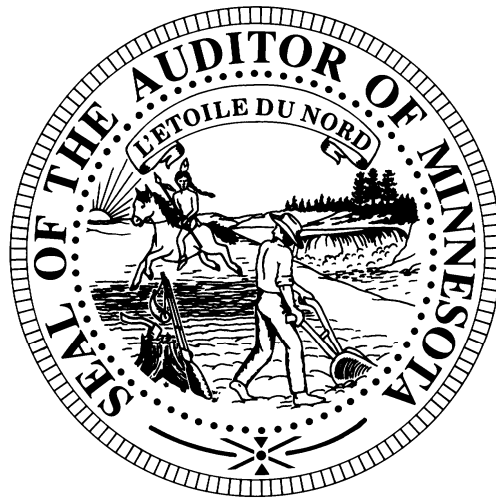


STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

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

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Year Ended December 31, 2007



**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, 2007

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Syd Nelson	District 1	January 2009
Board Member	Everett P. Erickson	District 2	January 2011
Board Member	Dennis Mosher	District 3	January 2009
Board Member	Roger Froemming	District 4	January 2011
Board Member	Robert Block	District 5	January 2009
Attorney	David Hauser		January 2011
Auditor	Wayne Stein		January 2011
Treasurer	Steven Andrews		January 2011
County Recorder	Wendy Metcalf		January 2011
County Sheriff	Brian Schlueter		January 2011
Appointed			
Assessor	Robert Moe		December 2008
County Engineer	Richard West		May 2010
Medical Examiner	Dr. Gregory Smith		Indefinite
County Coordinator	Larry Krohn		Indefinite
Veterans Service Officer	Jourdan Sullivan		Indefinite
Examiner of Titles	Robert Russell		Indefinite
Human Services			
Board			
Chair	Roger Froemming		January 2011
Vice Chair	Dennis Mosher		January 2009
Member	Robert Block		January 2009
Member	Everett P. Erickson		January 2011
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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REBECCA OTTO
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)

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, 2007, 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, 2007, 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 and other schedules listed in the table of contents are presented for purposes of additional analysis and are 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 September 30, 2008, on our consideration of Otter Tail County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 30, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. 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

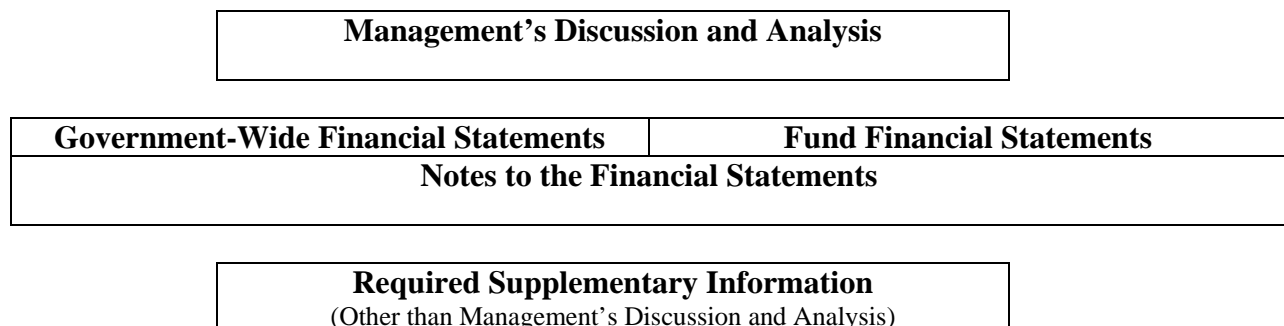
- Governmental activities' total net assets are \$117,019,373, of which Otter Tail County has invested \$91,643,711 in capital assets, net of related debt, and \$11,095,132 is restricted to specific purposes/uses by Otter Tail County.
- Business-type activities have total net assets of \$9,363,345. Invested in capital assets, net of related debt, represents \$4,647,620 of the total, and \$437,138 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 \$126,382,718 for the year ended December 31, 2007. Invested in capital assets, net of related debt, represents \$96,291,331 of the total, \$11,532,270 of the total net assets are restricted for specific uses, and \$18,559,117 is unrestricted.
- The net cost of Otter Tail County's governmental activities for the year ended December 31, 2007, was \$28,271,520. General property tax revenues and other revenue sources totaling \$29,556,111 funded Otter Tail County's total net cost of \$28,271,520.
- Otter Tail County's governmental funds' fund balances increased by \$12,328,493. This increase was the result of a General Fund balance increase of \$1,532,847; a Road and Bridge Special Revenue Fund balance increase of \$538,359; a Human Services Special Revenue Fund balance increase of \$605,718; a Capital Improvement Special Revenue Fund balance increase of \$1,106,530; an increase in fund balance in the Construction Capital Projects Fund of \$7,322,413, which is available to finance two construction projects; and an increase in other governmental funds' fund balances of \$1,222,626.

- The General Fund balance increased by \$1,532,847 due to excess revenues over expenditures of \$1,528,341 plus a transfer in from the Construction Capital Projects Fund of \$24,783 which was offset by operating transfers out to the Capital Improvement Special Revenue Fund and the Sheriff's Contingent Special Revenue Fund totaling \$20,277. For the prior year ended December 31, 2006, excess General Fund revenues over expenditures were \$2,619,191. The \$1,090,850 decline in excess revenues over expenditures is due mainly to the following: a \$322,854 decline in revenues and a \$767,996 increase in expenditures. It should be noted that property tax revenues increased by \$664,450; however, the General Fund experienced decreased intergovernmental revenues of \$667,476, decreased charges for services revenue in the amount of \$260,015, and a decrease in general miscellaneous revenues of \$70,251. General Fund expenditures for general government and culture and recreation declined by \$529,152; however, expenditures for public safety increased by \$473,328, expenditures for conservation of natural resources increased by \$564,771 (South Turtle Lake Project), and expenditures for capital outlay costs increased by \$306,455 (cost of land for the Chemical Dependency Facility).
- The Road and Bridge Special Revenue Fund balance increased by \$538,359 due to excess revenues over expenditures of \$520,601 and an increase in inventory of \$17,758. For the prior year ended December 31, 2006, excess expenditures over revenues totaled \$1,564,188. The \$2,084,789 improvement in excess revenues over expenditures is due mainly to an increase in property tax revenues of \$127,534; an increase in state grant revenue of \$385,345; an increase in federal grant revenue of \$1,253,399; a decrease in maintenance expenditures of \$543,470; and a decrease in construction-related expenditures of \$360,365, which were offset by a decrease in the highway user tax of \$279,431 and a decrease in shared revenues of \$290,989.
- The Human Services Special Revenue Fund balance increased by \$605,718 due to excess revenues over expenditures. For the prior year ended December 31, 2006, excess revenues over expenditures totaled \$326,614. The \$279,104 improvement was due mainly to increased property tax revenues of \$672,376; an increase in intergovernmental revenues of \$322,792; an increase in charges for services revenues of \$370,873, which were offset by a decrease in miscellaneous revenues of \$88,737; an increase in human service expenditures of \$756,053; and an increase in public health expenditures of \$216,291.
- The Capital Improvement Special Revenue Fund balance increased by \$1,106,530 due to excess revenues over expenditures of \$1,039,172, a transfer in from the General Fund of \$20,000, and proceeds from the sale of assets totaling \$47,358. For the prior year ended December 31, 2006, excess expenditures over revenues totaled \$226,432. The \$1,265,604 improvement was due mainly to an increase in property tax revenue of \$69,171, an increase in intergovernmental revenue of \$289,998, an increase in miscellaneous revenues of \$169,975, a decrease in public safety expenditures of \$162,393, and a decrease in highway expenditures of \$517,291.

- The Construction Capital Projects Fund had a fund balance as of December 31, 2007, of \$7,322,413. The purpose of this fund is to finance two significant construction projects--the Ottertail Operations Center and the Chemical Dependency Facility. The balance in this fund is due mainly to bond proceeds not expended by December 31, 2007. Both of these projects are scheduled for completion in 2008, and the fund should be closed in 2009.
- During the year ending December 31, 2007, Otter Tail County issued the following new debt.
 - Subordinate Exempt Facility Revenue Bonds, Series 2007A - \$20,000,000
 - Conduit Debt - Otter Tail AG Enterprises, LLC
 - General Obligation Tax Abatement Bonds, Series 2007B - \$5,245,000
 - Ethanol Plant
 - Taxable General Obligation Tax Abatement Bonds, Series 2007C - \$765,000
 - Ethanol Plant
 - Law Enforcement Lease Revenue Bonds, Series 2007D - \$5,590,000
 - Otter Tail County Unlimited Tax Lease Obligation
 - Public Project Revenue Bonds, Series 2007E - \$6,140,000
 - Chemical Dependency Facility

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

The Statement of Net Assets and the Statement of Activities report information about 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 the 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.

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 its 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 Enterprise 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 Enterprise 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, 2007, were \$126,382,718. 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	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other Assets	\$ 46,187,305	\$ 33,704,457	\$ 6,046,944	\$ 6,002,655	\$ 52,234,249	\$ 39,707,112
Capital assets	105,945,407	98,340,686	4,647,620	4,723,819	110,593,027	103,064,505
Total Assets	\$ 152,132,712	\$ 132,045,143	\$ 10,694,564	\$ 10,726,474	\$ 162,827,276	\$ 142,771,617
Liabilities						
Long-term debt outstanding	\$ 27,190,199	\$ 10,105,000	\$ -	\$ -	\$ 27,190,199	\$ 10,105,000
Other liabilities	7,923,140	6,205,361	1,331,219	1,364,783	9,254,359	7,570,144
Total Liabilities	\$ 35,113,339	\$ 16,310,361	\$ 1,331,219	\$ 1,364,783	\$ 36,444,558	\$ 17,675,144
Net Assets						
Invested in capital assets, net of debt	\$ 91,643,711	\$ 89,813,502	\$ 4,647,620	\$ 4,723,819	\$ 96,291,331	\$ 94,537,321
Restricted	11,095,132	2,872,234	437,138	470,276	11,532,270	3,342,510
Unrestricted	14,280,530	23,049,046	4,278,587	4,167,596	18,559,117	27,216,642
Total Net Assets	\$ 117,019,373	\$ 115,734,782	\$ 9,363,345	\$ 9,361,691	\$ 126,382,718	\$ 125,096,473

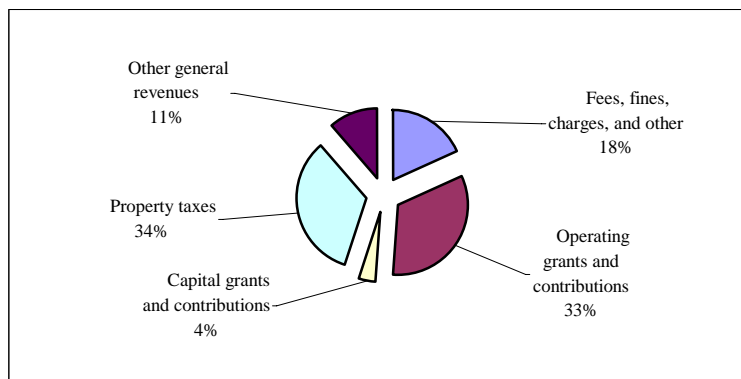
Otter Tail County's total net assets for the year ended December 31, 2007, are \$126,382,718. Unrestricted net assets totaling \$18,559,117 are available to Otter Tail County to finance day-to-day operations. Of the unrestricted net assets, \$14,280,530 is available for governmental activities and \$4,278,587 is available for business-type activities.

**Table 2
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Fees, fines, charges, and other	\$ 5,376,157	\$ 5,649,842	\$ 6,007,584	\$ 5,775,814	\$ 11,383,741	\$ 11,425,656
Operating grants and contributions	21,357,568	21,822,816	212,531	190,182	21,570,099	22,012,998
Capital grants and contributions	2,479,378	687,573	-	-	2,479,378	687,573
General revenues						
Property taxes	22,190,093	20,667,511	-	-	22,190,093	20,667,511
Other taxes	517,516	519,137	-	-	517,516	519,137
Grants and contributions	4,892,809	5,218,250	-	-	4,892,809	5,218,250
Other general revenues	1,955,693	1,786,445	109,155	334,511	2,064,848	2,120,956
Total Revenues	\$ 58,769,214	\$ 56,351,574	\$ 6,329,270	\$ 6,300,507	\$ 65,098,484	\$ 62,652,081
Expenses						
General government	\$ 9,914,616	\$ 9,929,925	\$ -	\$ -	\$ 9,914,616	\$ 9,929,925
Public safety	9,048,023	8,473,673	-	-	9,048,023	8,473,673
Highways and streets	10,807,242	12,526,247	-	-	10,807,242	12,526,247
Human services	17,544,477	16,746,620	-	-	17,544,477	16,746,620
Health	2,160,947	1,957,164	-	-	2,160,947	1,957,164
Culture and recreation	743,710	853,977	-	-	743,710	853,977
Conservation of natural resources	1,311,422	752,089	-	-	1,311,422	752,089
Economic development	5,191,967	353,475	-	-	5,191,967	353,475
Interest	762,219	482,250	-	-	762,219	482,250
Landfill	-	-	6,327,616	5,826,965	6,327,616	5,826,965
Total Expenses	\$ 57,484,623	\$ 52,075,420	\$ 6,327,616	\$ 5,826,965	\$ 63,812,239	\$ 57,902,385
Increase (Decrease) in Net Assets	\$ 1,284,591	\$ 4,276,154	\$ 1,654	\$ 473,542	\$ 1,286,245	\$ 4,749,696

Otter Tail County's total revenues for the year ended December 31, 2007, were \$65,098,484. The total cost of Otter Tail County programs and services for the year ended December 31, 2007, was \$63,812,239. The net assets for Otter Tail County's governmental activities increased by \$1,284,591, due mainly to an increase in capital grants and contributions and property tax revenues and a decrease in highway and street expenditures.

