absences	(5,073,571)	
Capital leases payable	(118,106)	
Other postemployment benefits	(1,282,284)	
Net pension liability	<u>(38,854,523)</u>	(90,994,570)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(3,704,747)</u>
Net Position of Governmental Activities (Exhibit 1)	\$	<u>182,572,870</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
Revenues			
Taxes	\$ 19,188,214	\$ 6,612,017	\$ 9,755,331
Special assessments	396	-	-
Licenses and permits	459,697	-	50
Intergovernmental	3,681,491	25,689,894	13,785,188
Charges for services	1,431,709	838,160	1,681,838
Fines and forfeits	15,733	-	-
Gifts and contributions	14,000	-	33,219
Investment earnings	341,923	-	-
Miscellaneous	2,093,644	129,559	633,375
Total Revenues	\$ 27,226,807	\$ 33,269,630	\$ 25,889,001
Expenditures			
Current			
General government	\$ 14,031,107	\$ -	\$ -
Public safety	9,673,903	-	2,378,065
Highways and streets	-	32,968,267	-
Human services	-	-	19,437,619
Health	-	-	3,706,623
Culture and recreation	760,315	-	-
Conservation of natural resources	1,551,752	-	-
Economic development	142,859	-	-
Intergovernmental			
Highways and streets	-	1,384,371	-
Debt service			
Principal	90,041	-	-
Interest	-	-	-
Bond issuance costs	12,745	-	-
Total Expenditures	\$ 26,262,722	\$ 34,352,638	\$ 25,522,307
Excess of Revenues Over (Under) Expenditures	\$ 964,085	\$ (1,083,008)	\$ 366,694
Other Financing Sources (Uses)			
Transfers in	\$ 3,425	\$ -	\$ -
Transfers out	(104)	-	-
Refunding bonds issued	910,000	-	-
Premium on bonds issued	44,519	-	-
Payment to refunded bond escrow agent	(989,632)	-	-
Total Other Financing Sources (Uses)	\$ (31,792)	\$ -	\$ -
Net Change in Fund Balance	\$ 932,293	\$ (1,083,008)	\$ 366,694
Fund Balance - January 1	21,736,502	10,715,009	14,011,725
Increase (decrease) in inventories	-	(23,685)	-
Fund Balance - December 31	\$ 22,668,795	\$ 9,608,316	\$ 14,378,419

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

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EXHIBIT 5

Capital Improvement	Construction Capital Projects	Prairie Lakes Municipal Solid Waste Authority Debt Service	Other Governmental Funds	Total
\$ 2,786,200	\$ -	\$ -	\$ 1,544,844	\$ 39,886,606
29	-	-	301,565	301,990
-	-	-	-	459,747
439,764	494,087	-	34,357	44,124,781
3,343	-	-	-	3,955,050
-	-	-	68,048	83,781
-	-	-	-	47,219
12,187	-	43	903	355,056
201,124	29,656	989,876	548,140	4,625,374
\$ 3,442,647	\$ 523,743	\$ 989,919	\$ 2,497,857	\$ 93,839,604
\$ 436,937	\$ -	\$ -	\$ 51,123	\$ 14,519,167
813,102	-	-	6,195	12,871,265
835,068	-	-	-	33,803,335
89,576	-	-	-	19,527,195
25,222	-	-	-	3,731,845
3,096	-	-	-	763,411
8,221	447,794	-	652,883	2,660,650
-	-	-	-	142,859
-	-	-	-	1,384,371
-	-	1,060,000	2,310,000	3,460,041
-	-	989,311	560,391	1,549,702
-	-	-	88,868	101,613
\$ 2,211,222	\$ 447,794	\$ 2,049,311	\$ 3,669,460	\$ 94,515,454
\$ 1,231,425	\$ 75,949	\$ (1,059,392)	\$ (1,171,603)	\$ (675,850)
\$ -	\$ -	\$ -	\$ 104	\$ 3,529
-	-	-	(3,425)	(3,529)
-	-	-	5,765,000	6,675,000
-	-	-	290,118	334,637
-	-	-	(3,547,939)	(4,537,571)
\$ -	\$ -	\$ -	\$ 2,503,858	\$ 2,472,066
\$ 1,231,425	\$ 75,949	\$ (1,059,392)	\$ 1,332,255	\$ 1,796,216
4,228,345	(75,949)	27,644,392	5,266,800	83,526,824
-	-	-	-	(23,685)
\$ 5,459,770	\$ -	\$ 26,585,000	\$ 6,599,055	\$ 85,299,355

**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, 2016**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,796,216

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 inflows of resources - December 31	\$ 9,821,915	
Deferred inflows of resources - January 1	<u>(7,051,047)</u>	2,770,868

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	\$ 22,605,172	
Current year depreciation	<u>(8,180,122)</u>	14,425,050

Expenditures in the statement of activities are not reported as expenditures in the funds. (2,952)

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 effect of 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 activities.

Proceeds of new debt		
Refunding bond issued	(6,675,000)	
Premium on refunding bond issued	(334,637)	(7,009,637)

Principal repayments		
General obligation bonds	\$ 1,560,000	
Revenue bonds	4,870,000	
Facility lease revenue bonds	365,000	
Capital leases	<u>995,041</u>	7,790,041

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	\$ 32,298	
Amortization of premiums and discounts	(21,643)	
Change in compensated absences	(147,823)	
Change in other postemployment benefits	(100,969)	
Change in net pension liability, as restated	(20,309,723)	
Change in deferred pension outflows	17,893,344	
Change in deferred amount on refunding	235,878	
Change in deferred pension inflows	(1,755,241)	
Change in inventories	<u>(23,685)</u>	<u>(4,197,564)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 15,572,022

PROPRIETARY FUND

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
WASTE MANAGEMENT ENTERPRISE FUND
DECEMBER 31, 2016**

Assets

Current assets	
Cash and pooled investments	\$ 623,388
Petty cash and change funds	18,740
Undistributed cash in agency funds	60,684
Accounts receivable	307,539
Due from other funds	4,188
Due from other governments	125,260
Due from component unit	2,157
	\$ 1,141,956
Total current assets	
Restricted assets	
Cash and pooled investments	\$ 1,325,871
Noncurrent assets	
Advance to component unit	\$ 2,788,620
Capital assets	
Nondepreciable	195,934
Depreciable - net	5,453,510
	\$ 8,438,064
Total noncurrent assets	
Total Assets	
	\$ 10,905,891

Deferred Outflows of Resources

Deferred pension outflows	\$ 803,146
	\$ 803,146

Liabilities

Current liabilities	
Accounts payable	\$ 111,567
Salaries payable	91,425
Compensated absences payable	90,837
Due to other funds	118
Due to other governments	4,321
Due to component unit	166,059
	\$ 464,327
Total current liabilities	

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF FUND NET POSITION
WASTE MANAGEMENT ENTERPRISE FUND
DECEMBER 31, 2016**

Liabilities (Continued)

Noncurrent liabilities	
Compensated absences payable	\$ 345,041
Estimated liability for landfill closure/postclosure care	1,230,137
Other postemployment benefits liability	115,944
Net pension liability	<u>1,890,398</u>
Total noncurrent liabilities	<u>\$ 3,581,520</u>
Total Liabilities	<u>\$ 4,045,847</u>

Deferred Inflows of Resources

Deferred pension inflows	<u>\$ 184,949</u>
--------------------------	-------------------

Net Position

Investment in capital assets	\$ 5,649,444
Restricted for postclosure care costs	95,734
Unrestricted	<u>1,733,063</u>
Total Net Position	<u>\$ 7,478,241</u>

**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, 2016**

Operating Revenues	
Charges for services	\$ 5,712,964
Licenses and permits	2,100
Sale of recyclable materials	560,253
Miscellaneous	85,346
	<hr/>
Total Operating Revenues	\$ 6,360,663
Operating Expenses	
SCORE	\$ 1,517,755
Waste management	2,584,135
Household hazardous waste	244,170
Processing costs	2,335,812
Depreciation	547,701
Landfill closure and postclosure care costs	10,703
	<hr/>
Total Operating Expenses	\$ 7,240,276
Operating Income (Loss)	\$ (879,613)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 261,855
Interest income	1,384
Interest income restricted for sanitation	6,001
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 269,240
Change in Net Position	\$ (610,373)
Net Position - January 1	8,088,614
	<hr/>
Net Position - December 31	\$ 7,478,241
	<hr/> <hr/>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
WASTE MANAGEMENT ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 6,281,880
Payments to suppliers	(4,536,016)
Payments to employees	<u>(2,099,768)</u>
Net cash provided by (used in) operating activities	<u>\$ (353,904)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental	<u>\$ 261,855</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	\$ (120,149)
Advances from other funds	(202,798)
Interest paid on advance	<u>(4,056)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (327,003)</u>
Cash Flows from Investing Activities	
Investment earnings received	<u>\$ 7,478</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (411,574)
Cash and Cash Equivalents at January 1	<u>2,440,257</u>
Cash and Cash Equivalents at December 31	<u>\$ 2,028,683</u>
Cash and Cash Equivalents - Exhibit 7	
Cash and pooled investments	\$ 623,388
Petty cash and change funds	18,740
Undistributed cash in agency funds	60,684
Restricted cash and pooled investments	<u>1,325,871</u>
Total Cash and Cash Equivalents	<u>\$ 2,028,683</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

***EXHIBIT 9
(Continued)***

**STATEMENT OF CASH FLOWS
WASTE MANAGEMENT ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016
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>(879,613)</u>
--------------------------------	----------------------------

**Adjustments to reconcile operating income (loss) to net cash
provided by (used in) operating activities**

Depreciation expense	\$ 547,701
(Increase) decrease in accounts receivable	(70,033)
(Increase) decrease in due from other governments	(56,462)
(Increase) decrease in due from component unit	(947)
(Increase) decrease in deferred pension outflows	(638,502)
Increase (decrease) in accounts payable	37,044
Increase (decrease) in salaries payable	3,720
Increase (decrease) in compensated absences - current	2,301
Increase (decrease) in due to other funds	(101,198)
Increase (decrease) in due to other governments	4,321
Increase (decrease) in due to component unit	(8,160)
Increase (decrease) in compensated absences - long-term	(2,692)
Increase (decrease) in other postemployment benefits liability	11,691
Increase (decrease) in deferred pension inflows	77,335
Increase (decrease) in net pension liability	708,887
Increase (decrease) in landfill closure/postclosure care costs	<u>10,703</u>

Total adjustments	\$ <u>525,709</u>
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Net Cash Provided by (Used in) Operating Activities	\$ <u><u>(353,904)</u></u>
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FIDUCIARY FUNDS

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2016**

<u>Assets</u>	
Cash and pooled investments	\$ 1,786,653
Due from other funds	<u>14,668</u>
Total Assets	<u>\$ 1,801,321</u>
 <u>Liabilities</u>	
Accounts payable	\$ 3,234
Due to other funds	14,360
Due to other governments	<u>1,783,727</u>
Total Liabilities	<u>\$ 1,801,321</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, 2016

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. 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

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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 Construction Capital Projects Fund is used to account for the costs associated with remodeling, renovations, and improvements to the Otter Tail County Courthouse, the Government Services Center, and various lake improvement projects.

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:

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 full 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, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary fund. 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 for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at fair value at December 31, 2016, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental, enterprise, and fiduciary funds 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 2016 were \$356,393.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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, because such amounts are not expected to be material.

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 prior taxes receivable.

4. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments and noncurrent special assessments. No allowance for uncollectible receivables have been provided because such amounts are not expected to be material.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

5. Advance to Component Unit

In 2011 and 2013, Otter Tail County agreed to issue \$10,475,000 and \$19,380,000, respectively, in General Obligation Disposal System Revenue Bonds in order to finance the acquisition/expansion of the Perham Resource Recovery Facility, which is owned by the Prairie Lakes Municipal Solid Waste Authority component unit. The proceeds from the sale of these bonds were 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 2016 were \$1,060,000. On December 31, 2015, Otter Tail County agreed to advance funds to cover a cash deficit in the Prairie Lakes Municipal Solid Waste Authority Fund. The amount of the advance was \$2,788,620. Repayment will be through future collection of tipping fees. No principal payments were made in 2016.

6. 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.

7. 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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

8. 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 and the proprietary fund financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

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.

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.

9. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

10. 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. The government-wide statement of net position reports both the current and noncurrent portion of compensated absences. The current portion consists of an amount based on the vacation each employee accrues in one year.

11. 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 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 recognized as an expense in the period incurred.

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 an other financing source. Premiums received on debt issuances are reported as an other financing source, while discounts on debt issuances are reported as an other financing use. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

12. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. For the governmental activities, the pension liability is liquidated through the General Fund and other governmental funds that have personnel services. For the business-type activities, the pension liability is liquidated by the Waste Management Enterprise Fund.

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has two items, deferred amount on refunding and deferred pension outflows that qualify for reporting in this category. These outflows arise only under the full accrual basis of accounting. The deferred amount on refunding is being amortized over the remaining life of the refunded debt as part of interest expense. The deferred pension outflows consist of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions, pension plan changes in proportionate share, differences between expected and actual economic experience, and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

13. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. The County has two types of deferred inflows.

The governmental funds report unavailable revenues from delinquent taxes receivable, delinquent and noncurrent special assessments receivable and for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

14. Classification of Net Position

Net position in the government-wide and proprietary fund 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, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

15. 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 are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items not expected to be converted to cash.

Restricted - amounts in which constraints 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 imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used for the specific purposes imposed by formal action (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 (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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board, the County Administrator, or the County Auditor/Treasurer, who have been delegated that authority by Board resolution.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

15. Classification of Fund Balances (Continued)

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.

16. 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.

17. Operating Revenues and Expenses

The Waste Management Enterprise Fund's 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 investment income and grants are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide services. Expenses not meeting this definition are reported as nonoperating expenses.

18. 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, deferred

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

18. Use of Estimates (Continued)

outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund has a deficit fund balance of \$303,251. The deficit will be eliminated with future special assessment levies against benefited properties. The following is a summary of the individual ditch systems:

19 ditches with positive fund balances	\$	349,880
30 ditches with deficit fund balances		(653,131)
Total Fund Balance	\$	(303,251)

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, 2016.

