STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

PINE COUNTY
PINE CITY, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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PINE COUNTY
PINE CITY, MINNESOTA

Year Ended December 31, 2007

Audit Practice Division
Office of the State Auditor
State of Minnesota

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Introductory Section

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PINE COUNTY
PINE CITY, MINNESOTA

ORGANIZATION
AS OF DECEMBER 31, 2007

			Term Expires
Elected			
Commissioners			
	Stephen Hallan	District 1	2010
	Edward Montbriand	District 2	2010
	Roger Nelson	District 3	2008
	Greg Bennett*	District 4	2008
	Doug Carlson	District 5	2010
Attorney	John Carlson		2010
Auditor	Kaye Jorgensen**		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	Mark LeBrun		Indefinite
Coordinator	John Stieben		Indefinite
Land Zoning Supervisor	Vacant		Indefinite
Health and Human Services Director	Pat Hass		Indefinite
Human Resource Manager	Marie Pangerl		Indefinite

*Resigned December 18, 2007
**Retired December 31, 2007

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE 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, 2007, which collectively comprise the County's basic financial statements. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position 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, 2007, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pine County's basic financial statements. The supplementary information and other schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2009, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 22, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. 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, 2007, by $71,365,716 (net assets). Of this amount, $4,498,110 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- As of the close of 2007, Pine County's governmental funds reported combined ending fund balances of $9,985,104. Of this balance amount, $4,480,122 was unreserved and undesignated by Pine County. Of the total unreserved and undesignated fund balance, $212,031 represents remaining unspent bond proceeds from the bonds issued during 2005 to be used to finance construction of the new Pine County courthouse and law enforcement center. The remaining $4,268,091 of the unreserved and undesignated balance was available for spending at the County's discretion.

- At the end of 2007, unreserved/undesignated fund balance for the General Fund was $1,558,610, or 12.6 percent, of the total General Fund expenditures for that year.

- Pine County's long-term liabilities decreased by $516,871 as a result of principal payments made during the year on its outstanding debt.

- The Pine County Road and Bridge Department received an advance from the Minnesota Department of Transportation of future construction allotment funds in an amount of $2,941,035. The advance was considered necessary to complete pending road projects and is shown as a liability in the fund and government-wide financial statements. The advance will be eliminated by reductions in future construction allotments.

- As of December 31, 2007, construction was nearing completion on the County's new courthouse and law enforcement center. County operations began moving into the new facility during October 2007. The facility will be completed and all County operations located in the new facility during February 2008.

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 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, 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 financial-related legal requirements. All of the funds of Pine County can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds 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.

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 statement 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 $71,365,716 at the close of 2007. The largest portion of Pine County's net assets (85.2 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 2007	Governmental Activities 2006
Assets		
Current and other assets	$ 18,780,461	$ 32,479,330
Capital assets	93,482,168	79,437,157
Total Assets	$ 112,262,629	$ 111,916,487
Liabilities		
Long-term liabilities	$ 33,711,605	$ 34,220,734
Other liabilities	7,185,308	9,225,364
Total Liabilities	$ 40,896,913	$ 43,446,098
Net Assets		
Invested in capital assets, net of related debt	$ 60,834,954	$ 58,109,704
Restricted	6,032,652	4,345,156
Unrestricted	4,498,110	6,015,529
Total Net Assets	$ 71,365,716	$ 68,470,389

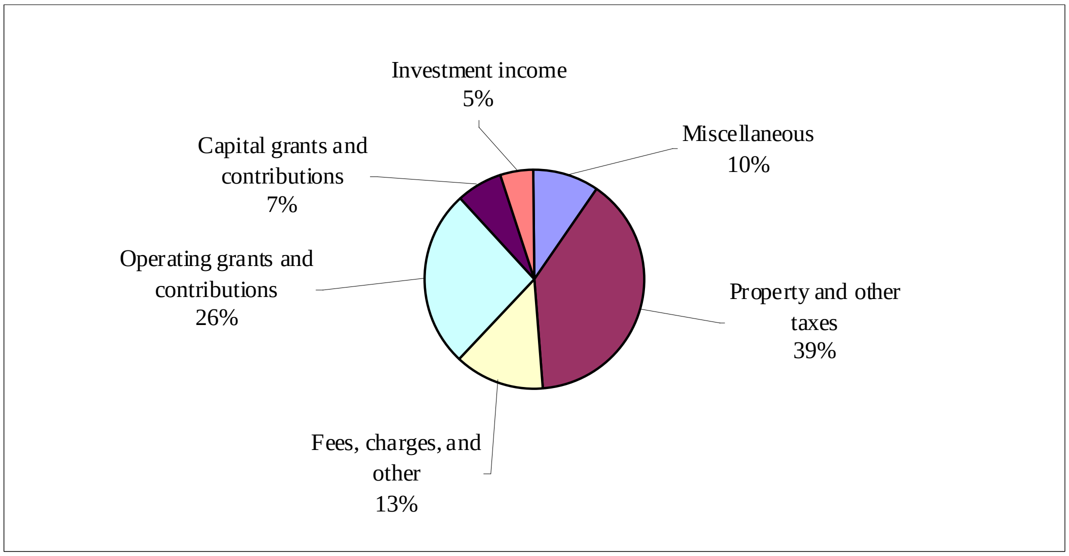
The unrestricted net assets amount of $4,498,110 as of December 31, 2007, may be used to meet the County's ongoing obligations to citizens and creditors.

Changes in Net Assets

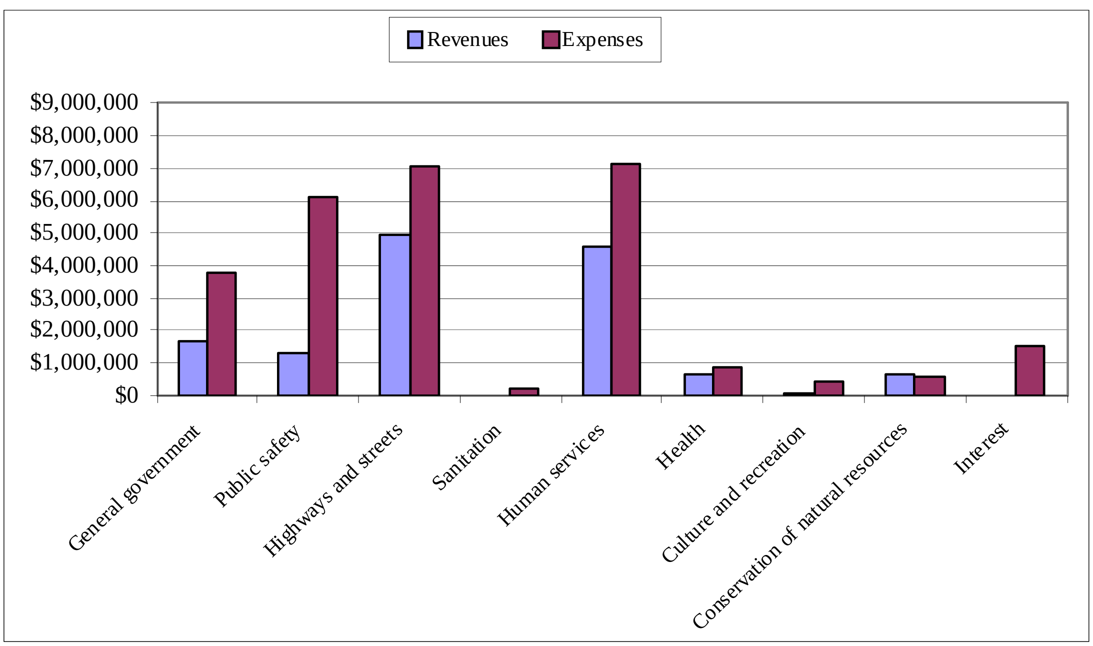
	Governmental Activities 2007	Governmental Activities 2006
Revenues		
Program revenues		
Charges for services	$ 3,956,664	$ 3,818,387
Operating grants and contributions	8,484,136	7,859,950
Capital grants and contributions	3,363,673	2,213,825
General revenues		
Property taxes	12,274,561	11,428,109
Other	4,746,283	5,145,956
Total Revenues	$ 32,825,317	$ 30,466,227
Expenses		
General government	$ 4,104,048	$ 3,751,850
Public safety	7,227,785	6,103,602
Highways and streets	7,046,113	7,092,925
Sanitation	196,627	195,725
Human services	7,223,661	7,114,582
Health	974,407	884,710
Culture and recreation	412,264	393,773
Conservation of natural resources	777,878	575,302
Economic development	12,965	-
Interest	1,529,666	1,481,947
Total Expenses	$ 29,505,414	$ 27,594,416

	Governmental Activities	
	2007	2006
Increase in Net Assets	$ 3,319,903	$ 2,871,811
Net Assets - January 1, restated	68,045,813	65,598,578
Net Assets - December 31	$ 71,365,716	$ 68,470,389

Revenues by Source - 2007



Expenses and Program Revenues - 2007



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 $9,985,104, a decrease of $12,079,887 in comparison with the prior year after restatement. The decrease results mainly from spending bond proceeds to finance continuing County courthouse and law enforcement center construction activities. Of the ending fund balance, $4,480,122 is unreserved and undesignated. Of this amount, $4,268,091 is available for spending at the County's discretion. The remaining $212,031 represents unspent bond proceeds that will be used to finance construction of new courthouse and jail facilities. 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 $1,558,610. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved/undesignated fund balance represents 12.6 percent of total General Fund expenditures. In 2007, ending unreserved/undesignated fund balance in the General Fund increased by $124,370.

The Road and Bridge Special Revenue Fund's unreserved/undesignated fund balance of $232,369 at year-end represents 2.5 percent of the fund's annual expenditures. Unreserved/undesignated fund balance decreased $943,031 during 2007, primarily due to increased highway construction expenditures funded through an advancement of future years' highway construction allotment funds. The advancement is shown as an advance from other governments in the Road and Bridge Special Revenue Fund and the government-wide statement of net assets.

The Health and Human Services Special Revenue Fund's unreserved/undesignated fund balance of $2,477,112 at year-end represents 30.3 percent of the fund's annual expenditures. Unreserved/undesignated fund balance increased $364,532 during 2007, primarily due to increased revenues.

General Fund Budgetary Highlights

- The Budgetary Comparison Schedule (Schedule 1) shows an increase of $237,656 between the original and final expenditures budgets that results from inclusion of grant revenues received throughout the year.

- Actual revenues exceeded budgeted revenues by $831,201.

- Actual expenditures exceeded budgeted expenditures by $725,860.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Pine County's capital assets for its governmental activities at December 31, 2007, totaled $93,482,168 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The major capital assets events were highway construction and construction of a new courthouse and law enforcement center.