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



(Unaudited)

Governmental Activities

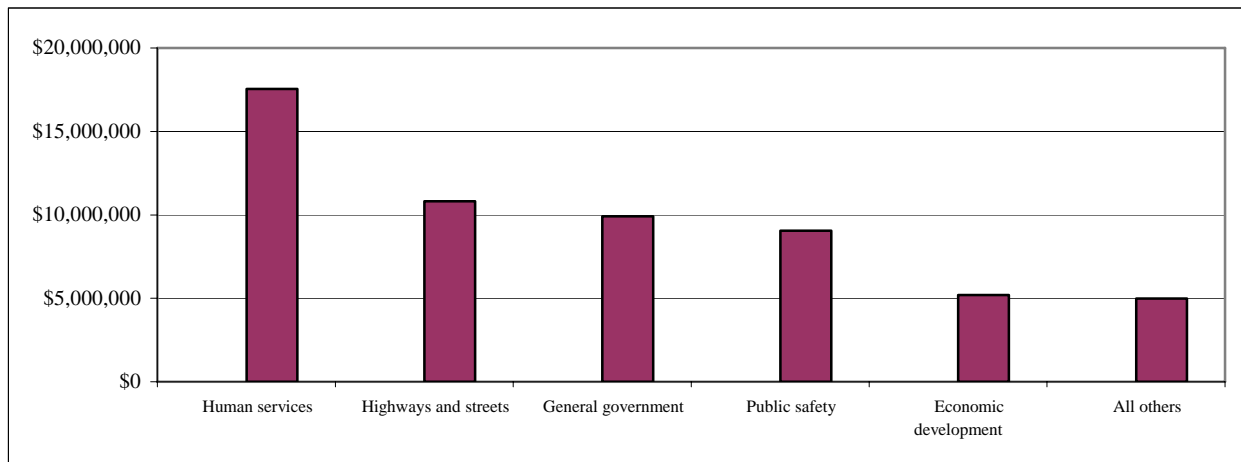
Revenues for Otter Tail County’s governmental activities for the year ended December 31, 2007, were \$58,769,214. Otter Tail County’s costs for all governmental activities for the year ended December 31, 2007, were \$57,484,623. As shown in Otter Tail County’s Statement of Activities, the amount that County taxpayers ultimately financed for these governmental activities through local property taxation was \$22,190,093 because \$5,376,157 of the costs were paid by those who directly benefited from the programs, and \$23,836,946 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 \$7,366,018 in general revenues, primarily grants and contributions, not restricted to specific programs or services, and with other revenues such as investment income, mortgage registration tax, and deed tax.

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

Table 3
Governmental Activities

Program Expenses	2007	
	Total Cost of Services	Net Cost of Services
Human services	\$ 17,544,477	\$ 5,943,710
Highways and streets	10,807,242	(881,486)
General government	9,914,616	7,772,438
Public safety	9,048,023	7,910,119
Economic development	5,191,967	5,020,337
All others	4,978,298	2,506,402
Total Program Expenses	\$ 57,484,623	\$ 28,271,520

Governmental Activities Expenses
2007



Business-Type Activities

Revenues of Otter Tail County's business-type activities (see Table 2) for the year ended December 31, 2007, were \$6,329,270. Expenses of Otter Tail County's business-type activities (see Table 2) for the year ended December 31, 2007, were \$6,327,616.

This compares with total operating revenues of \$5,775,814 and with total nonoperating revenues of \$524,693 for the year ended December 31, 2006. Operating revenues increased by \$231,770; however, nonoperating revenues decreased by \$203,007, resulting in a modest increase in revenues of \$28,763. Nonoperating revenues for the year ended December 31, 2006, included an extraordinary item in the amount of \$250,839 from a court settlement. Operating expenses were \$5,826,965 for the year ended December 31, 2006. General costs increased for waste management expenditures offset by reduced processing costs, for an increase in total expenditures from 2006 to 2007.

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 \$40,631,675, which is above last year's total of \$28,303,182. The fund balance change of \$12,328,493 is due to an increase in the General Fund balance of \$1,532,847, an increase in the Road and Bridge Special Revenue Fund balance of \$538,359, an increase in the Human Services Special Revenue Fund balance of \$605,718, an increase in the Capital Improvement Special Revenue Fund balance of \$1,106,530, an increase in fund balance in the Construction Capital Projects Fund of \$7,322,413, and an increase in the Other Governmental Funds fund balances of \$1,222,626. As you will note, there were significant changes within individual funds. The overall fund balance change represented a 43.6 percent increase. The significant items impacting the individual fund balance changes were noted previously.

Included in this year's total fund balance is Otter Tail County's General Fund balance of \$14,074,796, an increase of \$1,532,847 from 2006. The majority of the General Fund balance is either reserved (\$1,211,504) or unreserved, designated (\$12,243,838) for specific purposes. The fund balance in the Capital Improvement Special Revenue Fund increased by \$1,106,530 and is available to finance future capital equipment needs as identified by management. The Construction Capital Projects Fund, which was a new fund in calendar year 2007, had a fund balance at December 31, 2007, of \$7,322,413, which will be used to complete two significant construction projects in 2008.

General Fund Budgetary Highlights

The Otter Tail County Board of Commissioners, over the course of a budget year, may amend/revise the County's overall operating budget of the General Fund to reflect changes in revenue sources and expenditures that were not anticipated when the budget was established in the prior year. In 2007, the Board of Commissioners did not make any significant budget

revisions to the General Fund budget. If the Board of Commissioners had made changes to the budget as originally adopted on Tuesday, December 19, 2006, 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 \$1,195,866. Total actual expenditures in Otter Tail County's General Fund were over the budgeted expenditures by \$325,055, and transfers out were under budget by \$169,207. 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 2007, Otter Tail County had \$110,593,027 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 \$7,528,522, or 7.3 percent, over last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 3,089,336	\$ 2,570,426	\$ 195,934	\$ 37,127	\$ 3,285,270	\$ 2,607,553
Construction in progress	9,422,382	10,884,372	212,509	151,261	9,634,891	11,035,633
Land improvements	475,056	481,546	-	-	475,056	481,546
Buildings and improvements	14,829,935	15,004,396	1,648,415	1,806,331	16,478,350	16,810,727
Machinery, furniture, and equipment	3,746,620	4,083,826	880,388	1,067,423	4,627,008	5,151,249
Infrastructure	74,382,078	65,316,120	-	-	74,382,078	65,316,120
Landfill	-	-	1,710,374	1,661,677	1,710,374	1,661,677
Totals	<u>\$ 105,945,407</u>	<u>\$ 98,340,686</u>	<u>\$ 4,647,620</u>	<u>\$ 4,723,819</u>	<u>\$ 110,593,027</u>	<u>\$ 103,064,505</u>

During calendar year 2007, Otter Tail County's governmental activities' capital assets, net of depreciation, increased \$7,604,721. This year's major additions include the acquisition of land for the construction of the Otter Tail Operation Center and the Chemical Dependency Facility, and 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 Otter Tail Operation Center for the Sheriff's Department and the Chemical Dependency Center projects were started in 2006 with anticipated completion in early to mid-2008. There were a number of other smaller remodeling and improvement projects completed in 2007.

Otter Tail County's fiscal year 2008 capital budget plans for the expenditure of another \$2,411,021 for equipment, vehicles, and remodeling, and \$11,044,000 for road construction projects. Remodeling/construction plans for the detention facility and building security plans continued to be studied and reviewed. Construction of the Otter Tail Operation Center and the Chemical Dependency Center started in 2007 and will be financed using available funds within the Capital Improvement Special Revenue Fund and by the issuance of general obligation bonds and revenue bonds. 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, 2007, Otter Tail County had \$27,190,199 in bonds and notes outstanding, compared with \$10,105,000 as of December 31, 2006--an increase of 169.08 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business- Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Bonds payable						
General obligation						
bonds	\$ 6,965,000	\$ 1,050,000	\$ -	\$ -	\$ 6,965,000	\$ 1,050,000
Revenue bonds	14,665,000	9,055,000	-	-	14,665,000	9,055,000
Lease revenue bonds	5,590,000	-	-	-	5,590,000	-
Plus: unamortized premium	31,427	-	-	-	31,427	-
Less: unamortized discount	(61,228)	-	-	-	(61,228)	-
Totals	\$ 27,190,199	\$ 10,105,000	\$ -	\$ -	\$ 27,190,199	\$ 10,105,000

In 2007, Otter Tail County's general obligation bonds were upgraded from an "A2" rating to an "A1" rating, and Otter Tail County's revenue bonds were upgraded from an "A3" rating to an "A2" rating. These ratings 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 \$147,766,364 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 2008 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.
- In 2007, Otter Tail County saw a reduction in County program aid of \$200,352. It is anticipated that in 2008, Otter Tail County will see another reduction in County program aid of approximately \$245,202. The projected level of 2008 County program aid is \$2,104,155. This state aid is \$1,271,572 less than the 2003 original certified amount of \$3,375,727 for similar state aids before the state made major cuts. The amount of County program aid certified for 2009 is \$2,193,823.
- Otter Tail County's net tax capacity rates have not seen significant change even though the overall net tax levy has continued to increase. Otter Tail County's Pay 2008 net tax capacity rates were lower than Pay 2007, and it is anticipated that the County's Pay 2009 net tax capacity rates will not change significantly. This is due in great part to Otter Tail County's strong tax base which, combined with the imposition of levy limits and class rate changes, should not result in Pay 2009 rates that are substantially different than the Pay 2008 rates. 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.
- State-imposed levy limitations for calendar years 2009, 2010, and 2011 will need to be carefully reviewed to ensure that Otter Tail County has adequate funding to provide the desired level of services and to meet the demands of the public. Limitation on the availability of property tax revenue may result in increasing the fees charged for services and/or reducing the level of service provided.
- Otter Tail County's unemployment rate for 2008 averaged 6.4 percent through June 30, 2008. Otter Tail County's unemployment rate for 2007 averaged 5.4 percent and for 2006, averaged 4.9 percent. A modest increase; however, should the unemployment rate continue to increase, there could 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 2008 are budgeted to increase approximately 18.3 percent over 2007; however, a significant portion of that increase is due to construction cost and related debt service cost.

- The net property tax levies for 2008 are planned to increase 7.8 percent from 2007.
- Settling union contracts and employment-related cost/issues will affect the future 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 budgets.
- Future facility needs will impact the County's budget, as consideration is currently being given 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.
- In 2008, Otter Tail County will be considering the issuance of debt to assist with a Viking Library System Project.
 -
- The implementation of new technology and the costs associated with implementing the technology and with training staff in the proper use of the technology.
- Other factors considered included:
 - planning and financing for facility needs and the possibility of a jail expansion project;
 - planning and financing for building security;
 - planning and financing court-related costs that have been shifted from the State to the County;
 - internally financing the construction of the Fergus Falls Transfer Station;
 - land development and regulation (ordinance) issues;
 - salary classification study;
 - organizational structure; and
 - a greater demand for services, which has resulted from the growth that Otter Tail County has been experiencing.

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); Jim Myhre, Assistant County Auditor (218-998-8039); or Dawn Godel, Accounting Supervisor (218-998-8037) at the Otter Tail County Government Services Center, 510 Fir Avenue, 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, 2007**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 34,425,353	\$ 4,654,933	\$ 39,080,286
Taxes receivable			
Current - net	322,625	-	322,625
Prior - net	147,825	-	147,825
Special assessments receivable			
Current - net	2,344	-	2,344
Prior - net	246	-	246
Deferred - net	100,584	-	100,584
Accounts receivable - net	290,223	357,300	647,523
Accrued interest receivable	318,556	-	318,556
Internal balances	305,478	(305,478)	-
Due from other governments	3,480,789	142,123	3,622,912
Inventories	311,716	-	311,716
Restricted assets			
Temporarily restricted			
Cash with escrow agent	6,223,239	-	6,223,239
Accrued interest receivable	1,594	-	1,594
Permanently restricted			
Cash and pooled investments	-	1,198,066	1,198,066
Advance to other governments	37,906	-	37,906
Deferred charges	218,827	-	218,827
Capital assets			
Non-depreciable	12,511,718	408,443	12,920,161
Depreciable - net of accumulated depreciation	93,433,689	4,239,177	97,672,866
Total Assets	\$ 152,132,712	\$ 10,694,564	\$ 162,827,276
<u>Liabilities</u>			
Accounts payable	\$ 1,242,101	\$ 188,538	\$ 1,430,639
Salaries payable	158,932	5,396	164,328
Contracts payable	1,235,570	-	1,235,570
Due to other governments	442,182	73,687	515,869
Accrued interest payable	504,792	-	504,792
Unearned revenue	247,361	-	247,361
Long-term liabilities			
Due within one year	1,602,098	71,537	1,673,635
Due in more than one year	29,680,303	992,061	30,672,364
Total Liabilities	\$ 35,113,339	\$ 1,331,219	\$ 36,444,558

