CITY OF OTTERTAIL, MINNESOTA

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017

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INTRODUCTORY SECTION

CITY OF OTTERTAIL, MINNESOTA
PRINCIPAL CITY OFFICIALS
YEAR ENDED DECEMBER 31, 2017

Elected Officials

Position	Name	Term Expires
Mayor	Myron Lueders	December 31, 2018
Councilperson	Mike Windey	December 31, 2020
Councilperson	Heather Rosenthal	November 27, 2017
Councilperson	Judah Burlingame Appointed December 21, 2017	December 31, 2020
Councilperson	Ronald Grobeck	December 31, 2018
Councilperson	Jill Carlson	December 31, 2018

Appointed

Clerk/Treasurer	Elaine Hanson
Deputy Clerk/Treasurer	Sharon Wheeler

FINANCIAL SECTION

BRIAN D. KOEHN, CPA, PLLC

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INDEPENDENT AUDITORS' REPORT

City Council
City of Ottertail, Minnesota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ottertail, Minnesota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions
In my 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, and each major fund of the City of Ottertail, Minnesota, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ottertail, Minnesota's basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statement of revenues, expenses and changes in fund balance and the schedule of indebtedness are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the schedule of indebtedness are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated June 25, 2018, on my consideration of the City of Ottertail, Minnesota's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Ottertail, Minnesota's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, I have also issued my report dated June 25, 2018, on my consideration of the City of Ottertail, Minnesota's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions,* promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota Laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

B D Koehn, CPA, PLLC

Brian D. Koehn, CPA, PLLC
Parkers Prairie, Minnesota
June 25, 2018

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF OTTERTAIL, MINNESOTA
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017
(WITH PARTIAL COMPARATIVE INFORMATION AS OF DECEMBER 31, 2016)

	Governmental Activities	Business-Type Activities	2017 Total	2016 Total
ASSETS				
Cash and Cash Equivalents	$ 897,406	$ 150,903	$ 1,048,309	$ 663,610
Time Deposits	501,043	162,948	663,991	662,553
Accounts Receivable	21,658	11,788	33,446	30,332
Special Assessments Receivable	190	-	190	190
Taxes Receivable	3,059	-	3,059	5,466
Prepaid items	7,041	619	7,660	5,627
Taxes Receivable - Delinquent	7,081	-	7,081	5,448
Accrued Interest Receivable	1,378	-	1,378	1,564
Total Assets	1,438,856	326,258	1,765,114	1,374,790
CAPITAL ASSETS				
Land	87,785	-	87,785	87,785
Construction in Process	1,036,984	-	1,036,984	226,224
Buildings	408,861	-	408,861	363,861
Machinery and Equipment	1,211,591	-	1,211,591	1,225,102
Streets	950,687	-	950,687	1,007,389
Water System	-	4,037,122	4,037,122	4,037,122
Accumulated Depreciation	(1,011,933)	(1,548,806)	(2,560,739)	(2,358,548)
Total Capital Assets	2,683,975	2,488,316	5,172,291	4,588,935
Total Assets	4,122,831	2,814,574	6,937,405	5,963,725
DEFERRED OUTFLOWS OF RESOURCES (DOR)				
Pensions	38,828	7,979	46,807	81,284
Total Assets and DOR	4,161,659	2,822,553	6,984,212	6,045,009
CURRENT LIABILITIES				
Account Payable	34,628	2,118	36,746	41,079
Accrued Liabilities	7,234	1,278	8,512	9,721
Accrued Interest Payable	12,151	13,972	26,123	14,854
Current Capital Lease	31,585	-	31,585	31,524
Current Bonds and Notes Payable	-	110,000	110,000	109,000
Total Current Liabilities	85,598	127,368	212,966	206,178
OTHER LIABILITIES				
Net Pension (Asset) Liability	(154,810)	21,315	(133,495)	(30,124)
Capital Lease Payable	292,432	-	292,432	324,017
Bonds and Notes Payable	770,000	1,093,000	1,863,000	1,203,000
Total Other Liabilities	907,622	1,114,315	2,021,937	1,496,893
Total Liabilities	993,220	1,241,683	2,234,903	1,703,071
DEFERRED INFLOWS OF RESOURCES (DIR)				
Pensions	81,508	8,231	89,739	55,347
NET POSITION				
Net Investment in Capital Assets	1,621,543	1,285,316	2,906,859	2,921,394
Restricted	261,763	-	261,763	16,553
Unrestricted	1,203,625	287,323	1,790,703	1,348,644
Total Net Position	$ 3,086,931	$ 1,572,639	$ 4,659,570	$ 4,286,591

See accompanying notes to financial statements

CITY OF OTTERTAIL, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	2017 Total	2016 Total
GOVERNMENTAL ACTIVITIES								
General Government	$ 241,735	$ 60,963	$ -	$ -	$ (180,772)	$ -	$ (180,772)	$ (194,778)
Public Safety	58,371	49,550	19,770	-	10,949	-	10,949	(19,631)
Public Works	162,907	2,250	-	198,573	37,916	-	37,916	(95,520)
Sanitation	2,950	389	-	-	(2,561)	-	(2,561)	(10,579)
Culture and Recreation	40,517	-	-	-	(40,517)	-	(40,517)	(33,103)
Interest	22,707	-	-	-	(22,707)	-	(22,707)	-
Total Governmental Activities	529,187	113,152	19,770	198,573	(197,692)	-	(197,692)	(353,611)
BUSINESS-TYPE ACTIVITIES								
Water Enterprise	241,006	259,334	-	-	-	18,328	18,328	(52,145)
Total Activities	$ 770,193	$ 372,486	$ 19,770	$ 198,573	(197,692)	18,328	(179,364)	(405,756)
		GENERAL REVENUES						
		Taxes:						
		Taxes			413,626	-	413,626	374,580
		Intergovernmental			19,766	-	19,766	10,057
		Interest Earnings			5,742	2,108	7,850	6,673
		Donations			98,394	-	98,394	39,650
		Miscellaneous			12,707	-	12,707	10,680
		Total General Revenues			550,235	2,108	552,343	441,640
		CHANGE IN NET POSITION			352,543	20,436	372,979	35,884
		Net Position - Beginning			2,734,388	1,552,203	4,286,591	4,250,707
		NET POSITION - END OF YEAR			$ 3,086,931	$ 1,572,639	$ 4,659,570	$ 4,286,591