	Expenditures	Final Budget	Excess
Special Revenue Fund			
County Ditch	\$ 652,883	\$ 182,500	\$ 470,383
Debt Service Funds			
Chemical Dependency	600,631	548,240	52,391
Ethanol Plant	696,258	695,333	925
Government Service Center	886,931	879,312	7,619
Sheriff Operations	534,551	494,500	40,051
Master Facility Construction	113,575	112,650	925

**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	\$ 59,846,204
Restricted assets	
Cash and pooled investments	1,325,871
Fiduciary assets	
Agency funds	
Cash and pooled investments	<u>1,786,653</u>
Total Cash and Investments	<u>\$ 62,958,728</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 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, 2016, 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.

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, 2016, none of the County's investments were exposed to custodial credit risk.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table represents the County's deposit and investment balances at December 31, 2016, 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					
U.S. Treasury Note	N/A	N/A		05/31/2017	\$ 2,500,200
U.S. Treasury Note	N/A	N/A		06/30/2017	2,501,276
U.S. Treasury Note	N/A	N/A		08/15/2017	3,503,290
U.S. Treasury Note	N/A	N/A		09/15/2017	2,503,900
U.S. Treasury Note	N/A	N/A		10/31/2017	999,100
U.S. Treasury Note	N/A	N/A		11/30/2017	2,494,150
U.S. Treasury Note	N/A	N/A		12/15/2017	1,001,060
U.S. Treasury Note	N/A	N/A		06/15/2018	2,502,450
U.S. Treasury Note	N/A	N/A		10/31/2018	1,001,600
U.S. Treasury Note	N/A	N/A		12/15/2018	1,001,090
U.S. Treasury Note	N/A	N/A		01/15/2019	1,000,000
Total U.S. Treasury Notes			99.8%		\$ 21,008,116
U.S. Treasury Bond - Stripped	N/A	N/A		08/15/2017	\$ 15,925
U.S. Treasury Bond - Stripped	N/A	N/A		08/15/2019	36,607
Total U.S. Treasury Bonds - Stripped			<5.0%		\$ 52,532
Total investments					\$ 21,060,648
Deposits					41,875,690
Change funds					22,390
Total Cash and Investments					\$ 62,958,728

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, 2016, 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	\$ 870,773	\$ -
Special assessments	332,671	106,325
Accounts	197,677	-
Interest	91,537	-
Due from other governments	11,445,610	-
Due from component unit	298,381	-
Advance to component unit	26,585,000	25,500,000
Total Governmental Activities	\$ 39,821,649	\$ 25,606,325
Business-Type Activities		
Accounts	\$ 307,539	\$ -
Due from other governments	125,260	-
Due from component unit	2,157	-
Advance to component unit	2,788,620	2,788,620
Total Business-Type Activities	\$ 3,223,576	\$ 2,788,620

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. The 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. In December 2016, The County issued General Obligation Capital Improvement Refunding Bonds, Series 2016A. A portion of these bonds are being used to pay off the Series 2009A bonds. The new payments from the Viking Library will reflect the portion of the annual debt service (principal plus interest) for the General Obligation Capital Improvement Refunding Bonds, Series 2016A, that relate to the payoff of the Series 2009A bonds.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Leases Receivable (Continued)

Otter Tail County has leased eight 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, 2016. The amounts for 2017 are considered current and due within one year. Amounts remaining to be paid are as follows:

Year Due	Viking Library System	Narcotics Task Force
2017	\$ 65,000	\$ 43,089
2018	60,000	46,368
2019	65,000	26,924
2020	70,000	1,725
2021	70,000	-
2022 - 2026	400,000	-
2027 - 2029	180,000	-
Total leases	\$ 910,000	\$ 118,106
Due Within One Year	\$ 65,000	\$ 43,089

**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, 2016, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 4,414,001	\$ 379,206	\$ -	\$ 4,793,207
Construction in progress	258,986	-	258,986	-
Total capital assets not depreciated	<u>\$ 4,672,987</u>	<u>\$ 379,206</u>	<u>\$ 258,986</u>	<u>\$ 4,793,207</u>
Capital assets depreciated				
Land improvements	\$ 946,657	\$ -	\$ -	\$ 946,657
Buildings	28,272,698	360,463	-	28,633,161
Building improvements	16,468,004	-	-	16,468,004
Machinery, furniture, and equipment	17,811,335	2,001,164	609,480	19,203,019
Infrastructure	172,038,472	20,123,325	-	192,161,797
Total capital assets depreciated	<u>\$ 235,537,166</u>	<u>\$ 22,484,952</u>	<u>\$ 609,480</u>	<u>\$ 257,412,638</u>
Less: accumulated depreciation for				
Land improvements	\$ 835,600	\$ 10,143	\$ -	\$ 845,743
Buildings	10,979,514	697,184	-	11,676,698
Building improvements	1,532,888	739,239	-	2,272,127
Machinery, furniture, and equipment	12,182,313	1,460,843	609,480	13,033,676
Infrastructure	68,211,006	5,272,713	-	73,483,719
Total accumulated depreciation	<u>\$ 93,741,321</u>	<u>\$ 8,180,122</u>	<u>\$ 609,480</u>	<u>\$ 101,311,963</u>
Total capital assets depreciated, net	<u>\$ 141,795,845</u>	<u>\$ 14,304,830</u>	<u>\$ -</u>	<u>\$ 156,100,675</u>
Governmental Activities Capital Assets, Net	<u>\$ 146,468,832</u>	<u>\$ 14,684,036</u>	<u>\$ 258,986</u>	<u>\$ 160,893,882</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 195,934	\$ -	\$ -	\$ 195,934
Capital assets depreciated				
Buildings	\$ 6,678,982	\$ -	\$ -	\$ 6,678,982
Landfill	3,520,179	46,745	-	3,566,924
Machinery, furniture, and equipment	3,130,755	58,015	30,460	3,158,310
Infrastructure	141,010	-	-	141,010
Total capital assets depreciated	\$ 13,470,926	\$ 104,760	\$ 30,460	\$ 13,545,226
Less: accumulated depreciation for				
Buildings	\$ 3,359,664	\$ 165,603	\$ -	\$ 3,525,267
Landfill	1,898,083	219,307	-	2,117,390
Machinery, furniture, and equipment	2,312,028	154,174	30,460	2,435,742
Infrastructure	4,700	8,617	-	13,317
Total accumulated depreciation	\$ 7,574,475	\$ 547,701	\$ 30,460	\$ 8,091,716
Total capital assets depreciated, net	\$ 5,896,451	\$ (442,941)	\$ -	\$ 5,453,510
Business-Type Activities				
Capital Assets, Net	\$ 6,092,385	\$ (442,941)	\$ -	\$ 5,649,444

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

Governmental Activities	
General government	\$ 1,285,212
Public safety	744,999
Highways and streets, including depreciation of infrastructure assets	6,095,684
Human services	43,911
Culture and recreation	10,316
Total Depreciation Expense - Governmental Activities	\$ 8,180,122
Business-Type Activities	
Solid waste	\$ 547,701

**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, 2016, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Human Services Special Revenue Fund	\$ 4,803
	Taxes and Penalties Agency Fund	18
Total due to General Fund		\$ 4,821
Road and Bridge Special Revenue Fund	County Ditch Special Revenue Fund	\$ 8,084
	Waste Management Enterprise Fund	118
Total due to Road and Bridge		\$ 8,202
Capital Improvement Special Revenue Fund	General Fund	\$ 1,153
Waste Management Enterprise Fund	General Fund	\$ 4,188
Agency Funds	General Fund	\$ 9
State Revenue	Taxes and Penalties Fund	14,342
Total due to State Revenue Fund		\$ 14,351
Family Services Collaborative Fund	General Fund	317
Total due to Agency Funds		\$ 14,668
Total Due To/From Other Funds		\$ 33,032

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.

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	County Ditch Special Revenue Fund	\$ 662,844

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

2. Advances From/To Other Funds (Continued)

The 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.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of the following:

Transfer to Ethanol Plant Debt Service Fund from General Fund	\$ 104	To pay interest earned.
Transfer to General Fund from Sheriff's Contingent Special Revenue Fund	<u>3,425</u>	To transfer excess funds.
Total Transfers Between Funds	<u>\$ 3,529</u>	

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 1,423,694	\$ 111,567
Salaries	1,532,145	91,425
Contracts	2,061,612	-
Due to other governments	229,921	4,321
Due to component unit	-	166,059
Accrued interest	318,165	-
Employee deposits	<u>224,447</u>	<u>-</u>
Total Payables	<u>\$ 5,789,984</u>	<u>\$ 373,372</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Construction Commitments

Otter Tail County has active construction projects as of December 31, 2016.

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Ditch 70 Improvement	\$ 284,580	\$ 46,797
Justice Center Building	-	1,149,000
	\$ 284,580	\$ 1,195,797
Total Construction Commitments	\$ 284,580	\$ 1,195,797

3. 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 and for eight vehicles for the West Central Minnesota Narcotics Task Force. These capital leases consist of the following at December 31, 2016.

Lease	Maturity	Installment	Payment Amount	Original Amount	Balance
Governmental Activities					
2014 Task Force vehicles	2019	Quarterly	\$ 7,516	\$ 126,725	\$ 61,715
2015 Task Force vehicles	2019	Quarterly	3,384	60,262	36,204
2015 Task Force vehicles	2020	Quarterly	1,757	29,785	20,187
					\$ 118,106
Total Governmental Activities					\$ 118,106

The future minimum lease obligations as of December 31, 2016, were as follows:

Year Ending December 31	Governmental Activities
2017	\$ 43,089
2018	46,368
2019	26,924
2020	1,725
	\$ 118,106
Total Payments	\$ 118,106

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Capital Leases (Continued)

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

4. Long-Term Debt

Governmental Activities

Bond payments are typically made from the various debt service funds. Information on individual bonds payable was as follows:

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2016</u>
General obligation bonds					
2007 Tax Abatement Bonds	2019	\$565,000 - \$640,000	4.05 - 5.00	\$ 5,245,000	\$ 1,850,000
2011 Capital Improvement Bonds	2019	\$500,000 - \$850,000	0.50 - 1.75	5,400,000	2,050,000
2012 Courthouse and Jail Improvement	2025	\$170,000 - \$1,215,000	2.00 - 2.65	4,780,000	4,780,000
2016 Capital Improvement Refunding Bonds	2028	\$65,000 - \$1,020,000	1.05- 3.00	<u>6,675,000</u>	<u>6,675,000</u>
Total general obligation bonds				<u>\$ 22,100,000</u>	\$ 15,355,000
Add: unamortized premium					337,622
Less: unamortized discount					<u>(31,383)</u>
Total General Obligation Bonds, Net					<u>\$ 15,661,239</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt

Governmental Activities (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2016
Revenue bonds					
2011 Disposal System Revenue Bonds	2030	\$405,000 - \$1,475,000	3.00 - 5.00	\$ 10,475,000	\$ 8,480,000
2013 Disposal System Revenue Bonds	2034	\$630,000 - \$1,970,000	2.00 - 3.75	19,380,000	18,105,000
Total revenue bonds				<u>\$ 29,855,000</u>	\$ 26,585,000
Add: unamortized premium					356,298
Less: unamortized discount					<u>(80,010)</u>
Total Revenue Bonds, Net					<u>\$ 26,861,288</u>
Lease revenue bonds					
2007 Law Enforcement Lease Revenue Housing and Redevelopment Authority Bonds	2023	\$350,000 - \$495,000	4.00	<u>\$ 5,590,000</u>	\$ 3,055,000
Add: unamortized premium					<u>6,272</u>
Total Lease Revenue Bonds, Net					<u>\$ 3,061,272</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 1,530,000	\$ 328,158	\$ 1,085,000	\$ 961,961
2018	2,225,000	348,796	1,120,000	929,187
2019	2,160,000	288,525	1,150,000	894,793
2020	1,365,000	235,850	1,190,000	858,411
2021	1,545,000	197,300	1,225,000	819,524
2022 - 2026	6,350,000	364,355	6,820,000	3,415,749
2027 - 2031	180,000	5,400	8,270,000	1,965,035
2032 - 2034	-	-	5,725,000	414,235
Total	<u>\$ 15,355,000</u>	<u>\$ 1,768,384</u>	<u>\$ 26,585,000</u>	<u>\$ 10,258,895</u>

Year Ending December 31	Lease Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2017	\$ 3,055,000	\$ 114,600	\$ 43,089	\$ 7,540
2018	-	-	46,368	4,261
2019	-	-	26,924	1,157
2020	-	-	1,725	31
Total	<u>\$ 3,055,000</u>	<u>\$ 114,600</u>	<u>\$ 118,106</u>	<u>\$ 12,989</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 10,240,000	\$ 6,675,000	\$ 1,560,000	\$ 15,355,000	\$ 1,530,000
Revenue bonds	31,455,000	-	4,870,000	26,585,000	1,085,000
Lease revenue bonds	3,420,000	-	365,000	3,055,000	3,055,000
Add: unamortized premium	387,904	334,637	22,349	700,192	-
Less: unamortized discount	(155,385)	-	(43,992)	(111,393)	-
Total bonds payable	\$ 45,347,519	\$ 7,009,637	\$ 6,773,357	\$ 45,583,799	\$ 5,670,000
Capital leases	1,113,147	-	995,041	118,106	43,089
Compensated absences	4,925,748	2,582,240	2,434,417	5,073,571	1,302,910
Governmental Activities Long-Term Liabilities	<u>\$ 51,386,414</u>	<u>\$ 9,591,877</u>	<u>\$ 10,202,815</u>	<u>\$ 50,775,476</u>	<u>\$ 7,015,999</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure/postclosure care costs	\$ 1,219,434	\$ 10,703	\$ -	\$ 1,230,137	\$ -
Compensated absences	436,269	166,424	166,815	435,878	90,837
Business-Type Activities Long-Term Liabilities	<u>\$ 1,655,703</u>	<u>\$ 177,127</u>	<u>\$ 166,815</u>	<u>\$ 1,666,015</u>	<u>\$ 90,837</u>

For the governmental activities, compensated absences are liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Human Services Special Revenue Fund. For the business-type activities, compensated absences are liquidated by the Waste Management Enterprise Fund.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

7. Bond Refunding - Governmental Activities

On December 15, 2016, the County issued \$6,675,000 of General Obligation Capital Improvement Refunding Bonds, Series 2016A with interest rates ranging from 1.05% to 3.00%.