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 91,643,711	\$ 4,647,620	\$ 96,291,331
Restricted for			
General government	979,533	-	979,533
Public safety	1,869,586	-	1,869,586
Highways and streets	1,846,073	-	1,846,073
Postclosure	-	437,138	437,138
Human services	4,843,223	-	4,843,223
Debt service	1,422,755	-	1,422,755
Held in trust for other purposes	133,962	-	133,962
Unrestricted	<u>14,280,530</u>	<u>4,278,587</u>	<u>18,559,117</u>
Total Net Assets	<u>\$ 117,019,373</u>	<u>\$ 9,363,345</u>	<u>\$ 126,382,718</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Governmental activities		
General government	\$ 9,914,616	\$ 1,744,920
Public safety	9,048,023	641,414
Highways and streets	10,807,242	277,380
Sanitation	-	65,002
Human services	17,544,477	1,685,336
Health	2,160,947	636,257
Culture and recreation	743,710	-
Conservation of natural resources	1,311,422	323,750
Economic development	5,191,967	2,098
Interest	762,219	-
Total governmental activities	\$ 57,484,623	\$ 5,376,157
Business-type activities		
Solid waste	6,327,616	6,007,584
Total	\$ 63,812,239	\$ 11,383,741

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Change in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 397,258	\$ -	\$ (7,772,438)	\$ -	\$ (7,772,438)
496,490	-	(7,910,119)	-	(7,910,119)
9,532,870	1,878,478	881,486	-	881,486
-	-	65,002	-	65,002
9,315,431	600,000	(5,943,710)	-	(5,943,710)
1,173,752	-	(350,938)	-	(350,938)
108,249	900	(634,561)	-	(634,561)
163,986	-	(823,686)	-	(823,686)
169,532	-	(5,020,337)	-	(5,020,337)
-	-	(762,219)	-	(762,219)
\$ 21,357,568	\$ 2,479,378	\$ (28,271,520)	\$ -	\$ (28,271,520)
212,531	-	-	(107,501)	(107,501)
\$ 21,570,099	\$ 2,479,378	\$ (28,271,520)	\$ (107,501)	\$ (28,379,021)
		\$ 21,170,210	\$ -	\$ 21,170,210
		1,019,883	-	1,019,883
		67,889	-	67,889
		65,540	-	65,540
		4,892,809	-	4,892,809
		384,087	-	384,087
		1,272,855	109,155	1,382,010
		635,480	-	635,480
		47,358	-	47,358
		\$ 29,556,111	\$ 109,155	\$ 29,665,266
		\$ 1,284,591	\$ 1,654	\$ 1,286,245
		115,734,782	9,361,691	125,096,473
		\$ 117,019,373	\$ 9,363,345	\$ 126,382,718

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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, 2007**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 14,241,809	\$ 2,445,353
Petty cash and change funds	10,850	50
Undistributed cash in agency funds (taxes and other)	235,279	21,382
Taxes receivable		
Current	170,149	18,702
Prior	78,072	8,383
Special assessments		
Current	-	524
Prior	-	112
Deferred	-	-
Accounts receivable	107,882	920
Accrued interest receivable	318,556	-
Due from other funds	126,611	642,015
Due from other governments	177,323	2,112,456
Advance to other funds	84,588	-
Advance to other governments	-	37,906
Inventories	-	311,716
Restricted assets		
Temporarily restricted		
Cash with escrow agent	-	-
Accrued interest receivable	-	-
Total Assets	\$ 15,551,119	\$ 5,599,519

EXHIBIT 3

<u>Human Services</u>	<u>Capital Improvement</u>	<u>Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 7,750,766	\$ 3,998,625	\$ 2,248,154	\$ 3,320,770	\$ 34,005,477
200	-	-	1,000	12,100
107,552	25,463	-	18,100	407,776
96,093	22,685	-	14,996	322,625
42,938	10,554	-	7,878	147,825
-	-	-	1,820	2,344
-	-	-	134	246
-	-	-	100,584	100,584
181,421	-	-	-	290,223
-	-	-	-	318,556
-	179,586	-	-	948,212
1,160,938	24,616	-	5,456	3,480,789
-	-	-	-	84,588
-	-	-	-	37,906
-	-	-	-	311,716
-	563,402	5,659,837	-	6,223,239
-	1,594	-	-	1,594
<u>\$ 9,339,908</u>	<u>\$ 4,826,525</u>	<u>\$ 7,907,991</u>	<u>\$ 3,470,738</u>	<u>\$ 46,695,800</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 255,375	\$ 278,418
Salaries payable	70,501	62,867
Contracts payable	-	691,845
Due to other funds	549,062	50
Due to other governments	178,137	49,724
Deferred revenue - unavailable	356,949	1,326,026
Deferred revenue - unearned	66,299	-
Advance from other funds	-	-
	\$ 1,476,323	\$ 2,408,930
Fund Balances		
Reserved for		
Bond contingency	\$ -	\$ -
Encumbrances	-	398,012
Advances to other funds	84,588	-
Inventories	-	311,716
Advances to other governments	-	37,906
Real estate tax shortfall	102,959	-
State-aid highway	-	815,890
Handgun permits	30,544	-
HAVA	70,606	-
Veterans' van	-	-
Missing heirs	133,962	-
Recorder's compliance fund	407,203	-
Recorder's equipment purchases	381,642	-
Unreserved		
Designated for extension programming funds	4,100,957	-
Designated for compensated absences	1,578,957	449,966
Designated for property and casualty insurance	224,882	115,188
Designated for interest income generation	6,166,133	-
Designated for equipment replacement	8,233	-
Designated for workers' compensation	156,508	160,837
Designated for E-911	-	-
Designated for veterans' van	8,168	-
Undesignated	619,454	901,074
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service finds	-	-
	\$ 14,074,796	\$ 3,190,589
Total Fund Balances	\$ 14,074,796	\$ 3,190,589
Total Liabilities and Fund Balances	\$ 15,551,119	\$ 5,599,519

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

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Capital Improvement</u>	<u>Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 628,957	\$ 31,815	\$ 41,853	\$ 5,182	\$ 1,241,600
25,564	-	-	-	158,932
-	-	543,725	-	1,235,570
41,476	24,921	-	27,726	643,235
214,321	-	-	-	442,182
189,216	24,829	-	113,637	2,010,657
181,062	-	-	-	247,361
-	-	-	84,588	84,588
\$ 1,280,596	\$ 81,565	\$ 585,578	\$ 231,133	\$ 6,064,125
\$ -	\$ 460,000	\$ 256,681	\$ 601,078	\$ 1,317,759
-	-	5,578,119	-	5,976,131
-	-	-	-	84,588
-	-	-	-	311,716
-	-	-	-	37,906
-	-	-	-	102,959
-	-	-	-	815,890
-	-	-	-	30,544
-	-	-	-	70,606
-	17,123	-	-	17,123
-	-	-	-	133,962
-	-	-	-	407,203
-	-	-	-	381,642
-	-	-	-	4,100,957
1,229,296	-	-	-	3,258,219
49,280	-	-	-	389,350
-	-	-	-	6,166,133
-	-	-	-	8,233
64,649	-	-	-	381,994
-	464,612	-	-	464,612
-	-	-	-	8,168
6,716,087	3,803,225	1,487,613	-	13,527,453
-	-	-	964,995	964,995
-	-	-	1,673,532	1,673,532
\$ 8,059,312	\$ 4,744,960	\$ 7,322,413	\$ 3,239,605	\$ 40,631,675
\$ 9,339,908	\$ 4,826,525	\$ 7,907,991	\$ 3,470,738	\$ 46,695,800

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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, 2007**

Fund balances - total governmental funds (Exhibit 3)		\$ 40,631,675
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		105,945,407
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,010,657
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	\$ (6,965,000)	
Revenue bonds	(14,665,000)	
Facility lease revenue bonds	(5,590,000)	
Bond discount	61,228	
Bond premiums	(31,427)	
Deferred charges	218,827	
Accrued interest payable	(504,792)	
Compensated absences	(4,082,564)	
Capital leases payable	(9,638)	
	(31,568,366)	(31,568,366)
Net Assets of Governmental Activities (Exhibit 1)		<u><u>\$ 117,019,373</u></u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Road and Bridge
Revenues		
Taxes	\$ 11,915,666	\$ 1,269,823
Special assessments	-	-
Licenses and permits	368,774	-
Intergovernmental	4,448,295	12,920,191
Charges for services	1,624,960	264,914
Fines and forfeits	104,347	-
Gifts and contributions	6,970	-
Investment earnings	988,938	-
Miscellaneous	993,516	20,563
	\$ 20,451,466	\$ 14,475,491
Expenditures		
Current		
General government	\$ 8,982,866	\$ -
Public safety	7,579,984	-
Highways and streets	-	13,095,513
Human services	-	-
Health	-	-
Culture and recreation	731,348	-
Conservation of natural resources	1,296,199	-
Economic development	21,800	-
Intergovernmental		
Highways and streets	-	859,377
Capital outlay		
General government	10,828	-
Public safety	-	-
Human services	295,627	-
Debt service		
Principal	3,694	-
Interest	779	-
Bond issuance costs	-	-
	\$ 18,923,125	\$ 13,954,890
Excess of Revenues Over (Under) Expenditures	\$ 1,528,341	\$ 520,601

EXHIBIT 5

Human Services	Capital Improvement	Construction	Other Governmental Funds	Total
\$ 6,539,272	\$ 1,540,996	\$ -	\$ 1,018,692	\$ 22,284,449
-	60	-	69,349	69,409
-	-	-	-	368,774
11,996,432	830,885	-	287,600	30,483,403
1,771,759	2,561	-	-	3,664,194
-	-	-	74,249	178,596
-	-	-	-	6,970
-	108,337	2,074	27,802	1,127,151
602,858	174,387	-	635	1,791,959
\$ 20,910,321	\$ 2,657,226	\$ 2,074	\$ 1,478,327	\$ 59,974,905
\$ -	\$ 378,229	\$ -	\$ 47,133	\$ 9,408,228
797,782	374,075	-	7,082	8,758,923
-	376,704	-	27,726	13,499,943
17,404,794	67,200	-	-	17,471,994
2,102,027	27,080	-	-	2,129,107
-	3,142	-	-	734,490
-	-	-	15,934	1,312,133
-	-	5,000,000	170,167	5,191,967
-	-	-	-	859,377
-	42,402	-	-	53,230
-	16,421	3,520,142	-	3,536,563
-	332,801	549,914	-	1,178,342
-	-	-	625,000	628,694
-	-	-	447,710	448,489
-	-	73,885	137,470	211,355
\$ 20,304,603	\$ 1,618,054	\$ 9,143,941	\$ 1,478,222	\$ 65,422,835
\$ 605,718	\$ 1,039,172	\$ (9,141,867)	\$ 105	\$ (5,447,930)

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Road and Bridge
Other Financing Sources (Uses)		
Transfers in	\$ 24,783	\$ -
Transfers out	(20,277)	-
Proceeds from sale of capital assets	-	-
Proceeds from sale of bonds	-	-
Premium on bonds/notes issued	-	-
Discount on bonds/notes issued	-	-
	\$ 4,506	\$ -
Change in Fund Balance	\$ 1,532,847	\$ 520,601
Fund Balance - January 1	12,541,949	2,652,230
Increase (decrease) in reserved for inventories	-	17,758
	\$ 14,074,796	\$ 3,190,589
Fund Balance - December 31	\$ 14,074,796	\$ 3,190,589

EXHIBIT 5
(Continued)

<u>Human Services</u>	<u>Capital Improvement</u>	<u>Construction</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ -	\$ 20,000	\$ 10,409,849	\$ 277	\$ 10,454,909
-	-	(24,783)	(10,409,849)	(10,454,909)
-	47,358	-	-	47,358
-	-	6,140,000	11,600,000	17,740,000
-	-	-	33,069	33,069
-	-	(60,786)	(976)	(61,762)
<u>\$ -</u>	<u>\$ 67,358</u>	<u>\$ 16,464,280</u>	<u>\$ 1,222,521</u>	<u>\$ 17,758,665</u>
\$ 605,718	\$ 1,106,530	\$ 7,322,413	\$ 1,222,626	\$ 12,310,735
7,453,594	3,638,430	-	2,016,979	28,303,182
-	-	-	-	17,758
<u>\$ 8,059,312</u>	<u>\$ 4,744,960</u>	<u>\$ 7,322,413</u>	<u>\$ 3,239,605</u>	<u>\$ 40,631,675</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 12,310,735

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

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

Deferred revenue - December 31	\$ 2,010,657	
Deferred revenue - January 1	<u>(3,263,706)</u>	(1,253,049)

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	\$ 12,455,698	
Current year depreciation	<u>(4,850,977)</u>	7,604,721

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Net proceeds for debt issuance		(17,499,952)
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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	\$ 95,000	
Revenue bonds	530,000	
Capital lease	<u>3,694</u>	628,694

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	\$ (314,838)	
Amortization of premiums, discounts, and deferred issuance charges	(22,854)	
Change in compensated absences	(186,624)	
Change in inventories	<u>17,758</u>	<u>(506,558)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,284,591

PROPRIETARY FUND

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
WASTE MANAGEMENT ENTERPRISE FUND
DECEMBER 31, 2007**

Assets

Current assets	
Cash and pooled investments	\$ 4,573,571
Undistributed cash in agency funds	62,722
Petty cash and change funds	18,640
Accounts receivable - net	357,300
Due from other funds	15,933
Due from other governments	142,123
Total current assets	\$ 5,170,289
Restricted assets	
Cash and pooled investments	\$ 1,198,066
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 408,443
Depreciable - net	4,239,177
Total noncurrent assets	\$ 4,647,620
Total Assets	\$ 11,015,975

Liabilities

Current liabilities	
Accounts payable	\$ 188,538
Salaries payable	5,396
Compensated absences payable - current	71,537
Due to other funds	321,411
Due to other governments	73,687
Total current liabilities	\$ 660,569
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 231,133
Estimated liability for landfill closure/postclosure	760,928
Total noncurrent liabilities	\$ 992,061
Total Liabilities	\$ 1,652,630

