# STATE OF MINNESOTA

## Office of the State Auditor

**Rebecca Otto**
**State Auditor**

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**PINE COUNTY**
**PINE CITY, MINNESOTA**

YEAR ENDED DECEMBER 31, 2010

# Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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# PINE COUNTY
# PINE CITY, MINNESOTA

## Year Ended December 31, 2010

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

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**PINE CITY, MINNESOTA**

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**PINE COUNTY**
**PINE CITY, MINNESOTA**

ORGANIZATION
AS OF DECEMBER 31, 2010

| | | | Term Expires |
|---|---|---|---|
| Elected | | | |
| Commissioners | Stephen Hallan | District 1 | 2010 |
| | Edward Montbriand | District 2 | 2010 |
| | Steve Chaffee | District 3 | 2012 |
| | Curt Rossow | District 4 | 2012 |
| | Doug Carlson | District 5 | 2010 |
| Attorney | John Carlson | | 2010 |
| Auditor | Cathy J. Clemmer | | 2010 |
| Sheriff | Mark Mansavage | | 2010 |
| Treasurer | Ruth A. Blahnik | | 2010 |
| Appointed | | | |
| Assessor | John (Mike) Sheehy | | Indefinite |
| County Recorder | Tamara Tricas | | Indefinite |
| Registrar of Titles | Tamara Tricas | | Indefinite |
| Highway Engineer/Coordinator | Mark LeBrun | | Indefinite |
| Health and Human Services Director | Linda Cassman | | Indefinite |

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# Financial Section

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# STATE OF MINNESOTA
## OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pine County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pine 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, each major fund, and the aggregate remaining fund information of Pine County as of December 31, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pine County's basic financial statements taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2011, on our consideration of Pine County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 7, 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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# PINE COUNTY
# PINE CITY, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)

As management of Pine County, Minnesota, we offer the readers of the Pine County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

## FINANCIAL HIGHLIGHTS

- The assets of Pine County exceeded its liabilities on December 31, 2010, by $69,146,051 (net assets), an increase of $3,988,285 from 2009. Of this amount, $5,682,545 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and is an increase of $2,193,456, or 62.9 percent, from the prior year.

- As of the close of 2010, Pine County's governmental funds reported combined ending fund balances of $8,914,963, an increase of $1,887,372 in comparison with 2009. Of this balance amount, $5,650,164 was unreserved and undesignated by Pine County.

- At the end of 2010, unreserved, undesignated fund balance for the General Fund was $330,015, or 2.3 percent, of the total General Fund expenditures for that year.

- Pine County's long-term liabilities decreased by $581,322 as a result of principal payments made during the year on its outstanding debt.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the Pine County basic financial statements. Pine County's financial statements are comprised of three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other supplementary information.

### Government-Wide Financial Statements

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

The statement of net assets presents information on all of Pine County's assets and liabilities, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Pine County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

Pine County's government-wide financial statements distinguish County operations by function. The governmental activities of Pine County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest.

The government-wide statements can be found on Exhibits 1 and 2 of this report.

**Fund Level Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Pine County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Pine County can be divided into two categories: governmental funds and fiduciary funds.

<u>Governmental funds</u> are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Along with certain nonmajor governmental funds, Pine County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Health and Human Services Special Revenue Fund, and Land Management Special Revenue Fund. A budgetary comparison schedule has been provided for these funds as required supplementary information to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of Pine County. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support Pine County's own programs or activities.

### Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the exhibits.

### Other Information

Other information is provided as supplementary information regarding Pine County's intergovernmental revenues.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Pine County's assets exceeded liabilities by $69,146,051 at the close of 2010. The largest portion of Pine County's net assets (87.1 percent) reflects the County's investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges), less any related debt used to acquire those assets (still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

**Net Assets**

| | Governmental Activities | |
|---|---|---|
| | 2010 | 2009 |
| Assets | | |
| Current and other assets | $ 15,444,612 | $ 13,074,019 |
| Capital assets | 90,942,016 | 89,659,357 |
| Total Assets | $ 106,386,628 | $ 102,733,376 |
| Liabilities | | |
| Long-term liabilities | $ 32,698,925 | $ 33,280,247 |
| Other liabilities | 4,541,652 | 4,295,363 |
| Total Liabilities | $ 37,240,577 | $ 37,575,610 |

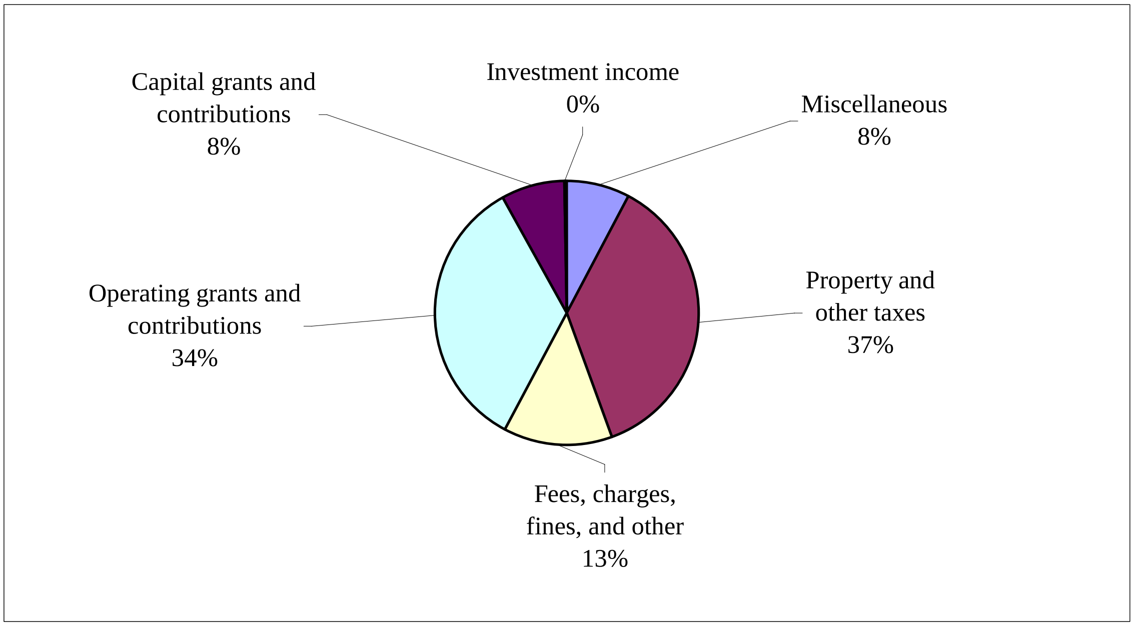
| | Governmental Activities | |
|---|---|---|
| | 2010 | 2009 |
| Net Assets | | |
| Invested in capital assets, net of related debt | $ 60,229,080 | $ 58,026,703 |
| Restricted | 3,234,426 | 3,641,974 |
| Unrestricted | 5,682,545 | 3,489,089 |
| Total Net Assets | $ 69,146,051 | $ 65,157,766 |

The unrestricted net assets amount of $5,682,545 as of December 31, 2010, may be used to meet the County's ongoing obligations to citizens and creditors and represents a 62.9 percent increase over the prior year.

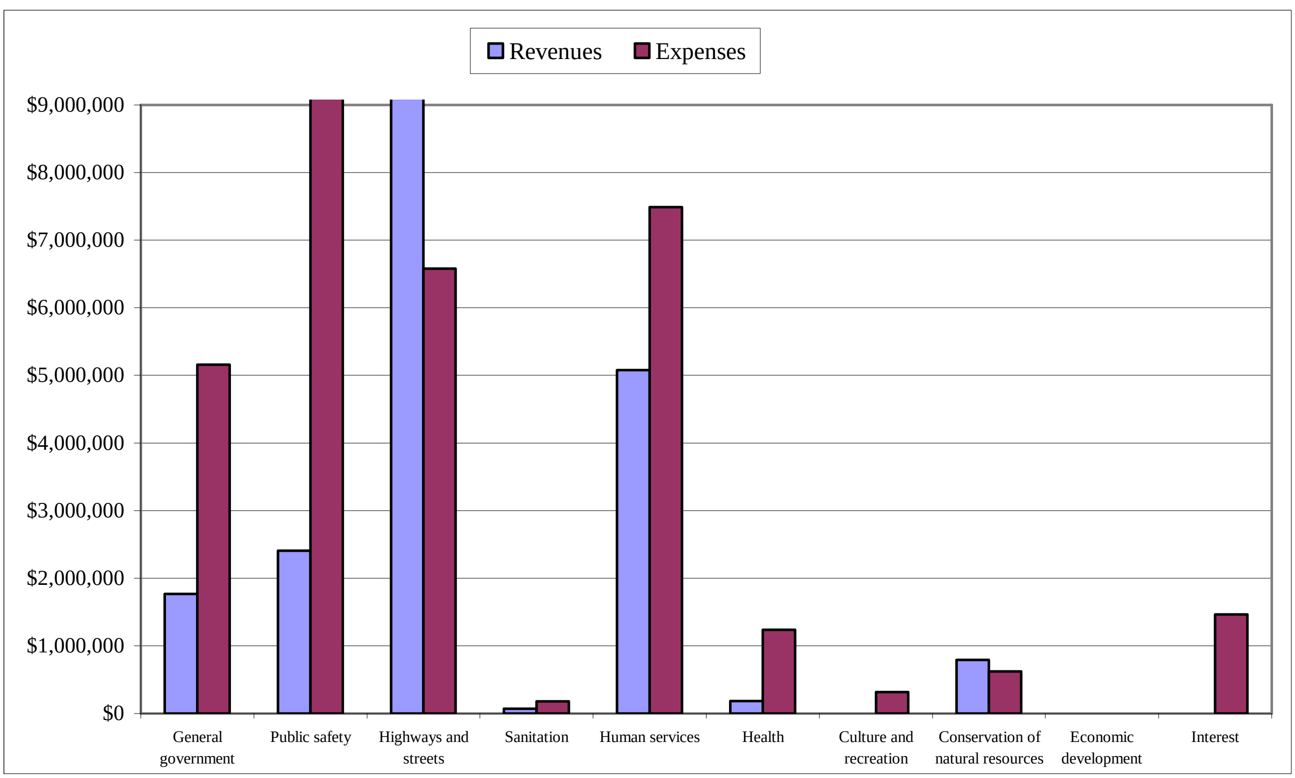
**Changes in Net Assets**

| | Governmental Activities | |
|---|---|---|
| | 2010 | 2009 |
| Revenues | | |
| Program revenues | | |
| Fees, charges, fines, and other | $ 4,861,442 | $ 4,152,365 |
| Operating grants and contributions | 12,360,763 | 8,377,979 |
| Capital grants and contributions | 2,851,377 | 3,753,571 |
| General revenues | | |
| Property taxes | 13,201,433 | 13,255,040 |
| Other | 2,924,889 | 3,759,797 |
| Total Revenues | $ 36,199,904 | $ 33,298,752 |
| Expenses | | |
| General government | $ 5,159,806 | $ 4,842,757 |
| Public safety | 9,166,376 | 8,852,870 |
| Highways and streets | 6,581,651 | 5,570,744 |
| Sanitation | 180,396 | 264,794 |
| Human services | 7,487,695 | 7,394,832 |
| Health | 1,235,116 | 1,115,364 |
| Culture and recreation | 315,652 | 339,351 |
| Conservation of natural resources | 619,942 | 643,417 |
| Economic development | 961 | 7,352 |
| Interest | 1,464,024 | 1,473,006 |
| Total Expenses | $ 32,211,619 | $ 30,504,487 |
| Increase (Decrease) in Net Assets | $ 3,988,285 | $ 2,794,265 |
| Net Assets - January 1 | 65,157,766 | 62,363,501 |
| Net Assets - December 31 | $ 69,146,051 | $ 65,157,766 |

**Revenues by Source - 2010**




**Expenses and Program Revenues - 2010**



## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Pine County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Pine County's governmental funds reported combined ending fund balances of $8,914,963, an increase of $1,887,372 in comparison with the prior year. Of the ending fund balance, $5,650,164 is unreserved, undesignated; and $912,229 is unreserved, designated. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Pine County. At the end of the current fiscal year, it had an unreserved, undesignated fund balance of 330,015. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved, undesignated fund balance represents 2.3 percent of total General Fund expenditures. In 2010, ending unreserved, undesignated fund balance in the General Fund increased by $517,519 over the prior year primarily due to a reduction in expenditures.

The Road and Bridge Special Revenue Fund's unreserved, undesignated fund balance of $1,049,809 at year-end represents 11.8 percent of the fund's annual expenditures. Unreserved, undesignated fund balance increased $1,909,849 during 2010 primarily due to the turn back of Trunk Highway 361 and a reduction in expenditures.

The Health and Human Services Special Revenue Fund's unreserved, undesignated fund balance of $2,818,365 at year-end represents 32.8 percent of the fund's annual expenditures. Unreserved, undesignated fund balance decreased $45,205 during 2010.

### General Fund Budgetary Highlights

- The Budgetary Comparison Schedule (Exhibit A-1) shows an increase of $1,196,777 between the original and final expenditure budgets that resulted from inclusion of grants and aids received throughout the year.
- Actual revenues exceeded budgeted revenues by $6,405.
- Actual expenditures exceeded budgeted expenditures by $101,339.
- The fund balance increased $641,000 over the prior year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Pine County's capital assets for its governmental activities at December 31, 2010, totaled $90,942,016 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The major capital asset event was highway construction.

**Governmental Capital Assets**
**(Net of Depreciation)**

| | 2010 | 2009 |
|---|---|---|
| Land | $ 4,259,587 | $ 4,226,363 |
| Work in progress | 161,570 | - |
| Infrastructure | 61,373,959 | 59,427,838 |
| Buildings | 23,581,276 | 24,249,963 |
| Machinery and equipment | 1,565,624 | 1,755,193 |
| Total | $ 90,942,016 | $ 89,659,357 |

Additional information on the County's capital assets can be found in the notes to the financial statements.

### Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of $31,423,704, which was backed by the full faith and credit of the government.

**Outstanding Debt**

| | 2010 | 2009 |
|---|---|---|
| General obligation Public Facilities Authority loans | $ 551,000 | $ 633,000 |
| General obligation jail bonds | 16,935,000 | 16,935,000 |
| Public project revenue bonds | 13,285,000 | 13,285,000 |
| General obligation capital notes | - | 775,000 |
| Special assessments | 652,704 | 725,227 |
| Total | $ 31,423,704 | $ 32,353,227 |

The County's debt decreased during the fiscal year as a result of principal payments made on outstanding balances.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2010, Pine County's debt was 0.99 percent of its total market value.