See accompanying notes to financial statements

FUND FINANCIAL STATEMENTS

CITY OF OTTERTAIL, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2017
(WITH PARTIAL COMPARATIVE INFORMATION AS OF DECEMBER 31, 2016)

	General	Fire	TIF District 1-3	Street Reconstruct	2017 Total Governmental Funds	2016 Total Governmental Funds
ASSETS						
Cash	$ 781,979	$ 113,993	$ (244,656)	$ 246,090	$ 897,406	$ 533,181
Time Deposits	501,043	-	-	-	501,043	501,043
Accounts Receivable	-	2,500	-	-	2,500	1,900
Special Assessments Receivable	190	-	-	-	190	190
Taxes Receivable	3,059	-	-	-	3,059	5,466
Due from Other Governments	19,158	-	-	-	19,158	18,558
Prepaid Expenses	3,695	3,346	-	-	7,041	4,618
Accrued Interest Receivable	1,378	-	-	-	1,378	1,564
Taxes Receivable - Delinquent	7,081	-	-	-	7,081	5,448
Total Assets	1,317,583	119,839	(244,656)	246,090	1,438,856	1,071,968
LIABILITIES						
Accounts Payable	32,777	1,851	-	-	34,628	35,957
Accrued Wages	-	1,100	-	-	1,100	1,400
Accrued Payroll Liabilities	5,374	-	-	-	5,374	5,129
Accrued Vacation	760	-	-	-	760	1,168
Total Liabilities	38,911	2,951	-	-	41,862	43,654
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue						
Property Taxes	7,081	-		-	7,081	5,448
Special Assessments	190	-		-	190	190
Total Deferred Inflows of Resources	7,271	-		-	7,271	5,638
FUND BALANCES						
Nonspendable	3,695	3,346	-	-	7,041	4,618
Restricted for Specific Purposes	7,347	20,477	-	246,090	273,914	16,553
Assigned for Specific Purposes	-	93,065	(244,656)	-	(151,591)	(90,552)
Unassigned	1,260,359	-	-	-	1,260,359	1,092,057
Total Fund Balances	1,271,401	116,888	(244,656)	246,090	1,389,723	1,022,676
Total Liabilities Deferred Inflows of Resources and Fund Balances	$ 1,317,583	$ 119,839	$ (244,656)	$ 246,090	$ 1,438,856	$ 1,071,968

See accompanying notes to financial statements

CITY OF OTTERTAIL, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017
(WITH PARTIAL COMPARATIVE INFORMATION AS OF DECEMBER 31, 2016)

	2017		2016	
Fund Balances - Total Governmental Funds		$ 1,389,723		$ 1,022,676
Amounts reported for governmental activities in the statements of net position are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	$ 3,695,908		$ 2,910,361	
	(1,011,933)	2,683,975	(923,901)	1,986,460
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:				
Bonds Payable	(770,000)			
Capital Lease	(324,017)	(1,094,017)	(355,541)	(355,541)
The net pension liability and related inflows/outflows represent the allocation of the pension obligations of the State-wide pensions plans to the City. Such Balances are not reported in the funds				
Net Pension (Liability) Asset	154,810		59,042	
Deferred Outflows - Pensions	38,828		66,354	
Deferred Inflows - Pensions	(81,508)	112,130	(50,241)	75,155
Delinquent taxes and special assessments receivable are earned, but not available in the current period. Therefore, they are recorded as a liability in the funds but are part of net position.		7,271		5,638
Total Net Position - Governmental Activities		$ 3,086,931		$ 2,734,388

See accompanying notes to financial statements

CITY OF OTTERTAIL, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

	General	Fire	TIF District 1-3	Street Reconstruct	2017 Total Governmental Funds	2016 Total Governmental Funds
REVENUES						
Property Taxes	411,701	-	292	-	411,993	376,666
Lodging Taxes	33,387	-	-		33,387	-
Special Assessments	-	-	-	7,934	7,934	798
Licenses and Permits	14,413	-	-	-	14,413	12,465
Intergovernmental Revenues	19,766	-	-	190,639	210,405	10,057
Charges for Services	15,295	50,055	-	-	65,350	54,122
Other Revenue	72,632	44,447	5,343	323	122,745	84,881
Total Revenue	567,194	94,502	5,635	198,896	866,227	538,989
EXPENDITURES						
General Government						
Current	218,404	-	-	-	218,404	220,695
Public Safety						
Current	-	78,683	-	-	78,683	67,781
Capital Outlay		-			-	482,436
Public Works						
Current	53,111	-	-	-	53,111	46,959
Capital Outlay	-	-	64,036	722,806	786,842	224,914
Sanitation						
Current	4,543	-	-	-	4,543	13,000
Culture and Recreation						
Current	40,517	-	-	-	40,517	32,689
Capital Outlay	45,000	-	-	-	45,000	-
Debt Service						
Principal	-	31,524	-	-	31,524	-
Interest	-	10,556	-	-	10,556	-
Total Expenditures	361,575	120,763	64,036	722,806	1,269,180	1,088,474