The new debt was issued to refund the \$1,200,000 Public Purpose Lease Revenue Bonds, Series 2009A for the Viking Library System, the \$6,140,000 Public Project Revenue Bonds, Series 2007 E for the Chemical Dependency Facility, and the \$5,590,000 Law Enforcement Lease Revenue Bonds, Series 2007D.

In 2016, the County defeased the Public Purpose Lease Revenue Bonds, Series 2009A for the Viking Library System, which were paid from the General Fund. New debt in the amount of \$910,000 has been issued, and the proceeds have been used to purchase government securities that were placed in an escrow account. The escrow investments and interest earnings are sufficient to fully service the debt until it is called or matures. For financial reporting purposes, the Public Purpose Lease Revenue Bonds, Series 2009A, are considered defeased and, therefore, removed as a liability from the County's financial statements. As of December 31, 2016, the amount of defeased debt outstanding but removed from the financial statements is \$905,000.

In 2016, the County has defeased the Housing and Redevelopment Authority Public Project Revenue Bonds, Series 2007E, which were paid from the Chemical Dependency Facility Debt Service Fund. New debt in the amount of \$3,175,000 has been issued, and the proceeds have been used to purchase government securities that were placed in an escrow account. The escrow investments and interest earnings are sufficient to fully service the debt until it is called or matures. For financial reporting purposes, the Housing and Redevelopment Authority Public Project Revenue Bonds, Series 2007E, are considered defeased and, therefore, removed as a liability from the County's financial statements. As of December 31, 2016, the amount of defeased debt outstanding but removed from financial statements is \$3,396,693.

These two revenue bonds were refunded to reduce total debt service payments over the next 13 years by \$568,189, and resulted in an economic gain of \$535,463.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

7. Bond Refunding - Governmental Activities (Continued)

In 2016, the County issued new debt in the amount of \$2,590,000 for a current refunding of \$3,055,000 Law Enforcement Lease Revenue Bonds, Series 2007D. The net carrying amount price exceeded reacquisition price of the old debt by \$6,272.

This current refunding reduced total debt service payments over the next seven years by \$193,671 and resulted in an economic gain of \$182,357. The refunded bonds were retired in February 2017.

8. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues consist of state and/or federal grants received but not earned. Deferred inflows of resources - unavailable revenues consists of taxes, special assessments, state and/or federal grants and state highway users tax allotments, and other receivables not collected soon enough after year-end to pay liabilities of the current period.

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Grants and Allotments</u>	<u>Other</u>	<u>Total</u>
Major governmental funds					
General	\$ 337,925	\$ -	\$ -	\$ 46,256	\$ 384,181
Road and Bridge	62,644	323	8,291,668	243,706	8,598,341
Human Services	182,923	-	238,495	29,565	450,983
Capital Improvement	52,044	-	-	-	52,044
Nonmajor governmental funds					
Ditch	6,110	324,861	-	-	330,971
Ethanol Plant	902	-	-	-	902
Government Services Center	17,458	-	-	-	17,458
Sheriff Operations	9,886	-	-	-	9,886
Veterans Home	1,193	-	-	-	1,193
Master Facility Construction	2,083	-	-	-	2,083
	<u>\$ 673,168</u>	<u>\$ 325,184</u>	<u>\$ 8,530,163</u>	<u>\$ 319,527</u>	<u>\$ 9,848,042</u>
Liability					
Unearned revenues	\$ -	\$ -	\$ 26,127	\$ -	\$ 26,127
Deferred inflows of resources					
Unavailable revenues	<u>673,168</u>	<u>325,184</u>	<u>8,504,036</u>	<u>319,527</u>	<u>9,821,915</u>
	<u>\$ 673,168</u>	<u>\$ 325,184</u>	<u>\$ 8,530,163</u>	<u>\$ 319,527</u>	<u>\$ 9,848,042</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. 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 Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining 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. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Plan and Public Employees Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Fund	16.20
Public Employees Correctional Fund	8.75

The employee and employer contribution rates did not change from the previous year.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2016, to the pension plans were:

General Employees Retirement Plan	\$ 1,570,812
Public Employees Police and Fire Plan	436,067
Public Employees Correctional Plan	153,096

The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$26,420,866 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.3254 percent. It was 0.3193 percent measured as of June 30, 2015. The County recognized pension expense of \$3,731,081 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$102,905 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

County's proportionate share of the net pension liability	\$	26,420,866
State of Minnesota's proportionate share of the net pension liability associated with the County		345,119
Total	\$	26,765,985

The County reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 2,135,677
Changes in actuarial assumptions	5,173,229	-
Difference between projected and actual investment earnings	4,992,349	-
Changes in proportion	237,100	448,611
Contributions paid to PERA subsequent to the measurement date	796,064	-
Total	\$ 11,198,742	\$ 2,584,288

The \$796,064 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 2,120,539
2018	2,120,539
2019	2,622,943
2020	954,369

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$11,036,229 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.275 percent. It was 0.266 percent measured as of June 30, 2015. The County recognized pension expense of \$1,949,620 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$24,750 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The County reported its proportionate share of the Public Employees Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,252,798
Changes in actuarial assumptions	6,073,719	-
Difference between projected and actual investment earnings	1,670,843	-
Changes in proportion	171,621	-
Contributions paid to PERA subsequent to the measurement date	224,478	-
	\$ 8,140,661	\$ 1,252,798
Total		

The \$224,478 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 1,433,847
2018	1,433,847
2019	1,433,847
2020	1,302,195
2021	1,059,649

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$3,287,826 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.90 percent. It was 1.01 percent measured as of June 30, 2015. The County recognized pension expense of \$926,270 for its proportionate share of the Public Employees Correctional Plan's pension expense.

The County reported its proportionate share of the Public Employees Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,574	\$ 39,855
Changes in actuarial assumptions	2,094,741	-
Difference between projected and actual investment earnings	380,030	-
Changes in proportion	1,131	12,755
Contributions paid to PERA subsequent to the measurement date	79,640	-
Total	\$ 2,558,116	\$ 52,610

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The \$79,640 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 778,636
2018	778,636
2019	797,994
2020	70,600

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$6,606,971.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for Public Employees Police and Fire Plan and Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

8. Pension Liability Sensitivity

The following presents the County’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 37,525,460	4.60%	\$ 15,449,255	4.31%	\$ 4,950,450
Current	7.50	26,420,866	5.60	11,036,229	5.31	3,287,826
1% Increase	8.50	17,273,703	6.60	7,430,451	6.31	1,989,828

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

Four elected officials of Otter Tail County 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. 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 Otter Tail County during the year ended December 31, 2016, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 9,723	\$ 9,723
Percentage of covered payroll	5%	5%

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

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. Additionally, seventy-five percent of the employees' accumulated sick leave may be applied toward health insurance premiums upon date of ending employment with the County. As of year-end, four retirees participate in the County's health insurance plan.

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 2016, there were approximately 427 participants in the plan, including 16 retirees and surviving spouses.

For the governmental activities, contributions for the implicit rate subsidy are made by the General Fund, the Road and Bridge Special Revenue Fund, and the Human Services Special Revenue Fund. For the business-type activities, contributions are made by the Waste Management Enterprise Fund.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	247,343
Interest on net OPEB obligation		44,995
Adjustment to ARC		(68,706)
Annual OPEB cost (expense)	\$	223,632
Contributions made during the year		(110,972)
Increase in net OPEB obligation	\$	112,660
Net OPEB Obligation - Beginning of Year		1,285,568
Net OPEB Obligation - End of Year	\$	1,398,228

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2014, 2015, and 2016, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	\$ 286,120	\$ 159,729	55.8%	\$ 1,172,662
December 31, 2015	283,007	170,101	60.1	1,285,568
December 31, 2016	223,632	110,972	49.6	1,398,228

Funded Status and Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,883,834, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,883,834. The covered payroll (annual payroll of active employees covered by the plan) was \$23,656,643, and the ratio of the UAAL to the covered payroll was 8.0 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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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, 2016, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 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 6.75 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 7 years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2016, was 21 years.

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

5. Landfill Closure and Postclosure Care Costs (Continued)

in each period based on landfill capacity used as of each balance sheet date. The \$1,230,137 landfill closure and postclosure care liability at December 31, 2016, represents the cumulative amount reported to date based on the use of 81 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$170,436 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016. The Board expects to close the landfill in 2034 or later. Actual costs 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, 2016, investments of \$1,325,871 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. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2016 and \$500,000 per claim in 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

6. Risk Management (Continued)

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, 2016, the outstanding principal amount payable was \$560,813.

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, 2016, the outstanding principal amount payable was \$952,154.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

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. In 2005, the Area Agency on Aging became part of a larger planning and service area covering 21 counties. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. The combined area on aging, known as the Land of the Dancing Sky Area on Aging, was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in carrying out 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.

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards continue to meet monthly to make decisions affecting their local counties.

Control is vested in the West Central Board on Aging. The Board consists of one Commissioner from each of the counties. Each member of the Board is appointed by the County Commissioners of the county represented.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Area Agency on Aging (Continued)

Complete financial information can be obtained from:

West Central Area Agency on Aging
P. O. Box 726
Fergus Falls, Minnesota 56537

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, Douglas, Grant, Otter Tail, Pope, and Wadena Counties, and the Cities of Alexandria, Fergus Falls, Pelican Rapids, and Perham. The Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the six-county area.

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, which reports the Task Force as an agency fund. Financing and equipment will be provided by the full-time and associate member agencies. Otter Tail County did not contribute to this organization in 2016.

Separate financial information can be obtained from:

Douglas County Courthouse
305 - 8th Avenue West
Alexandria, Minnesota 56308

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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. An amended and restated joint powers agreement was approved on March 19, 2013.

Control is vested in a Joint Powers Board, comprised of one representative of each County Board of Commissioners and one representative from each soil and water conservation district Board of Supervisors included within the agreement.

During 2016, Otter Tail County contributed \$8,064 to the Joint Powers Board.

Complete financial information can be obtained from:

Pomme de Terre River Association Joint Powers Board
900 Roberts Street, Suite 104
Alexandria, Minnesota 56308

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio 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. Members include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, 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 its respective County Board and one City Council member from each city appointed by its respective City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

In the event of dissolution of the Central Minnesota Emergency Services 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 Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. During 2016, Otter Tail County did not contribute to the Joint Powers 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 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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Otter Tail County Family Services Collaborative (Continued)

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, 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 2016, Otter Tail County did not contribute to the Collaborative.

Separate financial information can be obtained from:

Otter Tail County
520 Fir Avenue West
Fergus Falls, Minnesota 56537

Partnership4Health Community Health Board

Partnership4Health Community Health Board was originally established July 1, 2014, by a joint powers agreement among Becker, Clay, Otter Tail, and Wilkin Counties, pursuant to Minn. Stat. ch. 145A, and pursuant to Minn. Stat. § 471.59, for the purpose of transitioning grant contracts. The Community Health Board became operational as of January 1, 2015. The joint powers agreement remains in force until any single county provides a resolution of withdrawal, duly passed by its governing board, to the County Boards and the auditor of the other counties participating in the agreement, and the Commissioner of Health for the State of Minnesota, at least one year before the beginning of the calendar year in which it takes effect.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Partnership4Health Community Health Board (Continued)

Partnership4Health Community Health Board's purpose is to engage in activities designed to protect and promote the health of the general population within a community health service area by emphasizing the prevention of disease, injury, disability, and preventable death through the promotion of effective coordination and use of community resources, and by extending health services into the community.

Control is vested in Partnership4Health's Board, which consists of five members comprised of four County Commissioners and one community member. Members of the Board serve an annual term, with no term limit.

The financial activities of Partnership4Health are accounted for in an agency fund by Clay County. The individuals who administer the activities of Partnership4Health are considered to be employees of Clay County Public Health.

During 2016, Otter Tail County did not contribute to Partnership4Health Community Health Board.

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:

Minnesota River Board

The Minnesota River Board (formerly the Minnesota River Basin Joint Powers Board) was established July 12, 1995, by an agreement among Otter Tail County and 37 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 Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Minnesota River Board (Continued)

Control is vested in an executive committee of one executive director and four officers elected from the membership of the Minnesota River Board, consisting of one representative from each of the member County Board of Commissioners included in this agreement. During 2016, Otter Tail County did not make any payments to the Board.

Separate financial information can be obtained from:

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

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.

Buffalo-Red River Watershed District

The Buffalo-Red River Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective June 17, 1963, and includes land within Becker, Clay, Otter Tail and Wilkin Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. Control of the District is vested in the Buffalo-Red River Watershed District Board of Managers, which is composed of seven members having staggered terms of three years each, with one appointed by the Becker County Board, three appointed by the Clay County Board, one appointed by the Otter Tail County Board and two appointed by the Wilkin County Board.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Region Four - West Central Minnesota Homeland Security Emergency Management Organization

The Region Four - West Central Minnesota Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Otter Tail County's responsibility does not extend beyond making this appointment.

Minnesota Counties Computer Cooperative (MCCC)

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Otter Tail County expended \$53,360 to the MCCC.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Otter Tail County and 17 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget.

Control is vested in a Joint Powers Board comprised of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Minnesota Red River Basin of the North Joint Powers Agreement (Continued)

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. During 2016, the County did not contribute any funding to the Joint Powers Board.

Complete financial statements can be obtained from:

International Coalition for Land – Water
Stewardship in the Red River Basin
119 - 5th Street South
Moorhead, Minnesota 56561

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Redwood, Roseau, Stevens, Todd, Traverse, and Wadena Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. The County's responsibility does not extend beyond making this appointment.

Western Area City/County Co-Op

Otter Tail County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. State § 471.59. The purpose of WACCO is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burden on each of its members through the cooperative sharing of existing resources. The management and control of WACCO shall be vested in a Board of Directors composed of a representative appointed by each member city and county. The County did not contribute to WACCO during 2016.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

9. Subsequent Event

Bond Issue

The County issued \$1,335,000 General Obligation Capital Improvement Refunding Bonds, Series 2017A, dated June 1, 2017.