Additional information on the County's long-term debt can be found in the notes to the financial statements of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

By the end of 2010, Pine County approved its balanced 2011 revenue and expenditure budgets.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Pine County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Cathy J. Clemmer, Pine County Auditor, Pine County Courthouse, 635 Northridge Drive N.W., Suite 240, Pine City, Minnesota 55063.

# BASIC FINANCIAL STATEMENTS

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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# PINE COUNTY
# PINE CITY, MINNESOTA

*EXHIBIT 1*

## STATEMENT OF NET ASSETS
## GOVERNMENTAL ACTIVITIES
## DECEMBER 31, 2010

| | | |
|---|---|---|
| **Assets** | | |
| Cash and pooled investments | $ | 9,415,177 |
| Petty cash and change funds | | 3,560 |
| Cash with escrow agent | | 500,000 |
| Investments | | 101,676 |
| Taxes receivable | | |
| Prior - net | | 1,269,539 |
| Accounts receivable - net | | 1,288,054 |
| Accrued interest receivable | | 13,036 |
| Due from other governments | | 1,957,568 |
| Inventories | | 473,283 |
| Prepaid items | | 324,629 |
| Deferred debt issuance costs | | 98,090 |
| Capital assets | | |
| Non-depreciable | | 4,421,157 |
| Depreciable - net of accumulated depreciation | | 86,520,859 |
| **Total Assets** | **$** | **106,386,628** |
| **Liabilities** | | |
| Accounts payable | $ | 583,188 |
| Cash overdraft | | 2,046 |
| Salaries payable | | 581,922 |
| Workers' compensation payable | | 60,516 |
| Contracts payable | | 339,954 |
| Due to other governments | | 423,281 |
| Accrued interest payable | | 568,206 |
| Unearned revenue | | 3,006 |
| Customer deposits | | 7,160 |
| Advance from other governments | | 1,972,373 |
| Long-term liabilities | | |
| Due within one year | | 1,027,523 |
| Due in more than one year | | 31,671,402 |
| **Total Liabilities** | **$** | **37,240,577** |
| **Net Assets** | | |
| Invested in capital assets - net of related debt | $ | 60,229,080 |
| Restricted for | | |
| General government | | 587,355 |
| Conservation of natural resources | | 181,014 |
| Highways and streets | | 459,505 |
| Sanitation | | 10,000 |
| Capital projects | | 113,087 |
| Debt service | | 1,707,916 |
| Other purposes | | 175,549 |
| Unrestricted | | 5,682,545 |
| **Total Net Assets** | **$** | **69,146,051** |

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

**PINE COUNTY**
**PINE CITY, MINNESOTA**

***EXHIBIT 2***

**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Expenses | Program Revenues: Fees, Charges, Fines, and Other | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets |
|---|---|---|---|---|---|
| **Functions/Programs** | | | | | |
| **Primary government** | | | | | |
| **Governmental activities** | | | | | |
| General government | $ 5,159,806 | $ 1,278,174 | $ 488,570 | $ - | $ (3,393,062) |
| Public safety | 9,166,376 | 1,463,596 | 943,308 | - | (6,759,472) |
| Highways and streets | 6,581,651 | 252,240 | 5,994,523 | 2,851,377 | 2,516,489 |
| Sanitation | 180,396 | 325 | 69,902 | - | (110,169) |
| Human services | 7,487,695 | 745,568 | 4,332,624 | - | (2,409,503) |
| Health | 1,235,116 | 338,096 | 522,159 | - | (374,861) |
| Culture and recreation | 315,652 | - | - | - | (315,652) |
| Conservation of natural resources | 619,942 | 783,443 | 9,677 | - | 173,178 |
| Economic development | 961 | - | - | - | (961) |
| Interest | 1,464,024 | - | - | - | (1,464,024) |
| **Total Governmental Activities** | **$ 32,211,619** | **$ 4,861,442** | **$ 12,360,763** | **$ 2,851,377** | **$ (12,138,037)** |

| | |
|---|---|
| **General Revenues** | |
| Property taxes | $ 13,201,433 |
| Mortgage registry and deed tax | 56,950 |
| Payments in lieu of tax | 506,800 |
| Grants and contributions not restricted to specific programs | 2,299,444 |
| Unrestricted investment earnings | 61,695 |
| **Total general revenues** | **$ 16,126,322** |
| **Change in net assets** | **$ 3,988,285** |
| **Net Assets - Beginning** | **65,157,766** |
| **Net Assets - Ending** | **$ 69,146,051** |

# FUND FINANCIAL STATEMENTS

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# GOVERNMENTAL FUNDS

# PINE COUNTY
# PINE CITY, MINNESOTA

## BALANCE SHEET
## GOVERNMENTAL FUNDS
## DECEMBER 31, 2010

| | General | Road and Bridge |
|---|---|---|
| **Assets** | | |
| Cash and pooled investments | $ 197,506 | $ 3,193,299 |
| Undistributed cash in agency funds | | |
| (taxes and other) | 229,407 | 41,956 |
| Petty cash and change funds | 3,410 | 150 |
| Cash with escrow agent | - | - |
| Investments | - | - |
| Taxes receivable | | |
| Prior | 662,876 | 160,531 |
| Accounts receivable | 22,756 | 2,478 |
| Accrued interest receivable | 12,935 | - |
| Due from other funds | 887,067 | 16,579 |
| Due from other governments | 338,068 | 952,241 |
| Prepaid expense | 215,806 | - |
| Inventories | - | 473,283 |
| **Total Assets** | **$ 2,569,831** | **$ 4,840,517** |

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

| Health and Human Services | | Land Management | | Street Reconstruction Bond | | Nonmajor Funds | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| $ | 2,471,015 | $ | 733,213 | $ | 818,646 | $ | 1,602,518 | $ | 9,016,197 |
| | 71,210 | | - | | 20,614 | | 35,793 | | 398,980 |
| | - | | - | | - | | - | | 3,560 |
| | - | | - | | - | | 500,000 | | 500,000 |
| | - | | - | | - | | 101,676 | | 101,676 |
| | 255,793 | | - | | 69,369 | | 120,970 | | 1,269,539 |
| | 99,026 | | 1,004,841 | | - | | 158,953 | | 1,288,054 |
| | - | | - | | - | | 101 | | 13,036 |
| | - | | - | | - | | 2,046 | | 905,692 |
| | 667,084 | | 175 | | - | | - | | 1,957,568 |
| | 108,823 | | - | | - | | - | | 324,629 |
| | - | | - | | - | | - | | 473,283 |
| **$** | **3,672,951** | **$** | **1,738,229** | **$** | **908,629** | **$** | **2,522,057** | **$** | **16,252,214** |

**PINE COUNTY**
**PINE CITY, MINNESOTA**

**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**DECEMBER 31, 2010**

| | General | Road and Bridge |
|---|---|---|
| **Liabilities and Fund Balances** | | |
| **Liabilities** | | |
| Accounts payable | $ 260,758 | $ 52,098 |
| Cash overdraft | - | - |
| Salaries payable | 372,349 | 77,138 |
| Workers' compensation payable | - | 60,516 |
| Contracts payable | - | 339,954 |
| Due to other funds | 14,818 | 791 |
| Due to other governments | 77,983 | 2,561 |
| Deferred revenue - unavailable | 533,186 | 542,323 |
| Deferred revenue - unearned | - | - |
| Customer deposits | 7,160 | - |
| Advance from other governments | - | 1,972,373 |
| **Total Liabilities** | **$ 1,266,254** | **$ 3,047,754** |
| **Fund Balances** | | |
| Reserved for | | |
| Prepaid items | $ 215,806 | $ - |
| Missing heirs | 73,705 | - |
| Law library | 33,642 | - |
| Recorder's equipment purchases | 161,946 | - |
| Recorder's compliance | 279,249 | - |
| Election equipment | 67,944 | - |
| Plat escrow | 24,940 | - |
| Sewage treatment loans | 10,000 | - |
| Attorney forfeitures | 78,216 | - |
| Inventories | - | 473,283 |
| Debt service | - | - |
| Road access | - | - |
| Highway projects | - | 269,521 |
| Unreserved | | |
| Designated for group health | 24,704 | - |
| Designated for petty cash funds | 3,410 | 150 |
| Designated for forestry | - | - |
| Undesignated | 330,015 | 1,049,809 |
| Unreserved, reported in nonmajor | | |
| Special revenue funds | - | - |
| Debt service funds | - | - |
| Capital projects funds | - | - |
| **Total Fund Balances** | **$ 1,303,577** | **$ 1,792,763** |
| **Total Liabilities and Fund Balances** | **$ 2,569,831** | **$ 4,840,517** |

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

*EXHIBIT 3*
*(Continued)*

| **Health and Human Services** | **Land Management** | **Street Reconstruction Bond** | **Nonmajor Funds** | **Total** |
|---|---|---|---|---|
| $ 252,620 | $ 206 | $ - | $ 17,506 | $ 583,188 |
| - | - | - | 2,046 | 2,046 |
| 128,890 | 3,545 | - | - | 581,922 |
| - | - | - | - | 60,516 |
| - | - | - | - | 339,954 |
| 25,138 | 44,899 | 818,000 | 2,046 | 905,692 |
| 127,851 | 67,494 | - | 44 | 275,933 |
| 211,264 | 1,004,841 | 56,401 | 257,446 | 2,605,461 |
| - | 3,006 | - | - | 3,006 |
| - | - | - | - | 7,160 |
| - | - | - | - | 1,972,373 |
| **$ 745,763** | **$ 1,123,991** | **$ 874,401** | **$ 279,088** | **$ 7,337,251** |
| $ 108,823 | $ - | $ - | $ - | $ 324,629 |
| - | - | - | - | 73,705 |
| - | - | - | - | 33,642 |
| - | - | - | - | 161,946 |
| - | - | - | - | 279,249 |
| - | - | - | - | 67,944 |
| - | - | - | - | 24,940 |
| - | - | - | - | 10,000 |
| - | - | - | - | 78,216 |
| - | - | - | - | 473,283 |
| - | - | - | 500,000 | 500,000 |
| - | 55,495 | - | - | 55,495 |
| - | - | - | - | 269,521 |
| - | - | - | - | 24,704 |
| - | - | - | - | 3,560 |
| - | 558,743 | - | - | 558,743 |
| 2,818,365 | - | 34,228 | - | 4,232,417 |
| - | - | - | 131,890 | 131,890 |
| - | - | - | 1,497,992 | 1,497,992 |
| - | - | - | 113,087 | 113,087 |
| **$ 2,927,188** | **$ 614,238** | **$ 34,228** | **$ 2,242,969** | **$ 8,914,963** |
| **$ 3,672,951** | **$ 1,738,229** | **$ 908,629** | **$ 2,522,057** | **$ 16,252,214** |

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# PINE COUNTY
# PINE CITY, MINNESOTA

*EXHIBIT 4*

## RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS DECEMBER 31, 2010

| | | |
|---|---|---|
| **Fund balances - total governmental funds (Exhibit 3)** | | **$ 8,914,963** |
| 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. | | 90,942,016 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. Forfeited tax sale receivables included in deferred revenue will be paid to other governments when collected. That portion of deferred revenue is reported in the statement of net assets as due to other governments. | | |
| Deferred revenue - unavailable | $ 2,605,461 | |
| Due to other governments | (147,348) | 2,458,113 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| Public project revenue bonds | $ (13,285,000) | |
| General obligation bonds | (16,935,000) | |
| Unamortized bond issuance costs | 210,767 | |
| Loans payable | (551,000) | |
| Net other postemployment benefits liability | (491,046) | |
| Compensated absences | (994,942) | |
| Special assessments payable | (652,704) | |
| Accrued interest payable | (568,206) | |
| Deferred debt issuance charges | 98,090 | (33,169,041) |
| **Net Assets of Governmental Activities (Exhibit 1)** | | **$ 69,146,051** |

## PINE COUNTY
## PINE CITY, MINNESOTA

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
### GOVERNMENTAL FUNDS
### FOR THE YEAR ENDED DECEMBER 31, 2010

| | General | Road and Bridge |
|---|---|---|
| **Revenues** | | |
| Taxes | $ 7,383,056 | $ 1,440,398 |
| Licenses and permits | 70,265 | - |
| Intergovernmental | 3,754,834 | 8,931,544 |
| Charges for services | 2,063,312 | 209,842 |
| Fines and forfeits | 29,948 | - |
| Gifts and contributions | 96,829 | - |
| Investment earnings | 61,258 | - |
| Miscellaneous | 565,559 | 51,952 |
| **Total Revenues** | **$ 14,025,061** | **$ 10,633,736** |
| **Expenditures** | | |
| **Current** | | |
| General government | $ 4,360,462 | $ - |
| Public safety | 8,795,770 | - |
| Highways and streets | - | 8,488,269 |
| Sanitation | 177,898 | - |
| Human services | - | - |
| Health | - | - |
| Culture and recreation | 315,652 | - |
| Conservation of natural resources | 370,965 | - |
| **Intergovernmental** | | |
| Highways and streets | - | 328,939 |
| **Debt service** | | |
| Principal | 72,523 | 82,000 |
| Interest | 39,887 | 18,990 |
| Project cost | - | - |
| Administrative - fiscal charges | - | - |
| **Total Expenditures** | **$ 14,133,157** | **$ 8,918,198** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (108,096)** | **$ 1,715,538** |
| **Other Financing Sources (Uses)** | | |
| Transfers in | $ 1,678,491 | $ 59,395 |
| Transfers out | (929,395) | - |
| Proceeds from sale of capital assets | - | 260 |
| **Total Other Financing Sources (Uses)** | **$ 749,096** | **$ 59,655** |
| **Net Change in Fund Balance** | **$ 641,000** | **$ 1,775,193** |
| **Fund Balance - January 1** | **662,577** | **9,251** |
| **Increase (decrease) in reserved for inventories** | **-** | **8,319** |
| **Fund Balance - December 31** | **$ 1,303,577** | **$ 1,792,763** |