Net Assets

Invested in capital assets - net of related debt	\$ 4,647,620
Restricted for postclosure	437,138
Unrestricted	4,278,587
Total Net Assets	\$ 9,363,345

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

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WASTE MANAGEMENT ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

Operating Revenues	
Charges for services	\$ 5,216,836
License and permits	2,230
Sale of recyclable materials	788,517
Miscellaneous	<u>1</u>
Total Operating Revenues	<u>\$ 6,007,584</u>
Operating Expenses	
SCORE	\$ 1,138,916
Waste management	4,438,289
Household hazardous waste	146,143
Processing costs	20,747
Depreciation	518,642
Landfill closure and postclosure costs	<u>64,879</u>
Total Operating Expenses	<u>\$ 6,327,616</u>
Operating Income (Loss)	<u>\$ (320,032)</u>
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 179,434
Interest income	<u>142,252</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 321,686</u>
Change in Net Assets	\$ 1,654
Net Assets - January 1	<u>9,361,691</u>
Net Assets - December 31	<u><u>\$ 9,363,345</u></u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
WASTE MANAGEMENT ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 5,973,593
Payments to suppliers	(4,203,046)
Payments to employees	(1,348,532)
	\$ 422,015
Cash Flows from Noncapital Financing Activities	
Intergovernmental	179,434
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(493,368)
Cash Flows from Investing Activities	
Investment earnings received	139,374
	\$ 247,455
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 247,455
Cash and Cash Equivalents at January 1	5,605,544
Cash and Cash Equivalents at December 31	\$ 5,852,999
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (320,032)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 518,642
(Increase) decrease in accounts receivable	(213)
(Increase) decrease in due from other governments	(30,100)
(Increase) decrease in due from other funds	(3,678)
Increase (decrease) in accounts payable	17,423
Increase (decrease) in salaries payable	(1,428)
Increase (decrease) in compensated absences - current	1,052
Increase (decrease) in due to other funds	240,035
Increase (decrease) in due to other governments	(5,072)
Increase (decrease) in compensated absences - long-term	16,589
Increase (decrease) in contracts payable	(76,082)
Increase (decrease) in landfill closure/postclosure costs	64,879
	\$ 742,047
Total adjustments	\$ 742,047
Net Cash Provided by (Used in) Operating Activities	\$ 422,015

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

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

***EXHIBIT 9
(Continued)***

**STATEMENT OF CASH FLOWS
WASTE MANAGEMENT ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007
Increase (Decrease) in Cash and Cash Equivalents**

Cash and Cash Equivalents - Exhibit 7

Cash and pooled investments	\$ 4,573,571
Petty cash and change funds	18,640
Undistributed cash in agency funds	62,722
Restricted cash and pooled investments	<u>1,198,066</u>
Total Cash and Cash Equivalents	<u>\$ 5,852,999</u>

FIDUCIARY FUNDS

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2007**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,261,962
Accounts receivable	19,737
Due from other funds	<u>611,063</u>
Total Assets	<u><u>\$ 1,892,762</u></u>
<u>Liabilities</u>	
Accounts payable	\$ 14,688
Due to other funds	610,562
Due to other governments	<u>1,267,512</u>
Total Liabilities	<u><u>\$ 1,892,762</u></u>

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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, 2007. 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 County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 Construction Capital Projects Fund is used to account for the construction of the Sheriff's Operations Center, Chemical Dependency Facility, and the purchase of equipment for the ethanol plant.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

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

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 2007 were \$1,277,661.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

No allowance has been made for uncollectible receivables.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Advance to Other Governments

Noncurrent portions of intergovernmental advances, reported as “Advance to other government,” are offset by a fund balance reserve account, which indicates that they do not constitute available resources.

In 2007, an advance of \$47,906 was made to the City of Underwood to cover the local share requirement for S.A.P. 56-635-30. In June 2007, the City repaid \$10,000. The balance of \$37,906 as of December 31, 2007, will be repaid in annual installments of \$10,000 through 2010, with the remaining \$7,906 due in 2011.

5. 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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Restricted Assets

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

7. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Capital Assets (Continued)

The County landfill is depreciated based on capacity used.

8. 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.

9. Deferred Revenue

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

10. Long-Term Obligations

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Long-Term Obligations (Continued)

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

11. 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.

12. Use of Estimates

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

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, 2007.

	Expenditures	Final Budget	Excess
General Revenue Fund	\$ 18,923,125	\$ 18,598,070	\$ 325,055
Human Services Special Revenue Fund	20,304,603	19,669,789	634,814
Veterans Home Debt Service Fund	126,735	120,330	6,405

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	\$ 39,080,286
Restricted assets	
Cash with escrow agent	6,223,239
Cash and pooled investments	1,198,066
Fiduciary Assets	
Cash and pooled investments	
Agency fund	1,261,962
Total Cash and Investments	\$ 47,763,553

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 County 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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk 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, 2007, 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;

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County invests only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2007, \$1,354,620 of government securities, \$493,085 of commercial paper, and \$6,696,759 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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table represents the County's deposit and investment balances at December 31, 2007, 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%	06/15/2033	\$ 612,841
Federal National Mortgage Association	AAA	S&P		08/25/2018	\$ 446,643
Federal National Mortgage Association	AAA	S&P		08/25/2018	327,497
Federal National Mortgage Association	AAA	S&P		06/25/2022	47,934
Total Federal National Mortgage Association			<5%		\$ 822,074
U.S. Treasury Note	N/A	N/A		10/15/2008	\$ 998,280
U.S. Treasury Note	N/A	N/A		11/15/2008	1,007,890
U.S. Treasury Note	N/A	N/A		12/31/2008	1,014,060
U.S. Treasury Note	N/A	N/A		01/31/2009	1,017,730
U.S. Treasury Note	N/A	N/A		02/28/2009	2,036,880
Total U.S. Treasury Notes			N/A		\$ 6,074,840
U.S. Treasury Bond	N/A	N/A		11/30/2009	\$ 1,001,090
U.S. Treasury Bond - stripped	N/A	N/A		08/15/2017	\$ 10,615
U.S. Treasury Bond - stripped	N/A	N/A		08/15/2019	22,629
Total U.S. Treasury Bonds - stripped			N/A		\$ 33,244
Commercial paper					
GE Capital Credit Corporation	P-1	Moody's		04/01/2008	\$ 491,375
GE Capital Credit Corporation	P-1	Moody's		07/21/2008	485,250
Total commercial paper			4.8%		\$ 976,625
Mutual Fund					
Wells Fargo Government Backed	N/R	N/A	N/A	N/A	\$ 3,546,059

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Total investments					\$ 13,066,773
Deposits					28,442,801
Cash with escrow					6,223,239
Change funds					30,740
Total Cash and Investments					<u>\$ 47,763,553</u>

<5% - Concentration is less than 5% of investments
N/A - Not Applicable
N/R - Not Rated

2. Receivables

Receivables as of December 31, 2007, 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	\$ 470,450	\$ -
Special assessments	103,174	41,727
Accounts	290,223	-
Interest	318,556	-
Due from other governments	3,480,789	-
Total Governmental Activities	<u>\$ 4,663,192</u>	<u>\$ 41,727</u>
Business-Type Activities		
Accounts	\$ 357,300	\$ -
Due from other governments	142,123	-
Total Business-Type Activities	<u>\$ 499,423</u>	<u>\$ -</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,570,426	\$ 519,410	\$ 500	\$ 3,089,336
Construction in progress	10,884,372	11,160,363	12,622,353	9,422,382
Total capital assets not depreciated	<u>\$ 13,454,798</u>	<u>\$ 11,679,773</u>	<u>\$ 12,622,853</u>	<u>\$ 12,511,718</u>
Capital assets depreciated				
Land improvements	\$ 802,205	\$ 67,378	\$ -	\$ 869,583
Buildings	17,290,464	129,714	48,585	17,371,593
Building improvements	3,613,474	223,053	-	3,836,527
Machinery, furniture, and equipment	11,973,701	765,413	526,457	12,212,657
Infrastructure	99,639,387	12,213,220	-	111,852,607
Total capital assets depreciated	<u>\$ 133,319,231</u>	<u>\$ 13,398,778</u>	<u>\$ 575,042</u>	<u>\$ 146,142,967</u>
Less: accumulated depreciation for				
Land improvements	\$ 320,659	\$ 73,868	\$ -	\$ 394,527
Buildings	5,495,411	424,468	48,585	5,871,294
Building improvements	404,131	102,760	-	506,891
Machinery, furniture, and equipment	7,889,875	1,102,619	526,457	8,466,037
Infrastructure	34,323,267	3,147,262	-	37,470,529
Total accumulated depreciation	<u>\$ 48,433,343</u>	<u>\$ 4,850,977</u>	<u>\$ 575,042</u>	<u>\$ 52,709,278</u>
Total capital assets depreciated, net	<u>\$ 84,885,888</u>	<u>\$ 8,547,801</u>	<u>\$ -</u>	<u>\$ 93,433,689</u>
Governmental Activities Capital Assets, Net	<u>\$ 98,340,686</u>	<u>\$ 20,227,574</u>	<u>\$ 12,622,853</u>	<u>\$ 105,945,407</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 37,127	\$ 158,807	\$ -	\$ 195,934
Construction in progress	151,261	61,248	-	212,509
Total capital assets not depreciated	<u>\$ 188,388</u>	<u>\$ 220,055</u>	<u>\$ -</u>	<u>\$ 408,443</u>
Capital assets depreciated				
Buildings	\$ 3,347,882	\$ -	\$ -	\$ 3,347,882
Landfill	2,648,285	200,038	-	2,848,323
Machinery, furniture, and equipment	2,036,855	22,350	-	2,059,205
Total capital assets depreciated	<u>\$ 8,033,022</u>	<u>\$ 222,388</u>	<u>\$ -</u>	<u>\$ 8,255,410</u>
Less: accumulated depreciation for				
Buildings	\$ 1,541,551	\$ 157,916	\$ -	\$ 1,699,467
Landfill	986,608	151,341	-	1,137,949
Machinery, furniture, and equipment	969,432	209,385	-	1,178,817
Total accumulated depreciation	<u>\$ 3,497,591</u>	<u>\$ 518,642</u>	<u>\$ -</u>	<u>\$ 4,016,233</u>
Total capital assets depreciated, net	<u>\$ 4,535,431</u>	<u>\$ (296,254)</u>	<u>\$ -</u>	<u>\$ 4,239,177</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,723,819</u>	<u>\$ (76,199)</u>	<u>\$ -</u>	<u>\$ 4,647,620</u>

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

Governmental Activities	
General government	\$ 740,255
Public safety	506,694
Highways and streets, including depreciation of infrastructure assets	3,544,620
Human services	50,319
Culture and recreation	6,079
Health	3,010
Total Depreciation Expense - Governmental Activities	<u>\$ 4,850,977</u>
Business-Type Activities	
Solid waste	<u>\$ 518,642</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 50
	Human Services	41,476
	Waste Management	85,085
Total due to General Fund		\$ 126,611
Road and Bridge	General	\$ 353,042
	Capital Improvement	24,921
	Post Employment	27,726
	Waste Management	236,326
Total due to Road and Bridge Fund		\$ 642,015
Capital Improvement	General	\$ 179,586
Waste Management	General	\$ 15,933
Agency Funds		
School Districts	Taxes and Penalties	\$ 245,150
Hospital Districts	Taxes and Penalties	9,602
Otter Tail County Sewer District	Taxes and Penalties	177
State Tax Revenue	Taxes and Penalties	81,020
Towns and Cities	Taxes and Penalties	273,981
Watershed Districts	Taxes and Penalties	632
Collaborative	General	501
Total due to Agency Funds		\$ 611,063
Total Due To/From Other Funds		\$ 1,575,208

**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)

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	County Ditch	\$ 84,588

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Transfer to Capital Improvement Fund from General Fund	\$ 20,000	Provide County share of funding for E-911
Transfer to Sheriff's Contingent Fund from General Fund	277	Cash setup for 2007 budget
Transfer to General Fund from Construction Capital Projects Fund	24,783	To reimburse General Fund for expenditures related to the chemical dependency facility construction
Transfer to Construction Capital Projects Fund from Operations Center Debt Service Fund	5,409,849	Provide funding for construction of the Sheriff's Operation Center
Transfer to Construction Capital Projects Fund from Ethanol Plant Debt Service Fund	5,000,000	Provide funding for costs incurred by the County for construction of an ethanol plant
Total Transfers between Funds	\$ 10,454,909	

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 1,242,101	\$ 188,538
Salaries	158,932	5,396
Contracts	1,235,570	-
Due to other governments	442,182	73,687
	<u>\$ 3,078,785</u>	<u>\$ 267,621</u>
Total Payables		

2. Deferred Revenue

Deferred revenue as of December 31, 2007, for the County's governmental funds is as follows:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Governmental funds		
Taxes	\$ 447,987	\$ -
State-aid highway allotments	892,558	-
Charges for services	340,752	-
Grants	159,808	247,361
Accrued interest	169,552	-
	<u>\$ 2,010,657</u>	<u>\$ 247,361</u>
Total Governmental Funds		

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction Commitments

The government has active construction projects as of December 31, 2007.