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, Clay, Otter Tail, Todd, and Wadena Counties (the Counties). Prairie Lakes was originally established by a Joint Powers Agreement dated May 4, 2010, pursuant to Minn. Stat. § 471.59, Joint Powers Act, and included the Counties of Becker, Otter Tail, Todd, and Wadena. The original Joint Powers Agreement was later amended effective October 21, 2014, to include Clay County as a member.

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 is governed by a six-member Board of Directors--one member appointed from Becker, Clay, Todd, and Wadena Counties, and two from Otter Tail County. Receipts and disbursements 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 - 22 percent, Clay - 15 percent, Otter Tail - 39 percent, Todd - 14 percent, and Wadena - 10 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, Deferred Outflows/Inflows of Resources, 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 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 obtains collateral to cover the deposits in excess of insurance coverage.

Receivables

No allowance for uncollectible receivables have been provided because such amounts are not expected to be material.

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, it currently uses 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 acquisition value.

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, Deferred Outflows/Inflows of Resources, 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

Compensated Absences

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

Long-Term Obligations

Long-term liabilities consist of advances from the primary government.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Prairie Lakes has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows consist of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions,

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Deferred Outflows/Inflows of Resources (Continued)

changes in proportionate share, and also the differences between projected and actual earnings on pension plan investments, and accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. Currently, Prairie Lakes has one item, deferred pension inflows, that qualifies for reporting in this category. These inflows consist of differences between expected and actual pension plan economic experience and, accordingly, are reported only in the statement of net position.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

Equity Classifications

Equity is classified as net position. Net investment in capital assets represents capital assets, net of accumulated depreciation, reduced by debt attributed to the acquisition, construction, or improvement of the assets. Unrestricted net position is net position that does not meet the definition of "restricted" or "net investment in capital assets."

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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

Prairie Lakes did not report any cash, cash equivalents, or investments at December 31, 2016.

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,

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

B. Detailed Notes

1. Assets

Deposits (Continued)

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.

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. Prairie Lakes pools its deposits with Otter Tail County. Otter Tail County, in a fiscal agent capacity, carries collateral to cover deposits in excess of FDIC coverage.

Receivables

Receivables as of December 31, 2016, are as follows:

	<u>Total Receivables</u>
Accounts	\$ 149,474
Due from other governments	283,753
Due from primary government	<u>166,059</u>
Total	<u>\$ 599,286</u>

**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, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 25,489	\$ -	\$ -	\$ 25,489
Construction in progress	29,343,780	38,377	286,695	29,095,462
Total capital assets not depreciated	\$ 29,369,269	\$ 38,377	\$ 286,695	\$ 29,120,951
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	\$ 2,120,075	\$ 462,562	\$ -	\$ 2,582,637
Machinery, furniture, and equipment	622,734	103,019	-	725,753
Total accumulated depreciation	\$ 2,742,809	\$ 565,581	\$ -	\$ 3,308,390
Total capital assets depreciated, net	\$ 4,369,288	\$ (565,581)	\$ -	\$ 3,803,707
Capital Assets, Net	\$ 33,738,557	\$ (527,204)	\$ 286,695	\$ 32,924,658

Depreciation expense for the year was \$565,581.

2. Liabilities and Deferred Inflows of Resources

Payables

Payables at December 31, 2016, were as follows:

Accounts	\$ 226,666
Salaries	85,427
Contracts	181,656
Due to other governments	82,137
Due to primary government	300,538
Total Payables	\$ 876,424

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

B. Detailed Notes

2. Liabilities and Deferred Inflows of Resources (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 and \$19,380,000 in General Obligation Waste Disposal 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' payment on the advance is essentially equal to the principal and interest on the bonds each year. On December 31, 2015, Otter Tail County advanced funds of \$2,788,620 to Prairie Lakes to zero out a negative pooled cash balance. Repayment of this advance will be through a combination of \$1 per ton of waste received at the Prairie Lakes facility as well as 50 percent of any revenues above expenses at the end of each year, exclusive of the first \$200,000 set aside as major capital expenses.

The advance balance consists of the following at December 31, 2016:

Type of Indebtedness	Maturity	Installment Amounts	Interest Rate (%)	Original	Balance
Advance from primary government - 2011	2030	\$405,000 - \$755,000	3.0 to 5.0	\$ 10,475,000	\$ 8,480,000
Advance from primary government - 2013	2034	\$630,000 - \$1,970,000	2.0 to 3.8	19,380,000	18,105,000
Advance from primary government - 2015	-	Varies	0.25	<u>2,788,620</u>	<u>2,788,620</u>
Total Advance from Primary Government				<u>\$ 32,643,620</u>	<u>\$ 29,373,620</u>

For the 2015 advance from primary government, a final debt payment schedule is not available because of the variable repayment amounts. The following payment schedule does not include the debt service applicable to the 2015 advance.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

B. Detailed Notes

2. Liabilities and Deferred Inflows of Resources

Advance From Primary Government (Continued)

The future minimum obligations as of December 31, 2016, were as follows:

<u>Year Ending December 31</u>	<u>Future Minimum Obligations</u>
2017	\$ 2,046,961
2018	2,049,186
2019	2,044,793
2020	2,048,411
2021	2,044,524
2022 - 2026	10,235,748
2027 - 2031	10,235,035
2032 - 2034	<u>6,139,235</u>
Total future minimum advance payments	\$ 36,843,893
Less: amount representing interest	<u>(10,258,893)</u>
Total Advance from Primary Government	<u>\$ 26,585,000</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Advance from primary government	\$ 30,433,620	\$ -	\$ 1,060,000	\$ 29,373,620	\$ 1,085,000
Compensated absences	<u>277,597</u>	<u>171,261</u>	<u>130,357</u>	<u>318,501</u>	<u>118,810</u>
Long-Term Liabilities	<u>\$ 30,711,217</u>	<u>\$ 171,261</u>	<u>\$ 1,190,357</u>	<u>\$ 29,692,121</u>	<u>\$ 1,203,810</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

C. Pension Plans

Defined Benefit Pension Plans

Plan Description

All full-time and certain part-time employees of Prairie Lakes are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

C. Pension Plans

Defined Benefit Pension Plans

Benefits Provided (Continued)

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining 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. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employee Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

C. Pension Plans

Defined Benefit Pension Plans (Continued)

Contributions

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. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016.

In 2016, Prairie Lakes was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Minneapolis Employees Retirement Fund members	9.75

The employee and employer contribution rates did not change from the previous year.

Prairie Lakes' contributions for the General Employees Retirement Plan for the year ended December 31, 2016, were \$124,213. The contributions are equal to the contractually required contributions as set by state statute.

Pension Costs

At December 31, 2016, Prairie Lakes reported a liability of \$2,094,832 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Prairie Lakes' proportion of the net pension liability was based on its contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

C. Pension Plans

Defined Benefit Pension Plans

Pension Costs (Continued)

participating employers. At June 30, 2016, Prairie Lakes' proportion was 0.0258 percent. It was 0.0249 percent measured as of June 30, 2015. Prairie Lakes' recognized pension expense of \$407,961 for its proportionate share of the General Employees Retirement Plan's pension expense.

Prairie Lakes also recognized \$8,146 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

Prairie Lakes' proportionate share of the net pension liability	\$	2,094,832
State of Minnesota's proportionate share of the net pension liability associated with Prairie Lakes		27,321
Total	\$	2,122,153

Prairie Lakes reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 168,606
Changes in actuarial assumptions	410,170	-
Difference between projected and actual investment earnings	394,297	-
Changes in proportion	213,487	-
Contributions paid to PERA subsequent to the measurement date	62,835	-
Total	\$ 1,080,789	\$ 168,606

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

C. Pension Plans

Defined Benefit Pension Plans

Pension Costs (Continued)

The \$62,835 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 280,414
2018	280,414
2019	212,849
2020	75,671

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables. The cost of living benefit increases for retirees is assumed to be 1.0 percent.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

C. Pension Plans

Defined Benefit Pension Plans

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

C. Pension Plans

Defined Benefit Pension Plans (Continued)

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Pension Liability Sensitivity

The following presents Prairie Lakes' proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what Prairie Lakes' proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Retirement Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 2,975,282
Current	7.50	2,094,832
1% Increase	8.50	1,369,581

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

C. Pension Plans

Defined Benefit Pension Plans (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

D. Risk Management

Prairie Lakes 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. Prairie Lakes has entered into a joint powers agreement with other Minnesota entities to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. Prairie Lakes is a member of both the MCIT Workers’ Compensation and Property and Casualty Divisions. For other risk, Prairie Lakes 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.

E. Other Items

Operating Budgets

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 8,105,480	\$ 6,811,740	\$ (1,293,740)
Operating Expenses	<u>5,644,181</u>	<u>6,604,570</u>	<u>(960,389)</u>
Operating Income (Loss)	\$ 2,461,299	\$ 207,170	\$ (2,254,129)
Nonoperating Revenues (Expenses) and Contributions	<u>(2,458,715)</u>	<u>(943,778)</u>	<u>1,514,937</u>
Change in Net Position	<u>\$ 2,584</u>	<u>\$ (736,608)</u>	<u>\$ (739,192)</u>

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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 19,968,573	\$ 19,968,573	\$ 19,188,214	\$ (780,359)
Special assessments	23,172	23,172	396	(22,776)
Licenses and permits	444,305	444,305	459,697	15,392
Intergovernmental	2,952,129	2,952,129	3,681,491	729,362
Charges for services	1,445,772	1,445,772	1,431,709	(14,063)
Fines and forfeits	28,000	28,000	15,733	(12,267)
Gifts and contributions	-	-	14,000	14,000
Investment earnings	200,000	200,000	341,923	141,923
Miscellaneous	2,291,876	2,291,876	2,093,644	(198,232)
Total Revenues	\$ 27,353,827	\$ 27,353,827	\$ 27,226,807	\$ (127,020)
Expenditures				
Current				
General government				
Commissioners	\$ 419,847	\$ 419,847	\$ 367,941	\$ 51,906
Courts	240,000	240,000	255,350	(15,350)
County coordinator	800,002	800,002	777,126	22,876
County auditor	847,324	847,324	837,957	9,367
Motor vehicle	453,016	453,016	453,028	(12)
County treasurer	306,938	306,938	305,096	1,842
County assessor	1,227,843	1,227,843	1,193,707	34,136
Elections	210,694	210,694	205,462	5,232
Accounting and auditing	100,000	100,000	110,441	(10,441)
Board of Adjustments	25,100	25,100	26,918	(1,818)
Information technology	1,257,765	1,257,765	1,176,286	81,479
Attorney	1,718,355	1,718,355	1,656,555	61,800
Recorder	557,481	557,481	805,707	(248,226)
Planning and zoning	27,550	27,550	27,939	(389)
Land and resource	1,165,771	1,165,771	1,086,979	78,792
Facilities operations	2,052,896	2,052,896	2,045,617	7,279
Geographical information survey	589,117	589,117	566,103	23,014
Veterans service officer	350,428	350,428	360,133	(9,705)
Forfeited tax sale	-	-	83,819	(83,819)
Unallocated	1,828,387	1,828,387	1,688,943	139,444
Total general government	\$ 14,178,514	\$ 14,178,514	\$ 14,031,107	\$ 147,407

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<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	\$ 6,321,045	\$ 6,321,045	\$ 6,051,014	\$ 270,031
Boat and water safety	133,149	133,149	116,985	16,164
Coroner	99,350	99,350	115,076	(15,726)
County jail	3,514,363	3,514,363	3,035,374	478,989
Humane society	65,020	65,020	65,020	-
Snowmobile account	185,000	185,000	177,397	7,603
Emergency management	164,538	164,538	113,037	51,501
Total public safety	\$ 10,482,465	\$ 10,482,465	\$ 9,673,903	\$ 808,562
Culture and recreation				
Historical society	\$ 65,000	\$ 65,000	\$ 65,000	\$ -
History museum	70,270	70,270	70,270	-
County fairs	40,000	40,000	40,000	-
Phelps Mill Park	43,678	43,678	40,309	3,369
Viking Library	544,736	544,736	544,736	-
Total culture and recreation	\$ 763,684	\$ 763,684	\$ 760,315	\$ 3,369
Conservation of natural resources				
County extension	\$ 361,918	\$ 361,918	\$ 393,622	\$ (31,704)
Soil and water conservation	359,477	359,477	376,112	(16,635)
Lake improvement districts	368,930	368,930	374,189	(5,259)
Aquatic invasive species	350,910	350,910	407,829	(56,919)
Total conservation of natural resources	\$ 1,441,235	\$ 1,441,235	\$ 1,551,752	\$ (110,517)
Economic development				
Red River Valley Development Association	\$ 800	\$ 800	\$ 800	\$ -
West Central Minnesota Initiative	20,000	20,000	20,000	-
Rural life outreach	114,595	114,595	115,694	(1,099)
Veteran's van	2,700	2,700	2,422	278
Wellness account	-	-	3,943	(3,943)
Total economic development	\$ 138,095	\$ 138,095	\$ 142,859	\$ (4,764)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Debt service				
Principal	\$ 50,000	\$ 50,000	\$ 90,041	\$ (40,041)
Interest	45,363	45,363	-	45,363
Bond issuance costs	-	-	12,745	(12,745)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total debt service	<u>\$ 95,363</u>	<u>\$ 95,363</u>	<u>\$ 102,786</u>	<u>\$ (7,423)</u>
Total Expenditures	<u>\$ 27,099,356</u>	<u>\$ 27,099,356</u>	<u>\$ 26,262,722</u>	<u>\$ 836,634</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 254,471</u>	<u>\$ 254,471</u>	<u>\$ 964,085</u>	<u>\$ 709,614</u>
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 3,425	\$ 3,425
Transfers out	(2,000)	(2,000)	(104)	1,896
Proceeds from bonds issued	-	-	910,000	910,000
Premium on bonds issued	-	-	44,519	44,519
Payment to refunded bond escrow agent	-	-	(989,632)	(989,632)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	<u>\$ (2,000)</u>	<u>\$ (2,000)</u>	<u>\$ (31,792)</u>	<u>\$ (29,792)</u>
Net Change in Fund Balance	<u>\$ 252,471</u>	<u>\$ 252,471</u>	<u>\$ 932,293</u>	<u>\$ 679,822</u>
Fund Balance - January 1	<u>21,736,502</u>	<u>21,736,502</u>	<u>21,736,502</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 21,988,973</u>	<u>\$ 21,988,973</u>	<u>\$ 22,668,795</u>	<u>\$ 679,822</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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,610,769	\$ 3,610,769	\$ 6,612,017	\$ 3,001,248
Intergovernmental	31,944,300	31,944,300	25,689,894	(6,254,406)
Charges for services	535,200	535,200	838,160	302,960
Miscellaneous	38,000	38,000	129,559	91,559
Total Revenues	\$ 36,128,269	\$ 36,128,269	\$ 33,269,630	\$ (2,858,639)
Expenditures				
Current				
Highways and streets				
Administration	\$ 676,500	\$ 676,500	\$ 672,776	\$ 3,724
Maintenance	4,930,289	4,930,289	5,448,403	(518,114)
Construction	32,300,832	32,300,832	25,675,799	6,625,033
Equipment maintenance and shop	1,652,477	1,652,477	1,153,102	499,375
Materials and services for resale	3,000	3,000	18,187	(15,187)
Total highways and streets	\$ 39,563,098	\$ 39,563,098	\$ 32,968,267	\$ 6,594,831
Intergovernmental				
Highways and streets	1,310,000	1,310,000	1,384,371	(74,371)
Total Expenditures	\$ 40,873,098	\$ 40,873,098	\$ 34,352,638	\$ 6,520,460
Net Change in Fund Balance	\$ (4,744,829)	\$ (4,744,829)	\$ (1,083,008)	\$ 3,661,821
Fund Balance - January 1	10,715,009	10,715,009	10,715,009	-
Increase (decrease) in inventories	-	-	(23,685)	(23,685)
Fund Balance - December 31	\$ 5,970,180	\$ 5,970,180	\$ 9,608,316	\$ 3,638,136

