

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Year Ended December 31, 2005



**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, 2005**

| | | | <u>Term Expires</u> |
|--------------------------|--------------------|------------|---------------------|
| Elected | | | |
| Commissioners | | | |
| Board Member | Syd Nelson | District 1 | January 2009 |
| Board Member | Malcolm K. Lee | District 2 | January 2007 |
| Board Member | Dennis Mosher | District 3 | January 2009 |
| Board Member | Roger Froemming | District 4 | January 2007 |
| Chair | Robert Block | District 5 | January 2009 |
| Attorney | David Hauser | | January 2007 |
| Auditor | Wayne Stein | | January 2007 |
| Treasurer | Steven Andrews | | January 2007 |
| County Recorder | Wendy Metcalf | | January 2007 |
| County Sheriff | Brian Schlueter | | January 2007 |
| Appointed | | | |
| Assessor | Robert Moe | | December 2008 |
| County Engineer | Richard West | | May 2006 |
| Medical Examiner | Dr. Gregory Smith | | Indefinite |
| County Coordinator | Larry Krohn | | Indefinite |
| Veterans Service Officer | Jourdan Sullivan | | Indefinite |
| Human Services | | | |
| Board | | | |
| Chair | Robert Block | | January 2009 |
| Vice Chair | Roger Froemming | | January 2007 |
| Member | Malcolm K. Lee | | January 2007 |
| Member | Dennis Mosher | | January 2009 |
| Member | Syd Nelson | | January 2009 |
| Human Services Director | John Dinsmore | | Indefinite |
| Probation Officer | Charles W. Kitzman | | Indefinite |
| Public Health Director | Diane Thorson | | Indefinite |

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Otter Tail County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Otter Tail County, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Otter Tail County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Otter Tail County as of and for the year ended December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2006, on our consideration of Otter Tail County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

INTRODUCTION

Otter Tail County's Management's Discussion and Analysis (MD&A) provides an overview of Otter Tail County's financial activities for the fiscal year ended December 31, 2005. 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 Otter Tail County's financial statements and the notes to the financial statements.

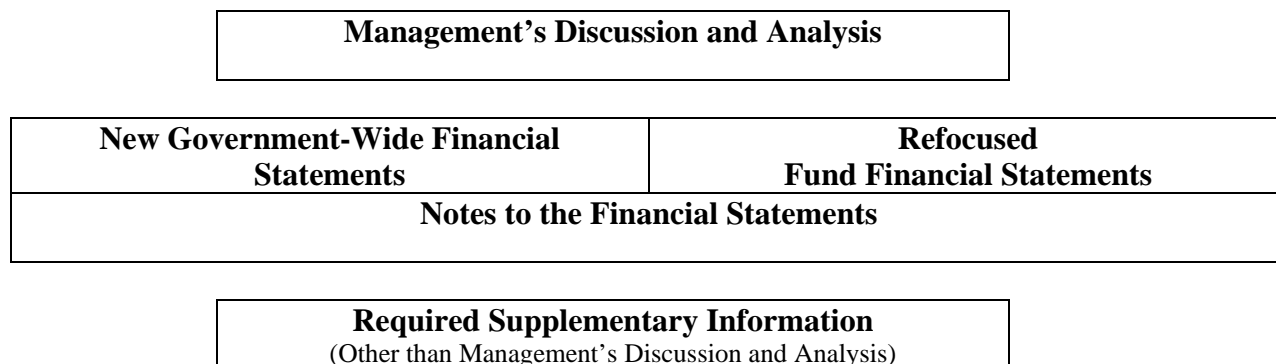
FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$111,458,628, of which Otter Tail County has invested \$85,800,963 in capital assets, net of related debt, and \$2,514,282 is restricted to specific purposes/uses by Otter Tail County.
- Business-type activities have total net assets of \$8,566,530. Invested in capital assets, net of related debt, represents \$4,420,049 of the total and \$270,823 of the total business-type net assets is restricted for specific uses.
- Otter Tail County's total net assets (governmental activities and business-type activities) total \$120,025,158 for the year ended December 31, 2005. Invested in capital assets, net of related debt, represents \$90,221,012 of the total, \$2,785,105 of the total net assets are restricted for specific uses, and \$27,019,041 is unrestricted.
- The net cost of Otter Tail County's governmental activities for the year ended December 31, 2005, was \$20,502,770. General property tax revenues and other revenues sources totaling \$25,288,808 funded Otter Tail County's total net cost of \$20,502,770.
- Otter Tail County's governmental funds' fund balances increased by \$1,523,750. Most of the increase was due to an increase in tax revenues in the General Fund of \$1,462,533 and to an increase in intergovernmental revenues in the Road and Bridge Special Revenue Fund of \$1,644,719. A large portion of the General Fund and Road and Bridge Special Revenue Fund increases were offset by excess expenditures over revenues in the Human Services Special Revenue Fund of \$131,328 and in the Capital Improvement Special Revenue Fund of \$1,418,035. Capital Improvement Special Revenue Fund expenditures are planned expenditures and financed to a large extent by funds accumulated in prior years.

- During the year ending December 31, 2005, Otter Tail County was involved in the issuing of conduit debt in the amount of \$775,000 for Productive Alternative, Inc. The purpose of the issues was to refinance the financing that exists on the Willows Day Program building in order to build a new facility in which Productive Alternative, Inc., can operate a detox center for the benefit of Otter Tail County. Otter Tail County is not obligated in any manner for the repayment of this debt.
- During the year ending December 31, 2005, Otter Tail County did not issue any new general obligation debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

Otter Tail County's MD&A report serves as an introduction to the basic financial statements. Otter Tail County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.



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

Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about Otter Tail County as a whole and about its activities in a way that helps the reader determine whether Otter Tail County's financial condition has improved or declined as a result of the current year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of Otter Tail County's current year revenues and expenses regardless of when Otter Tail County receives the revenue or pays the expenditure. These two statements report Otter Tail County's net assets and changes in them. You can think of Otter Tail County's net assets--the difference between assets and liabilities--as one way to measure Otter Tail County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in Otter Tail County's property tax base and the general economic conditions of the state and County, to assess the overall health of Otter Tail County.

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

- **Governmental activities**--Otter Tail County reports its basic services in the "Governmental Activities" column of these reports. The activities reported by Otter Tail County include general government, public safety, highways and streets, sanitation (administration charges to solid waste), human services, health, culture and recreation, conservation of natural resources, and economic development. 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 our waste management facilities to help cover most of the costs to operate these facilities and pay for the services provided. Otter Tail County reports its solid waste collection and disposal programs, including County-sponsored recycling programs, in the "Business-Type Activities" column of these reports.

Fund Financial Statements

Otter Tail County's fund financial statements provide detailed information about the significant funds--not Otter Tail County as a whole. Significant governmental and proprietary funds may be established by Otter Tail 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. Otter Tail County reports these funds in our financial statements using an accounting method called modified accrual accounting. This accounting method measures cash and other financial assets that Otter Tail County can readily convert to cash. Otter Tail County's governmental fund statements provide a detailed short-term view of Otter Tail 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 Otter Tail County can spend in the near future to finance various programs within Otter Tail County. Otter Tail County has described the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.
- Otter Tail County charges both internal and external customers for waste management services and reports the financial activities for those services in a proprietary fund. Otter Tail County reports its Waste Management Proprietary Fund in the same way that the County reports all activities in the Statement of Net Assets and the Statement of Activities. In fact, Otter Tail County's Waste Management Proprietary Fund is the same as the business-type activities Otter Tail 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. Otter Tail County reports all of its fiduciary activities in a separate Statement of Fiduciary Net Assets. Otter Tail County excludes these assets from the County's other financial statements because Otter Tail County cannot use these assets to finance its operations. Otter Tail County is responsible for ensuring that the assets reported in these agency funds are used for their intended purposes.

THE COUNTY AS A WHOLE

Otter Tail County's combined net assets for the year ended December 31, 2005, were \$120,025,158. Otter Tail County's analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of Otter Tail County's governmental and business-type activities.

Table 1
Net Assets

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-----------------------------------------|-------------------------|-----------------------|--------------------------|----------------------|--------------------------|-----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets | | | | | | |
| Current and other assets | \$ 34,479,445 | \$ 34,626,456 | \$ 5,597,982 | \$ 6,162,252 | \$ 40,077,427 | \$ 40,788,708 |
| Capital assets | 94,811,802 | 90,878,263 | 4,420,049 | 4,270,921 | 99,231,851 | 95,149,184 |
| Total Assets | \$ 129,291,247 | \$ 125,504,719 | \$ 10,018,031 | \$ 10,433,173 | \$ 139,309,278 | \$ 135,937,892 |
| Liabilities | | | | | | |
| Long-term debt outstanding | \$ 11,635,000 | \$ 12,195,000 | \$ - | \$ - | \$ 11,635,000 | \$ 12,195,000 |
| Other liabilities | 6,197,619 | 6,637,129 | 1,451,501 | 1,360,830 | 7,649,120 | 7,997,959 |
| Total Liabilities | \$ 17,832,619 | \$ 18,832,129 | \$ 1,451,501 | \$ 1,360,830 | \$ 19,284,120 | \$ 20,192,959 |
| Net Assets | | | | | | |
| Invested in capital assets, net of debt | \$ 85,800,963 | \$ 81,255,345 | \$ 4,420,049 | \$ 4,270,921 | \$ 90,221,012 | \$ 85,526,266 |
| Restricted | 2,514,282 | 3,272,813 | 270,823 | 185,437 | 2,785,105 | 3,458,250 |
| Unrestricted | 23,143,383 | 22,144,432 | 3,875,658 | 4,615,985 | 27,019,041 | 26,760,417 |
| Total Net Assets | \$ 111,458,628 | \$ 106,672,590 | \$ 8,566,530 | \$ 9,072,343 | \$ 120,025,158 | \$ 115,744,933 |

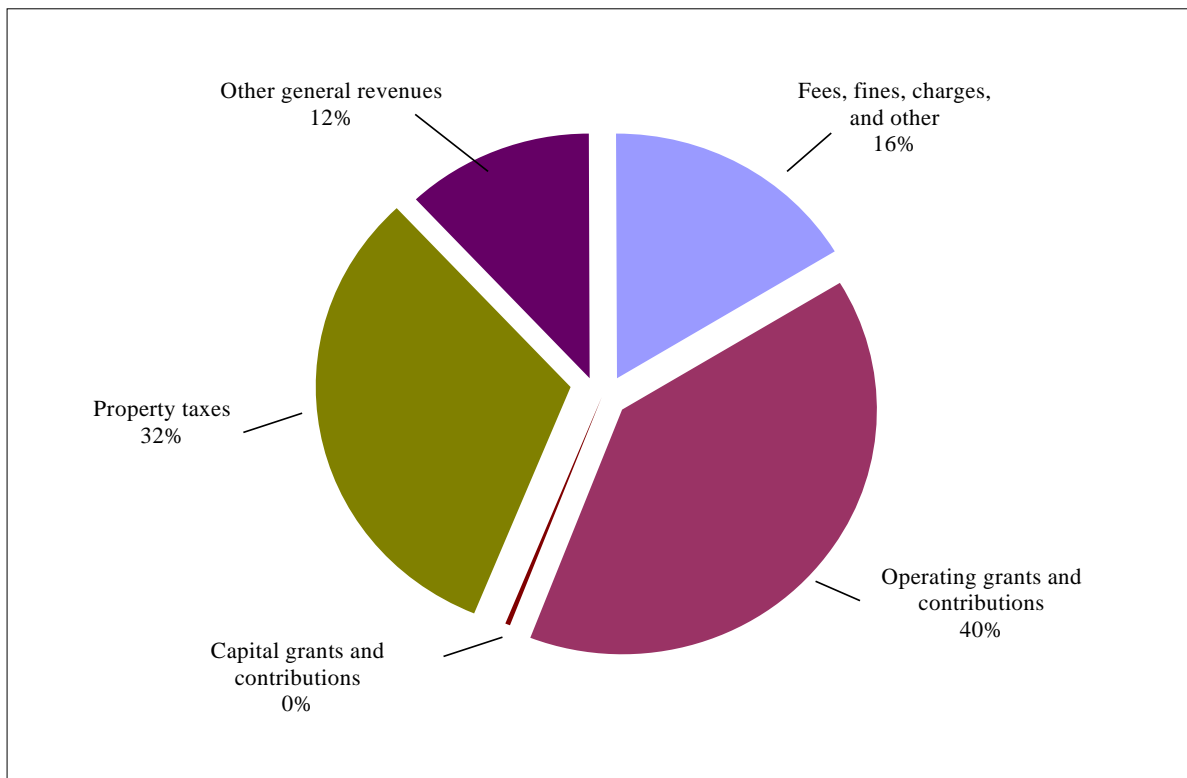
Otter Tail County's total net assets for the year ended December 31, 2005, are \$120,025,158. Unrestricted net assets totaling \$27,019,041 are available to Otter Tail County to finance day-to-day operations. Of the unrestricted net assets, \$23,143,383 is available for governmental activities, and \$3,875,658 is available for business-type activities.

Table 2
Changes in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|------------------------------------------|-------------------------|----------------------|--------------------------|---------------------|--------------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Fees, fines, charges, and other | \$ 4,587,738 | \$ 4,669,758 | \$ 4,891,305 | \$ 4,655,573 | \$ 9,479,043 | \$ 9,325,331 |
| Operating grants and contributions | 22,547,725 | 21,387,217 | 179,765 | 298,320 | 22,727,490 | 21,685,537 |
| Capital grants and contributions | 91,433 | 4,508 | 15,692 | 21,768 | 107,125 | 26,276 |
| General revenues | | | | | | |
| Property taxes | 18,407,994 | 16,129,883 | - | - | 18,407,994 | 16,129,883 |
| Other taxes | 303,660 | 296,966 | - | - | 303,660 | 296,966 |
| Grants and contributions | 5,325,239 | 4,868,176 | - | - | 5,325,239 | 4,868,176 |
| Other general revenues | 1,251,915 | 1,079,785 | 57,739 | 39,993 | 1,309,654 | 1,119,778 |
| Total Revenues | \$ 52,515,704 | \$ 48,436,293 | \$ 5,144,501 | \$ 5,015,654 | \$ 57,660,205 | \$ 53,451,947 |
| Expenditures | | | | | | |
| Program expenses | | | | | | |
| General government | \$ 9,161,431 | \$ 8,799,329 | \$ - | \$ - | \$ 9,161,431 | \$ 8,799,329 |
| Public safety | 7,636,191 | 7,769,008 | - | - | 7,636,191 | 7,769,008 |
| Highways and streets | 10,267,084 | 10,599,157 | - | - | 10,267,084 | 10,599,157 |
| Human services | 16,862,046 | 15,517,177 | - | - | 16,862,046 | 15,517,177 |
| Health | 1,705,177 | 1,714,076 | - | - | 1,705,177 | 1,714,076 |
| Culture and recreation | 772,984 | 491,141 | - | - | 772,984 | 491,141 |
| Conservation of natural resources | 704,155 | 542,476 | - | - | 704,155 | 542,476 |
| Economic development | 82,764 | 123,955 | - | - | 82,764 | 123,955 |
| Interest | 537,834 | 551,179 | - | - | 537,834 | 551,179 |
| Landfill | - | - | 5,650,314 | 4,596,773 | 5,650,314 | 4,596,773 |
| Total Program Expenses | \$ 47,729,666 | \$ 46,107,498 | \$ 5,650,314 | \$ 4,596,773 | \$ 53,379,980 | \$ 50,704,271 |
| Increase (Decrease) in Net Assets | \$ 4,786,038 | \$ 2,328,795 | \$ (505,813) | \$ 418,881 | \$ 4,280,225 | \$ 2,747,676 |

Otter Tail County's total revenues for the year ended December 31, 2005, were \$57,660,205. The total cost of Otter Tail County programs and services for the year ended December 31, 2005, was \$53,379,980. The net assets for Otter Tail County's governmental activities increased by \$4,786,038, which is due mainly to an increase in property tax revenue, intergovernmental revenues, and interest earnings.