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

*EXHIBIT 5*

| Health and Human Services | Land Management | Street Reconstruction Bond | Nonmajor Funds | Total |
|---|---|---|---|---|
| $ 2,458,098 | $ - | $ 714,690 | $ 1,238,377 | $ 13,234,619 |
| - | - | - | - | 70,265 |
| 5,045,234 | 35,261 | 58,370 | 101,106 | 17,926,349 |
| 87,766 | - | - | 5,376 | 2,366,296 |
| - | - | - | - | 29,948 |
| 19,801 | - | - | - | 116,630 |
| - | - | - | 437 | 61,695 |
| 995,898 | 544,613 | - | - | 2,158,022 |
| **$ 8,606,797** | **$ 579,874** | **$ 773,060** | **$ 1,345,296** | **$ 35,963,824** |
| $ - | $ - | $ - | $ 37,393 | $ 4,397,855 |
| - | - | - | 44 | 8,795,814 |
| - | - | - | - | 8,488,269 |
| - | - | - | - | 177,898 |
| 7,383,250 | - | - | - | 7,383,250 |
| 1,207,287 | - | - | - | 1,207,287 |
| - | - | - | - | 315,652 |
| - | 236,247 | - | - | 607,212 |
| - | - | - | - | 328,939 |
| - | - | 775,000 | - | 929,523 |
| - | - | 11,625 | 1,361,192 | 1,431,694 |
| - | - | - | 15,013 | 15,013 |
| - | - | - | 6,625 | 6,625 |
| **$ 8,590,537** | **$ 236,247** | **$ 786,625** | **$ 1,420,267** | **$ 34,085,031** |
| **$ 16,260** | **$ 343,627** | **$ (13,565)** | **$ (74,971)** | **$ 1,878,793** |
| $ - | $ - | $ - | $ 870,000 | $ 2,607,886 |
| - | (860,491) | (818,000) | - | (2,607,886) |
| - | - | - | - | 260 |
| **$ -** | **$ (860,491)** | **$ (818,000)** | **$ 870,000** | **$ 260** |
| **$ 16,260** | **$ (516,864)** | **$ (831,565)** | **$ 795,029** | **$ 1,879,053** |
| **2,910,928** | **1,131,102** | **865,793** | **1,447,940** | **7,027,591** |
| - | - | - | - | **8,319** |
| **$ 2,927,188** | **$ 614,238** | **$ 34,228** | **$ 2,242,969** | **$ 8,914,963** |

*EXHIBIT 6*

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2010**

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds (Exhibit 5)** | | **$ 1,879,053** |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| In the funds, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable. Pine County has receivables for forfeited tax sales included in deferred revenue. When collected, they will be paid to other governments. | | |
| December 31 - deferred revenue | $ 2,605,461 | |
| Less: forfeited tax sales receivable due to other governments | (147,348) | |
| January 1 - deferred revenue | (2,335,603) | |
| Less: forfeited tax sales receivable due to other governments | 113,308 | 235,818 |
| 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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the funds, the proceeds of the sale increase financial resources. The difference is the net book value of assets sold. | | |
| Expenditures for general capital assets and infrastructure | $ 4,265,604 | |
| Current year depreciation | (2,982,945) | 1,282,659 |
| The issuance of long-term debt provides current financial resources to the funds, while the repayment consumes current financial resources. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized in the government-wide financial statements. | | |
| Repayment of debt principal | | |
| Capital notes | $ 775,000 | |
| Loans payable | 82,000 | |
| Special assessments payable | 72,523 | 929,523 |
| Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds. | | |
| Change in accrued interest payable | $ 10,493 | |
| Amortization of discounts and deferred issuance costs | (11,806) | |
| Amortization of debt issuance costs | (9,379) | |
| Change in inventories | 8,319 | |
| Change in compensated absences | (84,196) | |
| Change in other postemployment benefits | (252,199) | (338,768) |
| **Change in Net Assets of Governmental Activities (Exhibit 2)** | | **$ 3,988,285** |

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

# FIDUCIARY FUNDS

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**PINE COUNTY**
**PINE CITY, MINNESOTA**

***EXHIBIT 7***

**STATEMENT OF FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
**DECEMBER 31, 2010**

| | | |
|---|---|---|
| **Assets** | | |
| Cash and pooled investments | $ | 609,345 |
| Accounts receivable | | 495 |
| **Total Assets** | **$** | **609,840** |
| **Liabilities** | | |
| Accounts payable | $ | 133,125 |
| Due to other governments | | 476,715 |
| **Total Liabilities** | **$** | **609,840** |

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2010. 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 issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Pine County was established March 1, 1856, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Pine County. Pine County has no component units. 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.C. The County also participates in jointly-governed organizations described in Note 8.D. A related organization is described in Note 8.E.

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 government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net assets, the governmental activities column: (a) is presented on a consolidated basis; and (b) is 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 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 that are 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 and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

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.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The Land Management Special Revenue Fund is used to account for the activities of the Land Department. Financing is provided primarily from the lease and sale of land and timber on County-managed, tax-forfeited lands.

The Street Reconstruction Bond Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Additionally, the County reports the following fund types:

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities.

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

C. Measurement Focus and Basis of Accounting

The government-wide 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, grants, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Pine County considers all revenues as available if they are collected within 60 days after the end of the current period, except for reimbursement (expenditure-driven) grants for which the period is 90 days. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. 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, 2010, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments 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 2010 were $61,258.

Pine County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of pool shares.

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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.”

All receivables are shown net of any allowance for uncollectibles.

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.

3. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average cost method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories 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 the government-wide financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items) are reported in the government-wide financial statements. The government defines capital assets 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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.

Property, plant, and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
| --- | --- |
| Buildings | 40 |
| Public domain infrastructure | 50 - 75 |
| Equipment and vehicles | 5 - 10 |

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual leave balances. Compensated absences are accrued when incurred in the government-wide financial statements.

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. 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 an other financing source. 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.

8. 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.

9. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual nonmajor funds with expenditures in excess of budget for the year ended December 31, 2010.

| | Expenditures | Budget | Excess |
|---|---|---|---|
| Special Revenue Funds | | | |
| Countywide Rehabilitation Program | $ 15,013 | $ - | $ 15,013 |
| Ambulance | 44 | - | 44 |
| Debt Service Funds | | | |
| HRA Project Bonds | 632,806 | 631,556 | 1,250 |
| G.O. Jail Bond | 735,011 | 732,210 | 2,801 |

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:

| | |
|---|---|
| Government-wide statement of net assets | |
| Governmental activities | |
| Cash and pooled investments | $ 9,415,177 |
| Petty cash and change funds | 3,560 |
| Cash with escrow agent | 500,000 |
| Investments | 101,676 |
| Statement of fiduciary net assets | |
| Cash and pooled investments | 609,345 |
| Total Cash and Investments | $ 10,629,758 |

a. Deposits

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

3. <u>Detailed Notes on All Funds</u>

A. <u>Assets</u>

1. <u>Deposits and Investments</u>

a. <u>Deposits</u> (Continued)

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

<u>Custodial Credit Risk</u>

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 has a deposit policy for custodial credit risk and follows Minnesota statutes regarding pledged collateral. As of December 31, 2010, the County's deposits were exposed to custodial credit risk in the amount of $32,690 as uninsured and uncollateralized.

b. <u>Investments</u>

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

3. 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.

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. It is the County's policy to keep securities to a maximum average life of ten years, except treasury strips and zero coupons, which are limited to 15 percent of the investment portfolio at time of purchase.

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. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has a policy for investment custodial credit risk. As of December 31, 2010, none of Pine County's investments were subject to custodial credit risk. A portion of these investments is covered by Securities Investor Protection Corporation insurance.

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. It is the County's policy that investing could include, but is not limited to: U.S. Treasury securities, short-term obligations of U.S. government agencies and instrumentalities, mortgage-backed bonds, and A1-P1 rated commercial paper. It is the County's policy that securities having potential default risk shall be limited in size so that, in case of default, the portfolio's annual investment income will not exceed a loss on a single issuer's securities.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2010, and information relating to potential investment risks:

| Investment Type | Credit Risk: Credit Rating | Credit Risk: Rating Agency | Concentration Risk: Over 5 Percent of Portfolio | Interest Rate Risk: Maturity Date | | Carrying (Fair) Value |
|---|---|---|---|---|---|---|
| U.S. government agency securities | | | | | | |
| Federal National Mortgage Association Note | Aaa | Moody's | 10.3% | 07/27/2018 | $ | 399,996 |
| Federal National Mortgage Association Note | Aaa | Moody's | 5.1% | 04/05/2019 | | 197,756 |
| Total Federal National Mortgage Association Notes | | | | | $ | 597,752 |
| Federal Home Loan Bank Bonds | Aaa | Moody's | 11.1% | 02/23/2011 | $ | 430,894 |
| Federal Home Loan Mortgage Corporation Bonds | Aaa | Moody's | 6.3% | 03/21/2019 | $ | 246,290 |
| Investment pools/mutual funds | | | | | | |
| MAGIC Fund | N/R | N/A | N/A | N/A | $ | 1,601,777 |
| Piper Jaffray | N/R | N/A | N/A | N/A | | 1,085 |
| Mutual Securities - Treasury Strip | Aaa | Moody's | N/A | 08/15/2029 | | 219,795 |
| Gilford Securities - Treasury Strip | Aaa | Moody's | N/A | 11/15/2030 | | 241,902 |
| Total investment pools/mutual funds | | | | | $ | 2,064,559 |
| Negotiable certificates of deposit | | | | | | |
| LaSalle Bank | N/A | N/A | N/A | 02/09/2011 | $ | 98,881 |
| First Empire Securities | N/A | N/A | N/A | 08/06/2012 | | 151,038 |
| American Chartered Bank | N/A | N/A | N/A | 03/07/2013 | | 102,675 |
| Las Vegas Bank | N/A | N/A | N/A | 03/07/2013 | | 102,675 |
| Bank of Houston | N/A | N/A | N/A | 03/07/2013 | | 102,675 |
| Total negotiable certificates of deposit | | | | | $ | 557,944 |
| Total investments | | | | | $ | 3,897,439 |
| Deposits | | | | | | 6,228,759 |
| Petty cash | | | | | | 3,560 |
| Cash with escrow agent | | | | | | 500,000 |
| Total Cash and Investments | | | | | $ | 10,629,758 |

N/A - Not Applicable
N/R - Not Rated

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2010, including applicable allowances for uncollectible accounts, are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|---|---|---|
| Governmental Activities | | |
| Taxes | $ 1,269,539 | $ - |
| Accounts | 1,288,054 | - |
| Interest | 13,036 | - |
| Due from other governments | 1,957,568 | - |
| Total Governmental Activities | $ 4,528,197 | $ - |

3. Lease Receivable

On June 3, 2003, Pine County entered into an Ambulance Service Lease Agreement with the Pine Medical Center to operate the ambulance service, which is owned by Pine County. The agreement called for the County to receive $50,067 for the years ended December 31, 2003 and 2004. Thereafter, the County would receive $1.00 a year.

4. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not depreciated | | | | |
| Land | $ 4,226,363 | $ 33,224 | $ - | $ 4,259,587 |
| Work in progress | - | 161,570 | - | 161,570 |
| Total capital assets not depreciated | $ 4,226,363 | $ 194,794 | $ - | $ 4,421,157 |
| Capital assets depreciated | | | | |
| Buildings | $ 28,217,856 | $ - | $ - | $ 28,217,856 |
| Machinery and equipment | 7,129,456 | 543,258 | 196,540 | 7,476,174 |
| Infrastructure | 78,232,419 | 3,527,552 | - | 81,759,971 |
| Total capital assets depreciated | $ 113,579,731 | $ 4,070,810 | $ 196,540 | $ 117,454,001 |

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Less: accumulated depreciation for | | | | |
| Buildings | $ 3,967,893 | $ 668,687 | $ - | $ 4,636,580 |
| Machinery and equipment | 5,374,263 | 732,827 | 196,540 | 5,910,550 |
| Infrastructure | 18,804,581 | 1,581,431 | - | 20,386,012 |
| Total accumulated depreciation | $ 28,146,737 | $ 2,982,945 | $ 196,540 | $ 30,933,142 |
| Total capital assets depreciated, net | $ 85,432,994 | $ 1,087,865 | $ - | $ 86,520,859 |
| Capital Assets, Net | $ 89,659,357 | $ 1,282,659 | $ - | $ 90,942,016 |

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

| | |
|---|---|
| Governmental Activities | |
| General government | $ 727,368 |
| Public safety | 182,660 |
| Highways and streets, including depreciation of infrastructure assets | 2,053,011 |
| Human services | 15,611 |
| Conservation of natural resources | 4,295 |
| Total Depreciation Expense - Governmental Activities | $ 2,982,945 |

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

1. Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount | Purpose |
|---|---|---|---|
| General | Health and Human Services | $ 23,623 | Reimbursement |
| | Road and Bridge | 791 | Reimbursement – phone |
| | Land Management | 44,653 | Forfeited tax distribution |
| | Street Reconstruction Bond | 818,000 | Reimburse debt service payment |
| Total due to General Fund | | $ 887,067 | |

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

| Receivable Fund | Payable Fund | Amount | Purpose |
|---|---|---|---|
| Road and Bridge | General | $ 14,818 | Accounts receivable |
| | Health and Human Services | 1,515 | Utilities reimbursement |
| | Land Management | 246 | Reimburse supplies/services |
| Total due to Road and Bridge Special Revenue Fund | | $ 16,579 | |
| Other governmental fund | Other governmental fund | $ 2,046 | Eliminate cash deficit |
| Total Due To/From Other Funds | | $ 905,692 | |

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

| | | |
|---|---|---|
| Transfers to General Fund from | | |
| Land Management Special Revenue Fund | $ 860,491 | Forfeited tax apportionment and unallotment transfer |
| Street Reconstruction Bond Debt Service Fund | 818,000 | Reimburse fund for debt payment |
| Total transfers to General Fund | $ 1,678,491 | |
| Transfers to Road and Bridge Special Revenue Fund from General Fund | 59,395 | Interest revenue |
| Transfers to other governmental funds from General Fund | 870,000 | To fund debt payments |
| Total Interfund Transfers | $ 2,607,886 | |

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2010. The projects include the following:

| | Spent-to-Date | Remaining Commitment |
|---|---|---|
| Governmental Activities | | |
| Roads and bridges | $ 14,446,053 | $ 269,521 |

2. Long-Term Debt

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2010 |
|---|---|---|---|---|---|
| General obligation jail bonds | | | | | |
| 2005A G.O. Jail Bonds | 2031 | $500,000 - $1,685,000 | 4.00 | $ 16,935,000 | $ 16,935,000 |
| General obligation Public Facilities Authority (PFA) loan | | | | | |
| 2001 G.O. PFA Loan | 2016 | $77,405 - $108,439 | 3.00 | $ 1,434,459* | $ 551,000 |
| Public project revenue bonds | | | | | |
| 2005A Public Project Revenue Bonds | 2031 | $370,000 - $1,000,000 | 4.00 - 5.00 | $ 13,285,000 | $ 13,285,000 |
| Special assessments | | | | | $ 652,704 |

*Amount drawn down

Debt is generally paid by the debt service funds. The Public Facilities Authority loans are paid by the Road and Bridge Special Revenue Fund, and the special assessments are paid by the General Fund.