See accompanying notes to financial statements

CITY OF OTTERTAIL, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

	General	Fire	TIF District 1-3	Street Reconstruct	2017 Total Governmental Funds	2016 Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	205,619	(26,261)	(58,401)	(523,910)	(402,953)	(549,485)
OTHER FINANCING SOURCES (USES)						
Transfers from Government Fund	-	35,721	-	-	35,721	76,726
Transfers to Government Fund	(35,721)	-	-	-	(35,721)	(76,726)
Proceeds from Bonds	-	-	-	770,000	770,000	
Proceeds from Capital Lease	-	-	-	-	-	355,541
Total Other Financing Sources (Uses)	(35,721)	35,721	-	770,000	770,000	355,541
NET CHANGE IN FUND BALANCE	169,898	9,460	(58,401)	246,090	367,047	(193,944)
Fund Balance - Beginning of Year	1,101,503	107,428	(186,255)	-	1,022,676	1,216,620
FUND BALANCE - END OF YEAR	$ 1,271,401	$ 116,888	$ (244,656)	$ 246,090	$ 1,389,723	$ 1,022,676

See accompanying notes to financial statements

CITY OF OTTERTAIL, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

	2017		2016	
Net Change in Fund Balances - Total Governmental		$ 367,047		$ (193,944)
Amounts reported for governmental activities in the statement of activities are different because:				
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:				
Capital Outlay	$ 785,547		$ 705,269	
Depreciation Expense	(88,032)	697,515	(88,577)	616,692
Repayment of long-term debt is reported as an other financing use in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current period this amount consists of:				
Bond Principal Retirement		31,524		-
Proceeds of long-term debt is reported as an other financing source in the governmental funds, but the proceeds increase long-term liabilities on the statement of net assets.		(770,000)		(355,541)
Delinquent property taxes receivable and special assessments receivable will be collected, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. The increase (decrease) in the current period is:				
Delinquent Taxes	1,633		(2,086)	
Special Assessments	-	1,633	(358)	(2,444)
Net pension liability does not represent the impending use of current resources. Therefore the change in this liability and related deferrals is not reported in the governmental funds.				
Net Pension Liability (asset)	95,768		1,762	
DIR - Pensions	(31,267)		(25,364)	
DOR - Pensions	(27,526)	36,975	45,020	21,418
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however interest expense is recognized as interest accrues.		(12,151)		-
Change in Net Position - Governmental Activities		$ 352,543		$ 86,181

See accompanying notes to financial statements

CITY OF OTTERTAIL, MINNESOTA
WATER ENTERPRISE FUND
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017
(WITH COMPARATIVE INFORMATION AS OF DECEMBER 31, 2016)

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 150,903	$ 130,429
Time Deposits	162,948	161,510
Accounts Receivable	11,788	9,874
Prepaid Items	619	1,009
Total Current Assets	326,258	302,822
DEFERRED OUTFLOWS OF RESOURCES (DOR)		
Pensions	7,979	14,930
CAPITAL ASSETS		
Water Tower	357,316	357,316
Water Distribution System and Transmission Line	3,679,806	3,679,806
Less: Accumulated Depreciation	(1,548,806)	(1,434,647)
Total Capital Assets	2,488,316	2,602,475
Total Assets and Deferred Outflows of Resources	2,822,553	2,920,227
LIABILITIES DEFFERRED OUTFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	2,118	5,122
Accrued Interest Payable	13,972	14,854
Current Portion of Long-Term Debt	110,000	109,000
Other Accrued Liabilities	1,278	2,024
Total Current Liabilities	127,368	131,000
OTHER LIABILITIES		
Net Pension Liability	21,315	28,918
General Obligation Revenue Note	408,000	487,000
General Obligation Water Revenue Bonds	795,000	825,000
Less: Current Portion	(110,000)	(109,000)
Total Other Liabilities	1,114,315	1,231,918
Total Liabilities	1,241,683	1,362,918
DEFERRED INFLOWS OF RESOURCES (DIR)		
Pensions	8,231	5,106
NET POSITION		
Net Investment in Capital Assets	1,285,316	1,290,475
Unrestricted	287,323	261,728
Total Net Position	$ 1,572,639	$ 1,552,203

See accompanying notes to financial statements

CITY OF OTTERTAIL, MINNESOTA
WATER ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE INFORMATION AS OF DECEMBER 31, 2016)

	2017	2016
SALES	$ 254,432	$ 231,994
COST OF SALES	31,899	37,758
GROSS PROFIT	222,533	194,236
OTHER OPERATING REVENUE		
Connection and Inspection Fees	2,071	1,414
OPERATING EXPENSES		
Personal Services	35,766	35,721
Depreciation	114,159	114,159
Supplies	13,289	5,235
Dues, Permits, and Fees	5,636	6,418
Maintenance and Repairs	3,500	46,843
Miscellaneous	6,678	8,525
Total Operating Expenses	179,028	216,901
OPERATING INCOME	45,576	(21,251)
NONOPERATING REVENUE (EXPENSES)		
Interest Income	2,108	1,848
Interest Expense	(30,079)	(31,814)
Other Income	2,831	920
Total Nonoperating Revenue (Expenses)	(25,140)	(29,046)
NET INCOME (LOSS)	20,436	(50,297)
CHANGE IN NET POSITION	20,436	(50,297)
Net Position - Beginning	1,552,203	1,602,500
NET POSITION - END OF YEAR	$ 1,572,639	$ 1,552,203

See accompanying notes to financial statements

CITY OF OTTERTAIL, MINNESOTA
WATER ENTERPRISE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE INFORMATION AS OF DECEMBER 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 257,420	$ 238,874
Cash Paid to Suppliers	(63,616)	(102,045)
Cash Paid to Employees	(34,039)	(31,306)
Net Cash Provided by Operating Activities	159,765	105,523
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Paid for Capital Assets Additions	-	(6,933)
Bond and Note Principal Payments	(109,000)	(108,000)
Bond and Note Interest Payments	(30,961)	(32,189)
Net Cash Used by Capital and Related Financing Activities	(139,961)	(147,122)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	2,108	1,848
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	21,912	(39,751)
Cash and Cash Equivalents - Beginning of Year	291,939	331,690
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 313,851	$ 291,939
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	$ 45,576	$ (21,251)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	114,159	114,159
Other Nonoperating Income	2,831	920
(Increase) Decrease in:		
Accounts Receivable	(1,914)	4,546
Prepaids	390	(307)
Increase (Decrease) in:		
Net Pension Liability, DIR-Pensions, and DOR - Pensions	2,473	3,822
Accounts Payable	(3,004)	3,041
Accrued Liabilities	(746)	593
Net Cash Provided by Operating Activities	$ 159,765	$ 105,523

See accompanying notes to financial statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ottertail was formed and operates pursuant to applicable Minnesota laws. The governing body consists of a four-member council and a mayor elected by voters of the City.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

The financial reporting entity consists of the City (primary government). There is financial accountability if the Primary Government appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body; or there is the potential for the organization to provide specific financial benefits or to impose specific financial burdens on the Primary Government.