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



Governmental Activities

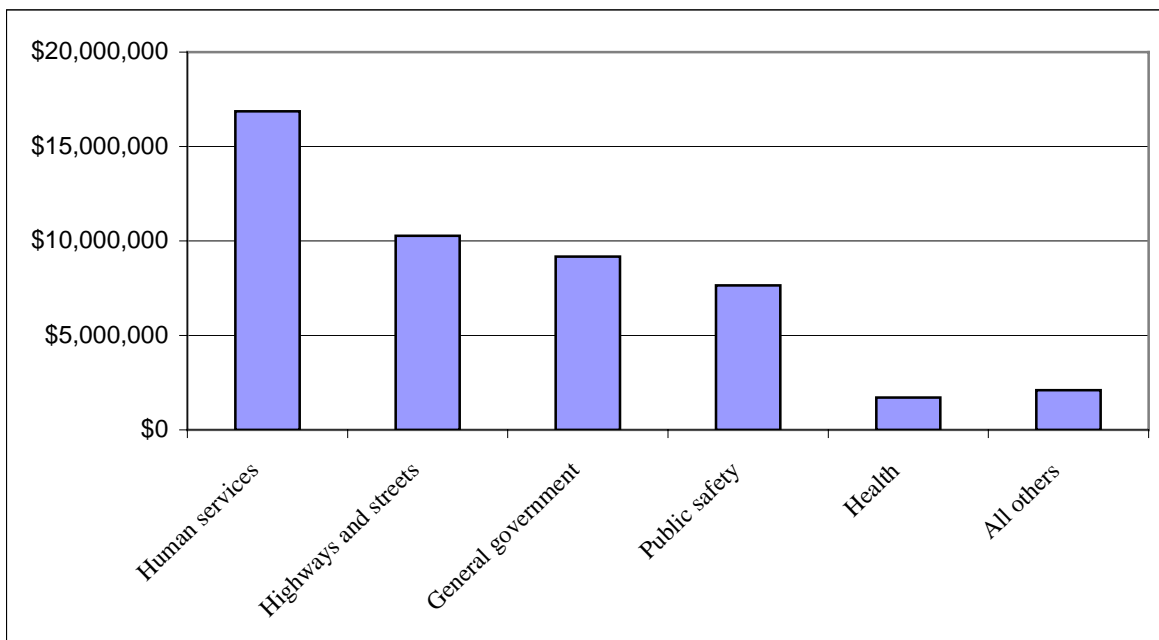
Revenues for Otter Tail County's governmental activities for the year ended December 31, 2005, were \$52,515,704. Otter Tail County's costs for all governmental activities for the year ended December 31, 2005, were \$47,729,666. As shown in Otter Tail County's Statement of Activities, the amount that County taxpayers ultimately financed for these governmental activities through local property taxation was \$18,407,994 because \$4,587,738 of the costs were paid by those who directly benefited from the programs, and \$22,639,158 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 \$6,880,814 in general revenues, primarily grants and contributions, which were not restricted to specific programs or services and with other revenues, such as interest income, mortgage registration tax, and deed tax.

Table 3 presents the cost of each of Otter Tail County's five largest program functions, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Otter Tail County's taxpayers by each of these functions.

Table 3
Governmental Activities

| | Total Cost of Services 2005 | Net Cost of Services 2005 |
|------------------------|-----------------------------------|---------------------------------|
| Program Expenses | | |
| Human services | \$ 16,862,046 | \$ 6,428,725 |
| Highways and streets | 10,267,084 | (1,362,619) |
| General government | 9,161,431 | 7,218,488 |
| Public safety | 7,636,191 | 6,367,753 |
| Health | 1,705,177 | 375,332 |
| All others | 2,097,737 | 1,475,091 |
| Total Program Expenses | <u>\$ 47,729,666</u> | <u>\$ 20,502,770</u> |

Governmental Activities Expenses
2005



Business-Type Activities

Revenues of Otter Tail County's business-type activities (see Table 2) for the year ended December 31, 2005, were \$5,144,501. Expenses of Otter Tail County's business-type activities (see Table 2) for the year ended December 31, 2005, were \$5,650,314.

This compares with total operating revenues of \$4,655,573 and with total nonoperating revenues of \$364,192 for the year ended December 31, 2004. Increased fees and charges for services provided were the main reasons for the increase in revenues. Operating expenses were \$4,596,773, and nonoperating expenses were \$4,111 for the year ended December 31, 2004. An increase in the SCORE (recycling) costs and waste management costs were the main reasons for the increase in total expenses from 2004 to 2005.

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 \$27,829,609, which is above last year's total of \$26,305,859. The majority of this increase of \$1,523,750 is due to an increase in the General Fund balance of \$926,578, an increase in the Road and Bridge Special Revenue Fund balance of \$1,251,822, and an increase in the Other Governmental Funds fund balance of \$851,464, due respectively in most part to increases in tax revenue and intergovernmental revenue. It should be noted that a large portion of the fund balance increase noted above was offset by excess expenditures over revenues in the Human Services Special Revenue Fund and Capital Improvement Special Revenue Fund. Capital Improvement Special Revenue Fund expenditures are planned expenditures, which are financed to a large extent by funds accumulated in prior years. Included in this year's total fund balance is Otter Tail County's General Fund balance of \$10,426,847, which is an increase of \$926,578 from 2004. The budget as originally prepared for the General Fund was to have no impact on the fund balance. The majority of the General Fund balance is either reserved (\$605,925) or unreserved, designated (\$9,359,036) for specific purposes. The largest decrease (\$1,152,977) in governmental fund balances was in the Capital Improvement Special Revenue Fund. This decrease in the Capital Improvement Special Revenue Fund balance was due to planned facility and equipment improvements financed in part with funds accumulated in prior years. The Human Services Special Revenue Fund had a decrease in fund balance of \$353,137 due to excess expenditures over revenue and an operating transfer out.

General Fund Budgetary Highlights

The Otter Tail County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget. In 2005, the Board of Commissioners did make minor budget revisions to the General Fund budget to reflect an adjustment to personnel costs for a grant received by the Veterans Service Department and for costs associated with the County's Land Use Advisory Committee. When the Board of Commissioners made changes to the budget as originally adopted on Tuesday, December 21, 2004, these budget

amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, or final agreement reached on employee contracts.

In Otter Tail County's General Fund, the actual revenues exceeded the budgeted revenues by \$745,384. Total actual expenditures in Otter Tail County's General Fund were under the budgeted expenditures by \$950,356. The variances between the budgeted amounts and the actual amounts are noted by functional area on Schedule 1.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, Otter Tail County had \$99,231,851 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 \$4,082,667, or 4.29 percent, over last year.

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

| | Governmental Activities | | Business- Type Activities | | Totals | |
|-------------------------------------|-------------------------|----------------------|---------------------------|---------------------|----------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Land | \$ 2,454,970 | \$ 2,249,122 | \$ 37,127 | \$ 37,127 | \$ 2,492,097 | \$ 2,286,249 |
| Construction in progress | 10,960,705 | 12,324,841 | 52,236 | - | 11,012,941 | 12,324,841 |
| Land improvements | 553,650 | 589,968 | - | - | 553,650 | 589,968 |
| Buildings and improvements | 15,305,826 | 13,616,448 | 1,964,243 | 1,701,090 | 17,270,069 | 15,317,538 |
| Machinery, furniture, and equipment | 3,523,898 | 3,656,263 | 783,500 | 862,464 | 4,307,398 | 4,518,727 |
| Infrastructure | 62,012,753 | 58,441,621 | - | - | 62,012,753 | 58,441,621 |
| Landfill | - | - | 1,582,943 | 1,670,240 | 1,582,943 | 1,670,240 |
| Totals | <u>\$ 94,811,802</u> | <u>\$ 90,878,263</u> | <u>\$ 4,420,049</u> | <u>\$ 4,270,921</u> | <u>\$ 99,231,851</u> | <u>\$ 95,149,184</u> |

This year's major additions include the completion of Road and Bridge projects for grading, bituminous, bridge, and right-of-way purchases which are reported as Infrastructure (see Table 4). The 505 South Court Street Building remodeling project, which was begun in 2004, was completed in 2005. The remodeling of the court administration and courts area was begun in 2005, with anticipated completion in 2006, as well as other smaller remodeling and improvement projects.

Otter Tail County's fiscal year 2006 capital budget plans for the expenditure of another \$3,308,379 for equipment, vehicles, and remodeling, and \$11,457,700 for road construction projects. Remodeling/construction plans for the detention facility and a Law Enforcement Center in the City of Ottertail will be considered in 2006 and, if approved, will require the use of available funds within the Capital Improvement Special Revenue Fund and/or the issuance of general obligation debt. The costs associated with completing the court administration and

courts remodeling projects are included in the \$3,308,379 figure noted previously. More detailed information about Otter Tail County's capital assets can be found in Note 3.A. to the Otter Tail County Financial Statements.

Debt

As of December 31, 2005, Otter Tail County had \$11,635,000 in bonds and notes outstanding, compared with \$12,195,000 as of December 31, 2004--a decrease of 4.59 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--------------------------|-------------------------|---------------|--------------------------|------|---------------|---------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Bonds payable | | | | | | |
| General obligation bonds | \$ 2,130,000 | \$ 2,200,000 | \$ - | \$ - | \$ 2,130,000 | \$ 2,200,000 |
| Revenue bonds | 9,505,000 | 9,995,000 | - | - | 9,505,000 | 9,995,000 |
| Totals | \$ 11,635,000 | \$ 12,195,000 | \$ - | \$ - | \$ 11,635,000 | \$ 12,195,000 |

Otter Tail County's general obligation bonds are rated an "A2" and Otter Tail County's revenue bonds are rated an "A3." These rating have been assigned by a national rating agency to Otter Tail County's debt. The state limits the amount of net debt that counties can issue to two percent of the market value of all taxable property in Otter Tail County. Otter Tail County's outstanding net debt is significantly below this \$111,828,984 state-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for the business-type activities.

- Cost of fuel for vehicles, heating, and any related petroleum product use.
- Legislative actions by the State of Minnesota have a significant impact on future Otter Tail County budgets. Major revenue sources for Otter Tail County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce these revenues or pass on costs to Otter Tail County, it would have a significant impact on next year's budget.

- It is anticipated that in 2007, Otter Tail County will see a reduction in county program aid of \$200,352. The projected level of 2007 county program aid is \$2,349,357. This state aid is \$1,026,370 less than the 2003 original certified amount of \$3,375,727 for similar state aids before the state made major cuts.
- Otter Tail County's net tax capacity rates have not seen significant change even though the overall net tax levy has continued to increase. This is due in great part to Otter Tail County's strong tax base. Otter Tail County has a very balanced tax base. It has a strong seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to Otter Tail County's overall financial health and condition.
- Otter Tail County's unemployment rate for 2006 averaged 3.5 percent through August 31, 2006. Otter Tail County's unemployment rate for 2005 averaged 3.8 percent. A modest decrease; however, should the unemployment rate increase, there would be an impact on the level of services requested by Otter Tail County residents and on their ability to generate revenues to pay for these additional services.
- County General Fund expenditures for 2006 are budgeted to increase 9.06 percent over 2005.
- The net property tax levies are planned to increase 10.06 percent from 2005.
- Planning and financing for facility needs and the possibility of a jail expansion project.
- Land development and regulation issues.
- A greater demand for services, which has resulted from the growth that Otter Tail County has been experiencing.
- Settling union contracts and employment-related cost/issues will affect the 2006 and 2007 budgets.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Otter Tail County programs and services will influence the development of future budget.
- Future facility needs will impact the County's budget, as consideration is currently being given to a Law Enforcement Center in the City of Ottertail and to either the expansion of the existing detention facility or the construction of a new facility.
- 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.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

| | Governmental Activities | Business-Type Activities | Total |
|-----------------------------------------------|------------------------------------|-------------------------------------|-----------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 26,061,848 | \$ 4,030,097 | \$ 30,091,945 |
| Petty cash and change funds | 12,100 | 18,640 | 30,740 |
| Taxes receivable | | | |
| Current - net | 257,696 | - | 257,696 |
| Prior - net | 102,208 | - | 102,208 |
| Special assessments receivable | | | |
| Current - net | 1,775 | - | 1,775 |
| Prior - net | 1,753 | - | 1,753 |
| Deferred - net | 151,648 | - | 151,648 |
| Accounts receivable - net | 414,885 | 305,534 | 720,419 |
| Accrued interest receivable | 166,905 | - | 166,905 |
| Internal balances | (7,039) | 7,039 | - |
| Due from other governments | 5,478,610 | 160,146 | 5,638,756 |
| Inventories | 274,033 | - | 274,033 |
| Restricted assets | | | |
| Temporarily restricted | | | |
| Cash with escrow agent | 1,526,754 | - | 1,526,754 |
| Accrued interest receivable | 1,374 | - | 1,374 |
| Permanently restricted | | | |
| Cash and pooled investments | - | 1,076,526 | 1,076,526 |
| Deferred charges | 34,895 | - | 34,895 |
| Capital assets | | | |
| Non-depreciable | 13,415,675 | 89,363 | 13,505,038 |
| Depreciable - net of accumulated depreciation | 81,396,127 | 4,330,686 | 85,726,813 |
| Total Assets | \$ 129,291,247 | \$ 10,018,031 | \$ 139,309,278 |
| <u>Liabilities</u> | | | |
| Accounts payable | \$ 1,108,335 | \$ 195,525 | \$ 1,303,860 |
| Salaries payable | 116,655 | 5,102 | 121,757 |
| Contracts payable | 587,049 | 20,001 | 607,050 |
| Due to other governments | 322,436 | 152,949 | 475,385 |
| Accrued interest payable | 209,657 | - | 209,657 |
| Unearned revenue | 54,146 | - | 54,146 |
| Long-term liabilities | | | |
| Due within one year | 1,501,565 | 67,589 | 1,569,154 |
| Due in more than one year | 13,932,776 | 1,010,335 | 14,943,111 |
| Total Liabilities | \$ 17,832,619 | \$ 1,451,501 | \$ 19,284,120 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

| | Governmental Activities | Business-Type Activities | Total |
|--------------------------------------------------|------------------------------------|-------------------------------------|------------------------------|
| <u>Net Assets</u> | | | |
| Invested in capital assets - net of related debt | \$ 85,800,963 | \$ 4,420,049 | \$ 90,221,012 |
| Restricted for | | | |
| General government | 438,183 | - | 438,183 |
| Highways and streets | 1,485,487 | - | 1,485,487 |
| Postclosure | - | 270,823 | 270,823 |
| Debt services | 460,000 | - | 460,000 |
| Other purposes | 130,612 | - | 130,612 |
| Unrestricted | 23,143,383 | 3,875,658 | 27,019,041 |
| Total Net Assets | <u>\$ 111,458,628</u> | <u>\$ 8,566,530</u> | <u>\$ 120,025,158</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

| Functions/Programs | Expenses | Fees, Charges, Fines, and Other |
|--------------------------------------|----------------------|--------------------------------------------|
| Governmental activities | | |
| General government | \$ 9,161,431 | \$ 1,508,351 |
| Public safety | 7,636,191 | 705,340 |
| Highways and streets | 10,267,084 | 838,432 |
| Sanitation | - | 7,518 |
| Human services | 16,862,046 | 937,678 |
| Health | 1,705,177 | 549,143 |
| Culture and recreation | 772,984 | - |
| Conservation of natural resources | 704,155 | 38,005 |
| Economic development | 82,764 | 3,271 |
| Interest | 537,834 | - |
| Total governmental activities | \$ 47,729,666 | \$ 4,587,738 |
| Business-type activities | | |
| Solid waste | 5,650,314 | 4,891,305 |
| Total | \$ 53,379,980 | \$ 9,479,043 |

General Revenues

Property taxes
Property taxes - debt service
Mortgage registry and deed tax
Taxes - other
Payments in lieu of tax
Grants and contributions not restricted to
specific programs
Investment income
Miscellaneous
Gain on sale of assets

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|------------------------------------------|----------------------------------------|-------------------------------------------------|-----------------------------|------------------------|
| Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| \$ 423,262 | \$ 11,330 | \$ (7,218,488) | \$ - | \$ (7,218,488) |
| 562,046 | 1,052 | (6,367,753) | - | (6,367,753) |
| 10,791,271 | - | 1,362,619 | - | 1,362,619 |
| - | - | 7,518 | - | 7,518 |
| 9,495,643 | - | (6,428,725) | - | (6,428,725) |
| 780,702 | - | (375,332) | - | (375,332) |
| 136,182 | 60,000 | (576,802) | - | (576,802) |
| 307,336 | - | (358,814) | - | (358,814) |
| 51,283 | 19,051 | (9,159) | - | (9,159) |
| - | - | (537,834) | - | (537,834) |
| \$ 22,547,725 | \$ 91,433 | \$ (20,502,770) | \$ - | \$ (20,502,770) |
| 179,765 | 15,692 | - | (563,552) | (563,552) |
| \$ 22,727,490 | \$ 107,125 | \$ (20,502,770) | \$ (563,552) | \$ (21,066,322) |
| | | \$ 17,451,634 | \$ - | \$ 17,451,634 |
| | | 956,360 | - | 956,360 |
| | | 71,473 | - | 71,473 |
| | | 69,768 | - | 69,768 |
| | | 162,419 | - | 162,419 |
| | | 5,325,239 | - | 5,325,239 |
| | | 607,671 | 57,739 | 665,410 |
| | | 600,256 | - | 600,256 |
| | | 43,988 | - | 43,988 |
| | | \$ 25,288,808 | \$ 57,739 | \$ 25,346,547 |
| | | \$ 4,786,038 | \$ (505,813) | \$ 4,280,225 |
| | | 106,672,590 | 9,072,343 | 115,744,933 |
| | | \$ 111,458,628 | \$ 8,566,530 | \$ 120,025,158 |