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

| Year Ending December 31 | 2005A G.O. Jail Bonds Principal | 2005A G.O. Jail Bonds Interest | 2001 G.O. PFA Loan Principal | 2001 G.O. PFA Loan Interest | 2005A Public Project Revenue Bonds Principal | 2005A Public Project Revenue Bonds Interest |
|---|---|---|---|---|---|---|
| 2011 | $ 500,000 | $ 721,761 | $ 85,000 | $ 16,530 | $ 370,000 | $ 622,031 |
| 2012 | 520,000 | 701,361 | 88,000 | 13,980 | 385,000 | 606,931 |
| 2013 | 540,000 | 680,161 | 90,000 | 11,340 | 400,000 | 590,981 |
| 2014 | 560,000 | 658,161 | 93,000 | 8,640 | 420,000 | 573,806 |
| 2015 | 580,000 | 635,361 | 96,000 | 5,850 | 440,000 | 554,981 |
| 2016 - 2020 | 3,295,000 | 2,788,925 | 99,000 | 2,970 | 2,570,000 | 2,447,403 |
| 2021 - 2025 | 4,095,000 | 1,989,259 | - | - | 3,335,000 | 1,766,800 |
| 2026 - 2030 | 5,160,000 | 977,613 | - | - | 4,365,000 | 819,375 |
| 2031 | 1,685,000 | 37,913 | - | - | 1,000,000 | 25,000 |
| Total | $ 16,935,000 | $ 9,190,515 | $ 551,000 | $ 59,310 | $ 13,285,000 | $ 8,007,308 |

| Year Ending December 31 | Special Assessments Principal | Special Assessments Interest | Total Principal | Total Interest |
|---|---|---|---|---|
| 2011 | $ 72,523 | $ 35,899 | $ 1,027,523 | $ 1,396,221 |
| 2012 | 72,523 | 31,910 | 1,065,523 | 1,354,182 |
| 2013 | 72,523 | 27,921 | 1,102,523 | 1,310,403 |
| 2014 | 72,523 | 23,933 | 1,145,523 | 1,264,540 |
| 2015 | 72,523 | 19,944 | 1,188,523 | 1,216,136 |
| 2016 - 2020 | 290,089 | 39,597 | 6,254,089 | 5,278,895 |
| 2021 - 2025 | - | - | 7,430,000 | 3,756,059 |
| 2026 - 2030 | - | - | 9,525,000 | 1,796,988 |
| 2031 | - | - | 2,685,000 | 62,913 |
| Total | $ 652,704 | $ 179,204 | $ 31,423,704 | $ 17,436,337 |

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | | | | | |
| 2004 G.O. Street Reconstruction Capital Notes | $ 775,000 | $ - | $ 775,000 | $ - | $ - |
| 2005A G.O. Jail Bonds | 16,935,000 | - | - | 16,935,000 | 500,000 |
| 2005A Public Project Revenue Bonds | 13,285,000 | - | - | 13,285,000 | 370,000 |
| Less: discount on bonds | (222,572) | - | (11,805) | (210,767) | - |
| 2001 G.O. PFA Loan | 633,000 | - | 82,000 | 551,000 | 85,000 |
| Special assessments | 725,227 | - | 72,523 | 652,704 | 72,523 |
| Net other postemployment benefits | 238,847 | 252,199 | - | 491,046 | - |
| Compensated absences | 910,745 | 911,577 | 827,380 | 994,942 | - |
| Total Long-Term Liabilities | $ 33,280,247 | $ 1,163,776 | $ 1,745,098 | $ 32,698,925 | $ 1,027,523 |

3. Detailed Notes on All Funds

C. Liabilities

4. Changes in Long-Term Liabilities (Continued)

During 2005, Pine County issued $16,935,000 in General Obligation Jail Bonds, and the Pine County Housing and Redevelopment Authority (HRA) issued an additional $13,285,000 in Public Project Revenue Bonds to finance construction of a new courthouse and law enforcement center. Under an arrangement with the HRA, the County will make lease payments in accordance with the Public Project Revenue Bonds debt service schedule requirements.

5. Lease Obligations

The County is committed under various operating leases for copiers and office equipment. The following is a summary of the operating lease expense for 2010:

| Type of Property | Amount |
|---|---|
| Copiers and office equipment | $ 28,534 |

Future minimum payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2010:

| Year Ended | Amount |
|---|---|
| 2011 | $ 26,225 |
| 2012 | 15,572 |
| 2013 | 15,060 |
| 2014 | 6,168 |
| 2015 | - |
| Total Future Minimum Lease Payments | $ 63,025 |

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2010:

| | |
|---|---|
| General Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.00 |
| Public Employees Police and Fire Fund | 14.10 |
| Public Employees Correctional Fund | 8.75 |

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| General Employees Retirement Fund | $ 521,207 | $ 492,567 | $ 452,071 |
| Public Employees Police and Fire Fund | 269,421 | 266,471 | 224,091 |
| Public Employees Correctional Fund | 148,715 | 146,682 | 150,682 |

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

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

Four elected officials of Pine County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2010, were:

| | Employee | Employer |
|---|---|---|
| Contribution amount | $ 6,713 | $ 6,713 |
| Percentage of covered payroll | 5% | 5% |

Required contribution rates were 5.00 percent.

5. Postemployment Benefits

A. Plan Description and Funding Policy

Pine County provides health and dental insurance benefits for certain retired employees and their dependents under a single-employer, self-insured plan. The County contributes towards the health insurance for certain qualified retired employees for life as described below.

5. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

The rates are based on the County's group policy rates and are financed on a pay-as-you-go basis. For qualified retired employees hired before January 1, 1983, the County will provide 100 percent of the single coverage premium plus 50 percent of dependent coverage if that coverage option is selected. Employees hired before January 1, 1986, will receive benefits that can vary depending on their bargaining unit and County contract in effect.

The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees who retire from the County when eligible to receive a retirement benefit from PERA (or a similar plan), and do not participate in any other health benefits program providing coverage similar to that, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2010, approximately 47 retirees were receiving health benefits from the County's health plan.

B. Annual Other Postemployment Benefits (OPEB) Costs and Net OPEB Obligation

The County's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2010, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

| | | |
|---|---|---|
| ARC | $ | 421,068 |
| Interest on net OPEB obligation | | 9,554 |
| Adjustments to ARC | | (13,813) |
| Annual OPEB cost | $ | 416,809 |
| Contributions during the year | | (164,610) |
| Increase in net OPEB obligation | $ | 252,199 |
| Net OPEB Obligation - Beginning of Year | | 238,847 |
| Net OPEB Obligation - End of Year | $ | 491,046 |

5. Postemployment Benefits

B. Annual Other Postemployment Benefits (OPEB) Costs and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the excess OPEB contributions or net OPEB obligation for 2010 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Employer Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| December 31, 2008 | $ 260,565 | $ 142,211 | 55.0% | $ 118,354 |
| December 31, 2009 | 265,299 | 144,806 | 55.0 | 238,847 |
| December 31, 2010 | 416,809 | 164,610 | 39.0 | 491,046 |

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits as of January 1, 2010, the last date of valuation, is $3.72 million. The County currently has no assets that have been irrevocably deposited in a trust for future health benefits, thus the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is $11.2 million. The ratio of the unfunded actuarially accrued liability to covered payroll is 33.4 percent.

D. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

5. Postemployment Benefits

D. Actuarial Methods and Assumptions (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with long-term perspective of the calculations.

In the January 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a four percent discount rate, which is based on the estimated long-term investment yield on the general assets of the County. The annual health care cost trend rate is ten percent initially, reduced incrementally to an ultimate rate of five percent after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period. The remaining amortization period at December 31, 2010, was 27 years.

6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan

In May 2006, Pine County's Board of Commissioners approved a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under Minn. Stat. § 352.98 and through an Internal Revenue Service (IRS) private letter ruling establishing the HCSP as a tax-exempt benefit as of July 29, 2002. The plan is open to any active public employees in Minnesota if they are covered under certain public service retirement plans.

Under the terms of the HCSP, employees are allowed to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. The IRS private letter ruling requires mandatory participation of all employees in each bargaining unit in order to gain tax-free benefits. Allowable amounts deposited into individual accounts must be negotiated by each individual bargaining unit and the employer. The plan must be written into the collective bargaining agreement or a Memo of Understanding. For those employees not covered by a bargaining unit, amounts to be deposited into individual accounts must be agreed to by the employer and included in a written personnel policy.

6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan (Continued)

Under Pine County's plan, both unionized and non-unionized employees are allowed to contribute up to two percent of their annual salary into their HCSP account. Through a Memo of Understanding between Pine County and the Law Enforcement Labor Services (LELS) Deputies Division, those unionized employees are authorized to contribute up to one percent of their annual salary. Additionally, the LELS Deputies Division employees are allowed to transfer excess compensatory hours, wellness day hours, and personal day hours to their HCSP accounts. Non-unionized employees, according to policy, must transfer personal time off days in excess of the maximum allowed into their HCSP accounts.

B. Minnesota Service Cooperative VEBA Plan

In 2004, the Pine County Board of Commissioners approved a Voluntary Employee's Beneficiary Association (VEBA) plan for funding employee health benefits as authorized under Section 213(d) of the IRS code. The VEBA plan is a health reimbursement plan providing for individual employer-funded accounts that can be used to help pay eligible medical expenses incurred by participating employees. The plan is used in combination with a high-deductible health plan. Funding is provided through pre-tax contributions from Pine County based on employee health care premiums, accumulated severance, and other longevity-based benefits. The VEBA plan is administered by MII Life.

The current maximum County contribution for active employees consists of the difference between the County's contribution to its employees' single or family health insurance premiums under its existing comprehensive major medical plan, less the cost of the single or family health insurance premium under the VEBA high-deductible plan. Any balance remaining in an employee's account at year-end rolls over into the subsequent year.

Eligibility requirements include:

- being an active employee or retiree of a public entity;
- active employees must have a high-deductible health plan; and
- being a member of a bargaining unit that has approved the VEBA plan.

7. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of the MCIT Workers' Compensation, Property and Casualty, and Employee Benefits (for health insurance) Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $450,000 per claim in both 2010 and 2011. 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.

The Employee Benefits Division of the MCIT health plan is self-insured. Benefits under the plan are paid from assets of MCIT. Each participating county contributes the aggregate cost of coverage under the plan for the covered employees attributable to it. These amounts are held in trust by MCIT until they are needed to pay for benefits under the plan or to defray the reasonable costs of administering the plan. Stop-loss coverage of $150,000 is available to protect the assets held in trust by MCIT from catastrophic loss due to unexpected plan costs.

8. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from granting 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 is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

B. Conduit Debt

Camp Heartland Project

In 2000, the County issued $1,175,000 of Industrial Development Revenue Notes to provide financial assistance to Camp Heartland Project, Inc., a nonprofit corporation, for refinancing the corporation's debt incurred for acquiring, constructing, and equipping facilities located in Willow River. The corporation is primarily engaged in providing programs for children infected with or affected by HIV/AIDS. The notes are secured by the property financed and are payable solely from revenues of the corporation. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the accompanying financial statements. As of December 31, 2010, the outstanding principal amount payable was $824,273.

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

C. Joint Ventures

Kanabec/Pine Community Health Services

The Kanabec/Pine Community Health Services (CHS) was established by a joint powers agreement in 1990 to contract for the procurement of efficient health care services for the participating counties. Both Pine County and Kanabec County appoint three members to the CHS Board, with at least one of the appointees being a County Board member. Financial responsibility requires the County to provide administrative cost reimbursements and grant financing to the CHS Board.

Complete financial information can be obtained from:

Kanabec/Pine Community Health Services
905 East Forest Avenue, Suite 127
Mora, Minnesota 55051

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the powers, duties, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission has five voting members, one Commissioner from each county. Each county has one voting member and, in the absence of the voting member, an alternate, who is also a County Commissioner, votes.

Each county's proportionate share of the total operating costs is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of counties. The Commission will remain in existence as long as two or more counties remain as parties to the agreement. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities, and the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data.

Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest.

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

During 2007, the Commission repaid the outstanding balance of its long-term bonds. Pine County was not required to contribute toward debt service. During 2010, the County made no further contribution to the Commission, but continues to collect delinquent taxes.

Complete financial information can be obtained from:

East Central Solid Waste Commission
1756 - 180th Avenue
Mora, Minnesota 55051

Snake River Watershed Management Board

The Snake River Watershed Management Board was established in April 1983 by Aitkin, Kanabec, Mille Lacs, and Pine Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to coordinate the member counties' water plans and to develop objectives to promote sound hydrologic management of water and related land resources.

The four-member Board consists of one County Commissioner from each of the participating counties. The Kanabec County Auditor is the fiscal agent for the Board. The Board is funded through an annual budget, and participation in the administrative cost is in the following percentages:

| | |
|---|---|
| Aitkin County | 20.8% |
| Kanabec County | 49.5 |
| Mille Lacs County | 9.2 |
| Pine County | 20.5 |

Pine County provided $9,968 to this organization during 2010. Upon dissolution, the personal property shall be returned to the member county contributing the same.

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Snake River Watershed Management Board (Continued)

Complete financial information can be obtained from:

Snake River Watershed Management Board
Kanabec County Courthouse
18 North Vine Street
Mora, Minnesota 55051

Pine County/Independent School District (ISD) 2580 Joint Powers Agreement

Pine County entered into a joint powers agreement with ISD 2580 in April 1998, pursuant to Minn. Stat. § 471.59, to provide for the construction and operation of a joint use at-risk children, family, social, and human services facility. The County purchased the land and building and then deeded the building to ISD 2580 as required by the $1,000,000 grant agreement between the State of Minnesota and ISD 2580. The joint powers agreement calls for separate installation and maintenance of phone systems, utility costs shared based on square footage, and repair/maintenance costs shared equally. The term of the agreement is for 20 years or until the state releases its interest in the facility and land. The agreement states that if the County withdraws early, it is not entitled to reimbursement for any contributions made toward construction. If ISD 2580 withdraws and the facility is sold, ISD 2580 must pay the County an amount equal to the County's initial investment, less proceeds of the sale to which the County is entitled. Once the state releases its interest, ownership reverts to the County.