Based on these criteria, there are no organizations considered to be component units of the City.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the Primary Government. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are 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 that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are 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 City's funds. Separate statements for each fund category—governmental and proprietary 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.

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 City reports the following major governmental funds:

General Fund - The general fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds

Fire Fund – The fire fund is used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specified purposes.

TIF District 1-3 Fund – The TIF fund is used to account for the activities of the City TIF District.

Capital Project Fund

Street Reconstruct – The street reconstruct fund is used to account for the proceeds and expenditures related to the 2017 capital project.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The City reports the following major proprietary fund:

Water Fund – The water enterprise fund accounts for the activities of the City's water operations.

The financial statements include partial prior year comparative information. Such information does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2016, from which such partial information was derived.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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. 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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt 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 City's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise fund is charges to customers for sales of goods and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Investments (Including Cash Equivalents)

Cash balances are invested to the extent available in various certificates of deposit as authorized by Minnesota Statutes. Interest earnings are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

For the purposes of the statement of cash flows of the proprietary fund cash and cash equivalents consists of demand deposits.

Cash consists of checking and savings accounts and time deposits.

2. Property Taxes Receivable

Current year property tax revenues represent the tax levy certified to the County Auditor in December of 2016 which was collected during the year ended December 31, 2017. Any adjustments or abatements to either the current, or any prior year, levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year end are classified as delinquent and not considered measurable and available and are fully offset by unearned revenue in the governmental fund financial statements. Delinquent taxes receivable represent the past years of uncollected taxes. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Accounts Receivable

No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed appropriate. Any unpaid receivable balances are assessed to property owners in the subsequent years.

4. Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with Minnesota Statutes. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year. Special assessments receivable represents current and delinquent uncollected special assessments. Property owners are allowed to prepay future installments without interest or prepayment penalties.

In the governmental fund financial statements, special assessment levies are recorded as a receivable and as unearned revenue at the time of the levy. Deferred revenue is recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

5. Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items. In the governmental fund financial statements that portion of the relevant funds' balances equal to the prepaid items is reserved if the amounts are considered to be material, and if sufficient fund balance exists.

6. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of $2,500 or more for capitalizing capital assets. The system for accumulation of capital assets cost data does not provide the means to determine the percentage of assets valued at actual and those valued at estimated cost. The City has elected not to include infrastructure acquired prior to December 31, 2004.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Capital Assets (Continued)

Capital assets are recorded in the government-wide and proprietary fund financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public purpose by the City, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, 10 to 35 years for equipment, 15 to 20 years for streets, 50 years for the water tower, and 35 years for the water distribution system. Capital assets not being depreciated include land and construction in progress, if any.

8. Compensated Absences

Compensated absences include accumulated vacation. All full-time employees of the City are entitled to annual vacation and sick leave with pay. Employees are allowed vacations up to 10 days per year. Sick leave of one day per month may be accumulated up to a maximum of 20 days for City employees. Upon retirement the employee is paid for all accumulated vacation, sick leave is not paid out.

8. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the Statement of Net Position in relation to the activity of the pension fund in which the City employees participate.

In addition to liabilities, the Statement of Net Position reports a separate section of deferred inflows of resources. This element represents an acquisition of net position that applies to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time.

10. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as inventory and prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by a Resolution of the City Council.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management. Pursuant to Council Resolution, the City's Clerk is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses

1. Revenues

In the fund financial statements, property taxes are recognized to the extent they are collected and received in the current period or within 60 days after year-end. Portions paid by the State in the form of market value credit aid, and other state tax credits are included in intergovernmental revenues. Delinquent property taxes receivable which have not been recognized as revenue are equally offset in the financial statements by unearned revenues.

Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recorded as revenues when measurable and available.

Special assessments principal and interest earnings are recorded as revenues in the same manner as property taxes.

Property Tax Collection Calendar

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. Otter Tail County is the collecting agency for the levy and then remits the collections to the City. All taxes not collected by the county as of December 31 are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain payments paid directly to the City.

The County Auditor provides a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

Property owners are required to pay one-half of their real estate taxes by May 15 and the balances by October 15.

Within 30 days after the May settlement, the County Treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City Treasurer. The County Treasurer must pay the balance to the City Treasurer within 60 days after the settlement, provided that after 45 days interest begins to accrue.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

   Within ten business days after November 15, the County Treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

2. Expenditures

   Expenditure recognition for governmental fund types includes only amounts represented by current liabilities. Since noncurrent liabilities do not affect net current assets, they are not recognized as governmental fund expenditures or liabilities. They are reported as liabilities on the statement of net assets.

3. Expenses

   Proprietary funds recognize expenses when they are incurred.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget

The budget was prepared on the same basis and using the same accounting practices as are used to account and prepare financial reports for the fund. The budget presented in this report in the budget to actual is presented in accordance with generally accepted accounting principles. Budgets are adopted only for the General Fund and Fire Fund.

Excess of Expenditures over Appropriations

The Fire Fund had expenditures exceeding budgeted amounts by $22,960. This was determined necessary by the City Council for the purchase of a fire truck.