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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, 2005**

| | <u>General</u> | <u>Road and Bridge</u> |
|------------------------------------|----------------------|----------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 9,884,592 | \$ 4,127,689 |
| Petty cash and change funds | 10,850 | 50 |
| Undistributed cash in agency funds | 239,498 | 20,939 |
| Taxes receivable | | |
| Current | 137,123 | 14,427 |
| Prior | 50,544 | 6,237 |
| Special assessments receivable | | |
| Current | - | 191 |
| Prior | - | 664 |
| Deferred | - | - |
| Accounts receivable | 128,689 | 440 |
| Accrued interest receivable | 166,905 | - |
| Due from other funds | 42,041 | 1,822 |
| Due from other governments | 280,650 | 3,914,184 |
| Inventories | - | 274,033 |
| Advances to other funds | 153,842 | - |
| Restricted assets | | |
| Temporarily restricted | | |
| Cash with escrow agent | - | - |
| Accrued interest receivable | - | - |
| Total Assets | \$ 11,094,734 | \$ 8,360,676 |

EXHIBIT 3

| Human Services | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|
| \$ 6,936,987 | \$ 2,765,763 | \$ 1,932,116 | \$ 25,647,147 |
| 200 | - | 1,000 | 12,100 |
| 105,840 | 27,272 | 21,152 | 414,701 |
| 73,525 | 19,225 | 13,396 | 257,696 |
| 32,583 | 7,166 | 5,678 | 102,208 |
| - | - | 1,584 | 1,775 |
| - | - | 1,089 | 1,753 |
| - | - | 151,648 | 151,648 |
| 285,756 | - | - | 414,885 |
| - | - | - | 166,905 |
| - | 124,251 | - | 168,114 |
| 1,230,937 | 24,574 | 28,265 | 5,478,610 |
| - | - | - | 274,033 |
| - | - | - | 153,842 |
| - | 517,981 | 1,008,773 | 1,526,754 |
| - | 1,374 | - | 1,374 |
| \$ 8,665,828 | \$ 3,487,606 | \$ 3,164,701 | \$ 34,773,545 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

| | <u>General</u> | <u>Road and Bridge</u> |
|------------------------------------------------|----------------------|----------------------------|
| <u>Liabilities and Fund Balances</u> | | |
| Liabilities | | |
| Accounts payable | \$ 274,165 | \$ 280,405 |
| Salaries payable | 37,436 | 65,285 |
| Contracts payable | - | 577,839 |
| Due to other funds | 134,038 | - |
| Due to other governments | 35,985 | 8,798 |
| Deferred revenue - unavailable | 153,411 | 3,731,856 |
| Deferred revenue - unearned | 32,852 | - |
| Advance from other funds | - | - |
| Total Liabilities | \$ 667,887 | \$ 4,664,183 |
| Fund Balances | | |
| Reserved for | | |
| Debt service | \$ - | \$ - |
| Encumbrances | - | 331,351 |
| Inventories | - | 274,033 |
| Advances to other funds | 153,842 | - |
| Real estate tax shortfall | 101,159 | - |
| State-aid highway projects | - | 346,205 |
| Missing heirs | 130,612 | - |
| Recorder's compliance | 114,884 | - |
| Recorder's equipment purchases | 105,428 | - |
| Veterans' van | - | - |
| Unreserved | | |
| Designated for cash flows | 3,057,867 | - |
| Designated for compensated absences | 1,386,315 | 403,471 |
| Designated for interest income generation | 4,597,759 | - |
| Designated for property and casualty insurance | 208,392 | 110,322 |
| Designated for equipment replacement | 6,526 | - |
| Designated for workers' compensation | 100,151 | 132,466 |
| Designated for veterans' van operations | 2,026 | - |
| Designated for E-911 | - | - |
| Undesignated | 461,886 | 2,098,645 |
| Unreserved, reported in nonmajor | | |
| Special revenue funds | - | - |
| Debt services funds | - | - |
| Total Fund Balances | \$ 10,426,847 | \$ 3,696,493 |
| Total Liabilities and Fund Balances | \$ 11,094,734 | \$ 8,360,676 |

EXHIBIT 3
(Continued)

| Human Services | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|
| \$ 503,054 | \$ 38,361 | \$ 11,424 | \$ 1,107,409 |
| 13,934 | - | - | 116,655 |
| - | 9,210 | - | 587,049 |
| 19,213 | - | 22,828 | 176,079 |
| 275,012 | - | 2,641 | 322,436 |
| 356,341 | 18,191 | 166,521 | 4,426,320 |
| 21,294 | - | - | 54,146 |
| - | - | 153,842 | 153,842 |
| \$ 1,188,848 | \$ 65,762 | \$ 357,256 | \$ 6,943,936 |
| \$ - | \$ 460,000 | \$ - | \$ 460,000 |
| - | 96,589 | - | 427,940 |
| - | - | - | 274,033 |
| - | - | - | 153,842 |
| - | - | - | 101,159 |
| - | - | - | 346,205 |
| - | - | - | 130,612 |
| - | - | - | 114,884 |
| - | - | - | 105,428 |
| - | 20,123 | - | 20,123 |
| - | - | - | 3,057,867 |
| 1,092,454 | - | - | 2,882,240 |
| - | - | - | 4,597,759 |
| 43,796 | - | - | 362,510 |
| - | - | - | 6,526 |
| 44,968 | - | - | 277,585 |
| - | - | - | 2,026 |
| - | 291,641 | - | 291,641 |
| 6,295,762 | 2,553,491 | - | 11,409,784 |
| - | - | 832,605 | 832,605 |
| - | - | 1,974,840 | 1,974,840 |
| \$ 7,476,980 | \$ 3,421,844 | \$ 2,807,445 | \$ 27,829,609 |
| \$ 8,665,828 | \$ 3,487,606 | \$ 3,164,701 | \$ 34,773,545 |

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|------------------------------|
| Fund balances - total governmental funds (Exhibit 3) | | \$ 27,829,609 |
| Amounts reported for governmental activities in the statement of activities 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. | | 94,811,802 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | 4,426,320 |
| 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 | \$ (2,130,000) | |
| Revenue bonds | (9,505,000) | |
| Capital leases | (60,089) | |
| Compensated absences | (3,739,252) | |
| Deferred charges | 34,895 | |
| Accrued interest payable | (209,657) | |
| | | (15,609,103) |
| Net assets of governmental activities (Exhibit 1) | | <u>\$ 111,458,628</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>General</u> | <u>Road and Bridge</u> |
|-----------------------------------------------------|----------------------|----------------------------|
| Revenues | | |
| Taxes | \$ 10,000,282 | \$ 1,018,147 |
| Special assessments | - | - |
| Licenses and permits | 332,174 | - |
| Intergovernmental | 4,112,621 | 12,131,407 |
| Charges for services | 1,594,817 | 686,344 |
| Fines and forfeits | 68,563 | - |
| Gifts and contributions | 16,480 | - |
| Interest on investments | 569,360 | - |
| Miscellaneous | 820,480 | 164,095 |
| Total Revenues | \$ 17,514,777 | \$ 13,999,993 |
| Expenditures | | |
| Current | | |
| General government | \$ 8,155,189 | \$ - |
| Public safety | 6,346,423 | - |
| Highways and streets | - | 11,752,884 |
| Human services | - | - |
| Health | - | - |
| Culture and recreation | 663,757 | - |
| Conservation of natural resources | 599,028 | - |
| Economic development | 23,013 | - |
| Intergovernmental | | |
| Highways and streets | - | 879,020 |
| Capital outlay | - | - |
| Debt service | | |
| Principal | 55,406 | - |
| Interest | 4,921 | - |
| Total Expenditures | \$ 15,847,737 | \$ 12,631,904 |
| Excess of Revenues Over (Under) Expenditures | \$ 1,667,040 | \$ 1,368,089 |
| Other Financing Sources (Uses) | | |
| Transfers in | \$ - | \$ - |
| Transfers out | (740,462) | (116,458) |
| Proceeds from sale of capital assets | - | - |
| Total Other Financing Sources (Uses) | \$ (740,462) | \$ (116,458) |

EXHIBIT 5

| Human Services | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|
| \$ 5,197,482 | \$ 1,361,969 | \$ 946,580 | \$ 18,524,460 |
| - | 1,052 | 66,859 | 67,911 |
| - | - | - | 332,174 |
| 12,394,889 | 521,996 | 189,993 | 29,350,906 |
| 642,670 | - | - | 2,923,831 |
| - | - | 68,238 | 136,801 |
| - | 5,040 | - | 21,520 |
| - | 49,641 | 19,051 | 638,052 |
| 686,915 | 2,287 | - | 1,673,777 |
| \$ 18,921,956 | \$ 1,941,985 | \$ 1,290,721 | \$ 53,669,432 |
| \$ - | \$ 423,986 | \$ 44,349 | \$ 8,623,524 |
| 671,357 | 481,859 | 10,748 | 7,510,387 |
| - | 1,334,971 | 4,403 | 13,092,258 |
| 16,794,153 | 42,345 | - | 16,836,498 |
| 1,587,774 | 48,741 | - | 1,636,515 |
| - | 21,176 | - | 684,933 |
| - | 25,048 | 78,192 | 702,268 |
| - | - | 59,751 | 82,764 |
| - | - | - | 879,020 |
| - | 956,653 | - | 956,653 |
| - | 20,447 | 560,000 | 635,853 |
| - | 4,794 | 539,473 | 549,188 |
| \$ 19,053,284 | \$ 3,360,020 | \$ 1,296,916 | \$ 52,189,861 |
| \$ (131,328) | \$ (1,418,035) | \$ (6,195) | \$ 1,479,571 |
| \$ - | \$ 221,070 | \$ 857,729 | \$ 1,078,799 |
| (221,809) | - | (70) | (1,078,799) |
| - | 43,988 | - | 43,988 |
| \$ (221,809) | \$ 265,058 | \$ 857,659 | \$ 43,988 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>General</u> | <u>Road and Bridge</u> |
|-------------------------------------------------|----------------------|----------------------------|
| Net Change in Fund Balances | \$ 926,578 | \$ 1,251,631 |
| Fund Balances - January 1 | 9,500,269 | 2,444,671 |
| Increase (decrease) in reserved for inventories | <u>-</u> | <u>191</u> |
| Fund Balances - December 31 | <u>\$ 10,426,847</u> | <u>\$ 3,696,493</u> |

EXHIBIT 5
(Continued)

| Human Services | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---------------------------|--------------------------------|-----------------------------------------|-----------------------------------------|
| \$ (353,137) | \$ (1,152,977) | \$ 851,464 | \$ 1,523,559 |
| 7,830,117 | 4,574,821 | 1,955,981 | 26,305,859 |
| - | - | - | 191 |
| <u>\$ 7,476,980</u> | <u>\$ 3,421,844</u> | <u>\$ 2,807,445</u> | <u>\$ 27,829,609</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 1,523,559**

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 expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

| | | |
|--------------------------------|--------------------|-------------|
| Deferred revenue - December 31 | \$ 4,426,320 | |
| Deferred revenue - January 1 | <u>(5,624,036)</u> | (1,197,716) |

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 | \$ 8,119,011 | |
| Current year depreciation | <u>(4,185,472)</u> | 3,933,539 |

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | | |
|--------------------------|---------------|---------|
| General obligation bonds | \$ 70,000 | |
| Revenue bonds | 490,000 | |
| Capital lease | <u>75,853</u> | 635,853 |

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. | (5,500) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

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 | \$ 11,354 | |
| Change in compensated absences | (225,021) | |
| Change in judgment payable | 109,779 | |
| Change in inventories | <u>191</u> | <u>(103,697)</u> |

Change in net assets of governmental activities (Exhibit 2) **\$ 4,786,038**

WASTE MANAGEMENT PROPRIETARY FUND

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
WASTE MANAGEMENT PROPRIETARY FUND
DECEMBER 31, 2005**

Assets

| | |
|------------------------------------|----------------------|
| Current assets | |
| Cash and pooled investments | \$ 3,961,696 |
| Petty cash and change funds | 18,640 |
| Undistributed cash in agency funds | 68,401 |
| Accounts receivable - net | 305,534 |
| Due from other funds | 8,220 |
| Due from other governments | 160,146 |
| | <hr/> |
| Total current assets | \$ 4,522,637 |
| | |
| Restricted assets | |
| Cash and pooled investments | \$ 1,076,526 |
| | <hr/> |
| Noncurrent assets | |
| Capital assets | |
| Nondepreciable | \$ 89,363 |
| Depreciable - net | 4,330,686 |
| | <hr/> |
| Total noncurrent assets | \$ 4,420,049 |
| | <hr/> |
| Total Assets | \$ 10,019,212 |

Liabilities

| | |
|------------------------------------------------------|---------------------|
| Current liabilities | |
| Accounts payable | \$ 195,525 |
| Salaries payable | 5,102 |
| Compensated absences payable - current | 67,589 |
| Contracts payable | 20,001 |
| Due to other funds | 1,181 |
| Due to other governments | 152,949 |
| | <hr/> |
| Total current liabilities | \$ 442,347 |
| | |
| Noncurrent liabilities | |
| Compensated absences payable - long-term | \$ 204,632 |
| Estimated liability for landfill closure/postclosure | 805,703 |
| | <hr/> |
| Total noncurrent liabilities | \$ 1,010,335 |
| | <hr/> |
| Total Liabilities | \$ 1,452,682 |

Net Assets

| | |
|--------------------------------------------------|---------------------|
| Invested in capital assets - net of related debt | \$ 4,420,049 |
| Restricted for postclosure | 270,823 |
| Unrestricted | 3,875,658 |
| | <hr/> |
| Total Net Assets | \$ 8,566,530 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WASTE MANAGEMENT PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | |
|-----------------------------------------------|---------------------|
| Operating Revenues | |
| Charges for services | \$ 4,317,648 |
| Licenses and permits | 2,320 |
| Sale of recyclable materials | 571,303 |
| Miscellaneous | 34 |
| | <hr/> |
| Total Operating Revenues | \$ 4,891,305 |
| | <hr/> |
| Operating Expenses | |
| SCORE | \$ 978,996 |
| Waste management | 2,380,092 |
| Household hazardous waste | 125,612 |
| Processing costs | 1,817,945 |
| Depreciation | 373,707 |
| Landfill closure and postclosure costs | (26,038) |
| | <hr/> |
| Total Operating Expenses | \$ 5,650,314 |
| | <hr/> |
| Operating Income (Loss) | \$ (759,009) |
| | <hr/> |
| Nonoperating Revenues (Expenses) | |
| Intergovernmental | \$ 186,791 |
| Interest income | 50,713 |
| Miscellaneous | 15,692 |
| | <hr/> |
| Total Nonoperating Revenues (Expenses) | \$ 253,196 |
| | <hr/> |
| Change in Net Assets | \$ (505,813) |
| | <hr/> |
| Net Assets - January 1 | 9,072,343 |
| | <hr/> |
| Net Assets - December 31 | \$ 8,566,530 |
| | <hr/> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
WASTE MANAGEMENT PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

| | |
|----------------------------------------------------------------------------------------------------------------|-----------------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers and users | \$ 4,864,429 |
| Payments to suppliers | (4,213,797) |
| Payments to employees | (1,144,126) |
| | <u> </u> |
| Net cash provided by (used in) operating activities | \$ (493,494) |
| Cash Flows from Noncapital Financing Activities | |
| Intergovernmental | <u>\$ 225,601</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Proceeds from the sale of capital assets | \$ 15,692 |
| Purchases of capital assets | (473,570) |
| | <u> </u> |
| Net cash provided by (used in) capital and related financing activities | \$ (457,878) |
| Cash Flows from Investing Activities | |
| Investment earnings received | <u>\$ 47,891</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ (677,880) |
| Cash and Cash Equivalents at January 1 | <u>5,803,143</u> |
| Cash and Cash Equivalents at December 31 | <u>\$ 5,125,263</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | |
| Operating income (loss) | <u>\$ (759,009)</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | |
| Depreciation expense | \$ 373,707 |
| (Increase) decrease in accounts receivable | (20,682) |
| (Increase) decrease in due from other funds | 4 |
| (Increase) decrease in due from other governments | (6,198) |
| Increase (decrease) in accounts payable | 21,196 |
| Increase (decrease) in salaries payable | 1,132 |
| Increase (decrease) in compensated absences - current | 12,417 |
| Increase (decrease) in due to other funds | (122,722) |
| Increase (decrease) in due to other governments | (4,265) |
| Increase (decrease) in compensated absences - long-term | 36,964 |
| Increase (decrease) in landfill closure/postclosure costs | (26,038) |
| | <u> </u> |
| Total adjustments | \$ 265,515 |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ (493,494)</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 9
(Continued)

**STATEMENT OF CASH FLOWS
WASTE MANAGEMENT PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Cash and Cash Equivalents - Exhibit 7

| | |
|----------------------------------------|----------------------------|
| Cash and pooled investments | \$ 3,961,696 |
| Petty cash and change funds | 18,640 |
| Undistributed cash in agency funds | 68,401 |
| Restricted cash and pooled investments | <u>1,076,526</u> |
| Total Cash and Cash Equivalents | <u>\$ 5,125,263</u> |

FIDUCIARY FUNDS

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005**

| | <u>Agency</u> |
|-----------------------------|----------------------------|
| <u>Assets</u> | |
| Cash and pooled investments | \$ 1,391,987 |
| Accounts receivable | 21,750 |
| Due from other funds | <u>605,707</u> |
| Total Assets | <u>\$ 2,019,444</u> |
| <u>Liabilities</u> | |
| Accounts payable | \$ 24,023 |
| Due to other funds | 604,781 |
| Due to other governments | <u>1,390,640</u> |
| Total Liabilities | <u>\$ 2,019,444</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, 2005**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Otter Tail County was established March 18, 1858, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

The County participates in several joint ventures described in Note 8.B. The County also participates in the jointly-governed organizations described in Note 8.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government. 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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 required to be 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.