ISD 2580 is the fiscal agent for this project, which was completed in 2000. Separate financial information is not available.

Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region was established in 2001, under Minn. Stat. § 471.59, to improve access, delivery, and effectiveness of the emergency medical services system; promote systematic and cost-effective delivery of services; and identify and address system needs within the member counties. The member counties are Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs,

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Emergency Medical Services Region (Continued)

Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright. The Region established a Board comprising one Commissioner from each member county. The Region's Board has financial responsibility, and Stearns County is the fiscal agent.

Complete financial information can be obtained from:

Central Minnesota Emergency Medical Services Region
Administration Center
705 Courthouse Square
St. Cloud, Minnesota 56303-4701

Workforce Investment/Workforce Center Systems Joint Powers Board

The Workforce Investment/Workforce Center Systems Joint Powers Board was established in March 2002, pursuant to Minn. Stat. ch. 268 and § 471.59, as a joint powers entity. Its purpose is to develop and approve the planning, coordination, and administration of job training and retention programs for the hard-to-serve Temporary Assistance for Needy Families recipients and associated noncustodial parents under the Welfare to Work Program. It comprises Chisago, Isanti, Kanabec, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, and Wright Counties. Funding is to be provided through block grants from the U.S. Department of Labor. One County Commissioner from each participating county is appointed to the Joint Powers Board.

Rush Line Corridor Joint Powers Agreement

The Rush Line Corridor Joint Powers Agreement was established in March 1999, pursuant to Minn. Stat. ch. 398A and § 471.59, as a joint powers entity. The Rush Line Corridor is a transit way corridor that originates in St. Paul in Ramsey County and extends north from Ramsey County through Washington, Chisago, Pine, and Carlton Counties to Duluth in St. Louis County. The Rush Line Corridor consists of the cities, counties, and towns from St. Paul to Duluth and was created to preserve the corridor for future multi-modal transportation improvements including highway, rail transit, and multi-use paths.

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rush Line Corridor Joint Powers Agreement (Continued)

As part of the agreement, a joint powers board called the Rush Line Corridor Task Force was created to make the decisions needed to carry out the terms of the joint powers agreement. This Task Force consists of one member and one alternate appointed from each party, with their membership terms beginning on January 15 and ending on January 14 of the next succeeding year, or until a successor is appointed.

The Task Force has the authority to adopt budgets; enter into transactions, contracts, and leases; incur debts, liabilities, and obligations; employ agents and employees; and enter into legal claims. The Task Force is also a separate entity from its members, and the members are not liable for the Task Force's actions.

Funding, if needed for administrative costs, is provided to the Task Force based on corridor county population for the most recent census year or state demographer data available. During 2010, Pine County expended $8,049 on transportation feasibility studies and other administrative costs.

Minneapolis-Duluth/Superior Passenger Rail Alliance Joint Powers Agreement

The Minneapolis-Duluth/Superior Passenger Rail Alliance (also known as the "Northern Lights Express") Joint Powers Agreement was established in February 2008, pursuant to Minn. Stat. § 471.59 and Minn. Stat. §§ 398A.04 and 398A.06, as a joint powers entity. The Minneapolis-Duluth/Superior Passenger Rail Alliance corridor is a transit way corridor that is a critical line between the Twin Cities metropolitan area and northeast areas of Minnesota and further serving communities in the Corridor from Minneapolis, northeast to Duluth, Minnesota, and Superior, Wisconsin ("Twin Ports"). The Minneapolis-Duluth/Superior Passenger Rail Alliance was created to analyze the feasibility, environmental impact, rail characteristics, station locations, train scheduling, operations, and other necessary features for integrated transportation improvements along the corridor, including intercity passenger and freight rail and to analyze safety and related issues. The Joint Powers Agreement provides a mechanism whereby the Alliance can facilitate systematic planning and development for passenger rail transportation along the corridor, including communication with and coordination of Alliance activities as necessary with BNSF Railway Company (primary owner and operator of the corridor); other affected railroads; state agencies; counties;

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minneapolis-Duluth/Superior Passenger Rail Alliance Joint Powers Agreement (Continued)

municipalities; the Federal Railroad Administration; other regulatory, planning and funding agencies; tribal authorities; and other stakeholders for advancement of the Alliance's purposes.

As part of the agreement, a joint powers board called the Minneapolis-Duluth/Superior Passenger Rail Alliance Board was created to make the decisions needed to carry out the terms of the joint powers agreement. This Board consists of one elected official selected by each party and alternate members, consisting of one individual selected by each party, with their membership terms beginning on January 1 and ending on January 1 of the next succeeding year, or until a successor is appointed by the applicable party.

The Board has the authority to adopt budgets; enter into transactions, contracts, and leases; incur debts, liabilities, and obligations; employ agents and employees; and enter into legal claims. The Board is also a separate entity from its members, and the members are not liable for the Board's actions.

The parties shall contribute the funds necessary to carry out the purposes and powers of the Board, consistent with an annual budget and cost-sharing formula adopted by the Board and approved annually by each party's governing body. The St. Louis-Lake Regional Railroad Authority shall initially serve as the fiscal agent for the Board and shall provide contract management and the necessary legal services for said contract management until such time the Board otherwise designates a fiscal agent. During 2010, Pine County expended $24,000 on transportation feasibility studies and other administrative costs.

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Councilor from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Pine County made no contribution in 2010.

D. Jointly-Governed Organizations

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

Pine County Children, Families, and Learning Services Collaborative

The Pine County Children, Families, and Learning Services Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Pine County has no operational or financial control over the Collaborative. The County is the fiscal agent for the Collaborative and accounts for it in an agency fund.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During 2010, Pine County expended $68,978 to the Cooperative.

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

E. Related Organization

Pine County Housing and Redevelopment Authority

The Pine County Housing and Redevelopment Authority (HRA) is a legally separate organization having numerous rights and powers. The Pine County Board appoints all of the HRA Board members, but financial accountability necessary to include this organization as a component unit of the County is not present. Related party transactions comprise payment of $4,200 by the County to the HRA Board members for per diem expenses.

F. Tax-Forfeited Land

The County manages approximately 47,763 acres of state-owned, tax-forfeited land with a taxable market value for 2010 of $48,831,300. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

# REQUIRED SUPPLEMENTARY INFORMATION

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# PINE COUNTY
# PINE CITY, MINNESOTA

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 8,428,851 | $ 7,849,657 | $ 7,383,056 | $ (466,601) |
| Licenses and permits | 79,000 | 79,000 | 70,265 | (8,735) |
| Intergovernmental | 1,477,167 | 3,384,039 | 3,754,834 | 370,795 |
| Charges for services | 2,047,025 | 2,047,025 | 2,063,312 | 16,287 |
| Fines and forfeits | 44,100 | 44,100 | 29,948 | (14,152) |
| Gifts and contributions | 90,000 | 90,000 | 96,829 | 6,829 |
| Investment earnings | 160,000 | 160,000 | 61,258 | (98,742) |
| Miscellaneous | 364,835 | 364,835 | 565,559 | 200,724 |
| **Total Revenues** | **$ 12,690,978** | **$ 14,018,656** | **$ 14,025,061** | **$ 6,405** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **General government** | | | | |
| Commissioners | $ 207,355 | $ 233,018 | $ 232,730 | $ 288 |
| Courts | 40,000 | 46,201 | 72,372 | (26,171) |
| Law library | 20,000 | 20,000 | 19,712 | 288 |
| County auditor | 451,623 | 461,167 | 462,941 | (1,774) |
| County treasurer | 178,942 | 181,789 | 178,237 | 3,552 |
| County assessor | 417,759 | 423,802 | 402,101 | 21,701 |
| Elections | 49,500 | 66,313 | 66,512 | (199) |
| Data processing | 300,830 | 381,343 | 381,141 | 202 |
| Central services | 110,000 | 110,000 | 102,271 | 7,729 |
| Personnel | 272,907 | 276,487 | 199,894 | 76,593 |
| Attorney | 721,349 | 742,724 | 741,705 | 1,019 |
| Contracted legal services | 20,000 | 20,000 | 15,918 | 4,082 |
| Recorder | 340,628 | 437,941 | 437,585 | 356 |
| Planning and zoning | 104,653 | 113,639 | 113,831 | (192) |
| Buildings and plant | 606,814 | 740,291 | 780,233 | (39,942) |
| Veterans service officer | 73,419 | 74,289 | 60,615 | 13,674 |
| Other general government | 57,000 | 64,940 | 92,664 | (27,724) |
| **Total general government** | **$ 3,972,779** | **$ 4,393,944** | **$ 4,360,462** | **$ 33,482** |

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

*EXHIBIT A-1*
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Expenditures** | | | | |
| **Current (Continued)** | | | | |
| **Public safety** | | | | |
| Sheriff | $ 3,745,562 | $ 4,207,036 | $ 4,362,204 | $ (155,168) |
| Boat and water safety | 21,026 | 23,267 | 26,152 | (2,885) |
| Coroner | 45,000 | 51,620 | 80,760 | (29,140) |
| E-911 system | 98,161 | 109,279 | 117,007 | (7,728) |
| County jail | 3,044,953 | 3,313,343 | 3,313,633 | (290) |
| Sentence to serve | 68,163 | 69,179 | 66,458 | 2,721 |
| Probation and parole | 656,101 | 677,536 | 676,566 | 970 |
| Civil defense | 27,044 | 141,356 | 130,673 | 10,683 |
| Other public safety | 27,500 | 27,500 | 22,317 | 5,183 |
| **Total public safety** | **$ 7,733,510** | **$ 8,620,116** | **$ 8,795,770** | **$ (175,654)** |
| **Sanitation** | | | | |
| Solid waste | $ 78,893 | $ 78,893 | $ 62,861 | $ 16,032 |
| Recycling | 124,553 | 125,531 | 115,037 | 10,494 |
| **Total sanitation** | **$ 203,446** | **$ 204,424** | **$ 177,898** | **$ 26,526** |
| **Culture and recreation** | | | | |
| Historical society | $ 10,000 | $ 10,000 | $ 10,000 | $ - |
| Trail assistance | - | 2,174 | 2,174 | - |
| Regional library | 302,828 | 302,828 | 303,478 | (650) |
| **Total culture and recreation** | **$ 312,828** | **$ 315,002** | **$ 315,652** | **$ (650)** |
| **Conservation of natural resources** | | | | |
| County extension | $ 136,150 | $ 136,150 | $ 120,738 | $ 15,412 |
| Soil and water conservation | 65,698 | 70,407 | 70,407 | - |
| Agricultural society/County fair | 10,000 | 10,000 | 10,000 | - |
| Water planning | 44,402 | 100,652 | 90,259 | 10,393 |
| Wetland challenge | 78,896 | 78,896 | 78,896 | - |
| Other | 150 | 150 | 665 | (515) |
| **Total conservation of natural resources** | **$ 335,296** | **$ 396,255** | **$ 370,965** | **$ 25,290** |

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

# PINE COUNTY
# PINE CITY, MINNESOTA

*EXHIBIT A-1*
*(Continued)*

## BUDGETARY COMPARISON SCHEDULE
## GENERAL FUND
## FOR THE YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Expenditures (Continued)** | | | | |
| **Unallocated** | | | | |
| Insurance | $ 100,559 | $ - | $ - | $ - |
| Interest | 176,623 | - | - | - |
| **Total unallocated** | **$ 277,182** | **$ -** | **$ -** | **$ -** |
| **Debt service** | | | | |
| Principal | $ - | $ 65,856 | $ 72,523 | $ (6,667) |
| Interest | - | 36,221 | 39,887 | (3,666) |
| **Total debt service** | **$ -** | **$ 102,077** | **$ 112,410** | **$ (10,333)** |
| **Total Expenditures** | **$ 12,835,041** | **$ 14,031,818** | **$ 14,133,157** | **$ (101,339)** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (144,063)** | **$ (13,162)** | **$ (108,096)** | **$ (94,934)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | $ 150,000 | $ 1,678,491 | $ 1,678,491 | $ - |
| Transfers out | - | (929,395) | (929,395) | - |
| **Total Other Financing Sources (Uses)** | **$ 150,000** | **$ 749,096** | **$ 749,096** | **$ -** |
| **Net Change in Fund Balance** | **$ 5,937** | **$ 735,934** | **$ 641,000** | **$ (94,934)** |
| **Fund Balance - January 1** | **662,577** | **662,577** | **662,577** | **-** |
| **Fund Balance - December 31** | **$ 668,514** | **$ 1,398,511** | **$ 1,303,577** | **$ (94,934)** |

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

**PINE COUNTY**
**PINE CITY, MINNESOTA**

***EXHIBIT A-2***

**BUDGETARY COMPARISON SCHEDULE**
**ROAD AND BRIDGE SPECIAL REVENUE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 1,438,099 | $ 1,438,099 | $ 1,440,398 | $ 2,299 |
| Intergovernmental | 6,862,297 | 7,191,236 | 8,931,544 | 1,740,308 |
| Charges for services | 205,000 | 205,000 | 209,842 | 4,842 |
| Investment earnings | 28,000 | 28,000 | - | (28,000) |
| Miscellaneous | 119,000 | 119,000 | 51,952 | (67,048) |
| **Total Revenues** | **$ 8,652,396** | **$ 8,981,335** | **$ 10,633,736** | **$ 1,652,401** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Highways and streets** | | | | |
| Administration | $ 534,966 | $ 534,966 | $ 434,114 | $ 100,852 |
| Maintenance | 1,457,570 | 1,457,570 | 1,789,592 | (332,022) |
| Construction | 5,078,408 | 5,078,408 | 4,829,530 | 248,878 |
| Equipment maintenance and shop | 1,510,035 | 1,510,035 | 1,435,033 | 75,002 |
| Unallocated - highways and streets | 45,102 | 45,102 | - | 45,102 |
| **Total highways and streets** | **$ 8,626,081** | **$ 8,626,081** | **$ 8,488,269** | **$ 137,812** |
| **Intergovernmental** | | | | |
| Highways and streets | **$ -** | **$ 328,939** | **$ 328,939** | **$ -** |
| **Debt service** | | | | |
| Principal | $ - | $ - | $ 82,000 | $ (82,000) |
| Interest | - | - | 18,990 | (18,990) |
| **Total debt service** | **$ -** | **$ -** | **$ 100,990** | **$ (100,990)** |
| **Total Expenditures** | **$ 8,626,081** | **$ 8,955,020** | **$ 8,918,198** | **$ 36,822** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 26,315** | **$ 26,315** | **$ 1,715,538** | **$ 1,689,223** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | $ - | $ - | $ 59,395 | $ 59,395 |
| Proceeds from sale of capital assets | - | - | 260 | 260 |
| **Total Other Financing Sources (Uses)** | **$ -** | **$ -** | **$ 59,655** | **$ 59,655** |
| **Net Change in Fund Balance** | **$ 26,315** | **$ 26,315** | **$ 1,775,193** | **$ 1,748,878** |
| **Fund Balance - January 1** | **9,251** | **9,251** | **9,251** | **-** |
| **Increase (decrease) in reserved for inventories** | **-** | **-** | **8,319** | **8,319** |
| **Fund Balance - December 31** | **$ 35,566** | **$ 35,566** | **$ 1,792,763** | **$ 1,757,197** |