NOTE 3 DEPOSITS

The City only uses one financial institution which exposes them to custodial credit risk and concentration of credit risk. These risks are managed through the use of pledged collateral. It is the policy of the City to maintain collateral of at least 110% of the depository balance that is in excess of FDIC insurance.

In accordance with Minnesota Statutes, the City maintains deposits at those institutions authorized by the Council. All such depositories are members of the Federal Reserve System.

NOTE 3 DEPOSITS (CONTINUED)

Minnesota Statutes require all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes: a) United States government treasury bills, treasury notes, treasury bonds; b) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity; c) general obligation securities of any state or local government with taxing powers rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers rated "AA" or better by a national bond rating service; d) unrated general obligation securities of a local government with taxing powers pledged as collateral against funds deposited by that same local government entity; e) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the Banks' public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; or f) time deposits fully insured by any federal agency.

Minnesota Statutes require that collateral be held in safekeeping in a restricted account at a Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository. The selection shall be approved by the government entity.

A reconciliation of cash and time deposits as shown on the Statement of Net Position for the City follows:

Carrying Amount of Deposits in Checking	$ 1,048,309
Time Deposits	663,991
Total	$ 1,712,300

NOTE 4 OPERATING TRANSFERS

The following transfers were considered necessary for operations by the City Council:

Transfer Out	Transfer In	Amount	Purpose
General Fund	Fire Fund	$ 18,512	City Share of Truck Payment
General Fund	Fire Fund	17,209	City Share of Expenditures
Total		$ 35,721	

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 87,785	$ -	$ -	87,785
Construction in Process	226,224	810,760		1,036,984
Total Capital Assets, Not Being Depreciated	314,009	810,760	-	1,124,769
Capital Assets, Being Depreciated:				
Buildings	363,861	45,000	-	408,861
Machinery and Equipment	1,225,102	25,904	39,415	1,211,591
Streets and Infrastructure	1,007,389		56,702	950,687
Total Capital Assets, Being Depreciated	2,596,352	70,904	96,117	2,571,139
Total Capital Assets	2,910,361	881,664	96,117	3,695,908
Less: Accumulated Depreciation	(923,901)	(98,021)	(9,989)	(1,011,933)
Governmental Activities Capital Assets, Net	$ 1,986,460	$ 783,643	$ 86,128	$ 2,683,975
Business-Type Activities				
Capital Assets, Being Depreciated				
Water Tower	$ 357,316	$ -	$ -	$ 357,316
Water Distribution System	3,679,806	-	-	3,679,806
Total Capital Assets, Being Depreciated	4,037,122	-	-	4,037,122
Less: Accumulated Depreciation	(1,434,647)	(114,159)	-	(1,548,806)
Business-Type Activities Capital Assets, Net	$ 2,602,475	$ (114,159)	$ -	$ 2,488,316

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	$ 14,683
Public Safety	37,345
Public Works	45,993
Total Depreciation Expense, Governmental Activities	$ 98,021
Business-Type Activities	
Water Distribution	$ 114,159

NOTE 6 LONG-TERM DEBT REQUIREMENTS

The following is a summary of the long term debt transactions of the city for the year ended December 31, 2017.

	Outstanding December 31, 2016	Issued in 2017	Paid in 2017	Outstanding December 31, 2017
Capital Lease	$ 355,541	$ -	$ 31,524	$ 324,017
General Obligation Bonds	-	770,000	-	770,000
General Obligation Water Revenue Bonds	825,000	-	30,000	795,000
General Obligation Revenue Notes	487,000	-	79,000	408,000
Total Indebtedness	$ 1,667,541	$ 770,000	$ 140,524	$ 2,297,017

Long-term debt maturities are as follows:

	Governmental Capital Lease		Governmental Bonds		Business-Type	
Year Ended December 31,	Principal Maturities	Interest Maturities	Principal Maturities	Interest Maturities	Principal Maturities	Interest Maturities
2018	$ 31,585	$ 10,495	$ -	$ 19,399	$ 110,000	$ 29,191
2019	32,608	9,472	40,000	18,195	111,000	27,715
2020	33,664	8,416	45,000	17,600	112,000	26,227
2021	34,755	7,325	45,000	16,970	112,000	24,728
2022	35,880	6,200	45,000	16,340	113,000	23,049
2023-2027	155,525	12,794	255,000	67,300	170,000	98,448
2028-2032	-	-	275,000	31,140	190,000	72,670
2033-2037	-	-	65,000	1,008	235,000	36,778
2038-2038	-	-	-	-	50,000	1,950
Total	$ 324,017	$ 54,702	$ 770,000	$ 187,951	$ 1,203,000	$ 340,755

GO Water Revenue Bonds - These bonds are payable solely from revenues of the water enterprise fund.	
$935,000 of General Obligation Water Revenue Refunding Bonds of 2012, interest of 1.05% to 3.90%. These bonds mature on January 1, 2039.	795,000
G.O. Revenue Notes - These notes are payable solely from revenues of the water enterprise fund.	
$1,536,000 General Obligation Revenue Note of 2003, interest of 1.17%. This note matures on August 20, 2022.	408,000
G.O Bonds - These Bonds are payable primarily from property taxes and special assessments	
$770,000 General Obligation Bonds Series 2017A, Interest of 1.4 to 3.1%. These bonds Mature Februiary 1, 2033.	770,000
Capital Lease - This Lease is payable from property taxes and charges to the	
$355,541 Capital Lease of 2016, interest of 3.2%. This Lease matures on July 1, 2026.	324,017
Total Long-Term Debt	$ 2,297,017

NOTE 7 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Summary of Significant Accounting Policies

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

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time and certain part-time employees of the City of Ottertail, Minnesota are covered by the General Employees Retirement Fund (GERF). GERF 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated plan members in calendar year 2017. The City's contributions to the GERF for the year ended December 31, 2017, 2016, and 2015, were $7,902, $7,514, and $7,119 respectively. The City's contributions were equal to the required contributions as set by state statute.