Governmental Capital Assets
(Net of Depreciation)

	2007	2006
Land	$ 4,216,398	$ 2,975,502
Construction in progress	29,213,440	18,360,704
Infrastructure	56,257,137	54,302,783
Buildings	2,180,681	2,234,766
Machinery and equipment	1,614,512	1,563,402
Total	$ 93,482,168	$ 79,437,157

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 $34,141,273, which was backed by the full faith and credit of the government.

Outstanding Debt

	2007	2006
PFA Loans	$ 791,000	$ 866,000
General Obligation Jail Bonds	16,935,000	16,935,000
Facility Lease Revenue Bonds	13,285,000	13,285,000
General Obligation Capital Notes	2,260,000	2,970,000
East Central Solid Waste	-	602,144
Special assessments	870,273	-
Total	$ 34,141,273	$ 34,658,144

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 two percent of its total market value. At the end of 2007, Pine County's debt was 1.18 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

- Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.

- By the end of 2007, Pine County approved its balanced 2008 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 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, 2007

Assets		
Cash and pooled investments	$	11,633,521
Petty cash and change funds		3,610
Cash with escrow agent		1,846,767
Investments		101,676
Taxes receivable		
Prior - net		936,290
Accounts receivable - net		905,019
Accrued interest receivable		140,506
Loan receivable		34,850
Due from other governments		2,342,938
Inventories		531,237
Prepaid items		177,820
Deferred debt issuance costs		126,227
Capital assets		
Non-depreciable		33,429,838
Depreciable - net of accumulated depreciation		60,052,330
Total Assets	**$**	**112,262,629**
Liabilities		
Accounts payable	$	1,364,075
Salaries payable		372,011
Contracts payable		364,783
Retainage payable		135,945
Due to other governments		525,132
Accrued interest payable		601,804
Advance from other governments		2,941,035
Long-term liabilities		
Due within one year		880,523
Due in more than one year		33,711,605
Total Liabilities	**$**	**40,896,913**
Net Assets		
Invested in capital assets - net of related debt	$	60,834,954
Restricted for		
General government		440,534
Public safety		22,798
Conservation of natural resources		793,010
Highways and streets		1,605,408
Sanitation		10,000
Debt service		2,968,229
Other purposes		192,673
Unrestricted		4,498,110
Total Net Assets	**$**	**71,365,716**

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, 2007

		Program Revenues			Net (Expense)
	Expenses	**Fees, Charges, Fines, and Other**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Revenue and Changes in Net Assets**
Functions/Programs					
Primary government					
Governmental activities					
General government	$ 4,104,048	$ 1,177,076	$ 302,719	$ -	$ (2,624,253)
Public safety	7,227,785	770,587	750,394	-	(5,706,804)
Highways and streets	7,046,113	342,292	2,756,932	3,363,673	(583,216)
Sanitation	196,627	475	65,831	-	(130,321)
Human services	7,223,661	686,798	4,082,992	-	(2,453,871)
Health	974,407	260,489	520,268	-	(193,650)
Culture and recreation	412,264	-	-	-	(412,264)
Conservation of natural resources	777,878	718,947	-	-	(58,931)
Economic development	12,965	-	5,000	-	(7,965)
Interest	1,529,666	-	-	-	(1,529,666)
Total Governmental Activities	**$ 29,505,414**	**$ 3,956,664**	**$ 8,484,136**	**$ 3,363,673**	**$ (13,700,941)**

General Revenues	
Property taxes	$ 12,274,561
Mortgage registry and deed tax	26,675
Payments in lieu of tax	491,724
Grants and contributions not restricted to specific programs	2,928,691
Unrestricted investment earnings	1,252,109
Miscellaneous	47,084
Total general revenues	**$ 17,020,844**
Change in net assets	**$ 3,319,903**
Net Assets - Beginning - restated (Note 1.E.)	**68,045,813**
Net Assets - Ending	**$ 71,365,716**

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

PINE COUNTY
PINE CITY, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Road and Bridge	Health and Human Services
Assets			
Cash and pooled investments	$ 2,283,434	$ 3,958,579	$ 1,985,857
Undistributed cash in agency funds (taxes and other)	232,363	84,305	109,929
Petty cash and change funds	3,410	150	-
Cash with escrow agent	-	-	-
Investments	-	-	-
Taxes receivable			
Prior	405,528	161,780	224,667
Accounts receivable	13,017	1,270	106,876
Accrued interest receivable	133,977	-	-
Loans receivable	-	-	34,850
Due from other funds	238,740	32,242	-
Due from other governments	276,730	1,274,786	791,374
Prepaid expense	13,000	-	164,820
Inventories	-	531,237	-
Total Assets	**$ 3,600,199**	**$ 6,044,349**	**$ 3,418,373**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 359,571	$ 172,623	$ 252,387
Salaries payable	229,089	45,403	95,969
Contracts payable	-	364,783	-
Retainage payable	-	-	-
Due to other funds	35,327	12,822	77,247
Due to other governments	90,864	1,627	123,243
Deferred revenue - unavailable	498,478	1,403,022	192,745
Advance from other governments	-	2,941,035	-
Total Liabilities	**$ 1,213,329**	**$ 4,941,315**	**$ 741,591**

EXHIBIT 3

Land Management	HRA Project Bonds Debt Service	G.O. Jail Bonds Capital Projects	HRA Project Bonds Capital Projects	Nonmajor Funds	Total
$ 1,473,630	$ 258,525	$ 62,653	$ -	$ 1,107,569	$ 11,130,247
-	20,956	-	-	55,721	503,274
50	-	-	-	-	3,610
-	1,305,928	-	540,839	-	1,846,767
-	-	-	-	101,676	101,676
-	35,914	-	-	108,401	936,290
614,837	-	-	-	169,019	905,019
-	-	-	-	6,529	140,506
-	-	-	-	-	34,850
4,600	-	642,146	-	-	917,728
48	-	-	-	-	2,342,938
-	-	-	-	-	177,820
-	-	-	-	-	531,237
$ 2,093,165	**$ 1,621,323**	**$ 704,799**	**$ 540,839**	**$ 1,548,915**	**$ 19,571,962**
$ 8,149	$ -	$ 568,854	$ -	$ 2,491	$ 1,364,075
1,550	-	-	-	-	372,011
-	-	-	-	-	364,783
-	-	135,945	-	-	135,945
181,058	135,945	-	466,736	8,593	917,728
271,075	-	-	-	-	486,809
619,485	29,636	-	-	261,106	3,004,472
-	-	-	-	-	2,941,035
$ 1,081,317	**$ 165,581**	**$ 704,799**	**$ 466,736**	**$ 272,190**	**$ 9,586,858**

PINE COUNTY
PINE CITY, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Road and Bridge	Health and Human Services
Liabilities and Fund Balances (Continued)			
Fund Balances			
Reserved for			
Cash funds	$ -	$ -	$ -
Prepaid items	13,000	-	164,820
Missing heirs	73,705	-	-
Law library	7,963	-	-
Recorder's equipment purchases	191,408	-	-
Recorder's compliance	114,193	-	-
Election equipment	90,242	-	-
Plat escrow	24,940	-	-
Sewage treatment loans	10,000	-	-
Drug forfeitures	22,798	-	-
Attorney forfeitures	44,691	-	-
Inventories	-	531,237	-
Loans receivable	-	-	34,850
Debt service	-	-	-
Timber development	-	-	-
Road access	-	-	-
Highway projects	-	339,278	-
Unclaimed property	26	-	-
Unreserved			
Designated for group health	231,884	-	-
Designated for petty cash funds	3,410	150	-
Designated for forestry	-	-	-
Designated for capital improvements	-	-	-
Undesignated	1,558,610	232,369	2,477,112
Unreserved, reported in nonmajor			
Special revenue funds	-	-	-
Debt service	-	-	-
Total Fund Balances	**$ 2,386,870**	**$ 1,103,034**	**$ 2,676,782**
Total Liabilities and Fund Balances	**$ 3,600,199**	**$ 6,044,349**	**$ 3,418,373**

EXHIBIT 3
(Continued)

Land Management	HRA Project Bonds Debt Service	G.O. Jail Bonds Capital Projects	HRA Project Bonds Capital Projects	Nonmajor Funds	Total
$ 50	$ -	$ -	$ -	$ -	$ 50
-	-	-	-	-	177,820
-	-	-	-	-	73,705
-	-	-	-	-	7,963
-	-	-	-	-	191,408
-	-	-	-	-	114,193
-	-	-	-	-	90,242
-	-	-	-	-	24,940
-	-	-	-	-	10,000
-	-	-	-	-	22,798
-	-	-	-	-	44,691
-	-	-	-	-	531,237
-	-	-	-	-	34,850
-	500,000	-	-	-	500,000
720,979	-	-	-	-	720,979
39,386	-	-	-	-	39,386
-	-	-	-	-	339,278
-	-	-	-	-	26
-	-	-	-	-	231,884
-	-	-	-	-	3,560
251,433	-	-	-	-	251,433
-	817,814	-	-	-	817,814
-	137,928	-	74,103	-	4,480,122
-	-	-	-	116,407	116,407
-	-	-	-	1,160,318	1,160,318
$ 1,011,848	**$ 1,455,742**	**$ -**	**$ 74,103**	**$ 1,276,725**	**$ 9,985,104**
$ 2,093,165	**$ 1,621,323**	**$ 704,799**	**$ 540,839**	**$ 1,548,915**	**$ 19,571,962**

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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, 2007

Fund balances - total governmental funds (Exhibit 3)		**$ 9,985,104**
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.		93,482,168
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	$ 3,004,472	
Due to other governments	(38,322)	2,966,150
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Capital notes	$ (2,260,000)	
Facility lease revenue bonds	(13,285,000)	
General obligation bonds	(16,935,000)	
Unamortized bond issuance costs	249,979	
Loans payable	(791,000)	
Compensated absences	(700,835)	
Special assessments payable	(870,273)	
Accrued interest payable	(601,804)	
Deferred debt issuance charges	126,227	(35,067,706)
Net Assets of Governmental Activities (Exhibit 1)		**$ 71,365,716**