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and Bridges		
Road and bridge projects	\$ 267,213	\$ 131,054
Snowplow trucks	-	266,958
Sheriff's Operation Center	3,445,835	1,067,092
Chemical Dependency Facility	526,373	4,511,027
Total Governmental Activities	\$ 4,239,421	\$ 5,976,131

4. Other Postemployment Benefits - Retirees

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

As of year-end, the County has two eligible participants. The County finances the plan on a pay-as-you-go basis. During 2007, the County expended \$19,548 for these benefits.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Capital Leases

The County has entered into lease agreements as 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, 2007:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities 2006 recorder's scanner	2010	Monthly	\$ 373	\$ 15,661	<u>\$ 9,638</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2008	\$ 4,473
2009	4,473
2010	<u>1,491</u>
Total payments	\$ 10,437
Less: amount representing interest	<u>(799)</u>
Present Value of Minimum Lease Payments	<u>\$ 9,638</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, 2007
General obligation bonds					
2004 Veterans Home Refunding Bonds	2016	\$90,000 - \$125,000	2.05 - 3.70	\$ 1,050,000	\$ 955,000
2007 Tax Abatement Bonds	2019	\$200,000 - \$640,000	4.05 - 5.00	5,245,000	5,245,000
2007 Taxable Tax Abatement Bonds	2010	\$325,000 - \$440,000	5.10	<u>765,000</u>	<u>765,000</u>
Total general obligation bonds				<u>\$ 7,060,000</u>	\$ 6,965,000
Add: unamortized premium					15,876
Less: unamortized discount					<u>(740)</u>
Total General Obligation Bonds, net					<u>\$ 6,980,136</u>
Revenue Bonds					
2002 Government Services Building Lease Housing and Redevelopment Authority Revenue Bonds	2019	\$490,000 - \$930,000	3.50 - 5.00	\$ 9,995,000	\$ 8,525,000
2007 Public Project Housing and Redevelopment Authority Revenue Bonds	2024	\$250,000 - \$515,000	3.40 - 4.50	<u>6,140,000</u>	<u>6,140,000</u>
Total revenue bonds				<u>\$ 16,135,000</u>	\$ 14,665,000
Less: unamortized discount					<u>(60,488)</u>
Total Revenue Bonds, net					<u>\$ 14,604,512</u>
Lease Revenue Bonds					
2007 Law Enforcement Lease Housing and Redevelopment Authority Revenue Bonds	2023	\$275,000 - \$495,000	4.00	<u>\$ 5,590,000</u>	\$ 5,590,000
Add: unamortized premium					<u>15,551</u>
Total Lease Revenue Bonds, net					<u>\$ 5,605,551</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 90,000	\$ 356,759	\$ 555,000	\$ 641,515
2009	535,000	290,600	880,000	618,090
2010	625,000	264,383	905,000	582,921
2011	580,000	239,255	945,000	545,365
2012	605,000	215,835	980,000	504,751
2013 - 2017	3,295,000	677,482	5,585,000	1,812,576
2018 - 2022	1,235,000	60,625	4,050,000	540,874
2023 - 2024	-	-	765,000	45,418
Total	<u>\$ 6,965,000</u>	<u>\$ 2,104,939</u>	<u>\$ 14,665,000</u>	<u>\$ 5,291,510</u>

Year Ending December 31	Lease Revenue Bonds	
	Principal	Interest
2008	\$ -	\$ 266,457
2009	275,000	218,100
2010	285,000	206,900
2011	295,000	195,300
2012	310,000	183,200
2013 - 2017	1,750,000	716,000
2018 - 2022	2,180,000	324,600
2023	495,000	9,900
Total	<u>\$ 5,590,000</u>	<u>\$ 2,120,457</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, 2007, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 1,050,000	\$ 6,010,000	\$ 95,000	\$ 6,965,000	\$ 90,000
Revenue bonds	9,055,000	6,140,000	530,000	14,665,000	555,000
Lease revenue bonds	-	5,590,000	-	5,590,000	-
Add: unamortized premium	-	33,069	1,642	31,427	-
Less: unamortized discount	-	(61,762)	(534)	(61,228)	-
Total bonds payable	\$ 10,105,000	\$ 17,711,307	\$ 626,108	\$ 27,190,199	\$ 645,000
Capital leases	13,332	-	3,694	9,638	3,948
Compensated absences	3,895,940	1,957,146	1,770,522	4,082,564	953,150
Governmental Activities Long-Term Liabilities	<u>\$ 14,014,272</u>	<u>\$ 19,668,453</u>	<u>\$ 2,400,324</u>	<u>\$ 31,282,401</u>	<u>\$ 1,602,098</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 285,029</u>	<u>\$ 97,248</u>	<u>\$ 79,607</u>	<u>\$ 302,670</u>	<u>\$ 71,537</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Otter Tail County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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 as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the Public Employees Correctional Fund.

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 defined 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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the 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.

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. 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 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	2007	2006	2005
Public Employees Retirement Fund	\$ 991,045	\$ 906,250	\$ 783,132
Public Employees Police and Fire Fund	226,822	190,688	153,467
Public Employees Correctional Fund	131,116	126,993	122,555

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

B. Defined Contribution Plan

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

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,733	\$ 1,733
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

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 \$760,928 landfill closure and postclosure care liability at December 31, 2007, represents the cumulative amount reported to date based on the use of 71 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$171,408 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2007. The Board expects to close the landfill in 2012. 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, 2007, investments of \$1,198,066 are held for these purposes. These are reported as restricted assets on the statement of net assets. Otter

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

5. Landfill Closure and Postclosure Care Costs (Continued)

Tail County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

6. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties 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 \$400,000 per claim in 2007 and \$410,000 per claim in 2008. 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 2007, Otter Tail Ag Enterprises, LLC, issued \$20,000,000 Subordinate Exempt Facility Revenue Bonds, Series 2007A, to finance the development, acquisition, construction, and installation of that portion of certain equipment used to process grain unmarketable by-products of the ethanol production process constituting solid waste but not including equipment to further process marketable by-products. The project is deemed to be in the

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

7. Conduit Debt (Continued)

public interest. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2007, the outstanding principal amount was \$20,000,000.

In 2005, Productive Alternatives, Inc., issued a \$775,000 Health Care Facilities Revenue Note, Series 2005, to refinance the financing on the Willows Day Program building, in order to build a new facility to operate its detox operations for the benefit of Otter Tail County as well as other counties. The project is deemed to be in the public interest. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2007, the outstanding principal amount payable was \$749,708.

In 2001, the Lake Region Healthcare Corporation issued a \$6,000,000 Health Care Facilities Revenue Note, Series 2001, to finance the remodeling and equipping of the Corporation's nursing home and 108-bed hospital and the remodeling of a portion of the Corporation's nursing home for use as an inpatient rehabilitation unit. The project is deemed to be in the public interest. The note is secured by the property financed through a series of loan agreements and is payable solely from revenues of the entity. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2007, the outstanding principal amount payable was \$4,727,380.

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

additional security for the bonds. The probability 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.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Area Agency on Aging (Continued)

Complete financial information can be obtained from:

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

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 2007, 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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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.

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

Fiscal agent responsibilities for the Task Force are with Douglas County. Financing and equipment will be provided by the full-time and associate member agencies. Otter Tail County did not contribute any funds to this organization in 2007.

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.

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

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

C. Jointly-Governed Organizations

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

District IV Transportation Planning

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

Otter Tail County Family Services Collaborative

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

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

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Otter Tail County Family Services Collaborative (Continued)

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 2007, the County did not contribute any funds to the Collaborative.

9. Subsequent Event

On June 17, 2008, the County approved an inter-fund loan between the General Fund and the Waste Management Enterprise Fund in the amount of \$1,419,583. The purpose of the loan is to provide partial funding for the construction of the Fergus Falls transfer station.

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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 13,394,968	\$ 13,394,968	\$ 11,915,666	\$ (1,479,302)
Licenses and permits	379,400	379,400	368,774	(10,626)
Intergovernmental	2,573,982	2,573,982	4,448,295	1,874,313
Charges for services	1,402,750	1,402,750	1,624,960	222,210
Fines and forfeits	31,500	31,500	104,347	72,847
Gifts and contributions	-	-	6,970	6,970
Investment earnings	763,000	763,000	988,938	225,938
Miscellaneous	710,000	710,000	993,516	283,516
Total Revenues	\$ 19,255,600	\$ 19,255,600	\$ 20,451,466	\$ 1,195,866
Expenditures				
Current				
General government				
Commissioners	\$ 306,022	\$ 306,022	\$ 313,505	\$ (7,483)
Courts	-	-	15,892	(15,892)
Public defender	130,500	130,500	106,547	23,953
Personnel coordinator	450,590	450,590	425,046	25,544
County auditor	811,762	811,762	703,269	108,493
License bureau	320,635	320,635	310,550	10,085
County treasurer	338,853	338,853	319,355	19,498
County assessor	901,345	901,345	820,337	81,008
Elections	35,600	35,600	27,830	7,770
Accounting and auditing	70,000	70,000	73,732	(3,732)
Board of adjustments	31,168	31,168	23,327	7,841
Data processing	807,636	807,636	815,574	(7,938)
Attorney	1,142,461	1,142,461	1,039,485	102,976
Recorder	277,713	277,713	488,645	(210,932)
Planning and zoning	889,830	889,830	923,416	(33,586)
Environmental services	-	-	27,870	(27,870)
Buildings and plant	1,532,123	1,532,123	1,669,656	(137,533)
Planning commission	46,452	46,452	-	46,452
Veterans service officer	358,240	358,240	348,801	9,439
Wellness program	-	-	1,118	(1,118)
Other general government	-	-	10,077	(10,077)
Unallocated	809,851	809,851	518,834	291,017
Total general government	\$ 9,260,781	\$ 9,260,781	\$ 8,982,866	\$ 277,915

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 4,205,385	\$ 4,205,385	\$ 4,172,828	\$ 32,557
Boat and water safety	92,598	92,598	90,197	2,401
Coroner	78,850	78,850	91,058	(12,208)
County jail	3,014,742	3,014,742	2,630,493	384,249
DARE program	12,000	12,000	16,641	(4,641)
Civil defense	93,230	93,230	100,010	(6,780)
Geographical information survey	527,062	527,062	471,240	55,822
Tobacco comp	-	-	7,517	(7,517)
Total public safety	\$ 8,023,867	\$ 8,023,867	\$ 7,579,984	\$ 443,883
Culture and recreation				
Historical society	\$ 53,785	\$ 53,785	\$ 53,785	\$ -
Tourism	8,000	8,000	8,000	-
County fairs	24,000	24,000	24,000	-
Phelps Mill	37,444	37,444	33,743	3,701
Humane society	57,159	57,159	57,159	-
Viking library	456,201	456,201	456,201	-
Celebrations	-	-	1,700	(1,700)
Snowmobile trails	-	-	96,760	(96,760)
Total culture and recreation	\$ 636,589	\$ 636,589	\$ 731,348	\$ (94,759)
Conservation of natural resources				
County extension	\$ 330,165	\$ 330,165	\$ 432,395	\$ (102,230)
Soil and water conservation	108,000	108,000	108,000	-
Predator control	10,000	10,000	4,615	5,385
Water planning	57,878	57,878	102,779	(44,901)
Lake improvement districts	149,790	149,790	148,153	1,637
South Turtle Lake project	-	-	352,900	(352,900)
Other conservation	-	-	147,357	(147,357)
Total conservation of natural resources	\$ 655,833	\$ 655,833	\$ 1,296,199	\$ (640,366)
Economic development				
Community development	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Rural life outreach	1,000	1,000	1,000	-
Other economic development	-	-	800	(800)
Total economic development	\$ 21,000	\$ 21,000	\$ 21,800	\$ (800)

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

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Capital outlay				
General government	\$ -	\$ -	\$ 10,828	\$ (10,828)
Human services	-	-	295,627	(295,627)
Total capital outlay	\$ -	\$ -	\$ 306,455	\$ (306,455)
Debt service				
Principal	\$ -	\$ -	\$ 3,694	\$ (3,694)
Interest	-	-	779	(779)
Total debt service	\$ -	\$ -	\$ 4,473	\$ (4,473)
Total Expenditures	\$ 18,598,070	\$ 18,598,070	\$ 18,923,125	\$ (325,055)
Excess of Revenues Over (Under)				
Expenditures	\$ 657,530	\$ 657,530	\$ 1,528,341	\$ 870,811
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 24,783	\$ 24,783
Transfers out	(189,484)	(189,484)	(20,277)	169,207
Total Other Financing Sources (Uses)	\$ (189,484)	\$ (189,484)	\$ 4,506	\$ 193,990
Net Change in Fund Balance	\$ 468,046	\$ 468,046	\$ 1,532,847	\$ 1,064,801
Fund Balance - January 1	12,541,949	12,541,949	12,541,949	-
Fund Balance - December 31	\$ 13,009,995	\$ 13,009,995	\$ 14,074,796	\$ 1,064,801

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,412,339	\$ 1,412,339	\$ 1,269,823	\$ (142,516)
Intergovernmental	13,942,311	13,942,311	12,920,191	(1,022,120)
Charges for services	731,000	731,000	264,914	(466,086)
Miscellaneous	71,300	71,300	20,563	(50,737)
Total Revenues	\$ 16,156,950	\$ 16,156,950	\$ 14,475,491	\$ (1,681,459)
Expenditures				
Current				
Highways and streets				
Administration	\$ 528,400	\$ 528,400	\$ 462,167	\$ 66,233
Maintenance	3,747,150	3,747,150	3,591,264	155,886
Construction	9,986,140	9,986,140	8,126,663	1,859,477
Equipment maintenance and shop	1,252,000	1,252,000	904,333	347,667
Materials and services for resale	10,000	10,000	11,086	(1,086)
Total highways and streets	\$ 15,523,690	\$ 15,523,690	\$ 13,095,513	\$ 2,428,177
Intergovernmental				
Highways and streets	877,000	877,000	859,377	17,623
Total Expenditures	\$ 16,400,690	\$ 16,400,690	\$ 13,954,890	\$ 2,445,800
Excess of Revenues Over (Under) Expenditures	\$ (243,740)	\$ (243,740)	\$ 520,601	\$ 764,341
Fund Balance - January 1	2,652,230	2,652,230	2,652,230	-
Increase (decrease) in reserved for inventories	-	-	17,758	17,758
Fund Balance - December 31	\$ 2,408,490	\$ 2,408,490	\$ 3,190,589	\$ 782,099