B. Pension Costs

GERF Pension Costs

At December 31, 2017, the City reported a liability of $95,759 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion share was 0.0015%.

For the year ended December 31, 2016, the City recognized pension expense of $11,122 for its proportionate share of the GERF's pension expense.

At December 31, 2017, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,156	$ -
Change in actuarial assumptions	-	9,600
Net Difference between projected and actual earnings on plan inv	-	16,259
Changes in proportion	-	6,090
Contributions paid subsequent to the measurement date	7,901	-
Total	$ 11,057	$ 31,949

$7491 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	$ 29,090
2019	$ 17,717
2020	$ 2,485
2021	$ -
2022	$ -

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2064, then 2.5% for GERF.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent 4-year experience study in the GERF was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39.00%	5.10%
International Stocks	19.00%	5.30%
Bonds	20.00%	0.75%
Alternative Assets	20.00%	5.90%
Unallocated Cash	2.00%	0.50%
Total	100.00%	

C. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

D. Pension Liability Sensitivity

The following presents the [entity's] proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the [entity's] proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

District's Proportionate share of NPL		
1% decrease	Current	1% increase
6.50%	7.50%	8.50%
$ 148,529	$ 95,759	$ 52,557

E. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 8 DEFINED BENEFIT PENSION PLAN - VOLUNTEER FIRE RELIEF ASSOCIATION

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability [or asset if applicable], deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year is June 30. For this purpose, plan contributions are recognized when due according to state statute and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

The Ottertail Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2017, the plan covered 24 active firefighters and 1 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353G.

Benefits Provided

The SVF provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with 5 years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

Contributions

The SVF is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*. The State of Minnesota contributed $19,770 in fire state aid to the plan for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the SVF plan for the year ended December 31, 2017 were $0. The City's contributions were equal to the required contributions as set by state statute, if applicable.

Pension Costs

At December 31, 2017, the City reported a net pension asset of $229,253 for the SVF plan. The net pension asset was measured as of December 31, 2017. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability / (Asset)	Deferred Outflow	Deferred Inflow	Pension Revenue	Pension Expense
	(a)	(b)	(a-b)				
Beginning Balance 12/31/16	$ 327,294	$ 487,328	$ (160,034)	$ -	$ -	$ -	$ -
Changes for the Year:							
Service Cost	6,299	-	6,299	-	-	-	6,299
Interest on Pension Liability	20,016	-	20,016	-	-	-	20,016
Projected Investment Earnings		29,240	(29,240)	-	-	-	(29,240)
Actuarial Experience (Gains)/Losses	(11,641)	-	(11,641)	-	9,313	-	(2,328)
Changes in Benefit Level	-	-	-	-	-	-	-
Contributions (State)	-	19,770	(19,770)	-	-	19,770	-
Asset (Gain) Loss	-	35,694	(35,694)	-	28,555	-	(7,139)
Benefit Payouts	-	-	-	-	-	-	-
PERA Administrative Fee		(810)	810	-	-	-	810
Net Changes	14,674	83,894	(69,219)	-	37,868	19,770	(11,582)
Balance End of Year 12/31/17	$ 341,968	$ 571,222	$ (229,253)	$ -	$37,868	$ 19,770	$(11,582)

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2017, the City recognized pension expense of ($17,205).

At December 31, 2017 the City reported deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actuarial Experience Gains/Losses	$ -	$ 11,641
Asset (Gain)/Loss		35,694
Total	$ -	$ 47,335

Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized as follows:

Year ended December 31:	Pension Expense Amount
2018	$ (9,528)
2019	$ (9,529)
2020	$ (13,270)
2021	$ (9,467)
2022	$ -

Actuarial Assumptions

The total pension liability at December 31, 2017, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0%
- Inflation rate of 3.0%

There were no changes in actuarial assumptions in 2017.

Discount Rate

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that contributions to the SVF plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the City's net pension asset for the SVF plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

District's Proportionate share of NPL		
1% decrease	Current	1% increase
5.00%	6.00%	7.00%
$ (224,472)	$ (229,283)	$ (233,732)

Plan Investments
Investment Policy:

The assets of the Statewide Volunteer Firefighter Plan are invested by the Minnesota State Board of Investment (SBI). The SBI is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes,* Chapter 11A and Chapter 356A.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

Asset Allocation:

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.00%	5.10%
International Stocks	15.00%	5.30%
Bonds	45.00%	0.75%
Cash	5.00%	0.00%
Total	100.00%	

The 6% long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

Description of significant investment policy changes during the year: The SBI made no significant changes to their investment policy during 2016 for the Statewide Volunteer Firefighter Retirement Plan.

Pension Plan Fiduciary Net Position
Detailed information about the SVF plan's fiduciary net position as of June 30 of the most recent financial reporting period is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 9 SPECIAL ASSESSMENTS

Special assessments for improvements were levied against the benefited properties for the assessable costs of the project in accordance with State Statutes. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Annual installments are collected by the County and then remitted to the City. At December 31, 2017, special assessments currently receivable and unavailable in the general fund were $190.

NOTE 10 FUND BALANCES

Certain portions of fund balances are restricted based on regulatory or donor requirements to track funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. Certain portions of fund balance are also committed or assigned based on policy and management decisions

At December 31, 2017 the City has recorded the following categories of fund balance for the following purposes:

Fund Balances	General Fund	Fire Fund	TIF District 1-3	Street Reconstruct
Nonspendable for				
Prepaid Expenditures	$ 3,695	$ 3,346	$ -	$ -
Restricted for				
Street Projects	-	-	-	246,090
Recreation	391	-	-	-
Tree Replacement	5,488	-	-	-
Bike Path	-	-	-	-
Fire Truck	-	6,000		-
Fire Gear	-	14,477	-	-
Bay View Park	1,100			
Bleacher Repairs	368	-	-	-
Assigned for				
Fire Protection	-	93,065		-
TIF	-	-	(244,656)	-
Loan Pool	-	-	-	-
Bike Path	-	-	-	-
Unassigned	1,260,359	-	-	-
Total Fund Balance	$ 1,271,401	$ 116,888	$ (244,656)	$ 246,090

NOTE 11 RISK MANAGEMENT

The City is exposed to various risks of loss related to: torts, theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss, including employee health insurance.