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

PINE COUNTY
PINE CITY, MINNESOTA

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

	General	Road and Bridge	Health and Human Services
Revenues			
Taxes	$ 5,110,234	$ 2,197,367	$ 2,830,133
Licenses and permits	94,468	-	-
Intergovernmental	3,666,172	6,136,770	4,813,448
Charges for services	1,363,664	197,762	100,021
Fines and forfeits	57,302	-	-
Gifts and contributions	102,929	-	32,921
Earnings on investments	857,280	-	-
Miscellaneous	262,127	144,530	880,207
Total Revenues	**$ 11,514,176**	**$ 8,676,429**	**$ 8,656,730**
Expenditures			
Current			
General government	$ 4,026,087	$ -	$ -
Public safety	7,274,232	-	-
Highways and streets	-	9,091,249	-
Sanitation	196,627	-	-
Human services	-	-	7,197,898
Health	-	-	976,838
Culture and recreation	412,264	-	-
Conservation of natural resources	326,186	-	-
Economic development	-	-	-
Capital outlay			
Public safety	-	-	-
Debt service			
Principal	72,523	75,000	-
Interest	51,854	25,980	-
Administrative charges	-	-	-
Total Expenditures	**$ 12,359,773**	**$ 9,192,229**	**$ 8,174,736**
Excess of Revenues Over (Under) Expenditures	**$ (845,597)**	**$ (515,800)**	**$ 481,994**
Other Financing Sources (Uses)			
Transfers in	$ 1,086,202	$ 279,267	$ -
Transfers out	(191,869)	(367,220)	-
Proceeds from sale of capital assets	24,380	-	-
Total Other Financing Sources (Uses)	**$ 918,713**	**$ (87,953)**	**$ -**
Net Change in Fund Balance	**$ 73,116**	**$ (603,753)**	**$ 481,994**
Fund Balance - January 1, as restated	**2,313,754**	**1,577,515**	**2,194,788**
Increase (decrease) in reserved for inventories	**-**	**129,272**	**-**
Fund Balance - December 31	**$ 2,386,870**	**$ 1,103,034**	**$ 2,676,782**

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

Land Management	HRA Project Bonds Debt Service	G.O. Jail Bonds Capital Projects	HRA Project Bonds Capital Projects	Nonmajor Funds	Total
$ -	$ 552,362	$ -	$ -	$ 1,414,446	$ 12,104,542
-	-	-	-	-	94,468
35,053	64,739	-	-	168,751	14,884,933
-	-	-	-	25,840	1,687,287
-	-	-	-	-	57,302
-	-	100	-	-	135,950
-	211,547	-	-	183,282	1,252,109
686,302	-	-	-	-	1,973,166
$ 721,355	**$ 828,648**	**$ 100**	**$ -**	**$ 1,792,319**	**$ 32,189,757**
$ -	$ -	$ -	$ -	$ -	$ 4,026,087
-	-	-	-	-	7,274,232
-	-	-	-	35,083	9,126,332
-	-	-	-	-	196,627
-	-	-	-	-	7,197,898
-	-	-	-	-	976,838
-	-	-	-	-	412,264
447,811	-	-	-	-	773,997
-	-	-	-	14,542	14,542
-	-	12,053,284	-	-	12,053,284
-	-	-	-	710,000	857,523
-	629,431	-	-	800,016	1,507,281
-	2,941	-	-	3,450	6,391
$ 447,811	**$ 632,372**	**$ 12,053,284**	**$ -**	**$ 1,563,091**	**$ 44,423,296**
$ 273,544	**$ 196,276**	**$ (12,053,184)**	**$ -**	**$ 229,228**	**$ (12,233,539)**
$ -	$ -	$ 4,254,398	$ -	$ 367,220	$ 5,987,087
(202,650)	(135,945)	-	(3,508,265)	(1,581,138)	(5,987,087)
-	-	-	-	-	24,380
$ (202,650)	**$ (135,945)**	**$ 4,254,398**	**$ (3,508,265)**	**$ (1,213,918)**	**$ 24,380**
$ 70,894	**$ 60,331**	**$ (7,798,786)**	**$ (3,508,265)**	**$ (984,690)**	**$ (12,209,159)**
940,954	**1,395,411**	**7,798,786**	**3,582,368**	**2,261,415**	**22,064,991**
-	**-**	**-**	**-**	**-**	**129,272**
$ 1,011,848	**$ 1,455,742**	**$ -**	**$ 74,103**	**$ 1,276,725**	**$ 9,985,104**

PINE COUNTY
PINE CITY, MINNESOTA

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, 2007

Net change in fund balances - total governmental funds (Exhibit 5)		**$ (12,209,159)**
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	$ 3,004,472	
Less: forfeited tax sales receivable due to other governments	(38,322)	
January 1 - deferred revenue	(2,869,659)	
Less: forfeited tax sales receivable due to other governments	506,324	602,815
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	$ 16,062,309	
Net book value of assets sold	(5,111)	
Current year depreciation	(2,012,187)	14,045,011
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	$ 710,000	
Loans payable	75,000	
Special assessments payable	72,522	857,522
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	$ 7,087	
Amortization of discounts and deferred issuance costs	(13,702)	
Amortization of debt issuance costs	(9,379)	
Change in inventories	129,272	
Change in compensated absences	(89,564)	23,714
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 3,319,903**

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, 2007

Assets		
Cash and pooled investments	**$**	**740,925**
Liabilities		
Accounts payable	$	187,081
Due to other governments		553,844
Total Liabilities	**$**	**740,925**

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, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board 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 6.C. The County also participates in jointly-governed organizations described in Note 6.D. A related organization is described in Note 6.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 HRA Project Bonds Debt Service Fund is used to account for the resources accumulated and payments made for principal and interest on the long-term debt. This fund also accounts for interest earnings on HRA bond proceeds on deposit with the County's escrow agent.

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

The HRA Project Bonds Capital Projects Fund is used to account for Housing and Redevelopment bond proceeds held by the County's escrow agent to be used to finance the construction of a new County courthouse and law enforcement center.

Additionally, the County reports the following fund type:

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.

1. Summary of Significant Accounting Policies (Continued)

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.

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, 2007, 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 2007 were $857,280.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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.

2. Receivables and Payables

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

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.

1. Summary of Significant Accounting Policies

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

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 market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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 financial statements consists of unpaid, accumulated annual leave balances. Compensated absences are accrued when incurred in the government-wide fund 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.

1. Summary of Significant Accounting Policies

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

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.

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.

1. Summary of Significant Accounting Policies (Continued)

E. Restatement of Net Assets/Fund Balance

As of January 1, 2007, net assets of the government-wide financial statements were restated due to the County's assumption of $424,576 in special assessment debt resulting from the acquisition of land for the construction of the new courthouse and law enforcement facility.

As of January 1, 2007, the fund balance of the HRA Project Bonds Debt Service Fund was restated by a decrease of $83,925 for the first bond interest payment due made by the bond escrow agent in the prior year out of bond proceeds withheld for that purpose.

F. Net Assets Restricted by Enabling Legislation

The government-wide statement of net assets reports $6,032,652 of restricted net assets, of which $1,284,630 is restricted by enabling legislation.

2. 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	$	11,633,521
Petty cash and change funds		3,610
Cash with escrow agent		1,846,767
Investments		101,676
Statement of fiduciary net assets		
Cash and pooled investments		740,925
Total Cash and Investments	$	14,326,499

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments (Continued)

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

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2007, the County's deposits were not exposed to custodial credit risk.

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

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

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

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and 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.

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and 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 does not have an investment policy for custodial credit risk.

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, A1-P1 rated commercial paper, etc. 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.

The following table presents the County's cash and investment balances at December 31, 2007, 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		01/20/2009	$ 3,351
Federal National Mortgage Association Note	Aaa	Moody's		12/01/2010	8,789
Federal National Mortgage Association Note	Aaa	Moody's		05/01/2014	32,482
Federal National Mortgage Association Note	Aaa	Moody's		10/11/2016	300,189
Federal National Mortgage Association Note	Aaa	Moody's		12/12/2017	350,984
Total Federal National Mortgage Association Notes			<5%		$ 695,795

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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
Federal Home Loan Bank Note	Aaa	Moody's		10/30/2009	$ 250,000
Federal Home Loan Bank Note	Aaa	Moody's		03/24/2010	204,932
Federal Home Loan Bank Note	Aaa	Moody's		07/22/2011	293,967
Federal Home Loan Bank Note	Aaa	Moody's		10/15/2012	353,172
Federal Home Loan Bank Note	Aaa	Moody's		05/01/2013	306,837
Federal Home Loan Bank Note	Aaa	Moody's		05/22/2013	202,494
Federal Home Loan Bank Note	Aaa	Moody's		06/26/2013	623,419
Federal Home Loan Bank Note	Aaa	Moody's		07/24/2013	303,180
Federal Home Loan Bank Note	Aaa	Moody's		07/24/2013	404,240
Federal Home Loan Bank Note	Aaa	Moody's		04/17/2017	300,189
Total Federal Home Loan Bank Notes			<5%		$ 3,242,430
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's		12/12/2017	$ 251,205
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's		12/18/2017	300,000
Total Federal Home Loan Mortgage Corporation Notes			<5%		$ 551,205
U.S. Treasury strips	Aaa	Moody's		02/15/2027	$ 412,690
U.S. Treasury strips	Aaa	Moody's		05/15/2027	202,325
Total U.S. Treasury strips			<5%		$ 615,015
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	$ 1,571,421
Merrill Lynch - Government Fund	N/R	N/A	N/A	N/A	101,676
First American Government Obligations Fund	AAA	S&P	N/A	N/A	11,113
Total investment pools/mutual funds					$ 1,684,210
Negotiable certificates of deposit					
Chase Bank	N/A	N/A	N/A	02/28/2008	$ 99,120
Standard Federal Bank	N/A	N/A	N/A	09/02/2008	96,779
LaSalle Bank	N/A	N/A	N/A	02/09/2011	90,256
Las Vegas Bank	N/A	N/A	N/A	12/20/2012	96,400
Waypoint Bank	N/A	N/A	N/A	07/19/2013	98,724
Citizens Bank	N/A	N/A	N/A	07/29/2014	49,006
Huntington National Bank	N/A	N/A	N/A	12/02/2014	95,960
Total negotiable certificates of deposit					$ 626,245

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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
Total investments					$ 7,414,900
Deposits					5,061,222
Petty cash					3,610
Cash with escrow agent					1,846,767
Total Cash and Investments					$ 14,326,499

N/A - Not Applicable
N/R - Not Rated
S&P - Standard & Poor's

2. Receivables

Receivables as of December 31, 2007, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 936,290	$ -
Accounts	905,019	-
Interest	140,506	-
Due from other governments	2,342,938	-
Loans	34,850	-
Total Governmental Activities	$ 4,359,603	$ -

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.