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

## PINE COUNTY
## PINE CITY, MINNESOTA

*EXHIBIT A-3*

### BUDGETARY COMPARISON SCHEDULE
### HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Taxes | $ 2,500,087 | $ 2,500,087 | $ 2,458,098 | $ (41,989) |
| Intergovernmental | 4,569,376 | 4,569,376 | 5,045,234 | 475,858 |
| Charges for services | 61,150 | 61,150 | 87,766 | 26,616 |
| Gifts and contributions | - | - | 19,801 | 19,801 |
| Miscellaneous | 888,500 | 888,500 | 995,898 | 107,398 |
| **Total Revenues** | **$ 8,019,113** | **$ 8,019,113** | **$ 8,606,797** | **$ 587,684** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Human services** | | | | |
| Income maintenance | $ 2,078,380 | $ 2,209,166 | $ 2,231,633 | $ (22,467) |
| Social services | 5,153,080 | 5,153,080 | 5,151,617 | 1,463 |
| **Total human services** | **$ 7,231,460** | **$ 7,362,246** | **$ 7,383,250** | **$ (21,004)** |
| **Health** | | | | |
| Nursing service | $ 701,906 | $ 726,906 | $ 840,310 | $ (113,404) |
| Women, infants, and children | 319,089 | 319,089 | 149,046 | 170,043 |
| Maternal and child health | 107,151 | 107,151 | 93,143 | 14,008 |
| Environmental health | 22,781 | 82,781 | 97,727 | (14,946) |
| Health education | 49,920 | 49,920 | 27,061 | 22,859 |
| **Total health** | **$ 1,200,847** | **$ 1,285,847** | **$ 1,207,287** | **$ 78,560** |
| **Total Expenditures** | **$ 8,432,307** | **$ 8,648,093** | **$ 8,590,537** | **$ 57,556** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (413,194)** | **$ (628,980)** | **$ 16,260** | **$ 645,240** |
| **Fund Balance - January 1** | **2,910,928** | **2,910,928** | **2,910,928** | **-** |
| **Fund Balance - December 31** | **$ 2,497,734** | **$ 2,281,948** | **$ 2,927,188** | **$ 645,240** |

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

PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE**
**LAND MANAGEMENT SPECIAL REVENUE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Intergovernmental | $ 37,845 | $ 37,845 | $ 35,261 | $ (2,584) |
| Miscellaneous | 684,601 | 684,601 | 544,613 | (139,988) |
| **Total Revenues** | **$ 722,446** | **$ 722,446** | **$ 579,874** | **$ (142,572)** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Conservation of natural resources** | | | | |
| Land use | $ 637,999 | $ 637,999 | $ 211,936 | $ 426,063 |
| Other conservation | - | - | 24,311 | (24,311) |
| **Total Expenditures** | **$ 637,999** | **$ 637,999** | **$ 236,247** | **$ 401,752** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 84,447** | **$ 84,447** | **$ 343,627** | **$ 259,180** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers out | (50,000) | (860,491) | (860,491) | - |
| **Net Change in Fund Balance** | **$ 34,447** | **$ (776,044)** | **$ (516,864)** | **$ 259,180** |
| **Fund Balance - January 1** | **1,131,102** | **1,131,102** | **1,131,102** | **-** |
| **Fund Balance - December 31** | **$ 1,165,549** | **$ 355,058** | **$ 614,238** | **$ 259,180** |

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

**PINE COUNTY**
**PINE CITY, MINNESOTA**

***EXHIBIT A-5***

## SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
## DECEMBER 31, 2010

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| January 1, 2008 | $ - | $ 2,717,794 | $ 2,717,794 | 0.0% | $ 9,712,033 | 27.98% |
| January 1, 2010 | - | 3,722,718 | 3,722,718 | 0.0 | 11,151,733 | 33.38 |

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

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**PINE COUNTY**
**PINE CITY, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for most governmental funds. All annual appropriations lapse at fiscal year-end.

Departments submit requests for appropriations to the Pine County Coordinator so that a budget can be prepared. A draft of the proposed budget is presented to a Budget Committee. The Budget Committee consists of two County Commissioners, the County Coordinator, the County Auditor, and the Fiscal Supervisor. The Budget Committee reviews and amends the departmental requests in order to develop a proposed budget and preliminary tax levy. Before September 30, a final draft of the proposed budget and preliminary tax levy is presented to the County Board for review. A final budget and tax levy is adopted by the Board and certified to the Auditor no later than December 31.

The appropriated budget is prepared by fund, function, and 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, except for the General Fund, which is at the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders or 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 Appropriations

For the year ended December 31, 2010, the following departments of the General Fund had expenditures that exceeded appropriations.

2. Excess of Expenditures Over Appropriations (Continued)

| General Fund by Department Level | Budget | Expenditures | Excess |
|---|---|---|---|
| Current | | | |
| General government | | | |
| Courts | $ 46,201 | $ 72,372 | $ 26,171 |
| County Auditor | 461,167 | 462,941 | 1,774 |
| Elections | 66,313 | 66,512 | 199 |
| Planning and zoning | 113,639 | 113,831 | 192 |
| Building and plant | 740,291 | 780,233 | 39,942 |
| Other general government | 64,940 | 92,664 | 27,724 |
| Public safety | | | |
| Sheriff | 4,207,036 | 4,362,204 | 155,168 |
| Boat and water safety | 23,267 | 26,152 | 2,885 |
| Coroner | 51,620 | 80,760 | 29,140 |
| E-911 system | 109,279 | 117,007 | 7,728 |
| County jail | 3,313,343 | 3,313,633 | 290 |
| Culture and recreation | | | |
| Regional library | 302,828 | 303,478 | 650 |
| Conservation of natural resources | | | |
| Other | 150 | 665 | 515 |
| Debt service | | | |
| Principal | 65,856 | 72,523 | 6,667 |
| Interest | 36,221 | 39,887 | 3,666 |
| Total | $ 9,602,151 | $ 9,904,862 | $ 302,711 |

# SUPPLEMENTARY INFORMATION

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**PINE COUNTY**
**PINE CITY, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

The Ditch Special Revenue Fund is used to account for funds used for public improvements and services for the ditch system.

The Countywide Rehabilitation Program Special Revenue Fund is used to provide funds to support housing and economic development within Pine County.

The Ambulance Special Revenue Fund is used to account for the collection of past due accounts receivable for emergency services provided to residents of Pine County.

The Equipment Bond Debt Service Fund consists of the resources after the final payment of the debt.

The East Central Solid Waste Commission Debt Service Fund consists of the resources after the final payment of the debt.

The General Obligation Jail Bond Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The HRA Project Bonds Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The G.O. Jail Bonds Capital Projects Fund is used to account for the capital acquisition and construction of a new courthouse and law enforcement center.

The Governmental Buildings Capital Projects Fund is used to account for future capital acquisitions and construction.

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PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT B-1*

**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS**
**DECEMBER 31, 2010**

| | Special Revenue | Debt Service | Capital Projects | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and pooled investments | $ 30,157 | $ 1,441,768 | $ 130,593 | $ 1,602,518 |
| Undistributed cash in agency funds | - | 35,793 | - | 35,793 |
| Cash with escrow agent | - | 500,000 | - | 500,000 |
| Investments | 101,676 | - | - | 101,676 |
| Taxes receivable | | | | |
| Prior | - | 120,970 | - | 120,970 |
| Accounts receivable | 158,953 | - | - | 158,953 |
| Accrued interest receivable | 101 | - | - | 101 |
| Due from other funds | - | - | 2,046 | 2,046 |
| **Total Assets** | **$ 290,887** | **$ 2,098,531** | **$ 132,639** | **$ 2,522,057** |
| **Liabilities and Fund Balances** | | | | |
| **Liabilities** | | | | |
| Cash overdraft | $ - | $ - | $ 2,046 | $ 2,046 |
| Accounts payable | - | - | 17,506 | 17,506 |
| Due to other funds | - | 2,046 | - | 2,046 |
| Due to other governments | 44 | - | - | 44 |
| Deferred revenue - unavailable | 158,953 | 98,493 | - | 257,446 |
| **Total Liabilities** | **$ 158,997** | **$ 100,539** | **$ 19,552** | **$ 279,088** |
| **Fund Balances** | | | | |
| Reserved for debt service | $ - | $ 500,000 | $ - | $ 500,000 |
| Unreserved | | | | |
| Designated for capital improvements | - | 325,222 | - | 325,222 |
| Undesignated | 131,890 | 1,172,770 | 113,087 | 1,417,747 |
| **Total Fund Balances** | **$ 131,890** | **$ 1,997,992** | **$ 113,087** | **$ 2,242,969** |
| **Total Liabilities and Fund Balances** | **$ 290,887** | **$ 2,098,531** | **$ 132,639** | **$ 2,522,057** |

**PINE COUNTY**
**PINE CITY, MINNESOTA**

***EXHIBIT B-2***

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**
**NONMAJOR GOVERNMENTAL FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Special Revenue | Debt Service | Capital Projects | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | $ - | $ 1,238,377 | $ - | $ 1,238,377 |
| Intergovernmental | - | 101,106 | - | 101,106 |
| Charges for services | 5,376 | - | - | 5,376 |
| Investment earnings | 437 | - | - | 437 |
| **Total Revenues** | **$ 5,813** | **$ 1,339,483** | **$ -** | **$ 1,345,296** |
| **Expenditures** | | | | |
| **Current** | | | | |
| General government | $ - | $ - | $ 37,393 | $ 37,393 |
| Public safety | 44 | - | - | 44 |
| **Debt service** | | | | |
| Interest | - | 1,361,192 | - | 1,361,192 |
| Project cost | 15,013 | - | - | 15,013 |
| Administrative - fiscal charges | - | 6,625 | - | 6,625 |
| **Total Expenditures** | **$ 15,057** | **$ 1,367,817** | **$ 37,393** | **$ 1,420,267** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (9,244)** | **$ (28,334)** | **$ (37,393)** | **$ (74,971)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | - | 870,000 | - | 870,000 |
| **Net Change in Fund Balance** | **$ (9,244)** | **$ 841,666** | **$ (37,393)** | **$ 795,029** |
| **Fund Balance - January 1** | **141,134** | **1,156,326** | **150,480** | **1,447,940** |
| **Fund Balance - December 31** | **$ 131,890** | **$ 1,997,992** | **$ 113,087** | **$ 2,242,969** |

# PINE COUNTY
# PINE CITY, MINNESOTA

*EXHIBIT B-3*

### COMBINING BALANCE SHEET
### NONMAJOR GOVERNMENTAL FUNDS
### SPECIAL REVENUE FUNDS
### DECEMBER 31, 2010

| | Ditch | Countywide Rehabilitation Program | Ambulance | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and pooled investments | $ 11,751 | $ 67 | $ 18,339 | $ 30,157 |
| Investments | - | 101,676 | - | 101,676 |
| Accounts receivable | - | - | 158,953 | 158,953 |
| Accrued interest receivable | - | 101 | - | 101 |
| **Total Assets** | **$ 11,751** | **$ 101,844** | **$ 177,292** | **$ 290,887** |
| **Liabilities and Fund Balances** | | | | |
| **Liabilities** | | | | |
| Due to other governments | $ - | $ - | $ 44 | $ 44 |
| Deferred revenue - unavailable | - | - | 158,953 | 158,953 |
| **Total Liabilities** | **$ -** | **$ -** | **$ 158,997** | **$ 158,997** |
| **Fund Balances** | | | | |
| Unreserved | | | | |
| Undesignated | 11,751 | 101,844 | 18,295 | 131,890 |
| **Total Liabilities and Fund Balances** | **$ 11,751** | **$ 101,844** | **$ 177,292** | **$ 290,887** |

**PINE COUNTY**
**PINE CITY, MINNESOTA**

***EXHIBIT B-4***

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**
**NONMAJOR GOVERNMENTAL FUNDS**
**SPECIAL REVENUE FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Ditch | Countywide Rehabilitation Program | Ambulance | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| Charges for services | $ 3,197 | $ - | $ 2,179 | $ 5,376 |
| Investment earnings | - | 437 | - | 437 |
| **Total Revenues** | **$ 3,197** | **$ 437** | **$ 2,179** | **$ 5,813** |
| **Expenditures** | | | | |
| **Current** | | | | |
| Public safety | $ - | $ - | $ 44 | $ 44 |
| **Debt service** | | | | |
| Project cost | - | 15,013 | - | 15,013 |
| **Total Expenditures** | **$ -** | **$ 15,013** | **$ 44** | **$ 15,057** |
| **Net Change in Fund Balance** | **$ 3,197** | **$ (14,576)** | **$ 2,135** | **$ (9,244)** |
| **Fund Balance - January 1** | **8,554** | **116,420** | **16,160** | **141,134** |
| **Fund Balance - December 31** | **$ 11,751** | **$ 101,844** | **$ 18,295** | **$ 131,890** |

PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT B-5*

## COMBINING BALANCE SHEET
## NONMAJOR GOVERNMENTAL FUNDS
## DEBT SERVICE FUNDS
## DECEMBER 31, 2010

| | Equipment Bond | East Central Solid Waste Commission | General Obligation Jail Bond | HRA Project Bonds | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and pooled investments | $ 4,717 | $ 1,255 | $ 781,143 | $ 654,653 | $ 1,441,768 |
| Undistributed cash in agency funds | 50 | 40 | 19,193 | 16,510 | 35,793 |
| Cash with escrow agent | - | - | - | 500,000 | 500,000 |
| Taxes receivable | | | | | |
| Prior | 2,522 | 1,770 | 63,282 | 53,396 | 120,970 |
| **Total Assets** | **$ 7,289** | **$ 3,065** | **$ 863,618** | **$ 1,224,559** | **$ 2,098,531** |
| **Liabilities and Fund Balances** | | | | | |
| **Liabilities** | | | | | |
| Due to other funds | $ - | $ - | $ 2,046 | $ - | $ 2,046 |
| Deferred revenue - unavailable | 2,522 | 1,770 | 51,219 | 42,982 | 98,493 |
| **Total Liabilities** | **$ 2,522** | **$ 1,770** | **$ 53,265** | **$ 42,982** | **$ 100,539** |
| **Fund Balances** | | | | | |
| Reserved for debt service | $ - | $ - | $ - | $ 500,000 | $ 500,000 |
| Unreserved | | | | | |
| Designated for capital improvements | - | - | - | 325,222 | 325,222 |
| Undesignated | 4,767 | 1,295 | 810,353 | 356,355 | 1,172,770 |
| **Total Fund Balances** | **$ 4,767** | **$ 1,295** | **$ 810,353** | **$ 1,181,577** | **$ 1,997,992** |
| **Total Liabilities and Fund Balances** | **$ 7,289** | **$ 3,065** | **$ 863,618** | **$ 1,224,559** | **$ 2,098,531** |

PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT B-6*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**
**NONMAJOR GOVERNMENTAL FUNDS**
**DEBT SERVICE FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Equipment Bond | East Central Solid Waste Commission | General Obligation Jail Bond | HRA Project Bonds | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Taxes | $ 816 | $ 399 | $ 664,844 | $ 572,318 | $ 1,238,377 |
| Intergovernmental | - | - | 54,263 | 46,843 | 101,106 |
| **Total Revenues** | **$ 816** | **$ 399** | **$ 719,107** | **$ 619,161** | **$ 1,339,483** |
| **Expenditures** | | | | | |
| **Debt service** | | | | | |
| Interest | $ - | $ - | $ 731,761 | $ 629,431 | $ 1,361,192 |
| Administrative - fiscal charges | - | - | 3,250 | 3,375 | 6,625 |
| **Total Expenditures** | **$ -** | **$ -** | **$ 735,011** | **$ 632,806** | **$ 1,367,817** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 816** | **$ 399** | **$ (15,904)** | **$ (13,645)** | **$ (28,334)** |
| **Other Financing Sources (Uses)** | | | | | |
| Transfers in | - | - | 500,000 | 370,000 | 870,000 |
| **Net Change in Fund Balance** | **$ 816** | **$ 399** | **$ 484,096** | **$ 356,355** | **$ 841,666** |
| **Fund Balance - January 1** | **3,951** | **896** | **326,257** | **825,222** | **1,156,326** |
| **Fund Balance - December 31** | **$ 4,767** | **$ 1,295** | **$ 810,353** | **$ 1,181,577** | **$ 1,997,992** |

**PINE COUNTY**
**PINE CITY, MINNESOTA**

*EXHIBIT B-7*

**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS**
**CAPITAL PROJECT FUNDS**
**DECEMBER 31, 2010**

| | G.O. Jail Bonds | Governmental Buildings | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and pooled investments | $ - | $ 130,593 | $ 130,593 |
| Due from other funds | 2,046 | - | 2,046 |
| **Total Assets** | **$ 2,046** | **$ 130,593** | **$ 132,639** |
| **Liabilities and Fund Balances** | | | |
| **Liabilities** | | | |
| Cash overdraft | $ 2,046 | $ - | $ 2,046 |
| Accounts payable | - | 17,506 | 17,506 |
| **Total Liabilities** | **$ 2,046** | **$ 17,506** | **$ 19,552** |
| **Fund Balances** | | | |
| Undesignated | - | 113,087 | 113,087 |
| **Total Liabilities and Fund Balances** | **$ 2,046** | **$ 130,593** | **$ 132,639** |

# PINE COUNTY
# PINE CITY, MINNESOTA

*EXHIBIT B-8*

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
## NONMAJOR GOVERNMENTAL FUNDS
## CAPITAL PROJECT FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2010

| | G.O. Jail Bonds | Governmental Buildings | Total |
|---|---|---|---|
| **Expenditures** | | | |
| **Current** | | | |
| General government | $ - | $ 37,393 | $ 37,393 |
| **Net Change in Fund Balance** | $ - | $ (37,393) | $ (37,393) |
| **Fund Balance - January 1** | - | 150,480 | 150,480 |
| **Fund Balance - December 31** | $ - | $ 113,087 | $ 113,087 |

PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT C-1*

**BUDGETARY COMPARISON SCHEDULE
STREET RECONSTRUCTION BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 792,943 | $ 792,943 | $ 714,690 | $ (78,253) |
| Intergovernmental | - | - | 58,370 | 58,370 |
| **Total Revenues** | **$ 792,943** | **$ 792,943** | **$ 773,060** | **$ (19,883)** |
| **Expenditures** | | | | |
| **Debt service** | | | | |
| Principal | $ 775,000 | $ 775,000 | $ 775,000 | $ - |
| Interest | 11,625 | 11,625 | 11,625 | - |
| Administrative - fiscal charges | 450 | 450 | - | 450 |
| **Total Expenditures** | **$ 787,075** | **$ 787,075** | **$ 786,625** | **$ 450** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 5,868** | **$ 5,868** | **$ (13,565)** | **$ (19,433)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers out | - | (818,000) | (818,000) | - |
| **Net Change in Fund Balance** | **$ 5,868** | **$ (812,132)** | **$ (831,565)** | **$ (19,433)** |
| **Fund Balance - January 1** | **865,793** | **865,793** | **865,793** | **-** |
| **Fund Balance - December 31** | **$ 871,661** | **$ 53,661** | **$ 34,228** | **$ (19,433)** |

# PINE COUNTY
# PINE CITY, MINNESOTA

*EXHIBIT C-2*

**BUDGETARY COMPARISON SCHEDULE**
**DITCH SPECIAL REVENUE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Charges for services | $ - | $ - | $ 3,197 | $ 3,197 |
| **Change in Fund Balance** | $ - | $ - | $ 3,197 | $ 3,197 |
| **Fund Balance - January 1** | 8,554 | 8,554 | 8,554 | - |
| **Fund Balance - December 31** | $ 8,554 | $ 8,554 | $ 11,751 | $ 3,197 |

**PINE COUNTY**
**PINE CITY, MINNESOTA**

***EXHIBIT C-3***

**BUDGETARY COMPARISON SCHEDULE**
**COUNTYWIDE REHABILITATION PROGRAM SPECIAL REVENUE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Investment earnings | $ - | $ - | $ 437 | $ 437 |
| **Expenditures** | | | | |
| **Debt service** | | | | |
| Project cost | - | - | 15,013 | (15,013) |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ (14,576)** | **$ (14,576)** |
| **Fund Balance - January 1** | **116,420** | **116,420** | **116,420** | **-** |
| **Fund Balance - December 31** | **$ 116,420** | **$ 116,420** | **$ 101,844** | **$ (14,576)** |

PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT C-4*

**BUDGETARY COMPARISON SCHEDULE**
**AMBULANCE SPECIAL REVENUE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Charges for services | $ - | $ - | $ 2,179 | $ 2,179 |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Public safety** | | | | |
| Emergency services | - | - | 44 | (44) |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ 2,135** | **$ 2,135** |
| **Fund Balance - January 1** | **16,160** | **16,160** | **16,160** | **-** |
| **Fund Balance - December 31** | **$ 16,160** | **$ 16,160** | **$ 18,295** | **$ 2,135** |

## PINE COUNTY
## PINE CITY, MINNESOTA

*EXHIBIT C-5*

### BUDGETARY COMPARISON SCHEDULE
### EQUIPMENT BOND DEBT SERVICE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ - | $ - | $ 816 | $ 816 |
| **Net Change in Fund Balance** | $ - | $ - | $ 816 | $ 816 |
| **Fund Balance - January 1** | 3,951 | 3,951 | 3,951 | - |
| **Fund Balance - December 31** | $ 3,951 | $ 3,951 | $ 4,767 | $ 816 |

# PINE COUNTY
# PINE CITY, MINNESOTA

*EXHIBIT C-6*

### BUDGETARY COMPARISON SCHEDULE
### EAST CENTRAL SOLID WASTE COMMISSION DEBT SERVICE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ - | $ - | $ 399 | $ 399 |
| **Net Change in Fund Balance** | $ - | $ - | $ 399 | $ 399 |
| **Fund Balance - January 1** | 896 | 896 | 896 | - |
| **Fund Balance - December 31** | $ 896 | $ 896 | $ 1,295 | $ 399 |

PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT C-7*

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL OBLIGATION JAIL BOND DEBT SERVICE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 768,850 | $ 768,850 | $ 664,844 | $ (104,006) |
| Intergovernmental | - | - | 54,263 | 54,263 |
| **Total Revenues** | **$ 768,850** | **$ 768,850** | **$ 719,107** | **$ (49,743)** |
| **Expenditures** | | | | |
| **Debt service** | | | | |
| Interest | $ 731,760 | $ 731,760 | $ 731,761 | $ (1) |
| Administrative charges | 450 | 450 | 3,250 | (2,800) |
| **Total Expenditures** | **$ 732,210** | **$ 732,210** | **$ 735,011** | **$ (2,801)** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 36,640** | **$ 36,640** | **$ (15,904)** | **$ (52,544)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | - | 500,000 | 500,000 | - |
| **Net Change in Fund Balance** | **$ 36,640** | **$ 536,640** | **$ 484,096** | **$ (52,544)** |
| **Fund Balance - January 1** | **326,257** | **326,257** | **326,257** | **-** |
| **Fund Balance - December 31** | **$ 362,897** | **$ 862,897** | **$ 810,353** | **$ (52,544)** |

**PINE COUNTY**
**PINE CITY, MINNESOTA**

*EXHIBIT C-8*

**BUDGETARY COMPARISON SCHEDULE**
**HRA PROJECT BONDS DEBT SERVICE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 631,556 | $ 631,556 | $ 572,318 | $ (59,238) |
| Intergovernmental | - | - | 46,843 | 46,843 |
| **Total Revenues** | **$ 631,556** | **$ 631,556** | **$ 619,161** | **$ (12,395)** |
| **Expenditures** | | | | |
| **Debt service** | | | | |
| Interest | $ 629,431 | $ 629,431 | $ 629,431 | $ - |
| Administrative charges | 2,125 | 2,125 | 3,375 | (1,250) |
| **Total Expenditures** | **$ 631,556** | **$ 631,556** | **$ 632,806** | **$ (1,250)** |
| **Excess of Revenues Over (Under) Expenditures** | **$ -** | **$ -** | **$ (13,645)** | **$ (13,645)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | - | 370,000 | 370,000 | - |
| **Net Change in Fund Balance** | **$ -** | **$ 370,000** | **$ 356,355** | **$ (13,645)** |
| **Fund Balance - January 1** | **825,222** | **825,222** | **825,222** | **-** |
| **Fund Balance - December 31** | **$ 825,222** | **$ 1,195,222** | **$ 1,181,577** | **$ (13,645)** |

# FIDUCIARY FUNDS

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## AGENCY 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.

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PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT D-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **PINE COUNTY CHILDREN, FAMILIES, AND LEARNING SERVICES COLLABORATIVE** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | **$ 180,417** | **$ 121,099** | **$ 168,391** | **$ 133,125** |
| **Liabilities** | | | | |
| Accounts payable | **$ 180,417** | **$ 121,099** | **$ 168,391** | **$ 133,125** |
| **STATE** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 35,895 | $ 551,138 | $ 570,056 | $ 16,977 |
| Accounts receivable | 154 | 495 | 154 | 495 |
| **Total Assets** | **$ 36,049** | **$ 551,633** | **$ 570,210** | **$ 17,472** |
| **Liabilities** | | | | |
| Due to other governments | **$ 36,049** | **$ 551,633** | **$ 570,210** | **$ 17,472** |
| **TAXES AND PENALTIES** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | **$ 863,189** | **$ 32,298,302** | **$ 32,702,248** | **$ 459,243** |
| **Liabilities** | | | | |
| Accounts payable | $ 4,815 | $ - | $ 4,815 | $ - |
| Due to other governments | 858,374 | 32,298,302 | 32,697,433 | 459,243 |
| **Total Liabilities** | **$ 863,189** | **$ 32,298,302** | **$ 32,702,248** | **$ 459,243** |

*EXHIBIT D-1*
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **TOTAL ALL AGENCY FUNDS** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 1,079,501 | $ 32,970,539 | $ 33,440,695 | $ 609,345 |
| Accounts receivable | 154 | 495 | 154 | 495 |
| **Total Assets** | **$ 1,079,655** | **$ 32,971,034** | **$ 33,440,849** | **$ 609,840** |
| **Liabilities** | | | | |
| Accounts payable | $ 185,232 | $ 121,099 | $ 173,206 | $ 133,125 |
| Due to other governments | 894,423 | 32,849,935 | 33,267,643 | 476,715 |
| **Total Liabilities** | **$ 1,079,655** | **$ 32,971,034** | **$ 33,440,849** | **$ 609,840** |

# OTHER SCHEDULES

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## PINE COUNTY
## PINE CITY, MINNESOTA

*EXHIBIT E-1*

### SCHEDULE OF INTERGOVERNMENTAL REVENUE
### FOR THE YEAR ENDED DECEMBER 31, 2010

| | | |
|---|---|---|
| **Shared Revenue** | | |
| **State** | | |
| Highway users tax | $ | 8,361,646 |
| Road gas tax | | 2,871 |
| Homestead credit | | 1,199,084 |
| PERA rate reimbursement | | 36,545 |
| Disparity reduction aid | | 1,026 |
| Police aid | | 160,679 |
| Enhanced 911 | | 105,164 |
| Market value credit | | 1,057,813 |
| Agricultural preserve credit | | 232 |
| Agricultural conservation credit | | 1,475 |
| Wildlife wetlands credit | | 398 |
| Casino aid/tribal tax agreement | | 47,037 |
| **Total shared revenue** | **$** | **10,973,970** |
| **Reimbursement for Services** | | |
| **State** | | |
| Minnesota Department of Human Services | **$** | **774,715** |
| **Payments** | | |
| **State** | | |
| Payments in lieu of taxes | **$** | **506,800** |
| **Grants** | | |
| **State** | | |
| Minnesota Department/Board of | | |
| Corrections | $ | 192,646 |
| Public Safety | | 10,396 |
| Health | | 201,827 |
| Natural Resources | | 9,677 |
| Human Services | | 1,205,043 |
| Water and Soil Resources | | 194,716 |
| Trial Courts | | 2,590 |
| Veterans Affairs | | 2,500 |
| Office of Environmental Assistance | | 69,902 |
| **Total state** | **$** | **1,889,297** |

PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT E-1*
*(Continued)*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| | | |
|---|---|---|
| **Grants (Continued)** | | |
| **Federal** | | |
| Department of | $ | 367,068 |
| Agriculture | | 186,784 |
| Commerce | | 4,925 |
| Interior | | 105,883 |
| Justice | | 461,812 |
| Transportation | | 2,570,148 |
| Health and Human Services | | 84,947 |
| Homeland Security | | |
| | **$** | **3,781,567** |
| **Total federal** | | |
| | **$** | **5,670,864** |
| **Total state and federal grants** | | |
| | **$** | **17,926,349** |
| **Total Intergovernmental Revenue** | | |

# PINE COUNTY
# PINE CITY, MINNESOTA

*EXHIBIT E-2*

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED DECEMBER 31, 2010

| Federal Grantor<br>Pass-Through Agency<br>Grant Program Title | Pass-Through<br>Grant Numbers | Federal<br>CFDA<br>Number | Expenditures |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| Passed Through the Minnesota Department of Health | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | | 10.557 | $ 147,125 |
| Passed Through Minnesota Department of Human Services | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster | | | |
| State Administrative Matching Grants for SNAP | | 10.561 | 211,997 |
| State Administrative Matching Grants for SNAP - ARRA | | 10.561 | 7,946 |
| **Total U.S. Department of Agriculture** | | | **$ 367,068** |
| **U.S. Department of Commerce** | | | |
| Passed Through the Minnesota Department of Public Safety | | | |
| Applied Meteorological Research | NA09NWS4680025 | 11.468 | **$ 186,784** |
| **U.S. Department of the Interior** | | | |
| Direct | | | |
| Payments in Lieu of Taxes | | 15.226 | **$ 4,925** |
| **U.S. Department of Justice** | | | |
| Direct | | | |
| Edward Byrne Memorial Justice Assistance Grant (JAG) Program Grants to Units of Local Governments - ARRA | 2009-SB-B9-2915 | 16.804 | $ 26,736 |
| Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program - ARRA | 2009-SD-B9-0213 | 16.810 | 79,147 |
| **Total U.S. Department of Justice** | | | **$ 105,883** |
| **U.S. Department of Transportation** | | | |
| Passed Through the Minnesota Department of Transportation | | | |
| Highway Planning and Construction | | 20.205 | $ 655,045 |
| Safety Belt Performance Grants | | 20.609 | 16,030 |
| **Total U.S. Department of Transportation** | | | **$ 671,075** |
| **U.S. Elections Assistance Commission** | | | |
| Passed Through Minnesota Secretary of State | | | |
| Help America Vote Act Requirements Payments | | 90.401 | **$ 16,813** |

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

PINE COUNTY
PINE CITY, MINNESOTA

*EXHIBIT E-2*
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| Federal Grantor<br>Pass-Through Agency<br>Grant Program Title | Pass-Through Grant Numbers | Federal CFDA Number | Expenditures |
|---|---|---|---|
| **U.S. Department of Health and Human Services** | | | |
| Passed Through Kanabec/Pine Community Health Services | | | |
| Public Health Emergency Preparedness | | 93.069 | $ 26,508 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | | 93.283 | 9,499 |
| Maternal and Child Health Services Block Grant | | 93.994 | 51,826 |
| Temporary Assistance for Needy Families | | 93.558 | 65,573 |
| Passed Through Minnesota Department of Human Services | | | |
| Promoting Safe and Stable Families | | 93.556 | 21,923 |
| Temporary Assistance for Needy Families | | 93.558 | 523,734 |
| Child Support Enforcement Cluster | | | |
| Child Support Enforcement | | 93.563 | 709,075 |
| Child Support Enforcement - ARRA | | 93.563 | 52,418 |
| Refugee and Entrant Assistance - State-Administered Programs | | 93.566 | 224 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | | 93.596 | 17,388 |
| Foster Care Title IV-E | | 93.658 | 82,114 |
| Social Services Block Grant | | 93.667 | 192,733 |
| Chafee Foster Care Independence Program | | 93.674 | 5,595 |
| Children's Health Insurance Program | | 93.767 | 414 |
| Medical Assistance Program | | 93.778 | 811,124 |
| **Total U.S. Department of Health and Human Services** | | | **$ 2,570,148** |
| **U.S. Department of Homeland Security** | | | |
| Passed Through Minnesota Department of Natural Resources | | | |
| Boating Safety Financial Assistance | | 97.012 | $ 19,173 |
| Passed Through the Minnesota Department of Public Safety | | | |
| Emergency Management Performance Grants | | 97.042 | 34,359 |
| Homeland Security Grant Program | 2006-GE-T6-0005 | 97.067 | 31,415 |
| **Total U.S. Department of Homeland Security** | | | **$ 84,947** |
| **Total Federal Awards** | | | **$ 4,007,643** |

**PINE COUNTY**
**PINE CITY, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Pine County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pine County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of Pine County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pine County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity-identifying numbers are presented where available.

4. Reconciliation to Schedule of Intergovernmental Revenue

| | | |
|---|---|---|
| Federal grant revenue per Schedule of Intergovernmental Revenue | $ | 3,781,567 |
| Grants received more than 60 days after year-end, deferred in 2010 | | |
| Highway Planning and Construction | | 209,263 |
| Expenditures recognized in 2010 for revenue recognized in 2006 | | |
| Help America Vote Act Requirements payments | | 16,813 |
| Expenditures Per Schedule of Expenditures of Federal Awards | $ | 4,007,643 |

5. Subrecipients

Of the expenditures presented in the schedule, Pine County did not provide any federal awards to subrecipients.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

**Management and Compliance Section**

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**PINE COUNTY**
**PINE CITY, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

## I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Pine County.

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Pine 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 Pine 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 That Could Have a Direct and Material Effect on Each Major Program and on 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 Pine 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:

| | |
|---|---|
| Applied Meteorological Research | CFDA #11.468 |
| Highway Planning and Construction | CFDA #20.205 |
| Temporary Assistance for Needy Families | CFDA #93.558 |
| Child Support Enforcement Cluster | |
| Child Support Enforcement | CFDA #93.563 |
| Child Support Enforcement - ARRA | CFDA #93.563 |

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

I. Pine County was not determined to be a low-risk auditee.

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

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, the proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that the County's elected officials and department heads be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the County's internal control policies and procedures are being implemented by staff. These oversight procedures should include:

- supervisory review of activity recorded by departmental staff persons;
- segregation of duties as appropriate--no one person should receipt, deposit, reconcile, post to ledgers, and prepare and sign checks; and
- an annual summary of activity for comparison to County general ledger accounts by the departmental supervisor or some independent person.

Client's Response:

*Pine County is aware of this condition and sends monthly account activity reports for review by department heads.*

06-1 Preparation of Financial Statements

The 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.

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 statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare the 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. This condition was caused by the County's decision that is it more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend County accounting staff obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the County still intends to have its external auditors assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

*Because it is more cost effective, the County will continue to engage the services of independent external auditors to assist in the preparation of the basic financial statements. The County has assumed a more active role and will continue to increase its role in the preparation of the financial statements, time and staff levels permitting.*

06-2 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable probability that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed adjustments that resulted in significant changes to some of the County's fund level financial statements. County staff assisted in providing various schedules and other information necessary for financial reporting. However, material audit adjustments were made to the Road and Bridge Special Revenue Fund to adjust federal and state grant receivables, state aid highway allotments, and record contract payables. Material adjustments were also made to the Health and Human Services Special Revenue Fund to properly classify and report federal Medical Assistance grant revenues, and to the Land Management Special Revenue Fund to adjust fund balance reserves and designations to correct balances. Audit adjustments were also necessary to adjust modified accrual financial statements to the full accrual basis for the government-wide financial statements. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend the County improve internal control over financial reporting to detect misstatements in the financial statements. The controls should include a preliminary review of the general ledger account balances to detect inaccuracies in account balances, continued staff training in current accounting and financial reporting principles, staff-prepared schedules necessary for financial statement preparation, an analysis of federal financial awards, a review of draft financial statements by a qualified individual to identify potential misstatements, and an assessment of risk the County may be exposed to as a result of a lack of internal control over the financial reporting process.

Client's Response:

*The schedule implemented for personnel involved with Federal and State grants is monitored by the Auditor's Department and additional training of those personnel continues to ensure better preparation and more accurate reporting of financial statements.*

06-5 Computer Risk Management

The County has internal controls in place for its computer system. However, the County has not developed a formal plan to identify and manage risks associated with its computer system.

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems.

Client's Response:

*Pine County data access is controlled via keycard entry and key access to the building, departments, computers and network equipment. Each computer has domain and strong password protection. Group Policy is in place to secure the access to the electronic data. Users leaving employment are disabled immediately. Open ports are disconnected or disabled to prevent unauthorized access. An off-site backup is in place in case of threat or natural disaster. Pine County is re-evaluating its policy after the migration to Microsoft and anticipates completion of the updated policy by year end 2011.*

09-1 Payroll Internal Controls

Our tests of internal controls over payroll detected one instance in which an employee's time sheet from the Management Information System (MIS) Department lacked supervisory approval. The time sheet was processed with other employees whose time sheets had been approved. Supervisory approval of employee time reports is a basic internal control designed to prevent error and fraudulent time reporting.

We recommend that supervisors review all employee time sheets and sign off as approved before being processed through payroll. Payroll personnel should not process an employee's payroll until it has received proper supervisory approval.

Client's Response:

*The proper internal controls in place will be reviewed with all the Supervisors and payroll personnel to ensure compliance with timekeeping procedures.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Network Access Termination (09-2)**

When an employee was terminated, the County had no formal procedure to inform the MIS Department.

**Resolution**

Procedures have been implemented to terminate employee access in a timely manner.

**Unreconciled Taxes and Penalties Fund (09-3)**

Pine County had not been reconciling the remaining cash balance in its Taxes and Penalties Agency Fund after the year-end December apportionment to determine if excess cash existed.

**Resolution**

The Taxes and Penalties Agency Fund was reconciled as of December 31, 2010, and no excess cash was noted.

## III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

**Improper Monitoring/Reporting of Federal Program Wage Allocations (CFDA #93.563) (09-4)**

Pine County had not updated its time study, which resulted in incorrectly allocating and reporting the Health and Human Services Fiscal Supervisor's time.

**Resolution**

Time studies have been properly updated, and the Health and Human Services Fiscal Supervisor's time is now being reported correctly.

## IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

10-1 Insufficient Collateral

Governmental entities are required by Minn. Stat. § 118A.03 to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit. The County had deposits at Northview Bank not adequately covered by collateral. The amount of deposits not covered by collateral at Northview Bank at December 31, 2010, was $32,690. Because the former Treasurer retired at year-end and a new Auditor/Treasurer position was created, staff were unaware at the time that the pledged securities held at Northview Bank were insufficient to secure the deposits held.

We recommend the County monitor all County deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03 and obtain the required collateral.

Client's Response:

*The new Auditor-Treasurer monitors all deposits and reviews the collateral held on a monthly basis to ensure compliance with Minn. Stat. § 118A.03.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Safekeeping of Investments (09-5)**

County securities were being held by entities that did not meet the criteria of Minn. Stat. § 118A.06.

**Resolution**

County securities are now being held by entities in compliance with Minn. Stat. § 118A.06.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-11 Information Systems Department Review

Our review of the data processing policies and procedures noted that the County has an alternative site processing agreement but does not have formal written procedures for continued operations in the event of a disaster or major computer failure. This could result in a longer and more costly period of interruption in the event of such a disaster.

We recommend the County MIS Department develop and maintain a comprehensive written disaster recovery plan. Some common items found in such a plan include:

- a detailed list of recovery procedures,
- a timeline of when procedures will take place,
- identification of disaster recovery team,
- a list of emergency telephone numbers,
- responsibilities of the disaster recovery team,
- hardware configuration and minimum equipment requirements,
- a master operations schedule and critical job schedule,
- a list of forms or supplies necessary,
- an organizational chart and director of personnel,
- information relative to off-site back-up storage facilities, and
- any agreements regarding back-up processing sites.

Client's Response:

*Pine County has a Technology Committee that covers all of the County's technology needs. The County continues to address a Disaster Recovery Plan and is setting timeframes for the implementation of all things listed including appointing a Disaster Recovery Team. Off-site storage for backups and archives is located at the Pine Government Center in Pine City to provide continuity of its computer systems in the event of a disaster.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Advances to Five County Mental Health Center (97-4)**

Advances to Five County Mental Health Center made in 1997 and 1998 remained unpaid.

**Resolution**

During 2010, the County Board authorized the write-off of the advances owed.

**Recorder's Technology and Compliance Funds (07-6)**

Pine County improperly accounted for the Recorder's Technology Fund and Compliance Fund fee revenues received by offsetting revenues against expenditures.

**Resolution**

Pine County has correctly accounted for the Recorder's Technology Fund and Compliance Fund fee revenues.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Pine County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.

- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;

- review current fund balances and compare to the new classifications;

- reclassify January 1, 2011, fund balance using the new classifications;

- review/update/prepare a comprehensive fund balance policy;

- prepare appropriate Board resolutions to commit fund balance; and

- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
    - if yes, the fund may continue to be classified as a special revenue fund;
    - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;

- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and

- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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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*

Board of County Commissioners
Pine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 7, 2011. 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.

In planning and performing our audit, we considered Pine 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness, and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-2 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4, 06-1, 06-5, and 09-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pine 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 Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because that provision did not apply.

The results of our tests indicate that for the items tested, Pine 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 10-1.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to the County, and they are reported for that purpose.

Pine County's written responses to the internal control, 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 Pine 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* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

December 7, 2011

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## REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Pine County

Compliance

We have audited Pine County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Pine 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 Pine 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 of the County's compliance with those requirements.

In our opinion, Pine County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Pine 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of the Board of County Commissioners, management and others within the 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

December 7, 2011