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 9,921,044	\$ 9,921,044	\$ 9,755,331	\$ (165,713)
Licenses and permits	225,000	225,000	50	(224,950)
Intergovernmental	11,554,591	11,554,591	13,785,188	2,230,597
Charges for services	1,675,482	1,675,482	1,681,838	6,356
Gifts and contributions	54,000	54,000	33,219	(20,781)
Miscellaneous	583,500	583,500	633,375	49,875
Total Revenues	\$ 24,013,617	\$ 24,013,617	\$ 25,889,001	\$ 1,875,384
Expenditures				
Current				
Public safety				
Community corrections	\$ 2,267,327	\$ 2,267,327	\$ 2,378,065	\$ (110,738)
Human services				
Income maintenance	\$ 5,551,426	\$ 5,551,426	\$ 5,641,659	\$ (90,233)
Social services	12,814,292	12,814,292	13,795,960	(981,668)
Total human services	\$ 18,365,718	\$ 18,365,718	\$ 19,437,619	\$ (1,071,901)
Health				
Nursing service	\$ 3,380,572	\$ 3,380,572	\$ 3,706,623	\$ (326,051)
Total Expenditures	\$ 24,013,617	\$ 24,013,617	\$ 25,522,307	\$ (1,508,690)
Net Change in Fund Balance	\$ -	\$ -	\$ 366,694	\$ 366,694
Fund Balance - January 1	14,011,725	14,011,725	14,011,725	-
Fund Balance - December 31	\$ 14,011,725	\$ 14,011,725	\$ 14,378,419	\$ 366,694

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,995,734	\$ 2,995,734	\$ 2,786,200	\$ (209,534)
Special assessments	-	-	29	29
Intergovernmental	176,032	176,032	439,764	263,732
Charges for services	1,300	1,300	3,343	2,043
Investment earnings	8,600	8,600	12,187	3,587
Miscellaneous	86,160	86,160	201,124	114,964
Total Revenues	\$ 3,267,826	\$ 3,267,826	\$ 3,442,647	\$ 174,821
Expenditures				
Current				
General government				
County auditor	\$ -	\$ -	\$ 13,788	\$ (13,788)
County assessor	25,000	25,000	24,497	503
Data processing	185,000	185,000	146,193	38,807
Elections	-	-	19,740	(19,740)
Facilities operations	68,068	68,068	197,235	(129,167)
Land and resource	45,000	45,000	35,285	9,715
Geographical information survey	20,000	20,000	-	20,000
Other general government	-	-	199	(199)
Total general government	\$ 343,068	\$ 343,068	\$ 436,937	\$ (93,869)
Public safety				
Sheriff	\$ 657,496	\$ 657,496	\$ 652,857	\$ 4,639
Boat and water safety	30,000	30,000	-	30,000
Radio board	-	-	101,037	(101,037)
County jail	35,000	35,000	34,741	259
Community corrections	29,000	29,000	24,467	4,533
Total public safety	\$ 751,496	\$ 751,496	\$ 813,102	\$ (61,606)
Highways and streets				
Maintenance	\$ 1,491,700	\$ 1,491,700	\$ 835,068	\$ 656,632
Human services				
Social services	\$ 90,000	\$ 90,000	\$ 89,576	\$ 424
Health				
Nursing service	\$ 34,200	\$ 34,200	\$ 25,222	\$ 8,978
Culture and recreation				
Phelps Mill Park	\$ 13,000	\$ 13,000	\$ 3,096	\$ 9,904

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

*EXHIBIT A-4
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Conservation of natural resources				
County extension	\$ 10,000	\$ 10,000	\$ 8,221	\$ 1,779
Total Expenditures	<u>\$ 2,733,464</u>	<u>\$ 2,733,464</u>	<u>\$ 2,211,222</u>	<u>\$ 522,242</u>
Net Change in Fund Balance	\$ 534,362	\$ 534,362	\$ 1,231,425	\$ 697,063
Fund Balance - January 1	<u>4,228,345</u>	<u>4,228,345</u>	<u>4,228,345</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 4,762,707</u></u>	<u><u>\$ 4,762,707</u></u>	<u><u>\$ 5,459,770</u></u>	<u><u>\$ 697,063</u></u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Governmental Activities

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b - a)/c)</u>
January 1, 2012	\$ -	\$ 2,989,407	\$ 2,989,407	0.00%	\$ 18,297,611	16.34%
January 1, 2014	-	2,330,908	2,330,908	0.00	17,159,945	13.58
January 1, 2016	-	1,784,411	1,784,411	0.00	22,213,588	8.03

Business-Type Activities

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b - a)/c)</u>
January 1, 2012	\$ -	\$ 141,251	\$ 141,251	0.00%	\$ 1,012,109	13.96%
January 1, 2014	-	123,197	123,197	0.00	1,112,745	11.07
January 1, 2016	-	99,423	99,423	0.00	1,443,055	6.89

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Otter Tail County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.3254%	\$ 26,420,866	\$ 345,119	\$ 26,765,985	\$ 20,189,156	130.87%	68.91%
2015	0.3193	16,547,783	NA	16,547,783	18,763,471	88.19	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 1,570,812	\$ 1,570,812	\$ -	\$ 20,944,156	7.50%
2015	1,442,294	1,442,294	-	19,230,587	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.275%	\$ 11,036,229	\$ 2,653,923	415.85%	63.88%
2015	0.266	3,022,382	2,439,613	123.89	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 436,067	\$ 436,067	\$ -	\$ 2,691,774	16.20%
2015	408,632	408,632	-	2,522,420	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.90%	\$ 3,287,826	\$ 1,695,796	193.88%	58.16%
2015	1.01	156,146	1,812,160	8.62	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 153,096	\$ 153,096	\$ -	\$ 1,749,674	8.75%
2015	151,474	151,474	-	1,731,131	8.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

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, 2016.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Human Services Special Revenue Fund	\$ 25,522,307	\$ 24,013,617	\$ 1,508,690

3. Other Postemployment Benefits - Changes in Significant Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table was updated from RP 2000 Combined Healthy Table projected to 2014 with Scale BB (with Blue Collar adjustment for Police & Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Other Postemployment Benefits - Changes in Significant Actuarial Assumptions
(Continued)

- The retirement tables for all employees were updated.
- The withdrawal table for police and fire employees was updated.
- The discount rate was changed from 4.50% to 3.50%.

4. Defined Benefit Pension Plans-Changes in Significant Plan Provisions, Actuarial Methods and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Defined Benefit Pension Plans-Changes in Significant Plan Provisions, Actuarial Methods and Assumptions (Continued)

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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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**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Special Revenue (Exhibit B-3)	Debt Service (Exhibit B-5)	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 576,227	\$ 6,739,229	\$ 7,315,456
Undistributed cash in agency funds	3,684	26,624	30,308
Taxes receivable - delinquent	-	40,508	40,508
Special assessments receivable			
Delinquent	7,470	-	7,470
Noncurrent	324,861	-	324,861
Due from other governments	3,708	-	3,708
Total Assets	\$ 915,950	\$ 6,806,361	\$ 7,722,311
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 66,711	\$ 8,895	\$ 75,606
Contracts payable	14,229	-	14,229
Due to other funds	8,084	-	8,084
Advance from other funds	662,844	-	662,844
Total Liabilities	\$ 751,868	\$ 8,895	\$ 760,763
Deferred Inflows of Resources			
Unavailable revenues	\$ 330,971	\$ 31,522	\$ 362,493
Fund Balances			
Restricted			
Debt service	\$ -	\$ 6,668,192	\$ 6,668,192
Law library	120,774	-	120,774
Ditch maintenance and construction	349,880	-	349,880
Sheriff's contingencies	5,000	-	5,000
Assigned			
Public safety	10,588	-	10,588
Debt service	-	97,752	97,752
Unassigned	(653,131)	-	(653,131)
Total Fund Balances	\$ (166,889)	\$ 6,765,944	\$ 6,599,055
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 915,950	\$ 6,806,361	\$ 7,722,311

**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, 2016**

	Special Revenue (Exhibit B-4)	Debt Service (Exhibit B-6)	Total (Exhibit 5)
Revenues			
Taxes	\$ -	\$ 1,544,844	\$ 1,544,844
Special assessments	301,565	-	301,565
Intergovernmental	-	34,357	34,357
Fines and forfeits	68,048	-	68,048
Investment earnings	-	903	903
Miscellaneous	-	548,140	548,140
	\$ 369,613	\$ 2,128,244	\$ 2,497,857
Expenditures			
Current			
General government	\$ 51,123	\$ -	\$ 51,123
Public safety	6,195	-	6,195
Conservation of natural resources	652,883	-	652,883
Debt service			
Principal	-	2,310,000	2,310,000
Interest	-	560,391	560,391
Bond issuance costs	-	88,868	88,868
	\$ 710,201	\$ 2,959,259	\$ 3,669,460
Excess of Revenues Over (Under) Expenditures	\$ (340,588)	\$ (831,015)	\$ (1,171,603)
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 104	\$ 104
Transfers out	(3,425)	-	(3,425)
Refunding bonds issued	-	5,765,000	5,765,000
Premium on refunding bonds issued	-	290,118	290,118
Payment to refunded bond escrow agent	-	(3,547,939)	(3,547,939)
	\$ (3,425)	\$ 2,507,283	\$ 2,503,858
Net Change in Fund Balance	\$ (344,013)	\$ 1,676,268	\$ 1,332,255
Fund Balance - January 1	177,124	5,089,676	5,266,800
Fund Balance - December 31	\$ (166,889)	\$ 6,765,944	\$ 6,599,055

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2016**

	County Ditch	Law Library	Sheriff's Contingent	Total
<u>Assets</u>				
Cash and pooled investments	\$ 443,566	\$ 117,661	\$ 15,000	\$ 576,227
Undistributed cash in agency funds	3,684	-	-	3,684
Special assessments receivable				
Delinquent	7,470	-	-	7,470
Noncurrent	324,861	-	-	324,861
Due from other governments	-	3,120	588	3,708
Total Assets	\$ 779,581	\$ 120,781	\$ 15,588	\$ 915,950
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 66,704	\$ 7	\$ -	\$ 66,711
Contracts payable	14,229	-	-	14,229
Due to other funds	8,084	-	-	8,084
Advance from other funds	662,844	-	-	662,844
Total Liabilities	\$ 751,861	\$ 7	\$ -	\$ 751,868
Deferred Inflows of Resources				
Unavailable revenues	\$ 330,971	\$ -	\$ -	\$ 330,971
Fund Balances				
Restricted				
Law library	\$ -	\$ 120,774	\$ -	\$ 120,774
Ditch maintenance and construction	349,880	-	-	349,880
Sheriff's contingencies	-	-	5,000	5,000
Assigned				
Public safety	-	-	10,588	10,588
Unassigned	(653,131)	-	-	(653,131)
Total Fund Balances	\$ (303,251)	\$ 120,774	\$ 15,588	\$ (166,889)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 779,581	\$ 120,781	\$ 15,588	\$ 915,950

**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, 2016**

	<u>County Ditch</u>	<u>Law Library</u>	<u>Sheriff's Contingent</u>	<u>Total</u>
Revenues				
Special assessments	\$ 301,565	\$ -	\$ -	\$ 301,565
Fines and forfeits	-	58,501	9,547	68,048
Total Revenues	\$ 301,565	\$ 58,501	\$ 9,547	\$ 369,613
Expenditures				
Current				
General government	\$ -	\$ 51,123	\$ -	\$ 51,123
Public safety	-	-	6,195	6,195
Conservation of natural resources	652,883	-	-	652,883
Total Expenditures	\$ 652,883	\$ 51,123	\$ 6,195	\$ 710,201
Excess of Revenues Over (Under) Expenditures	\$ (351,318)	\$ 7,378	\$ 3,352	\$ (340,588)
Other Financing Sources (Uses)				
Transfers out	-	-	(3,425)	(3,425)
Net Change in Fund Balance	\$ (351,318)	\$ 7,378	\$ (73)	\$ (344,013)
Fund Balance - January 1	48,067	113,396	15,661	177,124
Fund Balance - December 31	\$ (303,251)	\$ 120,774	\$ 15,588	\$ (166,889)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2016**