2. Detailed Notes on All Funds

A. Assets (Continued)

4. Capital Assets

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

	Beginning Balance	Increase	Decrease	Reclassification	Ending Balance
Capital assets not depreciated					
Land	$ 2,975,502	$ 40,348	$ -	$ 1,200,548	$ 4,216,398
Construction in progress	18,360,704	12,053,284	-	(1,200,548)	29,213,440
Total capital assets not depreciated	$ 21,336,206	$ 12,093,632	$ -	$ -	$ 33,429,838
Capital assets depreciated					
Buildings	$ 4,678,632	$ 52,208	$ -	$ -	$ 4,730,840
Machinery and equipment	5,871,569	557,546	372,929	-	6,056,186
Infrastructure	69,215,370	3,358,923	-	-	72,574,293
Total capital assets depreciated	$ 79,765,571	$ 3,968,677	$ 372,929	$ -	$ 83,361,319
Less: accumulated depreciation for					
Buildings	$ 2,443,866	$ 106,293	$ -	$ -	$ 2,550,159
Machinery and equipment	4,308,167	501,325	367,818	-	4,441,674
Infrastructure	14,912,587	1,404,569	-	-	16,317,156
Total accumulated depreciation	$ 21,664,620	$ 2,012,187	$ 367,818	$ -	$ 23,308,989
Total capital assets depreciated, net	$ 58,100,951	$ 1,956,490	$ 5,111	$ -	$ 60,052,330
Capital Assets, Net	$ 79,437,157	$ 14,050,122	$ 5,111	$ -	$ 93,482,168

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

Governmental Activities	
General government	$ 62,500
Public safety	149,747
Highways and streets, including depreciation of infrastructure assets	1,779,051
Human services	16,905
Conservation of natural resources	3,984
Total Depreciation Expense - Governmental Activities	$ 2,012,187

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General	Health and Human Services	$ 37,317	Reimbursement
	Road and Bridge	8,222	Reimbursement - phone
	Land Management	180,650	Forfeited tax distribution
	Other governmental funds	12,551	Reimburse supplies/services
Total due to General Fund		$ 238,740	
Road and Bridge	General	$ 31,369	Accounts receivable
	Health and Human Services	465	Utilities reimbursement
	Land Management	408	Reimburse supplies/services
Total due to Road and Bridge Special Revenue Fund		$ 32,242	
Land Management	Road and Bridge	$ 4,600	Gravel purchases
G.O. Jail Bonds Capital Projects	Health and Human Services	$ 39,465	Reimbursement - Jail Project
	HRA Project Bonds Debt Service	135,945	Retainage - Jail Project
	HRA Project Bonds Capital Projects	466,736	Eliminate deficit
Total due to G.O. Jail Bonds Capital Projects Fund		$ 642,146	
Total Due To/From Other Funds		$ 917,728	

2. Detailed Notes on All Funds

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

2. Interfund Transfers

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

Transfers to General Fund from			
Land Management Special Revenue Fund	$	22,000	Reimburse salaries
Land Management Special Revenue Fund		180,650	Forfeited tax apportionment
Ambulance (nonmajor) Special Revenue Fund		770,205	Ambulance excess cash
Equipment Bond (nonmajor) Debt Service Fund		113,347	Close capital projects fund
Total transfers to General Fund	$	1,086,202	
Transfers to Road and Bridge Special Revenue Fund from			
General Fund	$	181,681	Vehicle purchase
Equipment Bond (nonmajor) Debt Service Fund		97,586	Close capital projects fund
Total transfers to Road and Bridge Special Revenue Fund	$	279,267	
Transfers to G.O. Jail Bonds Capital Projects Fund from			
General Fund	$	10,188	Reimburse expenditures
General Obligation Jail Bond (nonmajor) Debt Service Fund		600,000	Interest earnings on HRA bonds
HRA Project Bonds Debt Service Fund		135,945	HRA bond proceeds transfer
HRA Project Bonds Capital Projects Fund		3,508,265	HRA bond proceeds transfer
Total transfers to G.O. Jail Bonds Capital Projects Fund	$	4,254,398	
Transfers to Street Reconstruction Bond (nonmajor) Debt Service Fund from			
Road and Bridge Special Revenue Fund	$	367,220	Provide funds for cash deficit
Total Interfund Transfers	$	5,987,087	

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2007. The projects include the following:

		Spent-to-Date		Remaining Commitment
Governmental Activities				
Roads and bridges	$	3,503,062	$	339,278
Courthouse/Law Enforcement Center		35,024,013		141,643
Total Construction Commitments	$	38,527,075*	$	480,921

*Total projected courthouse/law enforcement center contract commitments were projected to be approximately $35,000,000. The project was nearing completion at December 31, 2007.

2. Other Postemployment Benefits - Retirees

The County provides postretirement health care benefits for certain retirees and their dependents. This benefit is provided based on various union contracts. Employees who retired before January 1, 1983, qualify to receive these benefits with the County providing 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, qualify to receive benefits as defined under their County contracts.

As of year-end, the County has 30 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2007, the County expended $104,780 for these benefits.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
General Obligation Capital Notes					
2004 G.O. Capital Notes	2010	$695,000 - $775,000	1.75 - 3.00	$ 3,665,000	$ 2,260,000
General Obligation Jail Bonds					
2005 G.O. Jail Bonds	2031	$500,000 - $1,685,000	4.00	$ 16,935,000	$ 16,935,000

2. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
General Obligation Public Facility Authority Loan					
2001 G.O. PFA Loan	2016	$77,405 - $108,439	3.00	$ 1,434,459*	$ 791,000
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					$ 870,273

*Amount drawn down

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

4. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	2004 G.O. Street Reconstruction Capital Notes Principal	2004 G.O. Street Reconstruction Capital Notes Interest	2005A G.O. Jail Bonds Principal	2005A G.O. Jail Bonds Interest	2001 G.O. PFA Loans Principal	2001 G.O. PFA Loans Interest
2008	$ 730,000	$ 52,395	$ -	$ 731,761	$ 78,000	$ 23,730
2009	755,000	33,443	-	731,761	80,000	21,390
2010	775,000	11,625	-	731,761	82,000	18,990
2011	-	-	500,000	721,761	85,000	16,530
2012	-	-	520,000	701,361	88,000	13,980
2013 – 2017	-	-	2,915,000	3,172,306	378,000	28,800
2018 – 2022	-	-	3,590,000	2,492,494	-	-
2023 – 2027	-	-	4,480,000	1,613,958	-	-
2028 – 2031	-	-	4,930,000	488,637	-	-
Total	$ 2,260,000	$ 97,463	$ 16,935,000	$ 11,385,800	$ 791,000	$ 123,420

2. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements

Governmental Activities (Continued)

Year Ending	2005A Public Project Revenue Bonds		Special Assessments		Total	
December 31	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ -	$ 629,431	$ 72,523	$ 47,865	$ 880,523	$ 1,485,182
2009	-	629,431	72,523	43,876	907,523	1,459,901
2010	-	629,431	72,523	39,888	929,523	1,431,695
2011	370,000	622,031	72,523	35,899	1,027,523	1,396,221
2012	385,000	606,931	72,523	31,910	1,065,523	1,354,182
2013 – 2017	2,210,000	2,767,631	362,614	99,539	5,865,614	6,068,276
2018 – 2022	2,850,000	2,200,797	145,046	11,676	6,585,046	4,704,967
2023 – 2027	3,710,000	1,422,919	-	-	8,190,000	3,036,877
2028 – 2031	3,760,000	387,000	-	-	8,690,000	875,637
Total	$ 13,285,000	$ 9,895,602	$ 870,275	$ 310,653	$ 34,141,275	$ 21,812,938

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2004 G.O. Capital Notes	$ 2,970,000	$ -	$ 710,000	$ 2,260,000	$ 730,000
2005A G.O. Jail Bonds	16,935,000	-	-	16,935,000	-
2005A Facility Lease Revenue Bonds	13,285,000	-	-	13,285,000	-
Less: discount on bonds	(263,681)	-	(13,701)	(249,980)	-
2001 G.O. PFA Loan	866,000	-	75,000	791,000	78,000
East Central Solid Waste Commission	602,144	-	602,144	-	-
Special assessments	-	942,796	72,523	870,273	72,523
Compensated absences	611,271	720,505	630,941	700,835	-
Total Long-Term Liabilities	$ 35,005,734	$ 1,663,301	$ 2,076,907	$ 34,592,128	$ 880,523

2. Detailed Notes on All Funds

C. Liabilities

5. 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 Facility Lease 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 Facility Lease Revenue Bonds debt service schedule requirements. The County assumed special assessments along with land acquired for the project.

6. Lease Obligations

The County is committed under various operating leases for office and storage space, copiers, office equipment, and a radio tower lease. The following is a summary of the operating lease expense for 2007:

Type of Property	Amount
Rental of office space and parking	$ 7,554
Copiers and office equipment	37,121
Radio tower and equipment	250
Total Rental Expense	$ 44,925

Future minimum payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2007:

Year Ended	Amount
2008	$ 38,402
2009	20,498
2010	18,348
2011	15,228
2012	7,835
Total Future Minimum Lease Payments	$ 100,311

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

1. 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 Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

1. Plan Description (Continued)

Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

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

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

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

2. Funding Policy (Continued)

6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. The rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2007	$ 403,292	$ 190,211	$ 138,547
2006	376,617	162,872	109,090
2005	334,539	134,284	97,238

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

3. 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 in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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

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

	Employee	Employer
Contribution amount	$ 3,850	$ 3,850
Percentage of covered payroll	5.1%	5.1%

Required contribution rates were 5.00 percent.

3. Employee Retirement Systems and Pension Plans (Continued)

   C. Postemployment Health Care

      1. 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 the Laws of Minnesota 2001, Chapter 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 employee 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.

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.

3. Employee Retirement Systems and Pension Plans

   C. Postemployment Health Care (Continued)

      2. 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:

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

4. Risk Management

   The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of the MCIT Workers' Compensation, Property

4. Risk Management (Continued)

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 $400,000 per claim in 2007 and $410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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.

5. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

The Ditch Fund Special Revenue Fund had a deficit fund balance of $11,084 as of December 31, 2007. This deficit will be eliminated by future special assessment levies against benefited properties.

5. Stewardship, Compliance, and Accountability (Continued)

B. 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, 2007.

	Expenditures	Budget	Excess
Special Revenue Funds			
Countywide Rehabilitation Program	$ 14,542	$ -	$ 14,542
Ditch	35,083	17,022	18,061

The overexpenditures were funded through the use of the fund balance.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

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

6. Summary of Significant Contingencies and Other Items

B. Conduit Debt

Camp Heartland Project (Continued)

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, 2007, the outstanding principal amount payable was $894,950.

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 comprises five members and 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.

6. Summary of Significant Contingencies and Other Items

   C. Joint Ventures

   East Central Solid Waste Commission (Continued)

   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 or until January 1, 2008. 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.

   During 2007, the Commission repaid the outstanding balance of its long-term bonds. Pine County made no contribution towards the retirement of the Commission's debt during 2007 as the Commission's solid waste fee revenues were sufficient to meet the debt service requirements.