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,255,313	\$ 7,255,313	\$ 6,539,272	\$ (716,041)
Intergovernmental	10,674,127	10,674,127	11,996,432	1,322,305
Charges for services	1,123,149	1,123,149	1,771,759	648,610
Miscellaneous	617,200	617,200	602,858	(14,342)
Total Revenues	\$ 19,669,789	\$ 19,669,789	\$ 20,910,321	\$ 1,240,532
Expenditures				
Current				
Public safety				
Community corrections	\$ 792,125	\$ 792,125	\$ 797,782	\$ (5,657)
Human services				
Income maintenance	\$ 4,039,241	\$ 4,039,241	\$ 4,400,969	\$ (361,728)
Social services	12,565,258	12,565,258	12,740,393	(175,135)
Fuel assistance	221,164	221,164	263,432	(42,268)
Total human services	\$ 16,825,663	\$ 16,825,663	\$ 17,404,794	\$ (579,131)
Health				
Nursing service	\$ 2,052,001	\$ 2,052,001	\$ 2,102,027	\$ (50,026)
Total Expenditures	\$ 19,669,789	\$ 19,669,789	\$ 20,304,603	\$ (634,814)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 605,718	\$ 605,718
Fund Balance - January 1	7,453,594	7,453,594	7,453,594	-
Fund Balance - December 31	\$ 7,453,594	\$ 7,453,594	\$ 8,059,312	\$ 605,718

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,715,647	\$ 1,715,647	\$ 1,540,996	\$ (174,651)
Special assessments	-	-	60	60
Intergovernmental	181,622	181,622	830,885	649,263
Charges for services	-	-	2,561	2,561
Investment earnings	75,000	75,000	108,337	33,337
Miscellaneous	-	-	174,387	174,387
Total Revenues	\$ 1,972,269	\$ 1,972,269	\$ 2,657,226	\$ 684,957
Expenditures				
Current				
General government				
Coordinator	\$ 2,400	\$ 2,400	\$ -	\$ 2,400
County auditor	-	-	4,607	(4,607)
License bureau	-	-	588	(588)
County assessor	15,000	15,000	3,726	11,274
Data processing	300,000	300,000	160,876	139,124
Planning and zoning	25,000	25,000	22,404	2,596
Buildings and plant	195,763	195,763	182,334	13,429
Other general government	-	-	3,694	(3,694)
Total general government	\$ 538,163	\$ 538,163	\$ 378,229	\$ 159,934
Public safety				
Sheriff	\$ 347,260	\$ 347,260	\$ 261,573	\$ 85,687
Boat and water safety	25,000	25,000	1,782	23,218
E-911 system	-	-	57,679	(57,679)
Community corrections	63,200	63,200	46,359	16,841
Geographical information survey	-	-	6,682	(6,682)
Total public safety	\$ 435,460	\$ 435,460	\$ 374,075	\$ 61,385
Highways and streets				
Maintenance	\$ 510,000	\$ 510,000	\$ 170,348	\$ 339,652
Construction	320,000	320,000	176,446	143,554
Equipment and maintenance shop	190,000	190,000	29,910	160,090
Total highways and streets	\$ 1,020,000	\$ 1,020,000	\$ 376,704	\$ 643,296
Human services				
Social services	\$ 68,000	\$ 68,000	\$ 67,200	\$ 800

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 4
(Continued)

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Health				
Nursing service	\$ -	\$ -	\$ 27,080	\$ (27,080)
Culture and recreation				
Phelps Mill Park	\$ 26,500	\$ 26,500	\$ 3,142	\$ 23,358
Conservation of natural resources				
Extension	\$ 12,000	\$ 12,000	\$ -	\$ 12,000
Capital outlay				
General government	\$ 137,200	\$ 137,200	\$ 42,402	\$ 94,798
Public safety	58,000	58,000	16,421	41,579
Human services	8,900	8,900	332,801	(323,901)
Total capital outlay	\$ 204,100	\$ 204,100	\$ 391,624	\$ (187,524)
Total Expenditures	\$ 2,304,223	\$ 2,304,223	\$ 1,618,054	\$ 686,169
Excess of Revenues Over (Under)				
Expenditures	\$ (331,954)	\$ (331,954)	\$ 1,039,172	\$ 1,371,126
Other Financing Sources (Uses)				
Transfers in	\$ 167,441	\$ 167,441	\$ 20,000	\$ (147,441)
Proceeds from sale of capital assets	50,000	50,000	47,358	(2,642)
Total Other Financing Sources (Uses)	\$ 217,441	\$ 217,441	\$ 67,358	\$ (150,083)
Net Change in Fund Balance	\$ (114,513)	\$ (114,513)	\$ 1,106,530	\$ 1,221,043
Fund Balance - January 1	3,638,430	3,638,430	3,638,430	-
Fund Balance - December 31	\$ 3,523,917	\$ 3,523,917	\$ 4,744,960	\$ 1,221,043

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007**

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, Sheriff's Contingent Special Revenue Fund, Ethanol Plant Debt Service Fund, Sheriff Operations Debt Service Fund, and the Construction Capital Projects Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

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

2. Excess of Expenditures Over Budget

The following is a summary of certain individual funds which had expenditures in excess of budgeted expenditures for the year ended December 31, 2007.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 18,923,125	\$ 18,598,070	\$ 325,055
Human Services Special Revenue Fund	20,304,603	19,669,789	634,814

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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

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

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

Sheriff Operations - to account for the retirement of bonds issued for the construction of a sheriff operations center.

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

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	Special Revenue (Statement B-1)	Debt Service (Statement C-1)	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 1,068,825	\$ 2,251,945	\$ 3,320,770
Petty cash and change funds	1,000	-	1,000
Undistributed cash in agency funds	1,115	16,985	18,100
Taxes receivable			
Current	-	14,996	14,996
Prior	-	7,878	7,878
Special assessments receivable			
Current	1,820	-	1,820
Prior	134	-	134
Deferred	100,584	-	100,584
Due from other governments	5,456	-	5,456
	\$ 1,178,934	\$ 2,291,804	\$ 3,470,738
Total Assets	\$ 1,178,934	\$ 2,291,804	\$ 3,470,738
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 5,182	\$ -	\$ 5,182
Due to other funds	27,726	-	27,726
Deferred revenue - unavailable	96,443	17,194	113,637
Advance from other funds	84,588	-	84,588
	\$ 213,939	\$ 17,194	\$ 231,133
Total Liabilities	\$ 213,939	\$ 17,194	\$ 231,133
 Fund Balances			
Reserved for bond contingency	\$ -	\$ 601,078	\$ 601,078
Unreserved			
Designated for debt service	-	1,673,532	1,673,532
Designated for compensated balances	824,345	-	824,345
Undesignated	140,650	-	140,650
	\$ 964,995	\$ 2,274,610	\$ 3,239,605
Total Fund Balances	\$ 964,995	\$ 2,274,610	\$ 3,239,605
Total Liabilities and Fund Balances	\$ 1,178,934	\$ 2,291,804	\$ 3,470,738

**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, 2007**

	Special Revenue (Statement B-2)	Debt Service (Statement C-2)	Total (Exhibit 5)
Revenues			
Taxes	\$ -	\$ 1,018,692	\$ 1,018,692
Special assessments	69,349	-	69,349
Intergovernmental	169,532	118,068	287,600
Fines and forfeits	74,249	-	74,249
Investment earnings	-	27,802	27,802
Miscellaneous	635	-	635
	\$ 313,765	\$ 1,164,562	\$ 1,478,327
Expenditures			
Current			
General government	\$ 47,133	\$ -	\$ 47,133
Public safety	7,082	-	7,082
Highways and streets	27,726	-	27,726
Conservation of natural resources	15,934	-	15,934
Economic development	170,167	-	170,167
Debt service			
Principal	-	625,000	625,000
Interest	-	447,710	447,710
Bond issuance costs	-	137,470	137,470
	\$ 268,042	\$ 1,210,180	\$ 1,478,222
Excess of Revenues Over (Under)			
Expenditures	\$ 45,723	\$ (45,618)	\$ 105
Other Financing Sources (Uses)			
Transfers in	\$ 277	\$ -	\$ 277
Transfers out	-	(10,409,849)	(10,409,849)
Proceeds from sale of bonds	-	11,600,000	11,600,000
Premium on bonds issued	-	33,069	33,069
Discount on bonds issued	-	(976)	(976)
	\$ 277	\$ 1,222,244	\$ 1,222,521
Net Change in Fund Balance	\$ 46,000	\$ 1,176,626	\$ 1,222,626
Fund Balance - January 1	918,995	1,097,984	2,016,979
Fund Balance - December 31	\$ 964,995	\$ 2,274,610	\$ 3,239,605

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement B-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2007**

	County Ditch	Law Library	Post Employment Obligation	Sheriff's Contingent	Total
<u>Assets</u>					
Cash and pooled investments	\$ 128,623	\$ 70,442	\$ 852,071	\$ 17,689	\$ 1,068,825
Petty cash and change funds	-	-	-	1,000	1,000
Undistributed cash in agency funds	1,115	-	-	-	1,115
Special assessments receivable					
Current	1,820	-	-	-	1,820
Prior	134	-	-	-	134
Deferred	100,584	-	-	-	100,584
Due from other governments	-	4,776	-	680	5,456
Total Assets	\$ 232,276	\$ 75,218	\$ 852,071	\$ 19,369	\$ 1,178,934
 <u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ -	\$ 5,182	\$ -	\$ -	\$ 5,182
Due to other funds	-	-	27,726	-	27,726
Deferred revenue - unavailable	96,443	-	-	-	96,443
Advance from other funds	84,588	-	-	-	84,588
Total Liabilities	\$ 181,031	\$ 5,182	\$ 27,726	\$ -	\$ 213,939
 Fund Balances					
Unreserved					
Designated for compensated absences	\$ -	\$ -	\$ 824,345	\$ -	\$ 824,345
Undesignated	51,245	70,036	-	19,369	140,650
Total Fund Balances	\$ 51,245	\$ 70,036	\$ 824,345	\$ 19,369	\$ 964,995
Total Liabilities and Fund Balances	\$ 232,276	\$ 75,218	\$ 852,071	\$ 19,369	\$ 1,178,934

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>County Ditch</u>	<u>Law Library</u>	<u>Lead Hazard</u>	<u>Post Employment Obligation</u>	<u>Sheriff's Contingent</u>	<u>Total</u>
Revenues						
Special assessments	\$ 69,349	\$ -	\$ -	\$ -	\$ -	\$ 69,349
Intergovernmental	-	-	169,532	-	-	169,532
Fines and forfeits	-	63,190	-	-	11,059	74,249
Miscellaneous	-	-	635	-	-	635
Total Revenues	\$ 69,349	\$ 63,190	\$ 170,167	\$ -	\$ 11,059	\$ 313,765
Expenditures						
Current						
General government	\$ -	\$ 47,133	\$ -	\$ -	\$ -	\$ 47,133
Public safety	-	-	-	-	7,082	7,082
Highways and streets	-	-	-	27,726	-	27,726
Conservation of natural resources	15,934	-	-	-	-	15,934
Economic development	-	-	170,167	-	-	170,167
Total Expenditures	\$ 15,934	\$ 47,133	\$ 170,167	\$ 27,726	\$ 7,082	\$ 268,042
Excess of Revenues Over (Under) Expenditures	\$ 53,415	\$ 16,057	\$ -	\$ (27,726)	\$ 3,977	\$ 45,723
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	277	277
Net Change in Fund Balance	\$ 53,415	\$ 16,057	\$ -	\$ (27,726)	\$ 4,254	\$ 46,000
Fund Balance - January 1	(2,170)	53,979	-	852,071	15,115	918,995
Fund Balance - December 31	\$ 51,245	\$ 70,036	\$ -	\$ 824,345	\$ 19,369	\$ 964,995

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Statement C-1

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2007**

	Ethanol Plant	Government Service Center	Sheriff Operations	Veterans Home	Total
<u>Assets</u>					
Cash and pooled investments	\$ 953,956	\$ 920,909	\$ 158,620	\$ 218,460	\$ 2,251,945
Undistributed cash in agency funds	-	15,084	-	1,901	16,985
Taxes receivable					
Current	-	13,330	-	1,666	14,996
Prior	-	6,910	-	968	7,878
	\$ 953,956	\$ 956,233	\$ 158,620	\$ 222,995	\$ 2,291,804
Total Assets					
<u>Liabilities and Fund Balances</u>					
Liabilities					
Deferred revenue - unavailable	\$ -	\$ 15,206	\$ -	\$ 1,988	\$ 17,194
Fund Balances					
Reserved for bond contingency	\$ 601,078	\$ -	\$ -	\$ -	\$ 601,078
Unreserved					
Designated for debt service	352,878	941,027	158,620	221,007	1,673,532
	\$ 953,956	\$ 941,027	\$ 158,620	\$ 221,007	\$ 2,274,610
Total Fund Balances					
Total Liabilities and Fund Balances	\$ 953,956	\$ 956,233	\$ 158,620	\$ 222,995	\$ 2,291,804