	Chemical Dependency	Ethanol Plant
<u>Assets</u>		
Cash and pooled investments	\$ 160,820	\$ 2,034,372
Undistributed cash in agency funds	-	128
Taxes receivable - delinquent	-	972
Total Assets	\$ 160,820	\$ 2,035,472
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 2,200	\$ -
Deferred Inflows of Resources		
Unavailable revenues	\$ -	\$ 902
Fund Balances		
Restricted for		
Debt service	\$ 158,620	\$ 1,987,750
Assigned for		
Debt service	-	46,820
Total Fund Balances	\$ 158,620	\$ 2,034,570
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 160,820	\$ 2,035,472

EXHIBIT B-5

<u>Government Service Center</u>	<u>Sheriff Operations</u>	<u>Veterans Home</u>	<u>Master Facility Construction</u>	<u>Total</u>
\$ 1,152,951	\$ 3,268,051	\$ 50,590	\$ 72,445	\$ 6,739,229
15,504	8,813	223	1,956	26,624
22,648	12,840	1,312	2,736	40,508
<u>\$ 1,191,103</u>	<u>\$ 3,289,704</u>	<u>\$ 52,125</u>	<u>\$ 77,137</u>	<u>\$ 6,806,361</u>
<u>\$ 6,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,895</u>
<u>\$ 17,458</u>	<u>\$ 9,886</u>	<u>\$ 1,193</u>	<u>\$ 2,083</u>	<u>\$ 31,522</u>
\$ 1,166,950	\$ 3,279,818	\$ -	\$ 75,054	\$ 6,668,192
-	-	50,932	-	97,752
<u>\$ 1,166,950</u>	<u>\$ 3,279,818</u>	<u>\$ 50,932</u>	<u>\$ 75,054</u>	<u>\$ 6,765,944</u>
<u>\$ 1,191,103</u>	<u>\$ 3,289,704</u>	<u>\$ 52,125</u>	<u>\$ 77,137</u>	<u>\$ 6,806,361</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Chemical Dependency</u>	<u>Ethanol Plant</u>
Revenues		
Taxes	\$ -	\$ 1,207
Intergovernmental	-	-
Investment earnings	-	903
Miscellaneous	548,140	-
	<u>548,140</u>	<u>-</u>
Total Revenues	\$ 548,140	\$ 2,110
Expenditures		
Debt service		
Principal	\$ 385,000	\$ 590,000
Interest	165,889	106,258
Bond issuance costs	49,742	-
	<u>600,631</u>	<u>696,258</u>
Total Expenditures	\$ 600,631	\$ 696,258
Excess of Revenues Over (Under) Expenditures	\$ (52,491)	\$ (694,148)
Other Financing Sources (Uses)		
Transfer in	\$ -	\$ 104
Refunding bonds issued	3,175,000	-
Premium on refunding bonds issued	165,992	-
Payment to refunded bond escrow agent	(3,547,939)	-
	<u>(206,947)</u>	<u>104</u>
Total Other Financing Sources (Uses)	\$ (206,947)	\$ 104
Net Change in Fund Balance	\$ (259,438)	\$ (694,044)
Fund Balance - January 1	418,058	2,728,614
	<u>418,058</u>	<u>2,728,614</u>
Fund Balance - December 31	\$ 158,620	\$ 2,034,570
	<u>158,620</u>	<u>2,034,570</u>

EXHIBIT B-6

Government Service Center	Sheriff Operations	Veterans Home	Master Facility Construction	Total
\$ 908,199	\$ 517,656	\$ 1,633	\$ 116,149	\$ 1,544,844
20,230	11,535	-	2,592	34,357
-	-	-	-	903
-	-	-	-	548,140
\$ 928,429	\$ 529,191	\$ 1,633	\$ 118,741	\$ 2,128,244
\$ 845,000	\$ 365,000	\$ 125,000	\$ -	\$ 2,310,000
41,931	130,425	2,313	113,575	560,391
-	39,126	-	-	88,868
\$ 886,931	\$ 534,551	\$ 127,313	\$ 113,575	\$ 2,959,259
\$ 41,498	\$ (5,360)	\$ (125,680)	\$ 5,166	\$ (831,015)
\$ -	\$ -	\$ -	\$ -	\$ 104
-	2,590,000	-	-	5,765,000
-	124,126	-	-	290,118
-	-	-	-	(3,547,939)
\$ -	\$ 2,714,126	\$ -	\$ -	\$ 2,507,283
\$ 41,498	\$ 2,708,766	\$ (125,680)	\$ 5,166	\$ 1,676,268
1,125,452	571,052	176,612	69,888	5,089,676
\$ 1,166,950	\$ 3,279,818	\$ 50,932	\$ 75,054	\$ 6,765,944

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-7

**BUDGETARY COMPARISON SCHEDULE
COUNTY DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 245,900	\$ 245,900	\$ 301,565	\$ 55,665
Expenditures				
Current				
Conservation of natural resources				
Drainage ditches	182,500	182,500	652,883	(470,383)
Net Change in Fund Balance	\$ 63,400	\$ 63,400	\$ (351,318)	\$ (414,718)
Fund Balance - January 1	48,067	48,067	48,067	-
Fund Balance - December 31	\$ 111,467	\$ 111,467	\$ (303,251)	\$ (414,718)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-8

**BUDGETARY COMPARISON SCHEDULE
LAW LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Fines and forfeits	\$ 58,000	\$ 58,000	\$ 58,501	\$ 501
Expenditures				
Current				
General government				
Law library	74,600	74,600	51,123	23,477
Net Change in Fund Balance	\$ (16,600)	\$ (16,600)	\$ 7,378	\$ 23,978
Fund Balance - January 1	113,396	113,396	113,396	-
Fund Balance - December 31	\$ 96,796	\$ 96,796	\$ 120,774	\$ 23,978

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-9

**BUDGETARY COMPARISON SCHEDULE
SHERIFF'S CONTINGENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Fines and forfeits	\$ 5,500	\$ 5,500	\$ 9,547	\$ 4,047
Expenditures				
Current				
Public safety				
Sheriff	7,500	7,500	6,195	1,305
Excess of Revenues Over (Under) Expenditures	\$ (2,000)	\$ (2,000)	\$ 3,352	\$ 5,352
Other Financing Sources (Uses)				
Transfers in	2,000	2,000	-	(2,000)
Transfers out	-	-	(3,425)	(3,425)
Total Other Financing Sources (Uses)	\$ 2,000	\$ 2,000	\$ (3,425)	\$ (5,425)
Net Change in Fund Balance	\$ -	\$ -	\$ (73)	\$ (73)
Fund Balance - January 1	15,661	15,661	15,661	-
Fund Balance - December 31	\$ 15,661	\$ 15,661	\$ 15,588	\$ (73)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-10

**BUDGETARY COMPARISON SCHEDULE
CHEMICAL DEPENDENCY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 548,140	\$ 548,140	\$ 548,140	\$ -
Expenditures				
Debt service				
Principal	\$ 385,000	\$ 385,000	\$ 385,000	\$ -
Interest	163,240	163,240	165,889	(2,649)
Bond issuance costs	-	-	49,742	(49,742)
Total Expenditures	<u>\$ 548,240</u>	<u>\$ 548,240</u>	<u>\$ 600,631</u>	<u>\$ (52,391)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (100)</u>	<u>\$ (100)</u>	<u>\$ (52,491)</u>	<u>\$ (52,391)</u>
Other Financing Sources (Uses)				
Proceeds from bonds issued	\$ -	\$ -	\$ 3,175,000	\$ 3,175,000
Premium on bonds issued	-	-	165,992	165,992
Payment to refunded bond escrow agent	-	-	(3,547,939)	(3,547,939)
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (206,947)</u>	<u>\$ (206,947)</u>
Net Change in Fund Balance	<u>\$ (100)</u>	<u>\$ (100)</u>	<u>\$ (259,438)</u>	<u>\$ (259,338)</u>
Fund Balance - January 1	<u>418,058</u>	<u>418,058</u>	<u>418,058</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 417,958</u>	<u>\$ 417,958</u>	<u>\$ 158,620</u>	<u>\$ (259,338)</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-11

**BUDGETARY COMPARISON SCHEDULE
ETHANOL PLANT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 1,207	\$ 1,207
Investment earnings	-	-	903	903
Total Revenues	\$ -	\$ -	\$ 2,110	\$ 2,110
Expenditures				
Debt service				
Principal	\$ 590,000	\$ 590,000	\$ 590,000	\$ -
Interest	105,333	105,333	106,258	(925)
Total Expenditures	\$ 695,333	\$ 695,333	\$ 696,258	\$ (925)
Excess of Revenues Over (Under) Expenditures	\$ (695,333)	\$ (695,333)	\$ (694,148)	\$ 1,185
Other Financing Sources (Uses)				
Transfers in	-	-	104	104
Net Change in Fund Balance	\$ (695,333)	\$ (695,333)	\$ (694,044)	\$ 1,289
Fund Balance - January 1	2,728,614	2,728,614	2,728,614	-
Fund Balance - December 31	\$ 2,033,281	\$ 2,033,281	\$ 2,034,570	\$ 1,289

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-12

**BUDGETARY COMPARISON SCHEDULE
GOVERNMENT SERVICE CENTER DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 923,869	\$ 923,869	\$ 908,199	\$ (15,670)
Intergovernmental	-	-	20,230	20,230
Total Revenues	\$ 923,869	\$ 923,869	\$ 928,429	\$ 4,560
Expenditures				
Debt service				
Principal	\$ 845,000	\$ 845,000	\$ 845,000	\$ -
Interest	34,312	34,312	41,931	(7,619)
Total Expenditures	\$ 879,312	\$ 879,312	\$ 886,931	\$ (7,619)
Net Change in Fund Balance	\$ 44,557	\$ 44,557	\$ 41,498	\$ (3,059)
Fund Balance - January 1	1,125,452	1,125,452	1,125,452	-
Fund Balance - December 31	\$ 1,170,009	\$ 1,170,009	\$ 1,166,950	\$ (3,059)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-13

**BUDGETARY COMPARISON SCHEDULE
SHERIFF OPERATIONS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 527,310	\$ 527,310	\$ 517,656	\$ (9,654)
Intergovernmental	-	-	11,535	11,535
Total Revenues	\$ 527,310	\$ 527,310	\$ 529,191	\$ 1,881
Expenditures				
Debt service				
Principal	\$ 365,000	\$ 365,000	\$ 365,000	\$ -
Interest	129,500	129,500	130,425	(925)
Bond issuance costs	-	-	39,126	(39,126)
Total Expenditures	\$ 494,500	\$ 494,500	\$ 534,551	\$ (40,051)
Excess of Revenues Over (Under) Expenditures	\$ 32,810	\$ 32,810	\$ (5,360)	\$ (38,170)
Other Financing Sources (Uses)				
Proceeds from bonds issued	\$ -	\$ -	\$ 2,590,000	\$ 2,590,000
Premium on bonds issued	-	-	124,126	124,126
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 2,714,126	\$ 2,714,126
Net Change in Fund Balance	\$ 32,810	\$ 32,810	\$ 2,708,766	\$ 2,675,956
Fund Balance - January 1	571,052	571,052	571,052	-
Fund Balance - December 31	\$ 603,862	\$ 603,862	\$ 3,279,818	\$ 2,675,956

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-14

**BUDGETARY COMPARISON SCHEDULE
VETERANS HOME DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 1,633	\$ 1,633
Expenditures				
Debt service				
Principal	\$ 125,000	\$ 125,000	\$ 125,000	\$ -
Interest	2,313	2,313	2,313	-
Total Expenditures	\$ 127,313	\$ 127,313	\$ 127,313	\$ -
Net Change in Fund Balance	\$ (127,313)	\$ (127,313)	\$ (125,680)	\$ 1,633
Fund Balance - January 1	176,612	176,612	176,612	-
Fund Balance - December 31	\$ 49,299	\$ 49,299	\$ 50,932	\$ 1,633

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT B-15

**BUDGETARY COMPARISON SCHEDULE
MASTER FACILITY CONSTRUCTION DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 118,283	\$ 118,283	\$ 116,149	\$ (2,134)
Intergovernmental	-	-	2,592	2,592
Total Revenues	\$ 118,283	\$ 118,283	\$ 118,741	\$ 458
Expenditures				
Debt service				
Interest	112,650	112,650	113,575	(925)
Net Change in Fund Balance	\$ 5,633	\$ 5,633	\$ 5,166	\$ (467)
Fund Balance - January 1	69,888	69,888	69,888	-
Fund Balance - December 31	\$ 75,521	\$ 75,521	\$ 75,054	\$ (467)

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, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 391,651	\$ 327,309	\$ 334,601	\$ 384,359
Due from other funds	83	317	83	317
Total Assets	\$ 391,734	\$ 327,626	\$ 334,684	\$ 384,676
<u>Liabilities</u>				
Accounts payable	\$ 3,969	\$ 3,234	\$ 3,969	\$ 3,234
Due to other governments	387,765	324,392	330,715	381,442
Total Liabilities	\$ 391,734	\$ 327,626	\$ 334,684	\$ 384,676
 <u>MORTGAGE REGISTRATION FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 72,963	\$ 1,254,247	\$ 1,222,625	\$ 104,585
<u>Liabilities</u>				
Due to other governments	\$ 72,963	\$ 1,254,247	\$ 1,222,625	\$ 104,585
 <u>STATE REVENUE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (7,687,400)	\$ 18,877,488	\$ 10,978,697	\$ 211,391
Due from other funds	7,863,798	14,351	7,863,798	14,351
Total Assets	\$ 176,398	\$ 18,891,839	\$ 18,842,495	\$ 225,742
<u>Liabilities</u>				
Due to other governments	\$ 176,398	\$ 18,891,839	\$ 18,842,495	\$ 225,742