   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.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Snake River Watershed Management Board (Continued)

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 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 2007. Upon dissolution, the personal property shall be returned to the member county contributing the same.

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.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

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, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright. The Region established a Board comprising one Commissioner from each member county. The Region 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 non-custodial 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.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

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. Pine County did not budget for expenditures in 2007. During 2005, Pine County appropriated $56,886 for the County's share of anticipated future expenditures. During 2007, Pine County expended $22,021 on transportation feasibility studies.

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

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 2007, Pine County expended $128,721 to the Cooperative.

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 $1,300 by the County to the HRA Board members for per diem expenses.

F. Tax-Forfeited Land

The County manages approximately 48,395 acres of state-owned, tax-forfeited land with a taxable market value for 2007 of $44,785,600. 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

Schedule 1

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 5,827,333	$ 5,193,819	$ 5,110,234	$ (83,585)
Licenses and permits	104,000	104,000	94,468	(9,532)
Intergovernmental	2,463,120	3,236,509	3,666,172	429,663
Charges for services	1,352,430	1,352,430	1,363,664	11,234
Fines and forfeits	53,700	53,700	57,302	3,602
Gifts and contributions	93,000	93,000	102,929	9,929
Investment earnings	365,000	365,000	857,280	492,280
Miscellaneous	160,642	284,517	262,127	(22,390)
Total Revenues	**$ 10,419,225**	**$ 10,682,975**	**$ 11,514,176**	**$ 831,201**
Expenditures				
Current				
General government				
Commissioners	$ 206,576	$ 208,510	$ 218,591	$ (10,081)
Courts	35,000	35,000	47,950	(12,950)
Law library	20,000	20,000	17,693	2,307
County auditor	505,890	509,144	544,747	(35,603)
County treasurer	195,819	198,447	188,747	9,700
County assessor	455,725	460,083	412,110	47,973
Elections	650	650	7,585	(6,935)
Data processing	446,163	448,416	384,263	64,153
Central services	150,006	150,006	115,646	34,360
Personnel	352,532	357,811	378,807	(20,996)
Attorney	668,311	675,229	633,374	41,855
Contracted legal services	15,000	15,000	47,281	(32,281)
Recorder	308,917	312,558	392,041	(79,483)
Planning and zoning	221,996	224,385	185,239	39,146
Buildings and plant	234,061	235,438	325,719	(90,281)
Veterans service officer	50,108	50,757	54,014	(3,257)
Other general government	164,918	40,541	72,280	(31,739)
Total general government	**$ 4,031,672**	**$ 3,941,975**	**$ 4,026,087**	**$ (84,112)**

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

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 3,466,860	$ 3,509,220	$ 3,931,058	$ (421,838)
Boat and water safety	6,400	6,400	11,704	(5,304)
Coroner	35,275	35,275	44,817	(9,542)
E-911 system	94,235	95,043	110,306	(15,263)
County jail	2,175,452	2,201,644	2,275,422	(73,778)
Sentence to serve	106,563	107,894	91,059	16,835
Probation and parole	594,774	601,476	573,170	28,306
Civil defense	46,335	46,848	203,899	(157,051)
Other public safety	25,895	25,895	32,797	(6,902)
Total public safety	**$ 6,551,789**	**$ 6,629,695**	**$ 7,274,232**	**$ (644,537)**
Sanitation				
Solid waste	$ 77,549	$ 78,254	$ 70,913	$ 7,341
Recycling	121,628	121,628	125,714	(4,086)
Total sanitation	**$ 199,177**	**$ 199,882**	**$ 196,627**	**$ 3,255**
Culture and recreation				
Historical society	$ 10,000	$ 10,000	$ 10,000	$ -
Trail assistance	-	123,875	123,875	-
Regional library	279,359	279,359	278,389	970
Total culture and recreation	**$ 289,359**	**$ 413,234**	**$ 412,264**	**$ 970**
Conservation of natural resources				
County extension	$ 129,675	$ 130,165	$ 125,899	$ 4,266
Soil and water conservation	73,175	73,175	70,896	2,279
Agricultural inspections	125	125	123	2
Agricultural society/County fair	-	-	8,055	(8,055)
Water planning	37,514	37,514	37,514	-
Wetland challenge	73,418	73,418	73,418	-
Other	10,353	10,353	10,281	72
Total conservation of natural resources	**$ 324,260**	**$ 324,750**	**$ 326,186**	**$ (1,436)**

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

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Expenditures (Continued)				
Debt service				
Principal	$ -	$ 72,523	$ 72,523	$ -
Interest	-	51,854	51,854	-
Total debt service	**$ -**	**$ 124,377**	**$ 124,377**	**$ -**
Total Expenditures	**$ 11,396,257**	**$ 11,633,913**	**$ 12,359,773**	**$ (725,860)**
Excess of Revenues Over (Under) Expenditures	**$ (977,032)**	**$ (950,938)**	**$ (845,597)**	**$ 105,341**
Other Financing Sources (Uses)				
Transfers in	$ 1,090,813	$ 1,090,813	$ 1,086,202	$ (4,611)
Transfers out	-	-	(191,869)	(191,869)
Proceeds from sale of assets	-	-	24,380	24,380
Total Other Financing Sources (Uses)	**$ 1,090,813**	**$ 1,090,813**	**$ 918,713**	**$ (172,100)**
Net Change in Fund Balance	**$ 113,781**	**$ 139,875**	**$ 73,116**	**$ (66,759)**
Fund Balance - January 1	**2,313,754**	**2,313,754**	**2,313,754**	**-**
Fund Balance - December 31	**$ 2,427,535**	**$ 2,453,629**	**$ 2,386,870**	**$ (66,759)**

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

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 2

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

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 2,504,984	$ 2,504,984	$ 2,197,367	$ (307,617)
Intergovernmental	8,463,307	8,463,307	6,136,770	(2,326,537)
Charges for services	230,000	230,000	197,762	(32,238)
Miscellaneous	134,980	134,980	144,530	9,550
Total Revenues	**$ 11,333,271**	**$ 11,333,271**	**$ 8,676,429**	**$ (2,656,842)**
Expenditures				
Current				
Highways and streets				
Administration	$ 324,578	$ 330,698	$ 593,894	$ (263,196)
Maintenance	1,484,370	1,497,035	1,592,438	(95,403)
Construction	8,471,075	8,499,662	5,183,594	3,316,068
Equipment maintenance and shop	1,086,248	1,090,876	1,721,323	(630,447)
Total highways and streets	**$ 11,366,271**	**$ 11,418,271**	**$ 9,091,249**	**$ 2,327,022**
Debt service				
Principal	$ -	$ -	$ 75,000	$ (75,000)
Interest	-	-	25,980	(25,980)
Total debt service	**$ -**	**$ -**	**$ 100,980**	**$ (100,980)**
Total Expenditures	**$ 11,366,271**	**$ 11,418,271**	**$ 9,192,229**	**$ 2,226,042**
Excess of Revenues Over (Under) Expenditures	**$ (33,000)**	**$ (85,000)**	**$ (515,800)**	**$ (430,800)**
Other Financing Sources (Uses)				
Transfers in	$ 85,000	$ 85,000	$ 279,267	$ 194,267
Transfers out	-	-	(367,220)	(367,220)
Total Other Financing Sources (Uses)	**$ 85,000**	**$ 85,000**	**$ (87,953)**	**$ (172,953)**
Net Change in Fund Balance	**$ 52,000**	**$ -**	**$ (603,753)**	**$ (603,753)**
Fund Balance - January 1	**1,577,515**	**1,577,515**	**1,577,515**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**129,272**	**129,272**
Fund Balance - December 31	**$ 1,629,515**	**$ 1,577,515**	**$ 1,103,034**	**$ (474,481)**

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

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 3

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,873,062	$ 2,873,062	$ 2,830,133	$ (42,929)
Intergovernmental	4,337,762	4,337,762	4,813,448	475,686
Charges for services	85,124	85,124	100,021	14,897
Gifts and contributions	6,306	6,306	32,921	26,615
Miscellaneous	761,142	761,142	880,207	119,065
Total Revenues	**$ 8,063,396**	**$ 8,063,396**	**$ 8,656,730**	**$ 593,334**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,958,125	$ 1,958,125	$ 1,901,884	$ 56,241
Social services	5,351,807	5,351,807	5,296,014	55,793
Total human services	**$ 7,309,932**	**$ 7,309,932**	**$ 7,197,898**	**$ 112,034**
Health				
Nursing service	$ 720,582	$ 720,582	$ 679,790	$ 40,792
Women, infants, and children	131,275	131,275	122,602	8,673
Maternal and child health	68,396	68,396	82,349	(13,953)
Environmental health	34,037	34,037	48,369	(14,332)
Health education	43,650	43,650	43,728	(78)
Total health	**$ 997,940**	**$ 997,940**	**$ 976,838**	**$ 21,102**
Total Expenditures	**$ 8,307,872**	**$ 8,307,872**	**$ 8,174,736**	**$ 133,136**
Excess of Revenues Over (Under) Expenditures	**$ (244,476)**	**$ (244,476)**	**$ 481,994**	**$ 726,470**
Fund Balance - January 1	**2,194,788**	**2,194,788**	**2,194,788**	**-**
Fund Balance - December 31	**$ 1,950,312**	**$ 1,950,312**	**$ 2,676,782**	**$ 726,470**

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

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 4

BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 33,008	$ 33,008	$ 35,053	$ 2,045
Miscellaneous	503,105	503,105	686,302	183,197
Total Revenues	**$ 536,113**	**$ 536,113**	**$ 721,355**	**$ 185,242**
Expenditures				
Current				
Conservation of natural resources				
Land use	300,599	300,599	447,811	(147,212)
Excess of Revenues Over (Under) Expenditures	**$ 235,514**	**$ 235,514**	**$ 273,544**	**$ 38,030**
Other Financing Sources (Uses)				
Transfers out	202,650	202,650	(202,650)	(405,300)
Net Change in Fund Balance	**$ 438,164**	**$ 438,164**	**$ 70,894**	**$ (367,270)**
Fund Balance - January 1	**940,954**	**940,954**	**940,954**	**-**
Fund Balance - December 31	**$ 1,379,118**	**$ 1,379,118**	**$ 1,011,848**	**$ (367,270)**

PINE COUNTY
PINE CITY, MINNESOTA

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. 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, 2007, expenditures exceeded appropriations in the General Fund by $725,860 and by $147,212 in the Land Management Special Revenue Fund. In the General Fund, the over-expenditures were funded by greater than anticipated revenues, transfers, and use of available fund balance. In the Land Management Special Revenue Fund, the over-expenditures were a result of statutory distributions made to local governments as required by Minn. Stat. § 282.08 and were funded by greater than anticipated revenues within that fund.