The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining. The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OTTERTAIL, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

	Original and Final	Actual	Variance with Final Budget
REVENUES			
Taxes	$ 414,381	$ 445,088	$ 30,707
Licenses and Permits	10,590	14,413	3,823
Intergovernmental Revenues	-	19,766	19,766
Charges for Services	4,560	15,295	10,735
Other Revenue	5,500	72,632	67,132
Total Revenue	435,031	567,194	132,163
EXPENDITURES			
Current:			
General Government	241,159	218,404	(22,755)
Public Safety	-	-	-
Public Works	129,153	53,111	(76,042)
Sanitation	8,700	4,543	(4,157)
Culture and Recreation	21,607	85,517	63,910
Debt Service	-	-	-
Capital Outlay			
General Government	-	-	-
Public Works	25,000	-	(25,000)
Total Expenditures	425,619	361,575	(64,044)
EXCESS OF REVENUES OVER EXPENDITURES	9,412	205,619	196,207
OTHER FINANCING USES			
Transfer to Other Funds	(34,412)	(35,721)	(1,309)
Transfer From Other Funds	-	-	-
Total Other Financing Uses	(34,412)	(35,721)	(1,309)
NET CHANGE IN FUND BALANCE	(25,000)	169,898	194,898
Fund Balance - Beginning of Year	1,101,503	1,101,503	-
FUND BALANCE - END OF YEAR	$ 1,076,503	$ 1,271,401	$ 194,898

NOTE TO SCHEDULE

The budget and the actual are both prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

CITY OF OTTERTAIL, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – FIRE SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2017

FIRE FUND	Original and Final	Actual	Variance with Final Budget
REVENUES			
Charges for Services	$ 48,000	$ 50,055	$ 2,055
Other Revenue	5,482	44,447	38,965
Total Revenue	53,482	94,502	41,020
EXPENDITURES			
Public Safety			
Current	54,723	78,683	23,960
Capital Outlay	-	-	-
Debt Service			
Principal	32,524	31,524	(1,000)
Interest	10,556	10,556	-
Total Expenditures	97,803	120,763	22,960
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(44,321)	(26,261)	18,060
OTHER FINANCING SOURCES			
Proceeds from Capital Lease	-	-	-
Transfers from Other Funds	36,874	35,721	(1,153)
Total Other Financing Sources	36,874	35,721	(1,153)
NET CHANGE IN FUND BALANCE	(7,447)	9,460	16,907
Fund Balance - Beginning of Year	107,428	107,428	-
FUND BALANCE - END OF YEAR	$ 99,981	$ 116,888	$ 16,907

NOTE TO SCHEDULE

The budget and the actual are both prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

OTHER SUPPLEMENTARY INFORMATION

CITY OF OTTERTAIL, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

	General	Fire	TIF District 1-3	Street Reconstruct	Total Governmental Funds
REVENUES					
Taxes					
Property Taxes	$ 411,701	$ -	$ 292	$ -	$ 411,993
Lodging Taxes	33,387	-	-	-	33,387
Special Assessments	-	-	-	7,934	7,934
Total Taxes	445,088	-	292	7,934	453,314
Licenses and Permits					
Business	4,765	-	-	-	4,765
Nonbusiness	9,648	-	-	-	9,648
Total Licenses and Permits	14,413	-	-	-	14,413
Intergovernmental Revenues					
State					
Market Value Credits - Agricultural	1,044	-	-	-	1,044
Other	18,722	-	-	190,639	209,361
Total Intergovernmental Revenues	19,766	-	-	190,639	210,405
Charges for Services					
Township Fire Contracts	-	45,055	-	-	45,055
Fire Calls and Mutual Aid	-	5,000	-	-	5,000
Sanitation	2,844	-	-	-	2,844
Rents Collected	12,451	-	-	-	12,451
Total Charges for Services	15,295	50,055	-	-	65,350
Fines and Forfeits	-	-	-	-	-
Other Revenues					
Interest	4,960	367	92	323	5,742
Donations	61,644	36,750	-	-	98,394
Other	6,028	7,330	5,251	-	18,609
Total Other Revenues	72,632	44,447	5,343	323	122,745
Total Revenues	567,194	94,502	5,635	198,896	866,227

CITY OF OTTERTAIL, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

	General	Fire	TIF District 1-3	Street Reconstruct	Total Governmental Funds
EXPENDITURES					
General Government					
Mayor and Council	$ 9,028	$ -	$ -	$ -	$ 9,028
Municipal Clerk	49,814	-	-	-	49,814
Treasurer	34,438	-	-	-	34,438
Elections	33	-	-	-	33
Other General Government	125,091	-	-	-	125,091
Total General Government	218,404	-	-	-	218,404
Public Safety					
Fire Protection					
Current Expense	-	78,683	-	-	78,683
Capital Outlay	-	-	-	-	-
Total Public Safety	-	78,683	-	-	78,683
Public Works					
Highways and Streets					
Street Maintenance/Cleaning	30,126	-	-	-	30,126
Street Lighting	14,286	-	-	-	14,286
Snow Removal	8,699	-	-	-	8,699
Capital Outlay - Streets	-	-	64,036	722,806	786,842
Total Public Works	53,111	-	64,036	722,806	839,953
Sanitation					
Current	4,543	-	-	-	4,543
Culture and Recreation					
Current Expense	40,517	-	-	-	40,517
Capital Outlay	45,000	-	-	-	45,000
Total Debt Service	85,517	-	-	-	85,517
Debt Service					
Principal	-	31,524	-	-	31,524
Interest	-	10,556	-	-	10,556
Total Debt Service	-	42,080	-	-	42,080