**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, 2007**

	<u>Ethanol Plant</u>	<u>Government Service Center</u>	<u>Sheriff Operations</u>	<u>Veterans Home</u>	<u>Total</u>
Revenues					
Taxes	\$ -	\$ 904,634	\$ -	\$ 114,058	\$ 1,018,692
Intergovernmental	-	104,954	-	13,114	118,068
Investment earnings	23,839	-	3,963	-	27,802
Total Revenues	\$ 23,839	\$ 1,009,588	\$ 3,963	\$ 127,172	\$ 1,164,562
Expenditures					
Debt service					
Principal	\$ -	\$ 530,000	\$ -	\$ 95,000	\$ 625,000
Interest	-	415,975	-	31,735	447,710
Bond issuance costs	95,738	-	41,732	-	137,470
Total Expenditures	\$ 95,738	\$ 945,975	\$ 41,732	\$ 126,735	\$ 1,210,180
Excess of Revenues Over (Under) Expenditures	\$ (71,899)	\$ 63,613	\$ (37,769)	\$ 437	\$ (45,618)
Other Financing Sources (Uses)					
Transfers out	\$ (5,000,000)	\$ -	\$ (5,409,849)	\$ -	\$ (10,409,849)
Proceeds from sale of bonds	6,010,000	-	5,590,000	-	11,600,000
Premium on bonds issued	16,831	-	16,238	-	33,069
Discount on bonds issued	(976)	-	-	-	(976)
Total Other Financing Sources (Uses)	\$ 1,025,855	\$ -	\$ 196,389	\$ -	\$ 1,222,244
Net Change in Fund Balance	\$ 953,956	\$ 63,613	\$ 158,620	\$ 437	\$ 1,176,626
Fund Balance - January 1	-	877,414	-	220,570	1,097,984
Fund Balance - December 31	\$ 953,956	\$ 941,027	\$ 158,620	\$ 221,007	\$ 2,274,610

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
COUNTY DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 59,648	\$ 59,648	\$ 69,349	\$ 9,701
Expenditures				
Current				
Conservation of natural resources				
Drainage ditches	51,150	51,150	15,934	35,216
Excess of Revenues Over (Under)				
Expenditures	\$ 8,498	\$ 8,498	\$ 53,415	\$ 44,917
Fund Balance - January 1	(2,170)	(2,170)	(2,170)	-
Fund Balance - December 31	<u>\$ 6,328</u>	<u>\$ 6,328</u>	<u>\$ 51,245</u>	<u>\$ 44,917</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
LAW LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Fines and forfeits	\$ 61,000	\$ 61,000	\$ 63,190	\$ 2,190
Expenditures				
Current				
General government				
Law library	54,500	54,500	47,133	7,367
Excess of Revenues Over (Under)				
Expenditures	\$ 6,500	\$ 6,500	\$ 16,057	\$ 9,557
Fund Balance - January 1	<u>53,979</u>	<u>53,979</u>	<u>53,979</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 60,479</u>	<u>\$ 60,479</u>	<u>\$ 70,036</u>	<u>\$ 9,557</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
LEAD HAZARD SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 175,000	\$ 175,000	\$ 169,532	\$ (5,468)
Miscellaneous	-	-	635	635
Total Revenues	\$ 175,000	\$ 175,000	\$ 170,167	\$ (4,833)
Expenditures				
Current				
Economic development				
Community development	\$ 175,000	\$ 175,000	\$ 126,364	\$ 48,636
Housing authority	-	-	43,803	(43,803)
Total Expenditures	\$ 175,000	\$ 175,000	\$ 170,167	\$ 4,833
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
GOVERNMENT SERVICE CENTER DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,006,674	\$ 1,006,674	\$ 904,634	\$ (102,040)
Intergovernmental	-	-	104,954	104,954
Total Revenues	\$ 1,006,674	\$ 1,006,674	\$ 1,009,588	\$ 2,914
Expenditures				
Debt service				
Principal	\$ 555,000	\$ 555,000	\$ 530,000	\$ 25,000
Interest	403,738	403,738	415,975	(12,237)
Total Expenditures	\$ 958,738	\$ 958,738	\$ 945,975	\$ 12,763
Excess of Revenues Over (Under) Expenditures	\$ 47,936	\$ 47,936	\$ 63,613	\$ 15,677
Fund Balance - January 1	877,414	877,414	877,414	-
Fund Balance - December 31	\$ 925,350	\$ 925,350	\$ 941,027	\$ 15,677

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
VETERANS HOME DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 126,400	\$ 126,400	\$ 114,058	\$ (12,342)
Intergovernmental	-	-	13,114	13,114
Total Revenues	\$ 126,400	\$ 126,400	\$ 127,172	\$ 772
Expenditures				
Debt service				
Principal	\$ 95,000	\$ 95,000	\$ 95,000	\$ -
Interest	25,330	25,330	31,735	(6,405)
Total Expenditures	\$ 120,330	\$ 120,330	\$ 126,735	\$ (6,405)
Excess of Revenues Over (Under) Expenditures	\$ 6,070	\$ 6,070	\$ 437	\$ (5,633)
Fund Balance - January 1	220,570	220,570	220,570	-
Fund Balance - December 31	\$ 226,640	\$ 226,640	\$ 221,007	\$ (5,633)

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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, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ASSURANCE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 16	\$ 189	\$ 205	\$ -
Accounts receivable	-	29	-	29
Total Assets	\$ 16	\$ 218	\$ 205	\$ 29
<u>Liabilities</u>				
Due to other governments	\$ 16	\$ 218	\$ 205	\$ 29
 <u>FAMILY SERVICES COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 339,323	\$ 590,814	\$ 637,919	\$ 292,218
Due from other funds	576	501	576	501
Due from other governments	50,000	-	50,000	-
Total Assets	\$ 389,899	\$ 591,315	\$ 688,495	\$ 292,719
<u>Liabilities</u>				
Accounts payable	\$ 64,022	\$ 14,688	\$ 64,022	\$ 14,688
Due to other governments	325,877	576,627	624,473	278,031
Total Liabilities	\$ 389,899	\$ 591,315	\$ 688,495	\$ 292,719
 <u>GAME AND FISH FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 375	\$ 375	\$ 375	\$ 375
<u>Liabilities</u>				
Due to other governments	\$ 375	\$ 375	\$ 375	\$ 375

**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, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>HOSPITAL DISTRICTS FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 630,416	\$ 630,416	\$ -
Due from other funds	4,797	9,602	4,797	9,602
Total Assets	\$ 4,797	\$ 640,018	\$ 635,213	\$ 9,602
<u>Liabilities</u>				
Due to other governments	\$ 4,797	\$ 640,018	\$ 635,213	\$ 9,602
 <u>MORTGAGE REGISTRATION FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 92,601	\$ 1,281,278	\$ 1,295,487	\$ 78,392
<u>Liabilities</u>				
Due to other governments	\$ 92,601	\$ 1,281,278	\$ 1,295,487	\$ 78,392
 <u>OTTER TAIL LAKES AREA SEWER DISTRICT FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 19,529	\$ 19,529	\$ -
Due from other funds	285	177	285	177
Total Assets	\$ 285	\$ 19,706	\$ 19,814	\$ 177
<u>Liabilities</u>				
Due to other governments	\$ 285	\$ 19,706	\$ 19,814	\$ 177

**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, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICT FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 11,873,318	\$ 11,873,318	\$ -
Due from other funds	217,072	245,150	217,072	245,150
Total Assets	\$ 217,072	\$ 12,118,468	\$ 12,090,390	\$ 245,150
<u>Liabilities</u>				
Due to other governments	\$ 217,072	\$ 12,118,468	\$ 12,090,390	\$ 245,150
 <u>STATE TAX FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 157,533	\$ 7,482,750	\$ 7,431,893	\$ 208,390
Accounts receivable	-	19,708	-	19,708
Due from other funds	84,876	81,020	84,876	81,020
Total Assets	\$ 242,409	\$ 7,583,478	\$ 7,516,769	\$ 309,118
<u>Liabilities</u>				
Due to other governments	\$ 242,409	\$ 7,583,478	\$ 7,516,769	\$ 309,118
 <u>TAX INCREMENT FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 11,020	\$ 11,020	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 11,020	\$ 11,020	\$ -

**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, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 597,458	\$ 58,691,779	\$ 58,606,650	\$ 682,587
<u>Liabilities</u>				
Due to other funds	\$ 555,000	\$ 24,103,875	\$ 24,048,313	\$ 610,562
Due to other governments	42,458	34,587,904	34,558,337	72,025
Total Liabilities	\$ 597,458	\$ 58,691,779	\$ 58,606,650	\$ 682,587
<u>TOWNS AND CITIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 15,081,077	\$ 15,081,077	\$ -
Due from other funds	247,001	273,981	247,001	273,981
Total Assets	\$ 247,001	\$ 15,355,058	\$ 15,328,078	\$ 273,981
<u>Liabilities</u>				
Due to other governments	\$ 247,001	\$ 15,355,058	\$ 15,328,078	\$ 273,981
<u>WATERSHED DISTRICT FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 47,561	\$ 47,561	\$ -
Due from other funds	1,047	632	1,047	632
Total Assets	\$ 1,047	\$ 48,193	\$ 48,608	\$ 632
<u>Liabilities</u>				
Due to other governments	\$ 1,047	\$ 48,193	\$ 48,608	\$ 632

**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, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,187,306	\$ 95,710,106	\$ 95,635,450	\$ 1,261,962
Accounts receivable	-	19,737	-	19,737
Due from other funds	555,654	611,063	555,654	611,063
Due from other governments	50,000	-	50,000	-
	\$ 1,792,960	\$ 96,340,906	\$ 96,241,104	\$ 1,892,762
<u>Liabilities</u>				
Accounts payable	\$ 64,022	\$ 14,688	\$ 64,022	\$ 14,688
Due to other funds	555,000	24,103,875	24,048,313	610,562
Due to other governments	1,173,938	72,222,343	72,128,769	1,267,512
	\$ 1,792,960	\$ 96,340,906	\$ 96,241,104	\$ 1,892,762

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OTHER SCHEDULES

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 10

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2007**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Non-interest checking		-	Continuous	\$ 100,000
Interest-bearing checking	Four	Varies	Continuous	440,637
Certificates of deposit	Forty-Five	3.25 to 5.30	January 12, 2008 to September 2, 2009	23,098,290
Money market savings	Eight	0.50 to 4.33	Continuous	4,803,874
Mutual fund		Varies	Continuous	3,546,059
Commercial paper	Two	-	April 1, 2008 to July 21, 2008	976,625
U.S. Treasury notes	Five	3.13 to 4.88	October 15, 2008 to February 28, 2009	6,074,840
U.S. Treasury bond		3.13	November 30, 2009	1,001,090
U.S. Treasury bonds - stripped interest payment	Two	-	August 15, 2017 to August 15, 2019	33,244
Federal National Mortgage Association	Three	4.50 to 7.50	August 25, 2018 to June 25, 2022	822,074
Federal Home Loan Mortgage Corporation		5.50	June 15, 2033	<u>612,841</u>
Total Cash and Pooled Investments				<u>\$ 41,509,574</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
COUNTY DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2007**

	Assets				
	Cash and Pooled Investments	Undistributed Cash	Special Assessments Receivable		
			Current	Delinquent	Deferred
Judicial Ditches					
2	\$ 17,324	\$ 12	\$ -	\$ -	\$ 4,400
3	92	-	-	-	-
County Ditches					
4	16,146	232	687	-	19,383
5	4,964	8	-	-	1,550
8	162	-	-	-	-
11	4,683	-	-	-	3,943
12	7,563	1	68	43	3,700
14	68	-	-	-	-
17	475	-	-	-	-
19	240	-	-	-	-
21	6,878	63	25	-	3,100
25	(345)	-	-	-	-
29	1,817	285	65	-	2,642
37	13,479	29	3	-	3,100
38	14,916	448	970	68	30,726
39	1,075	-	-	-	9,090
41	2,360	-	-	-	-
43	1,796	-	-	-	1,000
44	15	-	-	-	-
45	225	-	-	-	-
48	25	-	-	-	-
52	3,388	-	-	-	1,200
53	11,796	-	-	-	12,950
54	92	-	-	-	-
56	9,936	37	-	-	1,900
59	146	-	-	-	-
62	154	-	-	-	-
63	7,908	-	2	23	1,900
64	11	-	-	-	-
68	881	-	-	-	-
70	353	-	-	-	-
Total	\$ 128,623	\$ 1,115	\$ 1,820	\$ 134	\$ 100,584

Schedule 11

	Liabilities			Fund Balance Unreserved Undesignated	Total Liabilities and Fund Balance
	Deferred Revenue	Advance from Other Funds	Total		
Total					
\$ 21,736	\$ 4,400	\$ -	\$ 4,400	\$ 17,336	\$ 21,736
92	-	-	-	92	92
36,448	19,384	21,516	40,900	(4,452)	36,448
6,522	1,550	-	1,550	4,972	6,522
162	-	-	-	162	162
8,626	3,943	5,189	9,132	(506)	8,626
11,375	3,789	-	3,789	7,586	11,375
68	-	-	-	68	68
475	-	-	-	475	475
240	-	-	-	240	240
10,066	3,125	-	3,125	6,941	10,066
(345)	-	-	-	(345)	(345)
4,809	2,643	1,881	4,524	285	4,809
16,611	3,103	-	3,103	13,508	16,611
47,128	31,736	29,780	61,516	(14,388)	47,128
10,165	3,795	8,445	12,240	(2,075)	10,165
2,360	-	-	-	2,360	2,360
2,796	1,000	-	1,000	1,796	2,796
15	-	-	-	15	15
225	-	-	-	225	225
25	-	-	-	25	25
4,588	1,200	-	1,200	3,388	4,588
24,746	12,950	17,777	30,727	(5,981)	24,746
92	-	-	-	92	92
11,873	1,900	-	1,900	9,973	11,873
146	-	-	-	146	146
154	-	-	-	154	154
9,833	1,925	-	1,925	7,908	9,833
11	-	-	-	11	11
881	-	-	-	881	881
353	-	-	-	353	353
\$ 232,276	\$ 96,443	\$ 84,588	\$ 181,031	\$ 51,245	\$ 232,276