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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PINE COUNTY
PINE CITY, MINNESOTA

Statement 1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	Special Revenue	Debt Service	Total
Assets			
Cash and pooled investments	$ 20,675	$ 1,086,894	$ 1,107,569
Undistributed cash in agency funds	-	55,721	55,721
Investments	101,676	-	101,676
Taxes receivable			
Prior	-	108,401	108,401
Accounts receivable	169,019	-	169,019
Accrued interest receivable	5,140	1,389	6,529
Total Assets	**$ 296,510**	**$ 1,252,405**	**$ 1,548,915**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 2,491	$ -	$ 2,491
Due to other funds	8,593	-	8,593
Deferred revenue - unavailable	169,019	92,087	261,106
Total Liabilities	**$ 180,103**	**$ 92,087**	**$ 272,190**
Fund Balances			
Unreserved			
Undesignated	116,407	1,160,318	1,276,725
Total Liabilities and Fund Balances	**$ 296,510**	**$ 1,252,405**	**$ 1,548,915**

PINE COUNTY
PINE CITY, MINNESOTA

Statement 2

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

	Special Revenue	Debt Service	Total
Revenues			
Taxes	$ -	$ 1,414,446	$ 1,414,446
Intergovernmental	5,000	163,751	168,751
Charges for services	25,840	-	25,840
Earnings on investments	10,239	173,043	183,282
Total Revenues	**$ 41,079**	**$ 1,751,240**	**$ 1,792,319**
Expenditures			
Current			
Highways and streets	$ 35,083	$ -	$ 35,083
Economic development	14,542	-	14,542
Debt service			
Principal	-	710,000	710,000
Interest	-	800,016	800,016
Administrative - fiscal charges	-	3,450	3,450
Total Expenditures	**$ 49,625**	**$ 1,513,466**	**$ 1,563,091**
Excess of Revenues Over (Under) Expenditures	**$ (8,546)**	**$ 237,774**	**$ 229,228**
Other Financing Sources (Uses)			
Transfers in	$ -	$ 367,220	$ 367,220
Transfers out	(770,205)	(810,933)	(1,581,138)
Total Other Financing Sources (Uses)	**$ (770,205)**	**$ (443,713)**	**$ (1,213,918)**
Net Change in Fund Balance	**$ (778,751)**	**$ (205,939)**	**$ (984,690)**
Fund Balance - January 1	**895,158**	**1,366,257**	**2,261,415**
Fund Balance - December 31	**$ 116,407**	**$ 1,160,318**	**$ 1,276,725**

PINE COUNTY
PINE CITY, MINNESOTA

Statement 3

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

	Ditch	Countywide Rehabilitation Program	Ambulance	Total
Assets				
Cash and pooled investments	$ -	$ 12,126	$ 8,549	$ 20,675
Investments	-	101,676	-	101,676
Accounts receivable	-	-	169,019	169,019
Accrued interest receivable	-	5,140	-	5,140
Total Assets	**$ -**	**$ 118,942**	**$ 177,568**	**$ 296,510**
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 2,491	$ -	$ -	$ 2,491
Due to other funds	8,593	-	-	8,593
Deferred revenue - unavailable	-	-	169,019	169,019
Total Liabilities	**$ 11,084**	**$ -**	**$ 169,019**	**$ 180,103**
Fund Balances				
Unreserved				
Undesignated	(11,084)	118,942	8,549	116,407
Total Liabilities and Fund Balances	**$ -**	**$ 118,942**	**$ 177,568**	**$ 296,510**

PINE COUNTY
PINE CITY, MINNESOTA

Statement 4

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

	Ditch	Countywide Rehabilitation Program	Ambulance	Total
Revenues				
Intergovernmental	$ -	$ 5,000	$ -	$ 5,000
Charges for services	17,278	-	8,562	25,840
Earnings on investments	-	10,239	-	10,239
Total Revenues	**$ 17,278**	**$ 15,239**	**$ 8,562**	**$ 41,079**
Expenditures				
Current				
Highways and streets	$ 35,083	$ -	$ -	$ 35,083
Economic development	-	14,542	-	14,542
Total Expenditures	**$ 35,083**	**$ 14,542**	**$ -**	**$ 49,625**
Excess of Revenues Over (Under) Expenditures	**$ (17,805)**	**$ 697**	**$ 8,562**	**$ (8,546)**
Other Financing Sources (Uses)				
Transfers out	-	-	(770,205)	(770,205)
Net Change in Fund Balance	**$ (17,805)**	**$ 697**	**$ (761,643)**	**$ (778,751)**
Fund Balance - January 1	**6,721**	**118,245**	**770,192**	**895,158**
Fund Balance - December 31	**$ (11,084)**	**$ 118,942**	**$ 8,549**	**$ 116,407**

PINE COUNTY
PINE CITY, MINNESOTA

Statement 5

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

	Equipment Bond	East Central Solid Waste Commission	Street Reconstruction Bond	General Obligation Jail Bond	Total
Assets					
Cash and pooled investments	$ 66	$ 57,351	$ 786,728	$ 242,749	$ 1,086,894
Undistributed cash in agency funds	577	1,466	28,097	25,581	55,721
Taxes receivable					
Prior	7,442	4,743	52,350	43,866	108,401
Accrued interest receivable	-	-	-	1,389	1,389
Total Assets	**$ 8,085**	**$ 63,560**	**$ 867,175**	**$ 313,585**	**$ 1,252,405**
Liabilities and Fund Balances					
Liabilities					
Deferred revenue - unavailable	$ 7,442	$ 4,320	$ 44,124	$ 36,201	$ 92,087
Fund Balances					
Unreserved					
Undesignated	643	59,240	823,051	277,384	1,160,318
Total Liabilities and Fund Balances	**$ 8,085**	**$ 63,560**	**$ 867,175**	**$ 313,585**	**$ 1,252,405**

PINE COUNTY
PINE CITY, MINNESOTA

Statement 6

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Equipment Bond	East Central Solid Waste Commission	Street Reconstruction Bond	General Obligation Jail Bond	Total
Revenues					
Taxes	$ 3,898	$ 8,893	$ 727,315	$ 674,340	$ 1,414,446
Intergovernmental	-	54	84,748	78,949	163,751
Earnings on investments	-	-	-	173,043	173,043
Total Revenues	**$ 3,898**	**$ 8,947**	**$ 812,063**	**$ 926,332**	**$ 1,751,240**
Expenditures					
Debt service					
Principal	$ -	$ -	$ 710,000	$ -	$ 710,000
Interest	-	-	68,255	731,761	800,016
Administrative - fiscal charges	-	-	450	3,000	3,450
Total Expenditures	**$ -**	**$ -**	**$ 778,705**	**$ 734,761**	**$ 1,513,466**
Excess of Revenues Over (Under) Expenditures	**$ 3,898**	**$ 8,947**	**$ 33,358**	**$ 191,571**	**$ 237,774**
Other Financing Sources (Uses)					
Transfers in	$ -	$ -	$ 367,220	$ -	$ 367,220
Transfers out	(210,933)	-	-	(600,000)	(810,933)
Total Other Financing Sources (Uses)	**$ (210,933)**	**$ -**	**$ 367,220**	**$ (600,000)**	**$ (443,713)**
Net Change in Fund Balance	**$ (207,035)**	**$ 8,947**	**$ 400,578**	**$ (408,429)**	**$ (205,939)**
Fund Balance - January 1	**207,678**	**50,293**	**422,473**	**685,813**	**1,366,257**
Fund Balance - December 31	**$ 643**	**$ 59,240**	**$ 823,051**	**$ 277,384**	**$ 1,160,318**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 5

BUDGETARY COMPARISON SCHEDULE
HRA PROJECT BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 631,431	$ 631,431	$ 552,362	$ (79,069)
Intergovernmental	-	-	64,739	64,739
Earnings on investments	-	-	211,547	211,547
Total Revenues	**$ 631,431**	**$ 631,431**	**$ 828,648**	**$ 197,217**
Expenditures				
Debt service				
Interest	$ 629,431	$ 629,431	$ 629,431	$ -
Administrative charges	350	350	2,941	(2,591)
Total Expenditures	**$ 629,781**	**$ 629,781**	**$ 632,372**	**$ (2,591)**
Excess of Revenues Over (Under) Expenditures	**$ 1,650**	**$ 1,650**	**$ 196,276**	**$ 194,626**
Other Financing Sources (Uses)				
Transfers out	-	-	(135,945)	(135,945)
Net Change in Fund Balance	**$ 1,650**	**$ 1,650**	**$ 60,331**	**$ 58,681**
Fund Balance - January 1, as restated	**1,479,336**	**1,479,336**	**1,395,411**	**(83,925)**
Fund Balance - December 31	**$ 1,480,986**	**$ 1,480,986**	**$ 1,455,742**	**$ (25,244)**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 6

BUDGETARY COMPARISON SCHEDULE
COUNTYWIDE REHABILITATION PROGRAM SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Intergovernmental	$ -	$ -	$ 5,000	$ 5,000
Earnings on investments	2,500	2,500	10,239	7,739
Total Revenues	**$ 2,500**	**$ 2,500**	**$ 15,239**	**$ 12,739**
Expenditures				
Current				
Economic development	-	-	14,542	(14,542)
Net Change in Fund Balance	**$ 2,500**	**$ 2,500**	**$ 697**	**$ (1,803)**
Fund Balance - January 1	**118,245**	**118,245**	**118,245**	**-**
Fund Balance - December 31	**$ 120,745**	**$ 120,745**	**$ 118,942**	**$ (1,803)**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 7

BUDGETARY COMPARISON SCHEDULE
AMBULANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Charges for services	$ -	$ -	$ 8,562	$ 8,562
Other Financing Sources (Uses)				
Transfers out	-	-	(770,205)	(770,205)
Net Change in Fund Balance	**$ -**	**$ -**	**$ (761,643)**	**$ (761,643)**
Fund Balance - January 1	**770,192**	**770,192**	**770,192**	**-**
Fund Balance - December 31	**$ 770,192**	**$ 770,192**	**$ 8,549**	**$ (761,643)**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 8

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Charges for services	$ 17,022	$ 17,022	$ 17,278	$ 256
Expenditures				
Current				
Highways and streets	17,022	17,022	35,083	(18,061)
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ (17,805)**	**$ (17,805)**
Fund Balance - January 1	**6,721**	**6,721**	**6,721**	**-**
Fund Balance - December 31	**$ 6,721**	**$ 6,721**	**$ (11,084)**	**$ (17,805)**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 9