CITY OF OTTERTAIL, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

	General	Fire	TIF District 1-3	Street Reconstruct	Total Governmental Funds
Total Expenditures	$ 361,575	$ 120,763	$ 64,036	$ 722,806	$ 1,269,180
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	205,619	(26,261)	(58,401)	(523,910)	(402,953)
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	35,721	-	-	35,721
Transfers to Other Funds	(35,721)	-	-	-	(35,721)
Proceeds from Bonds	-	-	-	770,000	770,000
Proceeds from Capital Lease	-	-	-	-	-
Insurance Proceeds	-	-	-	-	-
Total Other Financing Sources (Uses)	(35,721)	35,721	-	770,000	770,000
NET CHANGE IN FUND BALANCE	169,898	9,460	(58,401)	246,090	367,047
Fund Balance - Beginning of Year	1,101,503	107,428	(186,255)	-	1,022,676
FUND BALANCE - END OF YEAR	$ 1,271,401	$ 116,888	$ (244,656)	$ 246,090	$ 1,389,723

CITY OF OTTERTAIL, MINNESOTA
SCHEDULE OF INDEBTEDNESS
AS OF DECEMBER 31, 2017
(UNAUDITED)

	Interest Rate	Issue Date	Final Maturity	Outstanding January 1, 2017	Issued in 2017	Paid in 2017	Outstanding December 31, 2017	Principal Due in 2018	Interest Due in 2018
BONDED INDEBTEDNESS									
General Obligation Bonds									
G.O. Bonds Series 2017A	1.4-3.1%	7/13/2017	2/1/2033	$ -	$770,000	$ -	$ 770,000	$ -	$ 19,399
Loan									
Drinking Water Revolving Fund Loan of 2003	1.17%	02/19/03	08/20/22	487,000	-	79,000	408,000	80,000	4,774
Revenue Bonds									
G.O Water Rev Refunding Bonds of 2012	1.05-3.9%	12/19/12	01/01/39	825,000	-	30,000	795,000	30,000	24,418
TOTAL BONDED INDEBTEDNESS				$ 1,312,000	$770,000	$ 109,000	$ 1,973,000	$ 110,000	$ 48,591
CAPITAL LEASE									
Municipal Lease and Option Agreement	3.20%	08/18/16	07/01/26	$ 355,541	$ -	$ 31,524	$ 324,017	$ 31,584	$ 10,495
TOTAL INDEBTEDNESS				$ 1,667,541	$770,000	$ 140,524	$ 2,297,017	$ 141,584	$ 59,086

REPORTS RELATED TO GOVERNMENT AUDITING STANDARDS

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

City Council
City of Ottertail, Minnesota

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ottertail, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Ottertail, Minnesota's basic financial statements and have issued my report thereon dated June 25, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Ottertail, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ottertail, Minnesota's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Ottertail, Minnesota's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and responses as 2017-001, 2017-002, and 2017-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ottertail, Minnesota's financial statements are free from material misstatement, I 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, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Ottertail, Minnesota Response to Findings

The City of Ottertail, Minnesota's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. The City of Ottertail, Minnesota's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

B. D. Koehn, CPA, PLLC

Brian D. Koehn, CPA, PLLC
Parkers Prairie, Minnesota
June 25, 2018

BRIAN D. KOEHN, CPA, PLLC

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REPORT ON MINNESOTA LEGAL COMPLIANCE

City Council
City of Ottertail, Minnesota

I have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ottertail, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued my report thereon dated June 25, 2018.

The Minnesota Legal Compliance Audit Guide for Cities, promulgated by the State Auditor pursuant Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. My audit considered all of the listed categories.

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

The purpose of this report is solely to describe the scope of my testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

B D. Koehn, CPA, PLLC

Brian D. Koehn, CPA, PLLC
Parkers Prairie, Minnesota
June 25, 2018

CITY OF OTTERTAIL, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017

MATERIAL WEAKNESSES:

2017-001 LACK OF SEGREGATION OF DUTIES

Condition: The City has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of lack of segregation of duties.

Criteria: Effective internal control provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: Because of the lack of segregation of duties, one individual regularly handles transactions from inception to completion.

Effect: The City's internal control policies can be compromised by certain individuals.

Recommendation: While I recognize the City's office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the City be aware of this condition.

Management's Response: The City wil continue to explore the possible further segregation of duties with the City office until it becomes cost prohibitive.

2017-002 YEAR-END CLOSING PROCEDURES

Condition: As part of the audit, I proposed material adjustments for closing the City's books at year end, recording of accruals, and reclassifications to the proper accounts.

Criteria: The City is responsible for establishing and maintaining internal controls for the proper recording of all the City's accounting transactions, including account coding, reporting of accruals and net assets, and cash flow reporting.

Cause: The City relies on the audit firm to prepare the annual financial report and record significant reclassification and cash-to-accrual conversion entries.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the City to provide accurate accrual basis fianancial information.

Recommendation: While I recognize the City may not find it necessary to account and report using generally accepted accounting principles, it is important the City constantly be aware of these conditions.

Management's Response: The City will continue its efforts to obtain additional training and knowledge required to ensure all adjusting and closing entries are made prior to the audit.

MATERIAL WEAKNESSES (CONTINUED):

2017-003 FINANCIAL STATEMENT PREPARATION

Condition: The City does not have an internal control process in place over annual financial reporting under GAAP, therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls

Criteria: The City must be able to prevent or detect a material misstatement in the annual financial statement including footnote disclosures.

Cause: The City relies on the audit firm to prepare the annual financial report.

Effect: Departures from generally accepted accounting principles may not be detected by the City.

Recommendation: While I recognize the City may not find it necessary to account and report using generally accepted accounting principles, it is important the City constantly be aware of these conditions.

Management's Response: The City will continue to evaluate its internal staff, expertise, and assigned duties to determine if an internal control policy over the annual financial reporting is beneficial or cost-effective.