**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, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,894,711	\$ 96,646,374	\$ 104,454,767	\$ 1,086,318
Due from other governments	129	-	129	-
Total Assets	\$ 8,894,840	\$ 96,646,374	\$ 104,454,896	\$ 1,086,318
<u>Liabilities</u>				
Due to other funds	\$ 7,863,789	\$ 14,360	\$ 7,863,789	\$ 14,360
Due to other governments	1,031,051	96,632,014	96,591,107	1,071,958
Total Liabilities	\$ 8,894,840	\$ 96,646,374	\$ 104,454,896	\$ 1,086,318
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,671,925	\$ 117,105,418	\$ 116,990,690	\$ 1,786,653
Due from other funds	7,863,881	14,668	7,863,881	14,668
Due from other governments	129	-	129	-
Total Assets	\$ 9,535,935	\$ 117,120,086	\$ 124,854,700	\$ 1,801,321
<u>Liabilities</u>				
Accounts payable	\$ 3,969	\$ 3,234	\$ 3,969	\$ 3,234
Due to other funds	7,863,789	14,360	7,863,789	14,360
Due to other governments	1,668,177	117,102,492	116,986,942	1,783,727
Total Liabilities	\$ 9,535,935	\$ 117,120,086	\$ 124,854,700	\$ 1,801,321

OTHER SCHEDULES

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2016**

	<u>Number of Items</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Noninterest-bearing checking	One	-	Continuous	\$ 50,000
Interest-bearing checking	Eight	Varies	Continuous	24,478,519
Certificates of deposit	Forty Four	0.25 to 1.35	January 12, 2017 to September 14, 2021	15,781,525
Money market savings	Eight	0.05 to 0.31	Continuous	1,317,386
U.S. Treasury notes	Eleven	0.625 to 1.25	May 31, 2017 to December 15, 2018	21,008,116
U.S. Treasury bonds - stripped interest payment	Two	-	August 15, 2017 to August 15, 2019	52,532
Brokered CD	One	2.20	December 30, 2021	<u>248,260</u>
Total Cash and Pooled Investments, Excluding Change Funds				<u>\$ 62,936,338</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
COUNTY DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2016**

	Assets				
	Cash and Pooled Investments	Undistributed Cash	Special Assessments Receivable		Total
			Delinquent	Noncurrent	
Judicial Ditches					
1	\$ -	\$ -	\$ -	\$ -	\$ -
2	64,889	23	15	7,777	72,704
3	92	-	-	-	92
County Ditches					
4	48,903	304	2,212	6,000	57,419
5	4,058	25	-	20,000	24,083
8	-	-	-	-	-
10	-	-	-	-	-
11	11,511	-	-	1,200	12,711
12	27,885	38	-	2,000	29,923
14	-	-	-	-	-
15/28	32,444	271	588	29,092	62,395
16	30,947	342	2,307	19,999	53,595
17	-	-	-	-	-
18	(688)	-	-	32,453	31,765
20	-	-	-	-	-
21	29,580	248	99	10,000	39,927
23	19,824	-	-	38,872	58,696
25	45,805	513	755	48,092	95,165
29	11,963	363	37	2,000	14,363
30	-	-	-	10,000	10,000
32	-	-	-	-	-
36	(4,058)	-	-	-	(4,058)
37	32,585	32	-	-	32,617
38	28,275	765	590	20,000	49,630
39	-	-	-	3,234	3,234
41/65	-	338	623	14,942	15,903
42	-	-	-	-	-
43	14,615	-	37	4,390	19,042
44	-	-	-	20,810	20,810
45	-	-	-	-	-
46	-	-	-	-	-
47	-	-	-	-	-
48	-	-	-	-	-
49	-	-	-	-	-
50	-	-	-	-	-
51	-	-	-	-	-
52	11,888	-	-	3,000	14,888
53	32,657	23	-	5,000	37,680
54	91	-	-	-	91
55	-	-	-	-	-
56	-	-	-	6,000	6,000
57	-	-	-	-	-
58	-	-	-	10,000	10,000
59	146	-	-	-	146
62	154	-	-	-	154

Liabilities and Deferred Inflows of Resources							Fund Balance	Total Liabilities, Deferred Inflows of Resources, and Fund Balance
Accounts Payable	Contracts Payable	Due to Other Funds	Advance from Other Funds	Unavailable Revenue	Total			
\$ -	\$ -	\$ -	\$ 361	\$ -	\$ 361	\$ (361)	\$ -	
-	-	346	-	7,780	8,126	64,578	72,704	
-	-	-	-	-	-	92	92	
-	-	-	-	7,984	7,984	49,435	57,419	
-	-	138	-	20,000	20,138	3,945	24,083	
1,240	-	340	5,240	-	6,820	(6,820)	-	
-	-	-	126	-	126	(126)	-	
-	-	-	-	1,200	1,200	11,511	12,711	
-	-	-	-	2,000	2,000	27,923	29,923	
-	-	-	3,749	-	3,749	(3,749)	-	
-	-	138	14,488	29,609	44,235	18,160	62,395	
-	-	-	12,148	22,016	34,164	19,431	53,595	
-	-	-	1,154	-	1,154	(1,154)	-	
-	-	-	7,157	-	7,157	24,608	31,765	
-	-	-	500	-	500	(500)	-	
1,462	-	69	-	10,005	11,536	28,391	39,927	
-	-	-	17,193	38,872	56,065	2,631	58,696	
-	-	138	78,933	48,746	127,817	(32,652)	95,165	
1,000	-	400	-	2,000	3,400	10,963	14,363	
-	-	-	14,586	10,000	24,586	(14,586)	10,000	
-	-	-	57	-	57	(57)	-	
-	-	-	5,523	-	5,523	(9,581)	(4,058)	
-	-	-	38,527	32,453	70,980	(38,363)	32,617	
-	-	365	-	20,489	20,854	28,776	49,630	
-	-	-	1,895	3,234	5,129	(1,895)	3,234	
2,105	-	816	4,953	15,347	23,221	(7,318)	15,903	
-	-	-	87	-	87	(87)	-	
-	-	-	-	4,427	4,427	14,615	19,042	
2,395	-	1,502	25,089	20,809	49,795	(28,985)	20,810	
-	-	-	714	-	714	(714)	-	
-	-	-	282	-	282	(282)	-	
-	-	-	212	-	212	(212)	-	
-	-	139	10,383	-	10,522	(10,522)	-	
-	-	-	65	-	65	(65)	-	
-	-	-	768	-	768	(768)	-	
-	-	-	86	-	86	(86)	-	
-	-	138	-	3,000	3,138	11,750	14,888	
-	-	-	-	5,000	5,000	32,680	37,680	
-	-	-	-	-	-	91	91	
-	-	277	5,363	-	5,640	(5,640)	-	
1,210	-	70	343	6,000	7,623	(1,623)	6,000	
-	-	-	439	-	439	(439)	-	
663	-	414	16,483	10,000	27,560	(17,560)	10,000	
-	-	-	-	-	-	146	146	
-	-	-	-	-	-	154	154	

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
COUNTY DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2016**

	Assets				Total
	Cash and Pooled Investments	Undistributed Cash	Special Assessments Receivable		
			Delinquent	Noncurrent	
County Ditches (Continued)					
63	-	-	-	-	-
64	-	-	-	-	-
68	-	-	-	-	-
70	-	399	207	10,000	10,606
Total	\$ 443,566	\$ 3,684	\$ 7,470	\$ 324,861	\$ 779,581

EXHIBIT D-2
(Continued)

Liabilities and Deferred Inflows of Resources						Fund Balance	Total Liabilities, Deferred Inflows of Resources, and Fund Balance
Accounts Payable	Contracts Payable	Due to Other Funds	Advance from Other Funds	Unavailable Revenue	Total		
-	-	483	660	-	1,143	(1,143)	-
-	-	-	1,318	-	1,318	(1,318)	-
-	-	-	13,213	-	13,213	(13,213)	-
<u>56,629</u>	<u>14,229</u>	<u>2,311</u>	<u>380,749</u>	<u>10,000</u>	<u>463,918</u>	<u>(453,312)</u>	<u>10,606</u>
\$ 66,704	\$ 14,229	\$ 8,084	\$ 662,844	\$ 330,971	\$ 1,082,832	\$ (303,251)	\$ 779,581

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Governmental Funds	Enterprise Fund	All Funds
Appropriations and Shared Revenue			
State			
Highway users tax	\$ 13,130,003	\$ -	\$ 13,130,003
County program aid	1,897,307	-	1,897,307
PERA rate reimbursement	64,946	-	64,946
Police aid	290,097	-	290,097
Market value credit	741,780	-	741,780
Disparity reduction aid	13,255	-	13,255
Aquatic invasive species aid	486,990	-	486,990
Pension contribution	-	7,389	7,389
	\$ 16,624,378	\$ 7,389	\$ 16,631,767
Total appropriations and shared revenue			
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 2,349,858	\$ -	\$ 2,349,858
Reimbursement for services - Public Health	89,365	-	89,365
	\$ 2,439,223	\$ -	\$ 2,439,223
Total reimbursement for services			
Payments			
Local			
Payments in lieu of taxes	\$ 542,971	\$ -	\$ 542,971
Grants			
State			
Minnesota Department/Board of			
Agriculture	\$ 57,436	\$ -	\$ 57,436
Corrections	294,581	-	294,581
Public Safety	142,132	-	142,132
Transportation	10,225,463	-	10,225,463
Health	317,822	-	317,822
Veterans Affairs	15,000	-	15,000
Natural Resources	753,661	-	753,661
Human Services	3,950,579	-	3,950,579
Water and Soil Resources	106,258	-	106,258
Peace Officer Standards and Training Board	11,568	-	11,568
Minnesota Pollution Control Agency	31,635	254,466	286,101
	\$ 15,906,135	\$ 254,466	\$ 16,160,601
Total state			

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

*EXHIBIT D-3
(Continued)*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Governmental Funds	Enterprise Fund	All Funds
Grants (Continued)			
Federal			
Department of			
Agriculture	\$ 875,833	\$ -	\$ 875,833
Transportation	2,280,266	-	2,280,266
Education	1,933	-	1,933
Health and Human Services	5,354,761	-	5,354,761
Homeland Security	99,281	-	99,281
	\$ 8,612,074	\$ -	\$ 8,612,074
Total federal	\$ 8,612,074	\$ -	\$ 8,612,074
Total state and federal grants	\$ 24,518,209	\$ 254,466	\$ 24,772,675
Total Intergovernmental Revenue	\$ 44,124,781	\$ 261,855	\$ 44,386,636

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT D-4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Partnership4Health Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	32573	\$ 379,000	\$ -
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	496,334	-
Passed Through Minnesota Department of Agriculture WIC Farmer's Market Nutrition Program (FMNP)	10.572	Not Provided	<u>499</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>\$ 875,833</u>	<u>\$ -</u>
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	00056	\$ 1,899,660	\$ -
Highway Planning and Construction (Total Highway Planning and Construction 20.205 \$1,901,310)	20.205	10000649	1,650	1,650
Passed Through Minnesota Department of Public Safety Highway Safety Cluster				
State and Community Highway Safety	20.600	F-SAFE16-2016- OTTERPH-1456	2,675	-
State and Community Highway Safety	20.600	F-SAFE16-2016- OTTERPH-1639	4,153	-
State and Community Highway Safety	20.600	F-SAFE16-2016- OTTERPH-1809	6,043	-
State and Community Highway Safety	20.600	F-SAFE16-2016- OTTERPH-2010	4,109	-
State and Community Highway Safety	20.600	F-ENFRC16-2016- OTTERSD-1484	11,512	-
State and Community Highway Safety	20.600	F-ENFRC16-2016- OTTERSD-1708	1,039	-
State and Community Highway Safety	20.600	F-ENFRC16-2016- OTTERSD-1776	14,665	-
State and Community Highway Safety (Total State and Community Highway Safety 20.600 \$53,776) (Total Highway Safety Cluster \$95,968)	20.600	F-ENFRC16-2016- OTTERSD-1980	9,580	-

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**EXHIBIT D-4
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Passed Through Minnesota Department of Public Safety (Continued)				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated (Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$152,753)	20.608	F-ENFRC16-2016- OTTERSD-1980	21,499	-
Highway Safety Cluster National Priority Safety Programs	20.616	F-ENFRC16-2016- OTTERSD-1484	4,928	-
National Priority Safety Programs (Total National Priority Safety Programs 20.616 \$42,192) (Total Highway Safety Cluster \$95,968)	20.616	F-ENFRC16-2016- OTTERSD-1776	8,084	-
Passed Through Minnesota Trial Courts				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated (Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$152,753)	20.608	A-DGCT16-2016- 7TH-JD-00006	131,254	-
Highway Safety Cluster National Priority Safety Programs (Total National Priority Safety Programs 20.616 \$42,192) (Total Highway Safety Cluster \$95,968)	20.616	A-DGCT17-2017- 7TH-JD-003	<u>29,180</u>	<u>-</u>
Total U.S. Department of Transportation			<u>\$ 2,150,031</u>	<u>\$ 1,650</u>
U.S. Department of Education				
Passed Through Partnership4Health Community Health Board				
Special Education - Grants for Infants and Families	84.181	87630	<u>\$ 1,933</u>	<u>\$ -</u>
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	Not Provided	\$ 27,725	\$ -

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**EXHIBIT D-4
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)				
Passed Through Partnership4Health Community Health Board				
Public Health Emergency Preparedness Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.069	90858	35,069	-
	93.074	Not Provided 6 HC61MC00035-14	465	-
Universal Newborn Hearing Screening	93.251	01	625	-
Immunization Cooperative Agreements	93.268	58583	4,900	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	Not Provided	550	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$500,583)	93.558	95995	113,746	-
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	3000028340	408,992	-
Maternal and Child Health Services Block Grant to the States	93.994	Not Provided	70,390	-
Passed Through MNsure				
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	Not Provided	490	-
Passed Through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	G-1601MNFPS	13,990	-
Temporary Assistance for Needy Families	93.558	1601MNTANF	118,942	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$500,583)	93.558	1601MFTANF	267,895	-
Child Support Enforcement	93.563	1604MNCSES	70,224	-
Child Support Enforcement (Total Child Support Enforcement 93.563 \$1,223,255)	93.563	1604MNCES	1,153,031	-
Refugee and Entrant Assistance - State Administered Programs	93.566	1601MNRMA	487	-