BUDGETARY COMPARISON SCHEDULE
EQUIPMENT BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ -	$ -	$ 3,898	$ 3,898
Other Financing Sources (Uses)				
Transfers out	-	-	(210,933)	(210,933)
Net Change in Fund Balance	**$ -**	**$ -**	**$ (207,035)**	**$ (207,035)**
Fund Balance - January 1	**207,678**	**207,678**	**207,678**	**-**
Fund Balance - December 31	**$ 207,678**	**$ 207,678**	**$ 643**	**$ (207,035)**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 10

BUDGETARY COMPARISON SCHEDULE
EAST CENTRAL SOLID WASTE COMMISSION DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ -	$ -	$ 8,893	$ 8,893
Intergovernmental	-	-	54	54
Total Revenues	**$ -**	**$ -**	**$ 8,947**	**$ 8,947**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 8,947**	**$ 8,947**
Fund Balance - January 1	**50,293**	**50,293**	**50,293**	**-**
Fund Balance - December 31	**$ 50,293**	**$ 50,293**	**$ 59,240**	**$ 8,947**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 11

BUDGETARY COMPARISON SCHEDULE
STREET RECONSTRUCTION BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 828,700	$ 828,700	$ 727,315	$ (101,385)
Intergovernmental	-	-	84,748	84,748
Total Revenues	**$ 828,700**	**$ 828,700**	**$ 812,063**	**$ (16,637)**
Expenditures				
Debt service				
Principal	$ 710,000	$ 710,000	$ 710,000	$ -
Interest	68,255	68,255	68,255	-
Administrative charges	4,501	4,501	450	4,051
Total Expenditures	**$ 782,756**	**$ 782,756**	**$ 778,705**	**$ 4,051**
Excess of Revenues Over (Under) Expenditures	**$ 45,944**	**$ 45,944**	**$ 33,358**	**$ (12,586)**
Other Financing Sources (Uses)				
Transfers in	-	-	367,220	367,220
Net Change in Fund Balance	**$ 45,944**	**$ 45,944**	**$ 400,578**	**$ 354,634**
Fund Balance - January 1	**422,473**	**422,473**	**422,473**	**-**
Fund Balance - December 31	**$ 468,417**	**$ 468,417**	**$ 823,051**	**$ 354,634**

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FIDUCIARY FUNDS

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PINE COUNTY
PINE CITY, MINNESOTA

Statement 7

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Balance January 1	Additions	Deductions	Balance December 31
PINE COUNTY CHILDREN, FAMILIES, AND LEARNING SERVICES COLLABORATIVE				
Assets				
Cash and pooled investments	$ 187,010	$ 144,603	$ 144,532	$ 187,081
Liabilities				
Accounts payable	$ 187,010	$ 144,603	$ 144,532	$ 187,081
STATE				
Assets				
Cash and pooled investments	$ 32,093	$ 540,449	$ 551,227	$ 21,315
Liabilities				
Due to other governments	$ 32,093	$ 540,449	$ 551,227	$ 21,315
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 437,106	$ 27,682,755	$ 27,587,332	$ 532,529
Liabilities				
Due to other governments	$ 437,106	$ 27,682,755	$ 27,587,332	$ 532,529

Statement 7
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 656,209**	**$ 28,367,807**	**$ 28,283,091**	**$ 740,925**
Liabilities				
Accounts payable	$ 187,010	$ 144,603	$ 144,532	$ 187,081
Due to other governments	469,199	28,223,204	28,138,559	553,844
Total Liabilities	**$ 656,209**	**$ 28,367,807**	**$ 28,283,091**	**$ 740,925**

OTHER SCHEDULE

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PINE COUNTY
PINE CITY, MINNESOTA

Schedule 12

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

Shared Revenue		
State		
Highway users tax	$	5,812,044
Road gas tax		5,003
Homestead credit		1,370,492
PERA rate reimbursement		36,545
Disparity reduction aid		1,028
Police aid		162,872
Enhanced 911		105,164
Market value credit		1,442,498
Agricultural preserve credit		1,275
Agricultural conservation credit		4,635
Wildlife wetlands credit		1,842
Casino aid/tribal tax agreement		50,868
Total Shared Revenue	**$**	**8,994,266**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**1,931,886**
Payments		
Local		
Local contributions	$	14,505
State		
Payments in lieu of taxes		491,724
Total Payments	**$**	**506,229**
Grants		
State		
Minnesota Department/Board of		
Education	$	13,738
Corrections		212,701
Public Safety		10,333
Health		203,841
Natural Resources		138,821
Human Services		1,460,100
Soil and Water Resources		148,703
Trial Courts		6,877
Veterans Affairs		4,200
Office of Environmental Assistance		65,831
Total State	**$**	**2,265,145**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 12
(Continued)

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

Grants (Continued)		
Federal		
Department of		
Agriculture	$	314,808
Housing and Urban Development		5,000
Interior		2,964
Transportation		61,220
Health and Human Services		785,841
Homeland Security		17,574
Total Federal	**$**	**1,187,407**
Total State and Federal Grants	**$**	**3,452,552**
Total Intergovernmental Revenue	**$**	**14,884,933**

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PINE COUNTY
PINE CITY, MINNESOTA

Schedule 13

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

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the 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. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." It is not a material weakness.

E. The Auditor's Report on Compliance for the major federal award programs for Pine County expresses an unqualified opinion.

F. A finding relative to a major federal award program for Pine County was reported as required by Section 510(a) of Office of Management and Budget (OMB) Circular A-133.

G. The major programs are:

Cooperative Forestry Agreement	CFDA #10.664
Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
Social Services Block Grant	CFDA #93.667

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*

<u>INTERNAL CONTROL</u>

<u>PREVIOUSLY REPORTED ITEMS NOT RESOLVED</u>

96-4 <u>Departmental Internal Accounting Controls</u>

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 department supervisor or some independent person.

<u>Client’s Response</u>:

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 financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is 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.

06-2 Audit Adjustments

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

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. County staff provide some of the basic modified accrual information necessary for financial reporting. However, County staff do not have the time nor the governmental accounting expertise to prepare all the information necessary to provide accurate financial statements. The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements could not be fairly presented. Material audit adjustments were necessary to correct interest earnings and cash balances on bond proceeds held by the County's escrow agent, record additions and reversals to accruals, correct fund balances, correct interfund account balances and transfers of bond proceeds between funds, adjust and reclassify revenues and deferred revenue, and adjust for state-aid highway allotments. Audit adjustments were also necessary to adjust modified accrual financial statements to the full accrual basis for the government-wide financial statements.

We recommend that 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, 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 County has implemented procedures recommended by the Office of the State Auditor including a year-end review of general ledger accounts for errors and misstatements, procedures for identification of federal program activity, and preparation of schedules necessary for financial statement presentation. The County has identified the County Auditor as the individual responsible for oversight of the financial reporting process.

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:

The County is currently implementing the Radius server that will authenticate all users to the network. If they are not a County user, they will go to the public network which will allow internet access only. In addition, the County is in the process of developing a plan to reduce the risk associated with County's computer systems.

06-6 Budgeting

The County Board has not adopted a formal budget policy. A formal written budget policy should include policies such as:

- which funds require budgets,
- the legal level of control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- the procedures for monitoring the budget.

The County's current budget policy is informal and does not indicate which funds are required to be budgeted, the budgetary basis, or the legal level of control. Not all adjustments to the budget are approved by the County Board as budget amendments. The County Coordinator presents potential budget amendments to the Board. The Board decides whether the budget will be amended or not. The budget is not amended for new grants received during the year. These are issues that should be addressed under a County budget policy.

A formal County budget policy should identify when budget amendments can be approved by management and when County Board approval is necessary. Budget amendments allowed under the policy to be made by management should be tracked on budget amendment forms. During the year, the County department heads should monitor the departmental budgets for which they are responsible.

We recommend the County Board adopt a budget policy to include the elements recommended above. After adoption, the original budget, approved grants, and other budget amendments should be entered into the County's Integrated Financial System (IFS) by someone who is independent of the budget process. The budget should be monitored on an ongoing basis by department heads and the County Board. Reviewers should indicate their review of budget to actual reports by signing off on them.

Client's Response:

The County developed an official Budget Policy in 2008.

06-7 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

The County will develop an official Accounting Policies and Procedures Manual in 2009.

ITEMS ARISING THIS YEAR

07-1 Bond Interest on Deposit with Escrow Agent

During 2007, Pine County had improperly accounted for interest earned on HRA Public Project Revenue Bond (HRA Bond) proceeds on deposit with the escrow agent. As a result, the County was unable to reconcile the cash balance recorded in its general ledger to the County's actual cash balance available. In addition, the County could not adequately determine the amount of interest earned on the bond proceeds held by the escrow agent available to finance continuing construction activities.

In 2005, the County issued $13,285,000 in HRA Bonds to help finance the new courthouse and law enforcement center. The net proceeds were deposited with the County's escrow agent. The County records the available bond proceeds balance as Cash on Deposit with Escrow Agent in its HRA Bond Capital Projects Fund. Bond proceeds are paid upon County requests for additional funds. As the bond proceeds on deposit earn interest, the County was to record the earnings as interest revenue and increase the balance of cash on deposit with the escrow agent. Instead, the accrued earnings were receipted directly into the County's cash account. Since there was no actual receipt of cash from the escrow agent, this lead to a misstatement of the County's actual cash balance and the cash balance on deposit with the escrow agent.

The HRA Bond agreement required the escrow agent to establish three separate funds: a construction fund, a bond fund, and reserve fund. Interest earnings on the construction fund were available for financing further construction activities. Interest earnings on the bond and reserve funds were to be held for future debt service needs, unless the escrow agent was authorized to release them. The County did not account for bond proceeds interest earnings in this manner. As a result, throughout the construction period, the County was unable to accurately determine what amount of interest earned was actually available for financing further construction according to the terms of the bond agreement.

We recommend that the County review its procedures for accounting for bond proceeds and interest earnings on HRA Bond funds held by its escrow agent. The County should reconcile the balance of available bond proceeds and interest earnings on deposit with the escrow agent in its accounting records with the monthly statements received from the escrow agent. Interest reported as earned on the escrow agent statement should not be receipted in as County cash until the payment is received.

Client's Response:

The County has reconciled the bond proceeds and interest earning on HRA Bond funds held with its escrow agent and is correctly reporting the amount of interest earned.

07-2 Reconciliation of Interfund Balances

The County does not reconcile its interfund account balances. The County's IFS system software operates on a modified accrual basis and allows establishment of system entry accruals during a 90-day accrual period. An interfund receivable accrual set up in one fund may not be offset by an equal interfund payable accrual in the payor fund. As a result, interfund receivables and payables balances are misstated in the general ledger. Pine County has historically relied on its external auditors to reconcile its interfund account balances. Since the external auditor cannot be considered a part of the County's internal control, this condition indicates that Pine County does not have proper internal controls in place to ensure interfund account balances are properly stated in the general ledger.