The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.

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.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Otter Tail County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include 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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Investment earnings on business-type activities are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$675,957.

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

No allowance has been made for uncollectible receivables.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) 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.

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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.

7. Compensated Absences

The liability for compensated absences reported in 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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered as available to liquidate liabilities of the current period.

9. Long-Term Obligations

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

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

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following funds had deficit fund balances as of December 31, 2005:

| | |
|-----------------------------------|-----------|
| County Ditch Special Revenue Fund | \$ 61,261 |
| Lead Hazard Special Revenue Fund | 8,295 |

The County Ditch Fund's deficit will be eliminated with future special assessment levies against the benefited properties.

The Lead Hazard Fund's deficit balance is caused by a timing difference and will be eliminated when grant funding is received to cover expenditures.

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, 2005.

| | <u>Expenditures</u> | <u>Final Budget</u> | <u>Excess</u> |
|---------------------------|---------------------|---------------------|---------------|
| Special Revenue Funds | | | |
| Human Services | \$ 19,053,284 | \$ 17,775,856 | \$ 1,277,428 |
| Capital Improvement | 3,360,020 | 3,188,196 | 171,824 |
| Sheriff's Contingent | 10,748 | 10,500 | 248 |
| Debt Service Funds | | | |
| Government Service Center | 941,425 | 893,963 | 47,462 |
| Veterans Home | 158,048 | 139,780 | 18,268 |

**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 | \$ 30,091,945 |
| Change funds | 30,740 |
| Restricted assets | |
| Cash with escrow | 1,526,754 |
| Cash and pooled investments | 1,076,526 |
| Fiduciary Assets | |
| Cash and pooled investments | |
| Agency fund | <u>1,391,987</u> |
| Total Cash and Investments | <u><u>\$ 34,117,952</u></u> |

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issue of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk 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, 2005, the County's deposits were not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (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 that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2005, \$1,797,067 of government

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

securities, \$512,949 of commercial paper, and \$6,549,795 of U.S. Treasuries were exposed to custodial credit risk because they were held by the counterparty.

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 investment balances at December 31, 2005, and information relating to potential investment risks:

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|---------------------------------------------|---------------|---------------|----------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5% of Portfolio | Maturity Date | |
| U.S. government agency securities | | | | | |
| Federal Home Loan Mortgage Corporation | AAA | S&P | 5.8% | 6/15/2033 | \$ 990,780 |
| Federal National Mortgage Association | AAA | S&P | | 8/25/2018 | \$ 358,635 |
| Federal National Mortgage Association | AAA | S&P | | 8/25/2018 | 455,815 |
| Federal National Mortgage Association | AAA | S&P | | 6/25/2022 | 96,456 |
| Total Federal National Mortgage Association | | | 5.4% | | \$ 910,906 |
| U.S. Treasury Note | N/A | N/A | | 10/31/06 | \$ 984,570 |
| U.S. Treasury Note | N/A | N/A | | 11/30/06 | 986,130 |
| U.S. Treasury Note | N/A | N/A | | 12/31/06 | 985,900 |
| U.S. Treasury Note | N/A | N/A | | 1/31/07 | 986,020 |
| U.S. Treasury Note | N/A | N/A | | 2/28/07 | 987,810 |
| U.S. Treasury Note | N/A | N/A | | 5/31/07 | 987,420 |
| U.S. Treasury Note | N/A | N/A | | 11/30/07 | 997,070 |
| Total U.S. Treasury Notes | | | N/A | | \$ 6,914,920 |
| U.S. Treasury Bond - Stripped | N/A | N/A | | 8/15/17 | \$ 9,421 |
| U.S. Treasury Bond - Stripped | N/A | N/A | | 8/15/19 | 20,292 |
| Total U.S. Treasury Bonds - Stripped | | | N/A | | \$ 29,713 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|-------------------------------|---------------|---------------|----------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5% of Portfolio | Maturity Date | |
| Commercial Paper | | | | | |
| GE Capital Credit Corporation | P-1 | Moody's | | 1/5/06 | \$ 499,750 |
| GE Capital Credit Corporation | P-1 | Moody's | | 2/2/06 | 498,750 |
| Total Commercial Paper | | | 5.9% | | \$ 998,500 |
| Mutual Fund | | | | | |
| Wells Fargo Government Backed | N/R | N/A | N/A | N/A | \$ 7,120,994 |
| Total investments | | | | | \$ 16,965,813 |
| Deposits | | | | | 15,594,645 |
| Cash with escrow | | | | | 1,526,754 |
| Change funds | | | | | 30,740 |
| Total Cash and Investments | | | | | \$ 34,117,952 |

N/A - Not Applicable

N/R - Not Rated

2. Receivables

Receivables as of December 31, 2005, 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 | \$ 359,904 | \$ - |
| Special assessments | 155,176 | 93,706 |
| Accounts | 414,885 | - |
| Interest | 166,905 | - |
| Due from other governments | 5,478,610 | - |
| Total Governmental Activities | \$ 6,575,480 | \$ 93,706 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|--------------------------------|----------------------|-----------------------------------------------------------------------------|
| Business-Type Activities | | |
| Accounts | \$ 305,534 | \$ - |
| Due from other governments | 160,146 | - |
| Total Business-Type Activities | <u>\$ 465,680</u> | <u>\$ -</u> |

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

Governmental Activities

| | Beginning Balance | Increase | Decrease | Ending Balance |
|-----------------------------------------|-----------------------|---------------------|---------------------|-----------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 2,249,122 | \$ 205,848 | \$ - | \$ 2,454,970 |
| Construction in progress | 12,324,841 | 6,660,212 | 8,024,348 | 10,960,705 |
| Total capital assets not depreciated | <u>\$ 14,573,963</u> | <u>\$ 6,866,060</u> | <u>\$ 8,024,348</u> | <u>\$ 13,415,675</u> |
| Capital assets depreciated | | | | |
| Land improvements | \$ 767,375 | \$ 34,830 | \$ - | \$ 802,205 |
| Buildings | 16,627,877 | 662,587 | - | 17,290,464 |
| Building improvements | 1,889,567 | 1,504,375 | - | 3,393,942 |
| Machinery, furniture, and equipment | 10,639,977 | 823,916 | 249,794 | 11,214,099 |
| Infrastructure | 87,294,307 | 6,251,591 | - | 93,545,898 |
| Total capital assets depreciated | <u>\$ 117,219,103</u> | <u>\$ 9,277,299</u> | <u>\$ 249,794</u> | <u>\$ 126,246,608</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|------------------------------------------------|----------------------|----------------------|---------------------|----------------------|
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 177,407 | \$ 71,148 | \$ - | \$ 248,555 |
| Buildings | 4,652,304 | 416,581 | - | 5,068,885 |
| Building improvements | 248,692 | 61,003 | - | 309,695 |
| Machinery, furniture, and equipment | 6,983,714 | 956,281 | 249,794 | 7,690,201 |
| Infrastructure | 28,852,686 | 2,680,459 | - | 31,533,145 |
| Total accumulated depreciation | \$ 40,914,803 | \$ 4,185,472 | \$ 249,794 | \$ 44,850,481 |
| Total capital assets depreciated, net | \$ 76,304,300 | \$ 5,091,827 | \$ - | \$ 81,396,127 |
| Governmental Activities Capital Assets, Net | <u>\$ 90,878,263</u> | <u>\$ 11,957,887</u> | <u>\$ 8,024,348</u> | <u>\$ 94,811,802</u> |

Business-Type Activities

| | Beginning Balance (Restated) | Increase | Decrease | Ending Balance |
|-------------------------------------------------|------------------------------------|-------------------|-------------|---------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 37,127 | \$ - | \$ - | \$ 37,127 |
| Construction in progress | - | 52,236 | - | 52,236 |
| Total capital assets not depreciated | \$ 37,127 | \$ 52,236 | \$ - | \$ 89,363 |
| Capital assets depreciated | | | | |
| Buildings | \$ 2,959,012 | \$ 388,870 | \$ - | \$ 3,347,882 |
| Landfill | 2,494,100 | - | - | 2,494,100 |
| Machinery, furniture, and equipment | 1,533,356 | 81,729 | 29,359 | 1,585,726 |
| Total capital assets depreciated | \$ 6,986,468 | \$ 470,599 | \$ 29,359 | \$ 7,427,708 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 1,257,922 | \$ 125,717 | \$ - | \$ 1,383,639 |
| Landfill | 823,860 | 87,297 | - | 911,157 |
| Machinery, furniture, and equipment | 670,892 | 160,693 | 29,359 | 802,226 |
| Total accumulated depreciation | \$ 2,752,674 | \$ 373,707 | \$ 29,359 | \$ 3,097,022 |
| Total capital assets depreciated, net | \$ 4,233,794 | \$ 96,892 | \$ - | \$ 4,330,686 |
| Business-Type Activities Capital Assets, Net | <u>\$ 4,270,921</u> | <u>\$ 149,128</u> | <u>\$ -</u> | <u>\$ 4,420,049</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

| | |
|-----------------------------------------------------------------------|--------------|
| Governmental Activities | |
| General government | \$ 620,651 |
| Public safety | 389,460 |
| Highways and streets, including depreciation of infrastructure assets | 3,092,726 |
| Human services | 48,362 |
| Culture and recreation | 2,621 |
| Health | 31,652 |
| | <hr/> |
| Total Depreciation Expense - Governmental Activities | \$ 4,185,472 |
| | <hr/> |
| Business-Type Activities | |
| Solid waste | \$ 373,707 |
| | <hr/> |

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, is as follows:

1. Due To/From Other Funds

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-----------------------------------|---------------------------|---------------|
| General | Human Services | \$ 19,213 |
| | Lead Hazard Control Grant | 22,828 |
| | | <hr/> |
| Total Due to General Fund | | \$ 42,041 |
| | | <hr/> |
| Road and Bridge | General | \$ 641 |
| | Solid Waste | 1,181 |
| | | <hr/> |
| Total Due to Road and Bridge Fund | | \$ 1,822 |
| | | <hr/> |
| Capital Improvement | General | \$ 124,251 |
| | | <hr/> |
| Waste Management | General | \$ 8,220 |
| | | <hr/> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|----------------------------------|---------------------|-------------------|
| Agency Funds | | |
| School Districts | Taxes and Penalties | \$ 219,972 |
| Hospital Districts | Taxes and Penalties | 4,324 |
| Otter Tail County Sewer District | Taxes and Penalties | 930 |
| State Tax Revenue | General | 78 |
| | Taxes and Penalties | 108,253 |
| Towns and Cities | Taxes and Penalties | 269,853 |
| Watershed Districts | Taxes and Penalties | 1,449 |
| Collaborative | General | 848 |
| Total Due to Agency Funds | | <u>\$ 605,707</u> |
| Total Due To/From Other Funds | | <u>\$ 782,041</u> |

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

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|-------------------|
| General | County Ditch | <u>\$ 153,842</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

| | | |
|---------------------------------------------------------------------------------------|---------------------|----------------------------------------------------------|
| Transfers to Capital Improvement Fund from General Fund | \$ 221,000 | Provide County share of funding for E-911 |
| Transfers to Post Employment Fund from General Fund | 518,207 | Establish the new Post Employment Fund |
| Transfer to Sheriff Contingent Fund from General Fund | 1,255 | Cash setup for 2005 budget |
| Transfer to Post Employment Fund from Human Services Fund | 221,809 | Establish the new Post Employment Fund |
| Transfer to Post Employment Fund from Road and Bridge Fund | 116,458 | Establish the new Post Employment Fund |
| Transfer to Capital Improvement Fund from Government Service Center Debt Service Fund | 70 | Transfer balance of bond proceeds from Debt Service Fund |
| Total Transfers between Funds | <u>\$ 1,078,799</u> | |

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|--------------------------|------------------------------------|-------------------------------------|
| Accounts | \$ 1,108,335 | \$ 195,525 |
| Salaries | 116,655 | 5,102 |
| Contracts | 587,049 | 20,001 |
| Due to other governments | 322,436 | 152,949 |
| Total Payables | <u>\$ 2,134,475</u> | <u>\$ 373,577</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2005, for the County's governmental activities are as follows:

| | <u>Deferred Unavailable</u> | <u>Deferred Unearned</u> |
|-------------------------------|---------------------------------|------------------------------|
| Governmental Activities | | |
| Taxes | \$ 402,846 | \$ - |
| State-aid highway allotments | 3,588,348 | - |
| Charges for services | 224,707 | 10,548 |
| Grants | <u>210,419</u> | <u>43,598</u> |
| Total Governmental Activities | <u>\$ 4,426,320</u> | <u>\$ 54,146</u> |

3. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following (amounts in thousands):

| | <u>Spent-to-Date</u> | <u>Remaining Commitment</u> |
|----------------------------|----------------------|---------------------------------|
| Governmental Activities | | |
| Government services boiler | \$ 184,189 | \$ 16,811 |
| Three squad cars | - | 79,778 |
| Snowplow equipment | <u>-</u> | <u>331,351</u> |
| Total | <u>\$ 184,189</u> | <u>\$ 427,940</u> |

4. Other Postemployment Benefits - Retirees

The County provides post-retirement health care benefits for employees who retire or resign in good standing. Seventy-five percent of the employees' accumulated sick leave may be applied toward health insurance premiums. Benefits start from the date they leave the County's employment until death or the balance of their sick leave is depleted, whichever comes first. The rates are based on the County's

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Other Postemployment Benefits - Retirees (Continued)

group health policy rates. After ten years of service, employees have the option of being paid for a portion of their sick leave balance in accordance with the personnel policy instead of applying it toward health insurance.

As of year-end, the County has nine eligible participants. The County finances the plan on a pay-as-you-go basis. During 2005, the County expended \$28,703 for these benefits.

5. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2005:

| <u>Lease</u> | <u>Maturity</u> | <u>Installment</u> | <u>Payment Amount</u> | <u>Original</u> | <u>Balance</u> |
|-------------------------------------------------|-----------------|--------------------|---------------------------|-----------------|------------------|
| Governmental Activities | | | | | |
| 1995 building | 2006 | Monthly | \$ 4,880 | \$ 500,000 | \$ 52,102 |
| 2002 dictaphone equipment | 2006 | Yearly | 8,273 | 35,193 | 7,987 |
| Total Governmental Activities Capital Leases | | | | | <u>\$ 60,089</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

| <u>Year Ending December 31</u> | <u>Governmental Activities</u> |
|-----------------------------------------|------------------------------------|
| 2006 | \$ 61,953 |
| Less: amount representing interest | <u>(1,864)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 60,089</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Long-Term Debt

Governmental Activities

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rates (%) | Original Issue Amount | Outstanding Balance December 31, 2005 |
|-------------------------------------------------------------------------------------------------|-------------------|--------------------------|--------------------------|-----------------------------|------------------------------------------------|
| General Obligation Bonds | | | | | |
| 1996 G.O. Veterans Home Bonds | 2016 | \$50,000 - \$130,000 | 5.50 - 6.00 | \$ 1,500,000 | \$ 1,080,000 |
| 2004 Veterans Home Refunding Bonds | 2016 | \$90,000 - \$125,000 | 2.05 - 3.70 | 1,050,000 | 1,050,000 |
| Total General Obligation Bonds | | | | <u>\$ 2,550,000</u> | <u>\$ 2,130,000</u> |
| Revenue Bonds | | | | | |
| 2002 Government Services Building Lease Housing and Redevelopment Authority Revenue Bonds | 2019 | \$490,000 - \$930,000 | 4.9431 | <u>\$ 9,995,000</u> | <u>\$ 9,505,000</u> |

7. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

Governmental Activities

| Year Ending December 31 | General Obligation Bonds | | Revenue Bonds | |
|----------------------------|--------------------------|-------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$ 75,000 | \$ 92,983 | \$ 450,000 | \$ 431,769 |
| 2007 | 175,000 | 87,747 | 530,000 | 413,675 |
| 2008 | 170,000 | 81,298 | 555,000 | 392,638 |
| 2009 | 180,000 | 74,365 | 580,000 | 369,213 |
| 2010 | 190,000 | 66,695 | 595,000 | 344,244 |
| 2011 - 2015 | 1,085,000 | 194,938 | 3,410,000 | 1,274,926 |
| 2016 - 2019 | <u>255,000</u> | <u>6,213</u> | <u>3,385,000</u> | <u>350,873</u> |
| Total | <u>\$ 2,130,000</u> | <u>\$ 604,239</u> | <u>\$ 9,505,000</u> | <u>\$ 3,577,338</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

Governmental Activities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| Bonds payable | | | | | |
| General obligation bonds | \$ 2,200,000 | \$ - | \$ 70,000 | \$ 2,130,000 | \$ 75,000 |
| Revenue bonds | 9,995,000 | - | 490,000 | 9,505,000 | 450,000 |
| Total bonds payable | \$ 12,195,000 | \$ - | \$ 560,000 | \$ 11,635,000 | \$ 525,000 |
| Capital leases | 135,942 | - | 75,853 | 60,089 | 60,089 |
| Compensated absences | 3,514,231 | 1,512,460 | 1,287,439 | 3,739,252 | 916,476 |
| Governmental Activities Long-Term Liabilities | <u>\$ 15,845,173</u> | <u>\$ 1,512,460</u> | <u>\$ 1,923,292</u> | <u>\$ 15,434,341</u> | <u>\$ 1,501,565</u> |

Business-Type Activities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------|----------------------|------------------|------------------|-------------------|------------------------|
| Compensated absences | <u>\$ 222,840</u> | <u>\$ 99,882</u> | <u>\$ 50,501</u> | <u>\$ 272,221</u> | <u>\$ 67,589</u> |

4. Employee Retirement Systems and Pension Plans

A. 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). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement 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 Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. The rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

| | |
|---------------------------------------|--------|
| Public Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 5.53 |
| Public Employees Police and Fire Fund | 9.30 |
| Public Employees Correctional Fund | 8.75 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

| | Public Employees Retirement Fund | Public Employees Police and Fire Fund | Public Employees Correctional Fund |
|------|-------------------------------------------|------------------------------------------------|---------------------------------------------|
| 2005 | \$ 783,132 | \$ 153,467 | \$ 122,555 |
| 2004 | 733,288 | 146,049 | 114,758 |
| 2003 | 724,675 | 141,971 | 110,241 |

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

5. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$805,703 landfill closure and postclosure care liability at December 31, 2005, represents the cumulative amount reported to date based on the use of 69 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$174,060 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. The Board expects to close the landfill in 2113. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements. At December 31, 2005, investments of \$1,076,526 are held for these purposes. These are reported as restricted assets on the balance sheet. 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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

5. Landfill Closure and Postclosure Care Costs (Continued)

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 for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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 \$760,000 and \$390,000 per claim in 2005 and 2006, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

7. Conduit Debt

In 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,

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

7. Conduit Debt (Continued)

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, 2005, the outstanding principal amount payable was \$5,328,160.

In 2005, Productive Alternatives, Inc., issued a \$775,000 Health Care Facilities Revenue Note, Series 2005, to refinance the financing that exists on the Willows Day Program building, in order to build a new facility in which they can operate their 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, 2005, the outstanding principal amount payable was \$775,000.

8. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

In 2001, the city of Perham issued \$8,215,000 of general obligation bonds to finance or refinance the retrofitting and equipping of the existing municipal solid waste combustion facility. The bonds are payable primarily from the revenues derived from the project; however, if these revenues are not sufficient for the payment of the bonds, then the City shall levy and certify to the County Auditor for collection in the following year a tax at least five percent in excess of the amounts adequate to make good the deficiency. The County has entered into an agreement for waste deliveries to the Perham solid waste facility. Under this agreement, the County has agreed to make payments of its respective share of debt service payments to the City to provide for additional security for the bonds. The possibility that the County may be required to make expenditures for this debt and the amount that may be required cannot be determined at this time.

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; it is expected that the final settlement of these matters will not materially affect the financial statements of the County.

B. Joint Ventures

West Central Area Agency on Aging

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

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

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

Complete financial information can be obtained from:

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Minnesota River Basin

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

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

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

During 2005, Otter Tail County did not contribute any funds to the Joint Powers Board.

Separate financial information can be obtained from:

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

West Central Minnesota Drug Task Force

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Minnesota Drug Task Force (Continued)

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

Beginning January 1, 2003, fiscal agent responsibilities for the Task Force were transferred to Douglas County from Otter Tail County. Financing and equipment will be provided by the full-time and associate member agencies. Otter Tail County did not contribute any funds to this organization in 2005.

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.

C. Jointly-Governed Organizations

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

District IV Transportation Planning

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Otter Tail County Family Services Collaborative

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

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

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

Financing is provided by state and federal grants and cash and in-kind contributions from its member parties. Otter Tail County, in an agent capacity, reports the cash transactions of the Collaborative as an agency fund on its financial statements. During 2005, the County did not contribute any funds to the Collaborative.

REQUIRED SUPPLEMENTARY INFORMATION

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|---------------------------------|-------------------------|----------------------|----------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 11,686,947 | \$ 11,686,947 | \$ 10,000,282 | \$ (1,686,665) |
| Licenses and permits | 349,300 | 349,300 | 332,174 | (17,126) |
| Intergovernmental | 2,386,028 | 2,386,028 | 4,112,621 | 1,726,593 |
| Charges for services | 1,431,550 | 1,431,550 | 1,594,817 | 163,267 |
| Fines and forfeits | 5,568 | 5,568 | 68,563 | 62,995 |
| Gifts and contributions | - | - | 16,480 | 16,480 |
| Investment earnings | 380,000 | 380,000 | 569,360 | 189,360 |
| Miscellaneous | 530,000 | 530,000 | 820,480 | 290,480 |
| Total Revenues | \$ 16,769,393 | \$ 16,769,393 | \$ 17,514,777 | \$ 745,384 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 279,562 | \$ 279,562 | \$ 287,953 | \$ (8,391) |
| Courts | - | - | 38,614 | (38,614) |
| Public defender | 170,500 | 170,500 | 70,853 | 99,647 |
| County coordinator | 392,880 | 392,880 | 385,676 | 7,204 |
| County auditor | 727,876 | 727,876 | 686,427 | 41,449 |
| Motor vehicle | 284,552 | 284,552 | 270,100 | 14,452 |
| County treasurer | 328,764 | 328,764 | 300,393 | 28,371 |
| County assessor | 853,961 | 853,961 | 786,577 | 67,384 |
| Elections | 11,100 | 11,100 | 9,836 | 1,264 |
| Accounting and auditing | 55,000 | 55,000 | 66,959 | (11,959) |
| Board of adjustments | 28,468 | 28,468 | 25,851 | 2,617 |
| Data processing | 704,165 | 704,165 | 698,726 | 5,439 |
| Attorney | 966,173 | 966,173 | 930,130 | 36,043 |
| Recorder | 289,555 | 289,555 | 327,453 | (37,898) |
| Planning and zoning | 796,531 | 796,531 | 790,738 | 5,793 |
| Planning commission | 46,002 | 46,002 | 35,669 | 10,333 |
| Buildings and plant | 1,508,473 | 1,508,473 | 1,548,604 | (40,131) |
| Veterans service officer | 305,924 | 310,124 | 311,174 | (1,050) |
| Other general government | - | - | 2,024 | (2,024) |
| Unallocated | 1,074,200 | 1,074,200 | 581,432 | 492,768 |
| Total general government | \$ 8,823,686 | \$ 8,827,886 | \$ 8,155,189 | \$ 672,697 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|------------------------------------------------|-------------------------|---------------------|---------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Public safety | | | | |
| Sheriff | \$ 3,560,857 | \$ 3,560,857 | \$ 3,228,034 | \$ 332,823 |
| Boat and water safety | 88,275 | 88,275 | 82,753 | 5,522 |
| Coroner | 80,460 | 80,460 | 73,132 | 7,328 |
| County jail | 2,538,145 | 2,538,145 | 2,486,851 | 51,294 |
| DARE program | - | - | 9,424 | (9,424) |
| Civil defense | 84,054 | 84,054 | 86,725 | (2,671) |
| Geographical information survey | 396,738 | 396,738 | 376,904 | 19,834 |
| Other public safety | - | - | 2,600 | (2,600) |
| Total public safety | \$ 6,748,529 | \$ 6,748,529 | \$ 6,346,423 | \$ 402,106 |
| Culture and recreation | | | | |
| Historical society | \$ 43,000 | \$ 43,000 | \$ 43,000 | \$ - |
| Tourism | 6,250 | 6,250 | 6,250 | - |
| County fairs | 22,000 | 22,000 | 22,000 | - |
| Parks | 27,478 | 27,478 | 31,701 | (4,223) |
| Humane society | 28,579 | 28,579 | 28,579 | - |
| Regional library | 371,992 | 371,992 | 371,992 | - |
| Snowmobile trails | - | - | 160,235 | (160,235) |
| Total culture and recreation | \$ 499,299 | \$ 499,299 | \$ 663,757 | \$ (164,458) |
| Conservation of natural resources | | | | |
| Cooperative extension | \$ 303,027 | \$ 303,027 | \$ 383,700 | \$ (80,673) |
| Soil and water conservation | 82,000 | 82,000 | 82,000 | - |
| Predator control | 12,000 | 12,000 | 4,028 | 7,972 |
| Water planning | - | - | 8,292 | (8,292) |
| Other | 103,140 | 103,140 | 121,008 | (17,868) |
| Total conservation of natural resources | \$ 500,167 | \$ 500,167 | \$ 599,028 | \$ (98,861) |
| Economic development | | | | |
| Community development | \$ 17,212 | \$ 17,212 | \$ 17,212 | \$ - |
| Housing authority | 200,000 | 200,000 | - | 200,000 |
| Other | 5,000 | 5,000 | 5,801 | (801) |
| Total economic development | \$ 222,212 | \$ 222,212 | \$ 23,013 | \$ 199,199 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|----------------------------------------|-------------------------|----------------------|----------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Expenditures (Continued) | | | | |
| Debt service | | | | |
| Principal | \$ - | \$ - | \$ 55,406 | \$ (55,406) |
| Interest | \$ - | \$ - | \$ 4,921 | \$ (4,921) |
| Total Expenditures | \$ 16,793,893 | \$ 16,798,093 | \$ 15,847,737 | \$ 950,356 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (24,500) | \$ (28,700) | \$ 1,667,040 | \$ 1,695,740 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | - | - | (740,462) | (740,462) |
| Net Change in Fund Balance | \$ (24,500) | \$ (28,700) | \$ 926,578 | \$ 955,278 |
| Fund Balance - January 1 | 9,500,269 | 9,500,269 | 9,500,269 | - |
| Fund Balance - December 31 | \$ 9,475,769 | \$ 9,471,569 | \$ 10,426,847 | \$ 955,278 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|--------------------------------------------------------|-------------------------|----------------------|----------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 1,181,741 | \$ 1,181,741 | \$ 1,018,147 | \$ (163,594) |
| Intergovernmental | 12,790,359 | 12,790,359 | 12,131,407 | (658,952) |
| Charges for services | 75,500 | 75,500 | 686,344 | 610,844 |
| Miscellaneous | 920,700 | 920,700 | 164,095 | (756,605) |
| Total Revenues | \$ 14,968,300 | \$ 14,968,300 | \$ 13,999,993 | \$ (968,307) |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 478,000 | \$ 478,000 | \$ 404,829 | \$ 73,171 |
| Maintenance | 2,967,000 | 2,967,000 | 3,247,630 | (280,630) |
| Construction | 8,942,200 | 8,942,200 | 7,298,108 | 1,644,092 |
| Equipment maintenance and shop | 864,500 | 864,500 | 801,067 | 63,433 |
| Material and services for resale | 10,000 | 10,000 | 1,250 | 8,750 |
| Total highways and streets | \$ 13,261,700 | \$ 13,261,700 | \$ 11,752,884 | \$ 1,508,816 |
| Intergovernmental | | | | |
| Highways and streets | 905,000 | 905,000 | 879,020 | 25,980 |
| Total Expenditures | \$ 14,166,700 | \$ 14,166,700 | \$ 12,631,904 | \$ 1,534,796 |
| Excess of Revenues Over (Under) Expenditures | \$ 801,600 | \$ 801,600 | \$ 1,368,089 | \$ 566,489 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 54,100 | \$ 54,100 | \$ - | \$ (54,100) |
| Transfers out | - | - | (116,458) | (116,458) |
| Total Other Financing Sources (Uses) | \$ 54,100 | \$ 54,100 | \$ (116,458) | \$ (170,558) |
| Net Change in Fund Balance | \$ 855,700 | \$ 855,700 | \$ 1,251,631 | \$ 395,931 |
| Fund Balance - January 1 | 2,444,671 | 2,444,671 | 2,444,671 | - |
| Increase (decrease) in reserved for inventories | - | - | 191 | 191 |
| Fund Balance - December 31 | \$ 3,300,371 | \$ 3,300,371 | \$ 3,696,493 | \$ 396,122 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|----------------------------------------|-------------------------|----------------------|----------------------|-----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 5,926,202 | \$ 5,926,202 | \$ 5,197,482 | \$ (728,720) |
| Intergovernmental | 10,739,300 | 10,739,300 | 12,394,889 | 1,655,589 |
| Charges for services | 686,622 | 686,622 | 642,670 | (43,952) |
| Miscellaneous | 423,732 | 423,732 | 686,915 | 263,183 |
| Total Revenues | \$ 17,775,856 | \$ 17,775,856 | \$ 18,921,956 | \$ 1,146,100 |
| Expenditures | | | | |
| Current | | | | |
| Public safety | | | | |
| Community corrections | \$ 712,460 | \$ 712,460 | \$ 671,357 | \$ 41,103 |
| Human services | | | | |
| Income maintenance | \$ 3,484,988 | \$ 3,484,988 | \$ 4,214,624 | \$ (729,636) |
| Social services | 11,740,941 | 11,740,941 | 12,292,811 | (551,870) |
| Fuel assistance | 266,984 | 266,984 | 286,718 | (19,734) |
| Total human services | \$ 15,492,913 | \$ 15,492,913 | \$ 16,794,153 | \$ (1,301,240) |
| Health | | | | |
| Nursing service | \$ 1,570,483 | \$ 1,570,483 | \$ 1,587,774 | \$ (17,291) |
| Total Expenditures | \$ 17,775,856 | \$ 17,775,856 | \$ 19,053,284 | \$ (1,277,428) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ - | \$ - | \$ (131,328) | \$ (131,328) |
| Other Financing Sources (Uses) | | | | |
| Transfers out | - | - | (221,809) | (221,809) |
| Net Change in Fund Balance | \$ - | \$ - | \$ (353,137) | \$ (353,137) |
| Fund Balance - January 1 | 7,830,117 | 7,830,117 | 7,830,117 | - |
| Fund Balance - December 31 | \$ 7,830,117 | \$ 7,830,117 | \$ 7,476,980 | \$ (353,137) |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|-----------------------------------|-------------------------|---------------------|---------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 1,549,834 | \$ 1,549,834 | \$ 1,361,969 | \$ (187,865) |
| Special assessments | - | - | 1,052 | 1,052 |
| Intergovernmental | 215,247 | 215,247 | 521,996 | 306,749 |
| Gifts and contributions | - | - | 5,040 | 5,040 |
| Investment earnings | 75,000 | 75,000 | 49,641 | (25,359) |
| Miscellaneous | 55,000 | 55,000 | 2,287 | (52,713) |
| Total Revenues | \$ 1,895,081 | \$ 1,895,081 | \$ 1,941,985 | \$ 46,904 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 5,330 | \$ 5,330 | \$ - | \$ 5,330 |
| County coordinator | 2,500 | 2,500 | - | 2,500 |
| County auditor | 11,000 | 11,000 | 12,735 | (1,735) |
| License bureau | 1,500 | 1,500 | 2,706 | (1,206) |
| County treasurer | 3,000 | 3,000 | - | 3,000 |
| County assessor | 20,300 | 20,300 | 11,176 | 9,124 |
| Elections | 95,905 | 95,905 | 50,385 | 45,520 |
| Data processing | 190,000 | 190,000 | 202,906 | (12,906) |
| Attorney | 39,071 | 39,071 | - | 39,071 |
| Recorder | 46,549 | 46,549 | - | 46,549 |
| Planning and zoning | 55,018 | 55,018 | 38,512 | 16,506 |
| Buildings and plant | 560,000 | 761,000 | 103,782 | 657,218 |
| Veterans service officer | 22,273 | 22,273 | - | 22,273 |
| Other general government | - | - | 1,784 | (1,784) |
| Total general government | \$ 1,052,446 | \$ 1,253,446 | \$ 423,986 | \$ 829,460 |
| Public safety | | | | |
| Sheriff | \$ 409,723 | \$ 409,723 | \$ 299,065 | \$ 110,658 |
| Boat and water safety | 21,000 | 21,000 | 14,804 | 6,196 |
| E-911 system | 195,086 | 195,086 | 87,218 | 107,868 |
| Community corrections | 55,102 | 55,102 | 50,129 | 4,973 |
| Civil defense | 27,068 | 27,068 | - | 27,068 |
| Geographical information survey | 35,000 | 35,000 | 30,643 | 4,357 |
| Other public safety | 28,751 | 28,751 | - | 28,751 |
| Total public safety | \$ 771,730 | \$ 771,730 | \$ 481,859 | \$ 289,871 |
| Highways and streets | | | | |
| Maintenance | \$ 959,800 | \$ 959,800 | \$ 834,971 | \$ 124,829 |
| Equipment and maintenance shop | - | - | 500,000 | (500,000) |
| Total highways and streets | \$ 959,800 | \$ 959,800 | \$ 1,334,971 | \$ (375,171) |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**Schedule 4
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|---------------------------------------------|-------------------------|-----------------------|-----------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Human services | | | | |
| Social services | \$ 60,000 | \$ 60,000 | \$ 42,345 | \$ 17,655 |
| Health | | | | |
| Nursing service | \$ 50,000 | \$ 50,000 | \$ 48,741 | \$ 1,259 |
| Culture and recreation | | | | |
| Phelps Mill Park | \$ 93,220 | \$ 93,220 | \$ 21,176 | \$ 72,044 |
| Conservation of natural resources | | | | |
| Extension | \$ - | \$ - | \$ 25,048 | \$ (25,048) |
| Capital outlay | \$ - | \$ - | \$ 956,653 | \$ (956,653) |
| Debt service | | | | |
| Principal | \$ - | \$ - | \$ 20,447 | \$ (20,447) |
| Interest | \$ - | \$ - | \$ 4,794 | \$ (4,794) |
| Total Expenditures | \$ 2,987,196 | \$ 3,188,196 | \$ 3,360,020 | \$ (171,824) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (1,092,115) | \$ (1,293,115) | \$ (1,418,035) | \$ (124,920) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ - | \$ - | \$ 221,070 | \$ 221,070 |
| Transfers out | 35,000 | 35,000 | - | (35,000) |
| Proceeds from sale of assets | 500,000 | 500,000 | 43,988 | (456,012) |
| Total Other Financing Sources (Uses) | \$ 535,000 | \$ 535,000 | \$ 265,058 | \$ (269,942) |
| Net Change in Fund Balance | \$ (557,115) | \$ (758,115) | \$ (1,152,977) | \$ (394,862) |
| Fund Balance - January 1 | 4,574,821 | 4,574,821 | 4,574,821 | - |
| Fund Balance - December 31 | \$ 4,017,706 | \$ 3,816,706 | \$ 3,421,844 | \$ (394,862) |