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**EXHIBIT D-4
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Human Services (Continued)				
Child Care and Development Block Grant	93.575	G1601MNCCDF	10,240	-
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFRRPG	1,575	-
Affordable Care Act: Testing Experience and Functional Assessment Tools	93.627	102655	510,229	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	7,431	-
Foster Care - Title IV-E	93.658	1601MNFOST	392,236	-
Social Services Block Grant	93.667	16-01MNSOSR	416,960	-
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	4,091	-
Medical Assistance Program	93.778	05-1605MN5ADM	1,939,311	-
Medical Assistance Program	93.778	05-1605MN5MAP	19,493	-
(Total Medical Assistance Program 93.778 \$1,958,804)				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	TI010027-15	960	-
Total U.S. Department of Health and Human Services			\$ 5,590,047	\$ -
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	108909	\$ 10,796	\$ -
Passed Through Minnesota Department of Public Safety				
Emergency Management Performance Grants	97.042	F-EMPG-2015-OTTERCO-1320	7,538	-
Passed Through City of St. Cloud				
Homeland Security Grant Program	97.067	F-DECN-SHSP-2014-CM-ESB-1161	47,915	-
Homeland Security Grant Program	97.067	F-DECN-SHSP-2014-CM-ESB-1356	11,201	-
Homeland Security Grant Program	97.067	F-DECN-SECB-2014-CM-ESB-1360	21,831	-
(Total for Homeland Security Grant Program 97.067 \$80,947)				
Total U.S. Department of Homeland Security			\$ 99,281	\$ -
Total Federal Awards			\$ 8,717,125	\$ 1,650

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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 basic 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, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Otter Tail County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 8,612,074
Grants received more than 60 days after year-end, unavailable revenue in 2016	
Highway Planning and Construction	128,697
Federal awards passed through the Family Services Collaborative for the Local Collaborative Time Study	267,686
Unavailable in 2015, recognized as revenue in 2016	
Highway Planning and Construction	(258,932)
Child Support Enforcement	<u>(32,400)</u>
 Expenditures Per Schedule of Expenditures of Federal Awards	 <u>\$ 8,717,125</u>

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Otter Tail County
Fergus Falls, Minnesota

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, Minnesota, as of and for the year ended December 31, 2016, 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 8, 2017.

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 first paragraph of this section 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 or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 to be a material weakness and items 1996-006, 2008-001, 2011-001 and 2016-002 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 Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: 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 Counties*. 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

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 Response to Findings

Otter Tail County's responses to the internal control and management practices findings identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected 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 Counties* 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 8, 2017

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REBECCA OTTO
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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
Fergus Falls, Minnesota

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) *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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 8, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **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? **None reported**

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 2 CFR 200.516(a)? **No**

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	CFDA No. 10.561
Highway Planning and Construction	CFDA No. 20.205
Child Support Enforcement	CFDA No. 93.563

The threshold for distinguishing between Types A and B programs was \$750,000.

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

Finding Number 1996-006

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 Vehicles, the County uses cash registers to record the transactions and limits access to 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.

View of Responsible Official: Concur

Finding Number 2008-001

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 its 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: The County informed us that it lacks resources dedicated to establishing a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring 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.

View of Responsible Official: Concur

Finding Number 2011-001

Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over 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 its 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-PI 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 updated to the IFS-PI application software. Although County management was made aware of some of the password implications of this change during the previous audit, the County could not provide assurance that web-based application controls and network controls were reviewed.

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.

View of Responsible Official: Concur

ITEMS ARISING THIS YEAR

Finding Number 2016-001

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: Material adjustments were identified by auditors that resulted in significant changes to the County's financial statements.

Context: 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. The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were approved by county staff and were necessary to be recorded for December 31, 2016:

- An adjustment of \$5,826,502 in the Road and Bridge Special Revenue Fund to reduce unavailable revenue and increase various revenue accounts.
- An adjustment of \$29,656 to reduce due to other funds and miscellaneous revenue, an adjustment of \$21,280 to increase accounts payable and expenditures, and an adjustment of \$21,280 to increase due from other governments and intergovernmental revenue in the Construction Capital Projects Fund.

Cause: In the Road and Bridge Special Revenue Fund, some of the reversals from the prior year audit did not get made in IFS for 2016. In the Construction Capital Projects Special Revenue Fund, there was an error in a manual reversing entry from the prior year and an unrecorded payable.

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

View of Responsible Official: Concur

Finding Number 2016-002

Departmental Control Procedures

Criteria: Reconciliations are control activities designed to provide reasonable assurance that material errors will be prevented and detected in a timely manner and involve the comparison of records or balances from different sources. Effective reconciliations properly account for any differences between records or balances. This includes investigating why the differences exist and resolving them in a timely manner.

Condition: During our review of departmental control procedures in the License Center, we noted bank reconciliations were not being performed, and as a result, County fees collected in 2016 could not be determined, and as a result, were not remitted and receipted into the County general ledger timely.

Context: The establishment and oversight of departmental control procedures is particularly important because, generally, these smaller departments lack proper segregation of duties, which increases the risk of errors or fraud. Performing reconciliations of the bank statements is a tool to help ensure the cash records are complete and accurate and a control designed to detect and allow for correction of errors or irregularities on a timely basis.

Effect: Internal control procedures assumed to be in place may not be working as intended to ensure accounting records are properly maintained and compared with the underlying items they represent. If the internal controls are not working as intended, there is increased risk that errors or fraud could occur and not be detected timely.

Cause: The individual responsible for maintaining the bank reconciliation was having difficulties reconciling the account due to timing differences with the State's ACH transactions. Without proper reconciliations, the fees were being held in the License Center checking account until proper reconciliations could be done.

Recommendation: Otter Tail County should reconcile the License Center checking account and remit County fees on a monthly basis.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2009-002

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, 2016, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

Context: Thirty of the 49 individual ditch systems had deficit fund balances as of December 31, 2016, totaling \$653,131. Four of the ditch systems have sufficient current levies to cover the deficit; however, the other 26 ditch systems do not.

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.

View of Responsible Official: Concur

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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 1996-006

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Finance Division Director and/or Assistant Finance Division Director

Corrective Action Planned:

I do believe that progress has been made to address this concern; however, additional efforts to formalize existing policy and procedures in written format that can be shared with all staff to inform them of the County's expectations needs to be undertaken in the upcoming fiscal year. In addition, the County's financial management team needs to develop procedures and a practice to internally audit those departments with limited personnel where the level of duty segregation is not as adequate as desired and if significant weaknesses are identified implement reasonable and practical changes to address those weaknesses.

Anticipated Completion Date:

Formalizing written policies and procedures - December 2018
Internal Audits - Ongoing

Finding Number: 2008-001

Finding Title: Documenting and Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action:

Finance Division Director and/or Assistant Finance Division Director

Corrective Action Planned:

The finance division director and/or the assistant finance division director will take the lead role to work with other financial management team members to, at least annually, perform a risk assessment of existing internal controls over the procedures, policies and significant functions which are used to produce financial information for both internal and external reporting. If the

assessment indicates that existing internal controls are no longer adequate members of the financial management team will work to develop and implement the necessary changes to ensure that a sound internal control structure is being maintained.

Anticipated Completion Date:

Risk Assessment - December 2017

Development and Implementation of Changes - June 2018

Finding Number: 2011-001

Finding Title: Network/Application Password Controls

Name of Contact Person Responsible for Corrective Action:

Director of County's IT Department

Corrective Action Planned:

Migration of the County's financial software from the AS400 platform to a server based platform which as I understand will provide Otter Tail County with additional security opportunities that are not available when using the AS400 platform and, also the implementation of other password security measures. For example, the mandatory changing of passwords.

Anticipated Completion Date:

December 2018

Finding Number: 2016-001

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Finance Division Director and/or Assistant Finance Division Director

Note - this is however the responsibility of all members of the financial management team.

Corrective Action Planned:

The instances noted in this finding were oversights when reversing entries were posted to the County's financial software. Internal controls focusing on the posting of journal entries will be reviewed and updated, as necessary. I will also recommend, that at least quarterly, a review by members of the financial management team of the receipt, disbursement, and journal entry posted

to County's general ledger be completed to determine that all transactions have been properly coded and posted. Transactions that are identified as having been incorrectly posted will be reviewed, policies and procedures will be reviewed, the issue will be discussed with staff and general ledger corrections will be authorized by a supervisor within the finance division.

Anticipated Completion Date:

December 31, 2017

Finding Number: 2016-002

Finding Title: Departmental Control Procedures

Name of Contact Person Responsible for Corrective Action:

Finance Division Director

Corrective Action Planned:

When this issue was fully disclosed and understood by the Finance Division Director, a directive was issued to bring the reconciliations up-to-date immediately. When it became apparent that this was not happening and that the reconciliations had become extremely difficult, if not impossible to complete, another directive was issued to cease using the existing account as of December 31, 2016 and to open a new account for 2017 transactions. With that directive also came the instruction to complete timely reconciliations of the account, timely remittance of county fees and to close the old account in April of 2017. Also, the chief deputy treasurer is to assist with the reconciliations and to oversee their timely completion. To the best of my knowledge reconciliations and timely deposit are now being accomplished.

Anticipated Completion Date:

Issue has been resolved.

Finding Number: 2009-002

Finding Title: Ditch Fund Balance Deficits

Name of Contact Person Responsible for Corrective Action:

Finance Division Director

Corrective Action Planned:

Ditch system benefits are being re-determined and assessments are being levied annually; however, time to fully resolve this concern will be needed as there is significant cost associated with the redetermination process which also leads to repair and maintenance costs being incurred prior to having assessments placed on each system. Also, annually levied assessments are not always adequate to cover past cost and the cost that might occur in the current year due to various unknowns. However, the Otter Tail County Board of Commissioners is fully committed to the redetermination process and to levying assessments against each system to establishing a fund for future costs, which over time will resolve this issue.

Anticipated Completion Date:

Ongoing - but I would estimate at least five years.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 1996-006

Finding Title: Segregation of Duties

Summary of 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.

Summary of Corrective Action Previously Reported: 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

Status: Not Corrected. As previously noted limited personnel in many departments does not allow for the level of segregation of financial accounting and reporting functions that would provide the desired level of internal accounting control. Otter Tail County's financial management previously noted that an effort would be made to formalize existing oversight procedures and to develop and implement additional oversight procedures where necessary and appropriate to help ensure that financial policies and procedures intended to protect Otter Tail County's financial assets and resource are followed as directed. Although, I do believe that progress has been made to address this concern additional efforts to formalize existing policies and procedures in written formats that can be shared with all staff to inform them of the County's expectations needs to be undertaken in the upcoming fiscal year. In addition, the County's financial management team needs to develop procedures and a practice to internally audit those departments with limited personnel where the level of duty segregation is not as adequate as desired and if significance weaknesses are identified implement reasonable and practical changes to address those weaknesses.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2008-001

Finding Title: Documenting and Monitoring Internal Controls

Summary of Condition: Otter Tail County maintains narratives to document the controls in place over its 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.

Summary of Corrective Action Previously Reported: Otter Tail County's management is aware of the significance and importance of routinely reviewing and monitoring internal controls in our accounting system. 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 in a more formal and structured manner at the division directors' level and within each major division 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.

Status: Not Corrected. The reorganization referenced above has been significantly completed and the structure necessary to adequately assess risk and to monitor internal controls is in place. The finance division director and/or the assistant finance division director will take the lead role to work with other financial management team members to, at least annually, perform a risk assessment of existing internal controls over the procedures, policies and significant functions which are used to produce financial information for both internal and external reporting. If the assessment indicates that existing internal controls are no longer adequate members of the financial management team will work to develop and implement the necessary changes to ensure that a sound internal control structure is being maintained.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2011-001

Finding Title: Network/Application Password Controls

Summary of Condition: Otter Tail County uses the Integrated Financial System - Platform Independent (IFS-PI) application software for its 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.

Summary of Corrective Action Previously Reported: Otter Tail County's management will review the password controls currently in place to assure that these controls are adequate to protect and limit access to County web-based software applications, specifically the IFS application and where weaknesses are identified appropriate corrective measures will be taken to ensure that all County web-based software applications and related data are protected and access is limited to those individuals requiring access and at the level necessary for the performance of their duties and responsibilities.

Status: Not Corrected. First, it should be noted that access to the County's financial software requires access to the County's network, which in and of itself provides a certain level of security. In speaking with the County's IT Department, it is my understanding that since our financial software runs on the AS400 platform there are certain limitations that are not easily overcome. It is also my understanding that the IT Department is researching and exploring the possibility of migrating the County's financial software from the AS400 platform to a server platform, which would provide additional security opportunities that currently are not available to Otter Tail County. Currently, another Minnesota County is in the process of migrating their financial software to a server platform and Otter Tail County is waiting to see how successful they are with their migration before moving forward. If they are successful and if Otter Tail County's IT Department make the decision to move forward then hopefully this concern will be resolved within the coming year. I have also been informed that the County's IT Department is looking at other security issues and access issues and will be implementing other changes in the future. For example, the mandatory changing of passwords every 45 days.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2009-002

Finding Title: Ditch Fund Balance Deficits

Summary of Condition: As of December 31, 2015, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

Summary of Corrective Action Previously Reported: 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. Once project assessments are in place, the policy of the County is to continue with annual maintenance assessments and to review those assessments annually. However, it should be noted that many drainage systems did not have significant maintenance for many years or levied assessments and, based on current needs and staffing levels, it will take a period of time to make the necessary adjustments to eliminate all ditch fund balance deficits.

Status: Not Corrected. As previously noted this is an ongoing correction that will take many years to fully resolve. The Otter Tail County Board of Commissioners are committed to re-determining the benefits for all of Otter Tail County existing drainage systems and upon completion of the redetermination process to build maintenance funds for each system, which under normal operating conditions will eliminate the deficit fund balances. The Otter Tail County Board of Commissioners, for those systems that have had their benefits re-determined, adopts annually a maintenance assessment, which is intended to reduce the deficit fund balances and to build a fund for future maintenance of the system. The ditch fund balance deficits will be eliminated by the assessments that are currently being levied and by those assessments that will be levied in the future; however, under existing conditions it will not happen in a single fiscal year. The positive note is that there is a plan that will resolve this outstanding issue.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X