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 12

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Funds	Enterprise Fund	All Funds
Shared Revenue			
State			
Highway users tax	\$ 10,636,302	\$ -	\$ 10,636,302
County program aid	2,349,357	-	2,349,357
PERA rate reimbursement	64,946	-	64,946
Police aid	190,688	-	190,688
Market value credit	2,453,393	-	2,453,393
Market value credit - MH	11,851	-	11,851
Disparity reduction aid	13,262	-	13,262
	\$ 15,719,799	\$ -	\$ 15,719,799
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 3,922,659	\$ -	\$ 3,922,659
Payments			
Local			
Payments in lieu of taxes	\$ 384,087	\$ -	\$ 384,087
Grants			
State			
Minnesota Department of			
Agriculture	\$ 123,505	\$ -	\$ 123,505
Corrections	329,395	-	329,395
Public Safety	162,163	-	162,163
Health	548,004	-	548,004
Natural Resources	361,412	-	361,412
Human Services	4,663,717	-	4,663,717
Employment and Economic Development	256,291	-	256,291
Water and Soil Resources Board	155,986	-	155,986
Peace Officer Standards and Training Board	13,265	-	13,265
Office of Environmental Assistance	-	179,434	179,434
	\$ 6,613,738	\$ 179,434	\$ 6,793,172
Total State	\$ 6,613,738	\$ 179,434	\$ 6,793,172

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 12
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Funds	Enterprise Fund	All Funds
Grants (Continued)			
Federal			
Department of			
Agriculture	\$ 236,800	\$ -	\$ 236,800
Housing and Urban Development	482,206	-	482,206
Interior	8,000	-	8,000
Justice	2,151	-	2,151
Transportation	1,252,980	-	1,252,980
Health and Human Services	1,818,559	-	1,818,559
Homeland Security	42,424	-	42,424
	\$ 3,843,120	\$ -	\$ 3,843,120
Total Federal	\$ 3,843,120	\$ -	\$ 3,843,120
Total State and Federal Grants	\$ 10,456,858	\$ 179,434	\$ 10,636,292
Total Intergovernmental Revenue	\$ 30,483,403	\$ 179,434	\$ 30,662,837

Revenues on this schedule differ from expenditures on the Schedule of Expenditures of Federal Awards (Schedule 14) due to timing differences in revenue recognition under the modified accrual basis of accounting. The individual grants affected are:

Total Federal Revenue per Schedule of Intergovernmental Revenue (Schedule 12)		\$ 3,843,120
Community Development Block Grant	CFDA No. 14.228	38,095
Highway Planning and Construction	CFDA No. 20.205	51,647
Public Transportation for Nonurbanized Areas	CFDA No. 20.509	(114,673)
Help America Vote Act	CFDA No. 90.401	12,866
Low-Income Home Energy Assistance	CFDA No. 93.568	722
Chafee Foster Care Independent Living	CFDA No. 93.674	1,607
		1,607
Total Federal Awards per Schedule of Expenditures of Federal Awards (Schedule 14)		\$ 3,833,384

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 13

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the financial statements of Otter Tail County.
- B. Deficiencies 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*." One of the significant deficiencies is a material weakness.
- 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:

Community Development Block Grant	CFDA #14.228
Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Otter Tail County was not 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 and monitoring procedures to ensure that internal control policies and procedures are being followed as directed.

Client's Response:

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

96-7 Disaster Recovery Plan for Data Processing

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 fiber connection with the City of Fergus Falls with a plan for a written agreement in the near future for use of its AS-400 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.

Client's Response:

Otter Tail County's management does concur with the recommendation. Based on our Auditor's comment it would appear that many of the major components for a disaster recovery plan for data processing are already in place and that the deficiency is the lack of written documentation detailing the plan. In 2008, the Otter Tail County Auditor's office began the process of drafting a disaster recovery plan for data processing in cooperation with the Director of the Management Information Systems Department. The process to develop a detailed written plan that will ensure continued computer and data processing operations for all County departments in the event of a catastrophic emergency in the data processing area has not been fully completed as of this date.

06-1 Preparation of Financial Statements

Otter Tail County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Otter Tail County has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process.

Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend Otter Tail County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Otter Tail County still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that it can sufficiently review, understand, and approve the County's financial statements, including notes.

Client's Response:

Otter Tail County's management recognizes the responsibility to prepare our financial statements in accordance with generally accepted accounting principles. The goal of the Otter Tail County Auditor and the Otter Tail County Auditor's office has been, and still is, to reduce our reliance on our independent external auditor and to prepare the County's financial statements, including notes, without the assistance of our independent external auditor. This is an obtainable goal for Otter Tail County, and the County Auditor and the County Auditor's staff will continue to make this goal a priority until it has been fully obtained.

With the existing expertise already within the County's Auditor's office, the Human Services Department, the Public Health Department, the Road and Bridge Department, and with the planned addition of another accounting position (late 2008 or early 2009), Otter Tail County will be positioned to prepare its annual financial statements in accordance with generally accepted accounting principles and will have individuals who are adequately trained to review, understand and approve the County's financial statements, including notes.

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that typically is considered at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The County provides a cash basis general ledger and supporting schedules necessary to adjust to the modified accrual basis for fund level financial statements and to the full accrual basis for the government-wide financial statements. However, audit adjustments were necessary in the governmental funds to properly reflect contracts payable in the Construction Capital Projects Fund, adjust intergovernmental revenue for E-911 in the Capital Improvement Special Revenue Fund, reflect additional payables, accrued interest and change in market value of investments, and to defer revenue for a grant unearned and receivables not available within the revenue recognition period in the General Fund. For several funds, adjustments were made to reclassify fund balances for reserves and designations and to reclassify revenues and expenditures to the proper accounts. Audit adjustments were made to the proprietary fund to reclassify payments for capital assets to the correct capital assets accounts and to adjust for additional receivables. Audit adjustments were also necessary to adjust modified accrual financial statements to the full accrual basis for the government-wide financial statements, including an adjustment to reduce construction in progress to remove payments for work completed after December 31, 2007, on several projects.

The County has made improvements to postings made to the general ledger and schedules prepared for the audit since the prior audit, resulting in less audit adjustments.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the County continue its efforts in reducing the audit entries by establishing review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete.

Client's Response:

Otter Tail County Management, Otter Tail County Auditor, and the Otter Tail County Auditor's staff will continue to work to reinforce existing procedures and to implement new and/or improved procedures to ensure all postings to the account activities report are accurate and complete. In addition, aggressive steps have been taken and will continue to be taken to eliminate the remaining balance sheet accounts that are being used to track reserves and designations. IFS accrual codes were successfully used by Otter Tail County beginning with the calendar year ending December 31, 2007, and accrual codes use will be enhanced based on information discussed and reviewed during the 2007 audit. Efforts will be made to bring those portions of the chart of accounts which are not in compliance with

COFARS into compliance. In addition, a more concerted effort will be made to review IFS monthly financial reports at the detailed level to help ensure that all financial transactions are being posted to the proper accounts.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-3 Collateral Assignments and Substitutions

Wells Fargo Bank and American Federal Bank have changed their procedures for notifying the County Treasurer of the assignment and substitution of collateral pledged to secure deposits. The new procedures provide only a monthly collateral pledge report summarizing the collateral pledged.

Following the provisions of Minn. Stat. § 118A.03, subd. 5, “a financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the governmental entity.”

We recommend that the County Treasurer notify the banks of the requirements under Minn. Stat. § 118A.03, subd. 5, to provide written notice to the County prior to withdrawal or substitution of collateral. The County Treasurer should consider the option of reducing deposits to a level protected by FDIC insurance if these banks will not comply with Minn. Stat. § 118A.03, subd. 5.

Client’s Response:

The Otter Tail County Treasurer resolved this issue in 2008.

PREVIOUSLY REPORTED ITEM RESOLVED

Depository Pledge Agreements - Release of Collateral (02-2)

The depository pledge agreements with Bank of the West and Farmers and Merchants State Bank provided the banks at least three business days and an opportunity to cure the default before the custodian could release the collateral pledged. Minn. Stat. § 118A.03, subd. 4, provides, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.

Resolution

Bank of the West and Farmers and Merchants State Bank have both provided updated pledge agreements that are in compliance with Minn. Stat. § 118A.03, subd. 4.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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 within certain departments, employees were reimbursed for items that do not comply with the current policies. In addition, our review noted some items purchased that may comply with the respective contract or policy, may not comply with Internal Revenue Service 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.

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 on specific statutory or charter authority.

Effective January 1, 2008, the labor agreement for the Sheriff's Department Essential Supervisory Unit was changed and no longer provides plain-clothed detectives a clothing allowance. The County has drafted changes to the clothing allowance policy for the County Facilities Operations Department, the Solid Waste Department, and the Highway Department, which are more restrictive than the current policies; however, these draft policies have not been adopted by the Board.

We recommend the County Board review the draft policies, make any changes it feels necessary, and move forward with adopting new policies that are clear about who is eligible for a clothing allowance, maximum dollar amount allowed, specific clothing items allowed for reimbursement, and the documentation needed to verify the purchase complies with County policy and federal regulations.

Client's Response:

On Tuesday, July 22, 2008, the County Board of Commissioners adopted new clothing allowance policies for the Otter Tail County Facilities Operations Department, the Otter Tail County Solid Waste Department, and for all areas of Otter Tail County Law Enforcement. An electronic copy of these policies has been provided to the Moorhead Office of the Office of the State Auditor.

ITEM ARISING THIS YEAR

07-1

Collateral Assignments

Deposits in excess of the FDIC insurance coverage with Minnesota National Bank are secured with pledged collateral; however, the County could not provide documentation of a perfected security interest in the pledged collateral. County files do not contain a depository pledge agreement or documentation of the bank board's approval of collateral pledged.

In a Federal Appeals Court decision, the Court ruled that if a municipality fails to perfect its interest in pledged collateral under federal law, its right to such collateral in the event of default is not enforceable.

We recommend that the Otter Tail County Treasurer obtain documentation to ensure a perfected security interest in the collateral pledged from Minnesota National Bank.

Client's Response:

The Otter Tail County Treasurer resolved this issue in 2008.



REBECCA OTTO
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, 2007, and have issued our report thereon dated September 30, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-6, 96-7, 06-1, and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Otter Tail County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-2 to be 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 item 02-3.

Also included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to Otter Tail County, and they are reported for that purpose.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 30, 2008

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REBECCA OTTO
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 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, 2007. Otter Tail County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Otter Tail County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Otter Tail County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2007, and have issued our report thereon dated September 30, 2008. 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 others within Otter Tail County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 30, 2008

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**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

Schedule 14

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 226,400
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	<u>10,400</u>
Total U.S. Department of Agriculture		<u>\$ 236,800</u>
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grant	14.228	\$ 482,948
Lead Hazard Reduction Demonstration Grant Program	14.905	<u>37,353</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 520,301</u>
U.S. Department of the Interior, Fish and Wildlife Service		
Direct Partners for Fish and Wildlife	15.631	<u>\$ 8,000</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Justice and Delinquency Prevention	16.540	<u>\$ 2,151</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety Highway Planning and Construction Highway Safety Cluster	20.205	\$ 2,395
State and Community Highway Safety	20.600	17,705
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	21,591
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	900
Passed Through Minnesota Department of Natural Resources Recreational Trails Program	20.219	9,625
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	<u>1,137,738</u>
Total U.S. Department of Transportation		<u>\$ 1,189,954</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	<u>\$ 12,866</u>

**OTTER TAIL COUNTY
FERGUS FALLS, MINNESOTA**

***Schedule 14
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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 Commerce Low-Income Home Energy Assistance	93.568	\$ 266,531
Passed Through Minnesota Department of Health Immunization Grants	93.268	600
Center for Disease Control and Prevention	93.283	116,885
Temporary Assistance for Needy Families (TANF)	93.558	57,363
Maternal and Child Health Services Block Grant	93.994	66,290
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	11,549
Temporary Assistance for Needy Families (TANF)	93.558	336,690
Child Care Mandatory and Matching Funds	93.596	299,876
Grants to States for Access and Visitation Programs	93.597	838
Child Welfare Services - State Grants	93.645	21,290
Foster Care Title IV-E	93.658	124,237
Social Services Block Grant Title XX	93.667	410,998
Chafee Foster Care Independent Living	93.674	8,604
Community Mental Health Block Grant	93.958	50,137
Passed Through West Central Area Agency on Aging Title III-D Special Programs for the Aging	93.043	32,000
Title III-B Special Programs for the Aging	93.044	17,000
Total U.S. Department of Health and Human Services		\$ 1,820,888
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 5,000
Passed Through Minnesota Department of Public Safety Hazard Mitigation Grant	97.039	17,035
Emergency Management Performance Grants	97.042	20,389
Total U.S. Department of Homeland Security		\$ 42,424
Total Federal Awards		\$ 3,833,384

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 the County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.