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Post Employment Obligation Special Revenue 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. During the year, the Board made budgetary amendments throughout the governmental funds.

Encumbrances (for example, purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures over Budget

The following is a summary of certain individual funds which had expenditures in excess of budgeted expenditures for the year ended December 31, 2005.

| | <u>Expenditures</u> | <u>Final Budget</u> | <u>Excess</u> |
|-----------------------|---------------------|---------------------|---------------|
| Special Revenue Funds | | | |
| Human Services | \$ 19,053,284 | \$ 17,775,856 | \$ 1,277,428 |
| Capital Improvement | 3,360,020 | 3,188,196 | 171,824 |

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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.

Lead Hazard - to account for the financial operations for the Lead Hazard Control grant program.

Post Employment Obligation - to account for the financing and payment of postemployment benefits

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

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

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

| | Special Revenue (Statement B-1) | Debt Service (Statement C-1) | Total Nonmajor Governmental Funds (Exhibit 3) |
|---------------------------------------------|---------------------------------------|------------------------------------|--------------------------------------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 991,442 | \$ 940,674 | \$ 1,932,116 |
| Petty cash and change funds | 1,000 | - | 1,000 |
| Undistributed cash in agency funds | 1,587 | 19,565 | 21,152 |
| Taxes receivable | | | |
| Current | - | 13,396 | 13,396 |
| Prior | - | 5,678 | 5,678 |
| Special assessments receivable | | | |
| Current | 1,584 | - | 1,584 |
| Prior | 1,089 | - | 1,089 |
| Deferred | 151,648 | - | 151,648 |
| Due from other governments | 28,265 | - | 28,265 |
| Restricted cash held in escrow - temporary | - | 1,008,773 | 1,008,773 |
| Total Assets | <u>\$ 1,176,615</u> | <u>\$ 1,988,086</u> | <u>\$ 3,164,701</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 11,424 | \$ - | \$ 11,424 |
| Due to other funds | 22,828 | - | 22,828 |
| Due to other governments | 2,641 | - | 2,641 |
| Deferred revenue - unavailable | 153,275 | 13,246 | 166,521 |
| Advance from other funds | 153,842 | - | 153,842 |
| Total Liabilities | <u>\$ 344,010</u> | <u>\$ 13,246</u> | <u>\$ 357,256</u> |
| Fund Balances | | | |
| Unreserved | | | |
| Designated for debt service | \$ - | \$ 1,974,840 | \$ 1,974,840 |
| Designated for compensated absences | 852,071 | - | 852,071 |
| Undesignated | (19,466) | - | (19,466) |
| Total Fund Balances | <u>\$ 832,605</u> | <u>\$ 1,974,840</u> | <u>\$ 2,807,445</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,176,615</u> | <u>\$ 1,988,086</u> | <u>\$ 3,164,701</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Special Revenue (Statement B-2) | Debt Service (Statement C-2) | Total Nonmajor Governmental Funds (Exhibit 5) |
|---------------------------------------------------------|---------------------------------------|------------------------------------|--------------------------------------------------------|
| Revenues | | | |
| Taxes | \$ - | \$ 946,580 | \$ 946,580 |
| Special assessments | 66,859 | - | 66,859 |
| Intergovernmental | 51,283 | 138,710 | 189,993 |
| Fines and forfeits | 68,238 | - | 68,238 |
| Investment earnings | - | 19,051 | 19,051 |
| Total Revenues | \$ 186,380 | \$ 1,104,341 | \$ 1,290,721 |
| Expenditures | | | |
| Current | | | |
| General government | \$ 44,349 | \$ - | \$ 44,349 |
| Public safety | 10,748 | - | 10,748 |
| Highways and streets | 4,403 | - | 4,403 |
| Conservation of natural resources | 78,192 | - | 78,192 |
| Economic development | 59,751 | - | 59,751 |
| Debt service | | | |
| Principal | - | 560,000 | 560,000 |
| Interest | - | 539,473 | 539,473 |
| Total Expenditures | \$ 197,443 | \$ 1,099,473 | \$ 1,296,916 |
| Excess of Revenues Over (Under) Expenditures | \$ (11,063) | \$ 4,868 | \$ (6,195) |
| Other Financing Sources (Uses) | | | |
| Transfers in | \$ 857,729 | \$ - | \$ 857,729 |
| Transfers out | - | (70) | (70) |
| Total Other Financing Sources (Uses) | \$ 857,729 | \$ (70) | \$ 857,659 |
| Net Change in Fund Balance | \$ 846,666 | \$ 4,798 | \$ 851,464 |
| Fund Balance - January 1 | (14,061) | 1,970,042 | 1,955,981 |
| Fund Balance - December 31 | \$ 832,605 | \$ 1,974,840 | \$ 2,807,445 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2005**

| | <u>County Ditch</u> | <u>Law Library</u> |
|---------------------------------------------|-------------------------|------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 89,948 | \$ 36,673 |
| Petty cash and change funds | - | - |
| Undistributed cash in agency funds | 1,587 | - |
| Special assessments receivable | | |
| Current | 1,584 | - |
| Prior | 1,089 | - |
| Deferred | 151,648 | - |
| Due from other governments | - | 4,562 |
| Total Assets | \$ 245,856 | \$ 41,235 |
| <u>Liabilities and Fund Balances</u> | | |
| Liabilities | | |
| Accounts payable | \$ - | \$ 4,544 |
| Due to other funds | - | - |
| Due to other governments | - | 487 |
| Deferred revenue - unavailable | 153,275 | - |
| Advance from other funds | 153,842 | - |
| Total Liabilities | \$ 307,117 | \$ 5,031 |
| Fund Balances | | |
| Unreserved | | |
| Designated for compensated absences | \$ - | \$ - |
| Undesignated | (61,261) | 36,204 |
| Total Fund Balances | \$ (61,261) | \$ 36,204 |
| Total Liabilities and Fund Balances | \$ 245,856 | \$ 41,235 |

Statement B-1

| Lead Hazard | Post Employment | Sheriff's Contingent | Total (Statement A-1) |
|------------------------|------------------------|---------------------------------|----------------------------------|
| \$ - | \$ 852,071 | \$ 12,750 | \$ 991,442 |
| - | - | 1,000 | 1,000 |
| - | - | - | 1,587 |
| - | - | - | 1,584 |
| - | - | - | 1,089 |
| - | - | - | 151,648 |
| 23,327 | - | 376 | 28,265 |
| \$ 23,327 | \$ 852,071 | \$ 14,126 | \$ 1,176,615 |
| \$ 6,640 | \$ - | \$ 240 | \$ 11,424 |
| 22,828 | - | - | 22,828 |
| 2,154 | - | - | 2,641 |
| - | - | - | 153,275 |
| - | - | - | 153,842 |
| \$ 31,622 | \$ - | \$ 240 | \$ 344,010 |
| \$ - | \$ 852,071 | \$ - | \$ 852,071 |
| (8,295) | - | 13,886 | (19,466) |
| \$ (8,295) | \$ 852,071 | \$ 13,886 | \$ 832,605 |
| \$ 23,327 | \$ 852,071 | \$ 14,126 | \$ 1,176,615 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>County Ditch</u> | <u>Law Library</u> |
|---------------------------------------------------------|-------------------------|------------------------|
| Revenues | | |
| Special assessments | \$ 66,859 | \$ - |
| Intergovernmental | - | - |
| Fines and forfeits | - | 60,431 |
| Total Revenues | \$ 66,859 | \$ 60,431 |
| Expenditures | | |
| Current | | |
| General government | \$ - | \$ 44,349 |
| Public safety | - | - |
| Highways and streets | - | - |
| Conservation of natural resources | 78,192 | - |
| Economic development | - | - |
| Total Expenditures | \$ 78,192 | \$ 44,349 |
| Excess of Revenues Over (Under) Expenditures | \$ (11,333) | \$ 16,082 |
| Other Financing Sources (Uses) | | |
| Transfers in | - | - |
| Net Change in Fund Balance | \$ (11,333) | \$ 16,082 |
| Fund Balance - January 1 | (49,928) | 20,122 |
| Fund Balance - December 31 | \$ (61,261) | \$ 36,204 |

Statement B-2

| Lead Hazard | Post Employment | Sheriff's Contingent | Total (Statement A-2) |
|------------------------|------------------------|---------------------------------|----------------------------------|
| \$ - | \$ - | \$ - | \$ 66,859 |
| 51,283 | - | - | 51,283 |
| - | - | 7,807 | 68,238 |
| \$ 51,283 | \$ - | \$ 7,807 | \$ 186,380 |
| \$ - | \$ - | \$ - | \$ 44,349 |
| - | - | 10,748 | 10,748 |
| - | 4,403 | - | 4,403 |
| - | - | - | 78,192 |
| 59,751 | - | - | 59,751 |
| \$ 59,751 | \$ 4,403 | \$ 10,748 | \$ 197,443 |
| \$ (8,468) | \$ (4,403) | \$ (2,941) | \$ (11,063) |
| - | 856,474 | 1,255 | 857,729 |
| \$ (8,468) | \$ 852,071 | \$ (1,686) | \$ 846,666 |
| 173 | - | 15,572 | (14,061) |
| \$ (8,295) | \$ 852,071 | \$ 13,886 | \$ 832,605 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement C-1

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2005**

| | Government Service Center | Veterans Home | Total (Statement A-1) |
|---------------------------------------------|------------------------------------------|----------------------------|----------------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 739,039 | \$ 201,635 | \$ 940,674 |
| Undistributed cash in agency funds | 16,807 | 2,758 | 19,565 |
| Taxes receivable | | | |
| Current | 11,593 | 1,803 | 13,396 |
| Prior | 4,786 | 892 | 5,678 |
| Restricted cash held in escrow - temporary | - | 1,008,773 | 1,008,773 |
| Total Assets | <u>\$ 772,225</u> | <u>\$ 1,215,861</u> | <u>\$ 1,988,086</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Deferred revenue - unavailable | \$ 11,337 | \$ 1,909 | \$ 13,246 |
| Fund Balances | | | |
| Unreserved | | | |
| Designated for debt service | 760,888 | 1,213,952 | 1,974,840 |
| Total Liabilities and Fund Balances | <u>\$ 772,225</u> | <u>\$ 1,215,861</u> | <u>\$ 1,988,086</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement C-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>Government Service Center</u> | <u>Veterans Home</u> | <u>Total (Statement A-2)</u> |
|---------------------------------------------------------|------------------------------------------|--------------------------|----------------------------------|
| Revenues | | | |
| Taxes | \$ 779,630 | \$ 166,950 | \$ 946,580 |
| Intergovernmental | 119,980 | 18,730 | 138,710 |
| Investment earnings | - | 19,051 | 19,051 |
| Total Revenues | \$ 899,610 | \$ 204,731 | \$ 1,104,341 |
| Expenditures | | | |
| Debt service | | | |
| Principal | \$ 490,000 | \$ 70,000 | \$ 560,000 |
| Interest | 451,425 | 88,048 | 539,473 |
| Total Expenditures | \$ 941,425 | \$ 158,048 | \$ 1,099,473 |
| Excess of Revenues Over (Under) Expenditures | \$ (41,815) | \$ 46,683 | \$ 4,868 |
| Other Financing Sources (Uses) | | | |
| Transfers out | (70) | - | (70) |
| Net Change in Fund Balance | \$ (41,885) | \$ 46,683 | \$ 4,798 |
| Fund Balance - January 1 | 802,773 | 1,167,269 | 1,970,042 |
| Fund Balance - December 31 | \$ 760,888 | \$ 1,213,952 | \$ 1,974,840 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
COUNTY DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|------------------------------------------|-------------------------|--------------------|--------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Special assessments | \$ 136,000 | \$ 136,000 | \$ 66,859 | \$ (69,141) |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Drainage ditches | 136,000 | 136,000 | 78,192 | 57,808 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ - | \$ - | \$ (11,333) | \$ (11,333) |
| Fund Balance - January 1 | (49,928) | (49,928) | (49,928) | - |
| Fund Balance - December 31 | <u>\$ (49,928)</u> | <u>\$ (49,928)</u> | <u>\$ (61,261)</u> | <u>\$ (11,333)</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
LAW LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|----------------------------------------|-------------------------|------------------|------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Fines and forfeits | \$ 58,000 | \$ 58,000 | \$ 60,431 | \$ 2,431 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Law library | 58,000 | 58,000 | 44,349 | 13,651 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ - | \$ - | \$ 16,082 | \$ 16,082 |
| Fund Balance - January 1 | 20,122 | 20,122 | 20,122 | - |
| Fund Balance - December 31 | \$ 20,122 | \$ 20,122 | \$ 36,204 | \$ 16,082 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
LEAD HAZARD SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|----------------------------------------|-------------------------|--------------|----------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Intergovernmental | \$ 566,250 | \$ 566,250 | \$ 51,283 | \$ (514,967) |
| Expenditures | | | | |
| Current | | | | |
| Economic development | | | | |
| Community development | \$ - | \$ - | \$ 8,794 | \$ (8,794) |
| Housing authority | 556,250 | 556,250 | 50,957 | 505,293 |
| Total Expenditures | \$ 556,250 | \$ 556,250 | \$ 59,751 | \$ 496,499 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ 10,000 | \$ 10,000 | \$ (8,468) | \$ (18,468) |
| Fund Balance - January 1 | 173 | 173 | 173 | - |
| Fund Balance - December 31 | \$ 10,173 | \$ 10,173 | \$ (8,295) | \$ (18,468) |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
SHERIFF'S CONTINGENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|----------------------------------------|-------------------------|------------------|------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Fines and forfeits | \$ 5,568 | \$ 5,568 | \$ 7,807 | \$ 2,239 |
| Expenditures | | | | |
| Current | | | | |
| Public safety | | | | |
| Sheriff | 10,500 | 10,500 | 10,748 | (248) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (4,932) | \$ (4,932) | \$ (2,941) | \$ 1,991 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 4,932 | 4,932 | 1,255 | (3,677) |
| Net Change in Fund Balance | \$ - | \$ - | \$ (1,686) | \$ (1,686) |
| Fund Balance - January 1 | 15,572 | 15,572 | 15,572 | - |
| Fund Balance - December 31 | <u>\$ 15,572</u> | <u>\$ 15,572</u> | <u>\$ 13,886</u> | <u>\$ (1,686)</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
GOVERNMENT SERVICE CENTER DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|----------------------------------------|-------------------------|-------------------|--------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 934,422 | \$ 934,422 | \$ 779,630 | \$ (154,792) |
| Intergovernmental | - | - | 119,980 | 119,980 |
| Total Revenues | \$ 934,422 | \$ 934,422 | \$ 899,610 | \$ (34,812) |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 450,000 | \$ 450,000 | \$ 490,000 | \$ (40,000) |
| Interest | 443,963 | 443,963 | 451,425 | (7,462) |
| Total Expenditures | \$ 893,963 | \$ 893,963 | \$ 941,425 | \$ (47,462) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ 40,459 | \$ 40,459 | \$ (41,815) | \$ (82,274) |
| Other Financing Sources (Uses) | | | | |
| Transfers out | - | - | (70) | (70) |
| Net Change in Fund Balance | \$ 40,459 | \$ 40,459 | \$ (41,885) | \$ (82,344) |
| Fund Balance - January 1 | 802,773 | 802,773 | 802,773 | - |
| Fund Balance - December 31 | \$ 843,232 | \$ 843,232 | \$ 760,888 | \$ (82,344) |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
VETERANS HOME DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budgeted Amounts | | Actual | Variance with |
|----------------------------------------|-------------------------|---------------------|---------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 144,656 | \$ 144,656 | \$ 166,950 | \$ 22,294 |
| Intergovernmental | - | - | 18,730 | 18,730 |
| Interest on investments | - | - | 19,051 | 19,051 |
| Total Revenues | \$ 144,656 | \$ 144,656 | \$ 204,731 | \$ 60,075 |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 75,000 | \$ 75,000 | \$ 70,000 | \$ 5,000 |
| Interest | 64,780 | 64,780 | 88,048 | (23,268) |
| Total Expenditures | \$ 139,780 | \$ 139,780 | \$ 158,048 | \$ (18,268) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ 4,876 | \$ 4,876 | \$ 46,683 | \$ 41,807 |
| Fund Balance - January 1 | 1,167,269 | 1,167,269 | 1,167,269 | - |
| Fund Balance - December 31 | \$ 1,172,145 | \$ 1,172,145 | \$ 1,213,952 | \$ 41,807 |

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FIDUCIARY FUNDS

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--------------------------------------------------|----------------------|-------------------|-------------------|------------------------|
| <u>ASSURANCE FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 258 | \$ 258 | \$ - |
| Accounts receivable | 35 | 15 | 35 | 15 |
| Total Assets | \$ 35 | \$ 273 | \$ 293 | \$ 15 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 35 | \$ 273 | \$ 293 | \$ 15 |
| <u>FAMILY SERVICES COLLABORATIVE FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 203,894 | \$ 828,921 | \$ 533,691 | \$ 499,124 |
| Due from other funds | 173 | 848 | 173 | 848 |
| Total Assets | \$ 204,067 | \$ 829,769 | \$ 533,864 | \$ 499,972 |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 60,080 | \$ 24,023 | \$ 60,080 | \$ 24,023 |
| Due to other governments | 143,987 | 805,746 | 473,784 | 475,949 |
| Total Liabilities | \$ 204,067 | \$ 829,769 | \$ 533,864 | \$ 499,972 |
| <u>GAME AND FISH FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 600 | \$ 795 | \$ 1,388 | \$ 7 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 600 | \$ 795 | \$ 1,388 | \$ 7 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement D-1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|-------------------------------------------------------------|--------------------------|----------------------------|----------------------------|-------------------------|
| <u>HOSPITAL DISTRICTS FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 218,893 | \$ 218,893 | \$ - |
| Due from other funds | 2,660 | 4,324 | 2,660 | 4,324 |
| Total Assets | <u>\$ 2,660</u> | <u>\$ 223,217</u> | <u>\$ 221,553</u> | <u>\$ 4,324</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 2,660</u> | <u>\$ 223,217</u> | <u>\$ 221,553</u> | <u>\$ 4,324</u> |
| <u>MORTGAGE REGISTRATION FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ 119,925</u> | <u>\$ 1,333,347</u> | <u>\$ 1,366,137</u> | <u>\$ 87,135</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 119,925</u> | <u>\$ 1,333,347</u> | <u>\$ 1,366,137</u> | <u>\$ 87,135</u> |
| <u>OTTER TAIL LAKES AREA SEWER DISTRICT FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 14,982 | \$ 14,982 | \$ - |
| Due from other funds | 982 | 930 | 982 | 930 |
| Total Assets | <u>\$ 982</u> | <u>\$ 15,912</u> | <u>\$ 15,964</u> | <u>\$ 930</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 982</u> | <u>\$ 15,912</u> | <u>\$ 15,964</u> | <u>\$ 930</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**Statement D-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|-----------------------------------------------|--------------------------|----------------------------|----------------------------|--------------------------|
| <u>SCHOOL DISTRICT FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 8,612,339 | \$ 8,612,339 | \$ - |
| Due from other funds | 209,898 | 219,972 | 209,898 | 219,972 |
| Total Assets | <u>\$ 209,898</u> | <u>\$ 8,832,311</u> | <u>\$ 8,822,237</u> | <u>\$ 219,972</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 209,898</u> | <u>\$ 8,832,311</u> | <u>\$ 8,822,237</u> | <u>\$ 219,972</u> |
| <u>SPECIAL EDUCATION DISTRICT FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 8 | \$ 8 | \$ - |
| Due from other funds | 4 | - | 4 | - |
| Total Assets | <u>\$ 4</u> | <u>\$ 8</u> | <u>\$ 12</u> | <u>\$ -</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 4</u> | <u>\$ 8</u> | <u>\$ 12</u> | <u>\$ -</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**Statement D-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|----------------------------------------|--------------------------|-----------------------------|-----------------------------|--------------------------|
| <u>STATE TAX FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 150,890 | \$ 8,293,127 | \$ 8,315,353 | \$ 128,664 |
| Accounts receivable | 14,619 | 21,735 | 14,619 | 21,735 |
| Due from other funds | 86,609 | 108,331 | 86,609 | 108,331 |
| Total Assets | <u>\$ 252,118</u> | <u>\$ 8,423,193</u> | <u>\$ 8,416,581</u> | <u>\$ 258,730</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 252,118</u> | <u>\$ 8,423,193</u> | <u>\$ 8,416,581</u> | <u>\$ 258,730</u> |
| <u>TAX INCREMENT FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ -</u> | <u>\$ 11,885</u> | <u>\$ 11,885</u> | <u>\$ -</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ -</u> | <u>\$ 11,885</u> | <u>\$ 11,885</u> | <u>\$ -</u> |
| <u>TAXES AND PENALTIES FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ 557,659</u> | <u>\$ 28,637,211</u> | <u>\$ 28,517,813</u> | <u>\$ 677,057</u> |
| <u>Liabilities</u> | | | | |
| Due to other funds | \$ 530,205 | \$ 28,564,935 | \$ 28,490,359 | \$ 604,781 |
| Due to other governments | 27,454 | 72,276 | 27,454 | 72,276 |
| Total Liabilities | <u>\$ 557,659</u> | <u>\$ 28,637,211</u> | <u>\$ 28,517,813</u> | <u>\$ 677,057</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**Statement D-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---------------------------------------|--------------------------|-----------------------------|-----------------------------|--------------------------|
| <u>TOWNS AND CITIES FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 5 | \$ 12,733,630 | \$ 12,733,635 | \$ - |
| Due from other funds | 229,371 | 269,853 | 229,371 | 269,853 |
| Total Assets | <u>\$ 229,376</u> | <u>\$ 13,003,483</u> | <u>\$ 12,963,006</u> | <u>\$ 269,853</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 229,376</u> | <u>\$ 13,003,483</u> | <u>\$ 12,963,006</u> | <u>\$ 269,853</u> |
| <u>WATERSHED DISTRICT FUND</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 30,302 | \$ 30,302 | \$ - |
| Due from other funds | 681 | 1,449 | 681 | 1,449 |
| Total Assets | <u>\$ 681</u> | <u>\$ 31,751</u> | <u>\$ 30,983</u> | <u>\$ 1,449</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 681</u> | <u>\$ 31,751</u> | <u>\$ 30,983</u> | <u>\$ 1,449</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**Statement D-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>Balance January 1</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance December 31</u> |
|--------------------------------------|------------------------------|-----------------------------|-----------------------------|--------------------------------|
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 1,032,973 | \$ 60,715,698 | \$ 60,356,684 | \$ 1,391,987 |
| Accounts receivable | 14,654 | 21,750 | 14,654 | 21,750 |
| Due from other funds | 530,378 | 605,707 | 530,378 | 605,707 |
| Total Assets | <u>\$ 1,578,005</u> | <u>\$ 61,343,155</u> | <u>\$ 60,901,716</u> | <u>\$ 2,019,444</u> |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 60,080 | \$ 24,023 | \$ 60,080 | \$ 24,023 |
| Due to other funds | 530,205 | 28,564,935 | 28,490,359 | 604,781 |
| Due to other governments | 987,720 | 32,754,197 | 32,351,277 | 1,390,640 |
| Total Liabilities | <u>\$ 1,578,005</u> | <u>\$ 61,343,155</u> | <u>\$ 60,901,716</u> | <u>\$ 2,019,444</u> |

OTHER SCHEDULES

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 11

**SCHEDULE OF INVESTMENTS
DECEMBER 31, 2005**

| | Interest Rate (%) | Maturity Date | Fair Value |
|-----------------------------------------------------|------------------------------|------------------------------------------|-----------------------------|
| Cash and Pooled Investments | | | |
| Non-interest checking | - | Continuous | \$ 100,000 |
| Interest bearing checking (4) | Varies | Continuous | 554,493 |
| Money market savings (8) | 0.50 - 3.65 | Continuous | 7,448,750 |
| Certificates of deposit (29) | 1.90 - 4.25 | January 31, 2006 to September 2, 2007 | 7,491,402 |
| Mutual fund | Varies | Continuous | 7,120,994 |
| Commercial paper (2) | 1.13 - 1.15 | January 5, 2006 to February 2, 2006 | 998,500 |
| U.S. Treasury notes (7) | 2.50 - 4.25 | October 31, 2006 to November 30, 2007 | 6,914,920 |
| U.S. Treasury bonds - Stripped interest payment (2) | - | August 15, 2017 to August 15, 2019 | 29,713 |
| Federal National Mortgage Association (3) | 4.50 - 7.50 | August 25, 2018 to June 25, 2022 | 910,906 |
| Federal Home Loan Mortgage Corporation | 5.50 | June 15, 2033 | 990,780 |
| Total Cash and Pooled Investments | | | <u>\$ 32,560,458</u> |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
COUNTY DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2005**

| | Assets | | | | |
|-------------------------|------------------|--------------------|--------------------------------|-----------------|-------------------|
| | Cash | Undistributed Cash | Special Assessments Receivable | | |
| | | | Current | Delinquent | Deferred |
| Judicial Ditches | | | | | |
| 2 | \$ 13,461 | \$ - | \$ - | \$ - | \$ 7,705 |
| 3 | 92 | - | - | - | - |
| County Ditches | | | | | |
| 4 | 9,745 | 1,106 | 998 | 1,068 | 27,187 |
| 5 | 2,572 | 22 | - | - | 1,250 |
| 8 | 162 | - | - | - | - |
| 11 | - | - | - | - | 10,500 |
| 12 | 2,232 | 46 | 20 | - | 3,000 |
| 14 | 68 | - | - | - | - |
| 17 | 475 | - | - | - | - |
| 19 | 240 | - | - | - | - |
| 21 | 3,077 | 54 | 31 | 15 | 2,678 |
| 25 | 337 | - | - | - | - |
| 29 | 2,878 | 216 | 28 | - | 1,293 |
| 37 | 8,276 | 55 | 53 | - | 2,500 |
| 38 | 23,435 | - | - | - | 52,014 |
| 39 | 164 | - | - | - | - |
| 41 | 3,760 | - | - | - | - |
| 43 | 1,161 | 66 | - | - | 750 |
| 44 | 15 | - | - | - | - |
| 45 | 225 | - | - | - | - |
| 48 | 24 | - | - | - | - |
| 52 | 1,279 | - | - | - | 1,000 |
| 53 | 8,335 | - | 453 | - | 23,600 |
| 54 | 92 | - | - | - | - |
| 56 | 5,466 | 22 | - | - | 2,671 |
| 59 | 146 | - | - | - | - |
| 62 | 154 | - | - | - | - |
| 63 | - | - | 1 | 6 | 15,500 |
| 64 | 11 | - | - | - | - |
| 68 | 1,713 | - | - | - | - |
| 70 | 353 | - | - | - | - |
| Total | \$ 89,948 | \$ 1,587 | \$ 1,584 | \$ 1,089 | \$ 151,648 |

Schedule 12

| <u>Total</u> | <u>Liabilities</u> | | | <u>Fund</u> | <u>Total</u> |
|-------------------|--------------------|--------------------|-------------------|---------------------|--------------------|
| | <u>Deferred</u> | <u>Advance</u> | | <u>Balances</u> | |
| | <u>Revenue</u> | <u>from</u> | <u>Total</u> | <u>Unreserved</u> | <u>Liabilities</u> |
| | | <u>Other Funds</u> | | <u>Undesignated</u> | <u>and Fund</u> |
| | | | | | <u>Balances</u> |
| \$ 21,166 | \$ 7,705 | \$ 7,735 | \$ 15,440 | \$ 5,726 | \$ 21,166 |
| 92 | - | - | - | 92 | 92 |
| 40,104 | 28,263 | 32,309 | 60,572 | (20,468) | 40,104 |
| 3,844 | 1,250 | - | 1,250 | 2,594 | 3,844 |
| 162 | - | - | - | 162 | 162 |
| 10,500 | 10,500 | 8,879 | 19,379 | (8,879) | 10,500 |
| 5,298 | 3,000 | 699 | 3,699 | 1,599 | 5,298 |
| 68 | - | - | - | 68 | 68 |
| 475 | - | - | - | 475 | 475 |
| 240 | - | - | - | 240 | 240 |
| 5,855 | 2,688 | - | 2,688 | 3,167 | 5,855 |
| 337 | - | - | - | 337 | 337 |
| 4,415 | 1,321 | 1,705 | 3,026 | 1,389 | 4,415 |
| 10,884 | 2,553 | - | 2,553 | 8,331 | 10,884 |
| 75,449 | 52,014 | 63,744 | 115,758 | (40,309) | 75,449 |
| 164 | - | - | - | 164 | 164 |
| 3,760 | - | - | - | 3,760 | 3,760 |
| 1,977 | 750 | - | 750 | 1,227 | 1,977 |
| 15 | - | - | - | 15 | 15 |
| 225 | - | - | - | 225 | 225 |
| 24 | - | - | - | 24 | 24 |
| 2,279 | 1,000 | - | 1,000 | 1,279 | 2,279 |
| 32,388 | 24,053 | 29,228 | 53,281 | (20,893) | 32,388 |
| 92 | - | - | - | 92 | 92 |
| 8,159 | 2,671 | - | 2,671 | 5,488 | 8,159 |
| 146 | - | - | - | 146 | 146 |
| 154 | - | - | - | 154 | 154 |
| 15,507 | 15,507 | 9,543 | 25,050 | (9,543) | 15,507 |
| 11 | - | - | - | 11 | 11 |
| 1,713 | - | - | - | 1,713 | 1,713 |
| 353 | - | - | - | 353 | 353 |
| \$ 245,856 | \$ 153,275 | \$ 153,842 | \$ 307,117 | \$ (61,261) | \$ 245,856 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 13

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Governmental Funds | Enterprise Fund | All Funds |
|--------------------------------------------|-------------------------------|----------------------------|----------------------|
| Shared Revenue | | | |
| State | | | |
| Highway users tax | \$ 10,820,965 | \$ - | \$ 10,820,965 |
| HACA | 2,630,363 | - | 2,630,363 |
| PERA rate reimbursement | 64,946 | - | 64,946 |
| Disparity reduction aid | 13,695 | - | 13,695 |
| Police aid | 145,838 | - | 145,838 |
| Market value credit - real property | 2,602,659 | - | 2,602,659 |
| Market value credit - mobile home | 13,531 | - | 13,531 |
| Total Shared Revenue | \$ 16,291,997 | \$ - | \$ 16,291,997 |
| Reimbursement for Services | | | |
| State | | | |
| Minnesota Department of Human Services | \$ 4,007,690 | \$ - | \$ 4,007,690 |
| Payments | | | |
| Local | | | |
| Other | \$ 45 | \$ - | \$ 45 |
| Payments in lieu of taxes | 162,419 | - | 162,419 |
| Total Payments | \$ 162,464 | \$ - | \$ 162,464 |
| Grants | | | |
| State | | | |
| Minnesota Department/Board of | | | |
| Agriculture | \$ 71,978 | \$ - | \$ 71,978 |
| Corrections | 341,005 | - | 341,005 |
| Public Safety | 116,005 | - | 116,005 |
| Transportation | 13,583 | - | 13,583 |
| Health | 426,838 | - | 426,838 |
| Natural Resources | 135,637 | - | 135,637 |
| Human Services | 4,183,089 | - | 4,183,089 |
| Soil and Water Resources | 102,700 | - | 102,700 |
| Veterans Services | 4,200 | - | 4,200 |
| Office of Environmental Assistance | - | 186,791 | 186,791 |
| Peace Officer Standards and Training Board | 9,870 | - | 9,870 |
| Total State | \$ 5,404,905 | \$ 186,791 | \$ 5,591,696 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**Schedule 13
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Governmental Funds | Enterprise Fund | All Funds |
|----------------------------------------|-------------------------------|----------------------------|----------------------|
| Grants (Continued) | | | |
| Federal | | | |
| Department of | | | |
| Agriculture | \$ 181,437 | \$ - | \$ 181,437 |
| Housing and Urban Development | 51,283 | - | 51,283 |
| Justice | 1,080 | - | 1,080 |
| Transportation | 1,070,619 | - | 1,070,619 |
| Health and Human Services | 2,149,554 | - | 2,149,554 |
| Homeland Security | 29,877 | - | 29,877 |
| Total Federal | \$ 3,483,850 | \$ - | \$ 3,483,850 |
| Total State and Federal Grants | \$ 8,888,755 | \$ 186,791 | \$ 9,075,546 |
| Total Intergovernmental Revenue | \$ 29,350,906 | \$ 186,791 | \$ 29,537,697 |

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 14

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of Otter Tail County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Otter Tail County and are reported in the "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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Otter Tail County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Otter Tail County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

| | |
|----------------------------------------|--------------|
| Highway Planning and Construction | CFDA #20.205 |
| Social Services Block Grant – Title XX | CFDA #93.667 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Otter Tail County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-6 Segregation of Duties

Due to the limited number of office personnel within several departments of Otter Tail County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. 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 accounting point of view.

We recommend that Otter Tail County's management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that internal control policies and procedures are being followed as directed.

Client's Response:

Otter Tail County understands the importance and purpose of having good segregation of duties. Otter Tail County is also aware that limited personnel in various areas can create situations where segregation of the accounting functions is not always possible to ensure adequate internal accounting control; therefore, Otter Tail County's Management whenever and wherever possible will implement oversight procedures to help ensure that sound internal control policies and procedures are being followed and to provide in the most practical manner the segregation of accounting/financial duties when reasonable and possible.

96-7 Disaster Recovery Plan for Data Processing

The County does not have a written disaster recovery plan. Some elements of disaster recovery procedures are operational: off-site storage of back-up programs and data, off-site supply of special forms, a contract with IBM Business Recovery Services for back-up services in the event of a disaster, and an automated back-up and recovery management system. The continued use of these procedures is advisable but is not sufficient to ensure operational recovery from a physical disaster or major computer outage.

Disaster recovery planning involves predetermined methods and procedures to restore and continue operations in the event of a catastrophic emergency in the data processing area. A written plan should cover the loss of any or all programs, data, forms, computer media, operating instructions, and other documentation.

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

ITEM ARISING THIS YEAR

05-1 Public Health Nurse Receipting Procedures

Our review of the Public Health Nurse Department disclosed the following:

- Receipts are not being written as money is collected.
- Receipts are not being accounted for. One series of receipts is being used in multiple locations, and a log is not being kept of the receipts as they are turned in to the bookkeeper.
- At times, receipts have not been kept intact, making it difficult to determine which receipts correspond to each deposit.
- Receipts are not being turned in on a timely basis. In some instances, there was a two-month time lag between the receipt date and the deposit date.

Internal controls over collections in the Public Health Nurse Department could be improved by implementing the following procedures. Receipts should be written as money is collected, rather than periodically writing receipts for funds that have been collected over a period of time. A separate series of receipts should be used for each location. To account for all receipts within each series, a log of the receipts should be kept and updated as the funds are deposited with the County Treasurer. Receipts should be turned in to the bookkeeper intact and on a timely basis.

We recommend the Public Health Nurse Department review its internal control procedures and make any necessary changes to ensure that all collections are receipted at the time of collection and that all collections and receipts are accounted for.

Client's Response:

The Financial Manager used to open the mail, receipt the checks, do the deposit, and enter payments due to staff shortage. This has now changed. The account technician now opens all pieces of mail, support staff now receipts all checks, the Financial Manager does the deposit, and the account technician enters all payments for services into our computer program.

- 1. Receipts are being written by support staff upon receipt, every day.*
- 2. We now have an Excel log of all receipts that are written, and each deposit has its own log of receipt numbers.*
- 3. We now have receipt books with separate numbering systems for our New York Mills office, our Fergus Falls office, and with out clinics. Both Fergus Falls and New York Mills out clinics have different receipt numbering systems.*
- 4. Each deposit is logged onto an Excel worksheet, and each individual receipt is clipped within its deposit and put into a deposit box with the deposit date.*
- 5. The New York Mills office is now turning in receipts to the Fergus Falls office on a weekly basis; and if no one has to travel between the two offices, they are mailed to the Fergus Falls office.*

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

02-2 Pledged Collateral

Minn. Stat. § 118A.03, subd. 3, requires counties to obtain pledged collateral for amounts on deposit in excess of federal deposit insurance. This statute requires the collateral to be accompanied by an assignment to the municipality from the depository that states that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charge, the collateral pledged. Under Minn. Stat. § 118A.03, subd. 7, collateral must be placed in safekeeping in an appropriate account at a Federal Reserve Bank or financial institution, and the selection must be approved by the government entity. Written documentation of the safekeeping of collateral is the safekeeping receipt.

During 2005, the County Treasurer made several improvements to the collateral files containing documentation supporting the perfection of the pledged collateral. Files now have documentation that the ratings of securities were sufficient to meet the requirements of Minn. Stat. § 118A.03, subd. 2. Written assignments, including a copy of the bank resolution approving the securities identified in the assignments, were on file for all pledged collateral. Safekeeping or substitution receipts were on file to provide an audit trail from the collateral on hand at December 31, 2005, back to the perfected assignment.

The written assignments for three depositories, however, still provide that upon default, the depositor is to provide the bank at least three business days prior written notice and the opportunity to cure the default.

We recommend the County Treasurer continue to work with the banks to ensure compliance with Minn. Stat. § 118A.03.

02-3 Depository Pledge Agreement

In 2001, Wells Fargo Bank changed its procedures for the assignment and substitution of collateral pledged to secure deposits. The new procedures are described in the depository pledge agreement. This agreement provides that if the

aggregate market value of collateral held by the custodian (Federal Reserve Bank of Minneapolis) exceeds the required collateral value (Minn. Stat. § 118A.03, subd. 3), Wells Fargo may withdraw any excess collateral by providing the custodian with a withdrawal notice signed by authorized representatives of Wells Fargo and the County. Additionally, Wells Fargo may substitute eligible securities for any of the collateral held by the custodian at any time by providing the custodian with a substitution notice signed only by an authorized representative of Wells Fargo, provided that the market value of the collateral following such substitution would equal or exceed the required collateral value. Substitutions of securities not of like par value does require the County Treasurer's written confirmation.

The County Treasurer does not receive notification of substitution prior to substitution as required by Minn. Stat. § 118A.03, subd. 5. The County Treasurer receives only a monthly collateral pledge report from the Federal Reserve Bank of Minneapolis verifying the balance of collateral.

We recommend that the County Treasurer obtain notification for the substitution of collateral prior to the substitution.

ITEM ARISING THIS YEAR

05-2

Cash Overdraft

The Lead Hazard Control Grant Fund had a cash overdraft of \$22,828 at December 31, 2005.

Minn. Stat. § 385.04 states that payment of expenditures may only be made if there is money in the fund for that purpose. Minn. Stat. § 385.31 provides for temporary fund transfers with the approval of the County Board and County Auditor.

We recommend that the County either register warrants or borrow from another fund when the cash balances are so low as to cause the account to have a cash deficit when a check is issued on that account.

Client's Response:

The Otter Tail County Auditor will have sufficient funds borrowed from the General Fund to the above referenced fund to eliminate cash overdrafts. This fund is financed completely with grant funds. In the past, expenditures have been paid, and then a reimbursement has been requested from the state agency responsible for the administration of the grant. While the County is waiting for the reimbursement, the fund does have an overdraft. The County has two options to resolve this situation as follows:

- 1. borrow from another County Fund, or*
- 2. request an advance of funds from the grant program.*

Otter Tail County will select Option 1.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

05-3 Uniform and Clothing Allowances

County employees who are covered either by a union contract or the personnel policy are entitled to a uniform or clothing allowance, as stipulated in the contract or personnel policy. The policies regarding uniform or clothing allowances differ among the various contracts and the personnel policy. Our review of County expenditures found that staff within the Building and Plant Department are being reimbursed for items that do not comply with the current policies. In addition, our review noted some items purchased within the Sheriff's Department and the County Jail that may comply with the respective contract or policy, but may not comply with Internal Revenue Service (IRS) regulations regarding purchases of work clothing.

Federal law has long distinguished between non-deductible personal clothing and deductible work clothing. For employees who wear uniforms, the cost of the uniform is deductible only if the uniform is (1) specifically required as a condition of employment, and (2) not of a type adaptable to general usage as ordinary clothing. See, for example, *Pevsner v. Commissioner*, 628 F.2d 467 (5th Cir. 1980);

Rev. Rul. 70-474, 1970-2 C.B. 34; Mimeograph 6463, C.B. 1950-1; IRS Publication 529 (2004). This longstanding distinction is mandatory for tax reporting. If any non-deductible clothing is reimbursed, the expenditure is income and must be included as such on the employee's W-2 (Wage and Tax Statement).

For public employers, the distinction between personal and reimbursable work clothing is important because, while public employers may reimburse officers and employees for valid government expenditures, they lack authority to purchase personal items for officers or employees. Government entities may not make donations or gifts to people, non-profits, charities, etc., unless based upon specific statutory or charter authority. See, for example, Ops. Att'y. Gen. 59a-3 (Aug. 19, 1947), 442a-17 (Jan. 17, 1938), 59-A-3 (May 21, 1948) and (Sept. 28, 1933). Similarly, a government entity cannot provide in-kind benefits to employees unless specific statutory authority exists for the benefit. See Ops. Att'y. Gen. 359b (Oct. 24, 1989) and 61b-12 (Jan. 24, 1989). Public employers should not purchase personal items for employees, including sport coats, jeans, athletic shoes, suits, and briefs.

We recommend that the County discontinue reimbursing staff for personal clothing. W-2 statements prepared for 2006 should include amounts reimbursed for clothing that does not qualify as work clothing under IRS regulations. We further recommend the County Board review the various policies regarding uniform and clothing allowances and address the following items:

- the positions entitled to uniform or clothing allowances,
- the maximum dollar amount allowed for each person, and
- specific clothing items to be allowed for reimbursement.

PREVIOUSLY REPORTED ITEM RESOLVED

Individual Ditch Systems (96-14)

Six of the 31 individual ditch systems had deficit unreserved, undesignated fund balances at December 31, 2004.

Resolution

The County has levied sufficiently to recover the costs and, as the assessments become available to be recognized as revenue, the fund deficit will be eliminated.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees, such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

Schedule 14
(Continued)

If applicable for Otter Tail County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2007 and 2008, respectively.



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board of County Commissioners
Otter Tail County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Otter Tail County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Otter Tail County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 96-6, 96-7, and 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Otter Tail County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Otter Tail County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 02-2, 02-3, and 05-2.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 15, 2006



STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Otter Tail County

Compliance

We have audited the compliance of Otter Tail County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Otter Tail County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Otter Tail County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Otter Tail County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Otter Tail County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 15, 2006. Our audit was performed 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 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 15, 2006

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 15

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------|---------------------|
| U.S. Department of Agriculture | | |
| Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | \$ 177,263 |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grant for the Food Stamp Program | 10.561 | 18,125 |
| Total U.S. Department of Agriculture | | \$ 195,388 |
| U.S. Department of Housing and Urban Development | | |
| Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grant | 14.228 | \$ 26,529 |
| Lead-Based Paint Hazard Control Program | 14.900 | 24,754 |
| Total U.S. Department of Housing and Urban Development | | \$ 51,283 |
| U.S. Department of Justice | | |
| Passed Through Minnesota Department of Public Safety Enforcing Underage Drinking Laws | 16.727 | \$ 1,080 |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance | 20.005 | \$ 3,502 |
| Recreational Trails Program | 20.219 | 60,000 |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction | 20.205 | 629,216 |
| Federal Transit for Non-Urbanized Areas | 20.509 | 126,812 |
| Passed Through Minnesota Department of Public Safety Alcohol Traffic Safety and Drunk Driving Prevention | 20.601 | 18,486 |
| Total U.S. Department of Transportation | | \$ 838,016 |
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Commerce Low-Income Home Energy Assistance | 93.568 | \$ 266,260 |
| Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families | 93.556 | 38,617 |
| Temporary Assistance for Needy Families (TANF) | 93.558 | 354,704 |
| Child Care Mandatory and Matching Funds | 93.596 | 685,738 |

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**Schedule 15
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|------------------------------------------------------------------------|------------------------------------|---------------------|
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Human Services (Continued) | | |
| Children's Justice Grant | 93.643 | 3,345 |
| Alternative Response | 93.645 | 1,510 |
| Foster Care Title IV-E | 93.658 | 133,911 |
| Title XX Social Services Block Grant | 93.667 | 411,197 |
| Chafee Foster Care Independent Living | 93.674 | 12,205 |
| Community Mental Health Services Block Grants | 93.958 | 18,260 |
| Passed Through Minnesota Department of Health | | |
| Immunization Grants | 93.268 | 1,200 |
| Center for Disease Control and Prevention | 93.283 | 65,322 |
| Preventive Health and Health Services | 93.991 | 1,277 |
| Maternal and Child Health Services Block Grant | 93.994 | 71,306 |
| Passed Through West Central Area Agency on Aging | | |
| Title III-B Special Programs for the Aging | 93.044 | 55,686 |
| Total U.S. Department of Health and Human Services | | \$ 2,120,538 |
| U.S. Department of Homeland Security | | |
| Passed Through Minnesota Department of Public Safety | | |
| State Domestic Preparedness Equipment Support Grant | 97.004 | \$ 13,362 |
| Emergency Management Performance Grants | 97.042 | 4,166 |
| Homeland Security Grant | 97.067 | 12,349 |
| Total U.S. Department of Homeland Security | | \$ 29,877 |
| Total Federal Awards | | \$ 3,236,182 |

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Otter Tail County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. Otter Tail County did not pass any federal awards to subrecipients.