We recommend that the County Auditor implement appropriate internal controls to monitor the general ledger interfund account balances on a monthly basis during its accrual period. By detecting imbalances early on, the complex reconciliation procedures required to balance the interfund accounts at the time of the audit can be avoided.

Client's Response:

Interfund account balances are now being reviewed monthly by the Auditor's Fiscal Supervisor.

07-3 Prior Period Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis. One indication of a control deficiency that is typically considered significant is a restatement of previously issued financial statements to reflect corrections of a misstatement.

The January 1, 2007, net assets of the government-wide financial statements were restated to recognize special assessments that had been assumed by Pine County in the acquisition of land for its new County courthouse and law enforcement center that previously were undisclosed.

The January 1, 2007, fund balance of the HRA Project Bonds Debt Service Fund was restated to recognize a prior year's interest payment due on the bonds made from funds withheld by the escrow agent for that purpose. Because of the lack of appropriate reconciliation procedures, the payment had not been recognized by the County in that year and remained in the County's accounting records as an amount reserved for interest payments.

We recommend that the County review its procedures for preparation and disclosure of financial information necessary for accurate presentation in the financial statements.

Client's Response:

The County has reviewed its procedures for preparation and disclosure of financial information and is properly and accurately disclosing fund information.

PREVIOUSLY REPORTED ITEMS RESOLVED

SSIS Segregation of Duties (06-3)

Pine County management had not performed a risk assessment to determine whether incompatible staff access existed within the Minnesota Department of Human Services Social Service Information System Fiscal Payment (SSIS) software module.

Resolution

Pine County management completed an SSIS system risk assessment of staff's duties and determined there was no inappropriate access.

Disbursement Approval (06-4)

The Sheriff, Highway Engineer, and County Attorney were not properly approving disbursements. This duty was sometimes delegated to administrative assistants.

Resolution

No occurrences of improper approvals were noted in the current year.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

07-4 Identification of Federal Awards - Highway Planning and Construction - CFDA #20.205

Pine County does not adequately identify federal awards and expenditures. OMB Circular A-133, Subpart C, § .300 indicates auditee responsibilities, which include identifying all federal awards received and expended and the federal programs under which they were received and preparing appropriate financial statements, including the Schedule of Expenditures of Federal Awards.

Pine County did not correctly identify federal financial assistance due to the County at December 31, 2007, for a highway construction project in progress. The project was funded through a combination of state highway aids and federal participation. At year-end, the County had incurred expenditures sufficient to earn a federal reimbursement of $525,000. The County's failure to report the amount as a receivable was not detected until the time of the audit of the Road and Bridge Special Revenue Fund. The error resulted in a misstatement of the receivables balance in the Road and Bridge Special Revenue Fund as of December 31, 2007. It also resulted in a reassessment of the County's federal award expenditures that must be tested as major programs for Single Audit purposes.

We recommend the County develop policies and procedures addressing its responsibility to properly and, in a timely manner, identify all federal awards received and expended and the federal programs under which they were received. Pine County should review and strengthen its current internal controls to ensure material year-end accrual balances are properly accounted for, classified, and presented in the correct fiscal period.

Departmental staff should review their programs at year-end for expenditures incurred during the fiscal period that remain unbilled. A receivable accrual should then be established in the general ledger. Amounts expended that remain unbilled, but will be reimbursed from federal sources, should be included in the County's reporting of federal financial assistance.

<u>Corrective Action Plan</u>:

<u>Corrective Action Planned</u>:

The County adopted an official Grant Policy on June 17, 2008, and has implemented procedures to accurately identify and report federal financial assistance. The County Auditor has also implemented procedures for reviewing year-end accruals to insure that all federal financial assistance is properly accounted for.

<u>Person Responsible</u>:

County Auditor Cathy Clemmer

<u>Date of Completion</u>:

June 17, 2008, and ongoing

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. <u>MINNESOTA LEGAL COMPLIANCE</u>

<u>PREVIOUSLY REPORTED ITEM NOT RESOLVED</u>

06-8 <u>Late Payment of Claims</u>

Minn. Stat. § 471.425 requires a municipality to make payment to a vendor according to the terms of the contract, or within 35 days. The statute also requires a municipality to pay interest on the outstanding balance of a late payment at the rate of 1.5 per cent per month or part of a month.

Our tests of disbursements detected three instances of late vendor payments.

- Check #64374 - invoice date 12/12/06 paid on 1/25/07 - 44 days,
- Check #37659 - invoice date 7/17/07 paid on 8/24/07 - 38 days, and
- Check #38924 - invoice date 11/13/07 paid on 12/21/07 - 38 days.

We recommend the County review the payment process and establish procedures to comply with Minn. Stat. § 471.425.

Client's Response:

The County will review the statute with the Department Heads and the Auditor's Office, so all parties know and follow the statutes.

ITEM ARISING THIS YEAR

07-5 Safekeeping of Investments

Minn. Stat. § 118A.06 requires that all investments be held in safekeeping with:

- a federal reserve bank;
- any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including, but not limited to, the bank from which the investment is purchased;
- a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- a securities broker-dealer having its principal executive office in Minnesota licensed under chapter 80A, or an affiliate of it, and regulated by the Securities and Exchange Commission.

Pine County has securities on hand at December 31, 2007, with Wachovia Securities totaling $4,057,631; Gilford Securities Incorporated totaling $750,000; Multi-Bank Securities, Inc., totaling $697,123; and First Empire Securities, Inc., totaling $337,446. None of these firms are primary reporting dealers nor do they have their principal executive offices in Minnesota. The investments for these brokers are being held through the Depository Trust Company or by the brokerage firms' trust departments. Therefore, these investments are not being safekept in accordance with Minn. Stat. § 118A.06.

We recommend the County Treasurer comply with the requirements of Minn. Stat. § 118A.06. Investments may be held only by brokerage firms that are primary reporting dealers or have their principal offices in Minnesota. Investments purchased through other dealers must be held at a bank rather than at the brokerage firm.

Client's Response:

Pursuant to Minn. Stat. § 118A.06, securities were transferred and are being held in safekeeping with a brokerage firm with a principal executive office in Minnesota. All future investments will be held in safekeeping as required by Minn. Stat. § 118A.06.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-11 Information Systems Department Review

Our review of the data processing policies and procedures showed 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 are:

- a detailed list of recovery procedures,
- a timeline of when procedures will take place,
- identification of a 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 directory of personnel,
- information relative to off-site back-up storage facilities, and
- any agreements regarding back-up processing sites.

Client's Response:

The County is developing formal written procedures in the event of a disaster or major computer failure.

96-13 Five County Mental Health Center Loan

During 1995, the County loaned the Five County Mental Health Center (5CMHC) $45,250 to meet cash flow needs. The loan is unsecured, and no repayment schedule is available for review. During 2001, the County received $10,400 in repayment of this loan. The balance of $34,850 remains in the loans receivable balance sheet account of the Health and Human Services Special Revenue Fund at December 31, 2007. Providing an unsecured loan to the 5CMHC could result in loss of County assets should the 5CMHC be unable to repay the loan.

We recommend the County Health and Human Services Director establish repayment terms and obtain security for the loan.

Client's Response:

Pine County is a member of the Joint Powers Board governing Five County Mental Health and its assets. The 2006 contract between Five County Mental Health and the County states that, "The center agrees to begin repayment of the 1998 Advances and the 1995 loan to the county as excess revenue is generated." The Board of Directors of Five County Mental Health will "review the financial statements and make a determination of payments to be made to the Counties. At the September 17, 2002, Board of Directors of Five County Mental Health Center meeting, they changed the amount of operating reserve needed at the end of the year before repayments are made from three months to 60 days. Pine County Health and Human Services will continue to work with Five County Mental Health to insure repayment of the loan.

97-4 Advances to Five County Mental Health Center

During 1997 and 1998, the County made quarterly advances to the 5CMHC totaling $253,750 and $203,000, respectively. The 5CMHC reports expenditures monthly to the County and then settles overpayments, usually twice each year. At December 31, 2007, the balance remaining as advanced to the 5CMHC was $164,820, which included a past due amount of $47,358 and an advance of $117,462 for the first quarter of 2008. This is shown on the financial statements as part of the prepaid items account balance. This advance, plus the outstanding loan previously discussed (item 96-13), could result in losses to the County should this organization be unable to refund the overpayment and repay the loan.

We recommend the County Health and Human Services Director obtain repayment for the advance and the loan outstanding at year-end.

Client's Response:

Pine County is a member of the Joint Powers Board governing Five County Mental Health and its assets. The 2006 contract between Five County Mental Health and the County states that, "The center agrees to begin repayment of the 1998 Advances and the 1995 loan to the county as excess revenue is generated." The Board of Directors of Five County Mental Health will "review the financial *statements and make a determination of payments to be made to the Counties. At the September 17, 2002, Board of Directors of Five County Mental Health Center meeting, they changed the amount of operating reserve needed at the end of the year before repayments are made from three months to 60 days. Pine County Health and Human Services will continue to work with Five County Mental Health to insure repayment of the loan.*

ITEM ARISING THIS YEAR

07-6 Recorder's Technology and Compliance Funds

Pine County is improperly accounting for Recorder's Office Technology Fund and Compliance Fund fee revenues received.

A portion of the fees received by the Recorder's Office are allocated to the Recorder's Technology Fund and Recorder's Compliance Fund to be used to update and enhance the current technology and equipment in the Recorder's Office. Under current County practice, fees collected are offset against their respective expenditure accounts. This is not permitted by generally accepted accounting principles and leads to a misstatement of revenues and expenditures in the general ledger for the Recorder's Office.

We recommend that the County record Technology and Compliance Fund fee revenues in appropriate program or revenue account codes within the Recorder's Office and not offset fee revenues against expenditures.

Client's Response:

As of 2009, the County is recording fee revenues in appropriate revenue codes within the Recorder's Office.

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Assets Policy (06-9)

Pine County had not established a capital assets policy that defined the County's accounting policies over capital assets, including a policy requiring a periodic physical inventory of capital assets.

Resolution

The County Board approved a capital assets policy in 2008.

Utility Trailer Purchase (06-10)

The purchase of a utility trailer through donations received by the Sheriff did not conform to the County's purchasing policy. Some of the donations used for this purchase were not properly approved by the County Board.

Resolution

No similar purchases were detected in the current year.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

In 2008, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help counties address their OPEB liability in at least three important ways:

- it allows counties to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits counties to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

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

- determine if employees are provided OPEB;

- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;

- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

- if an OPEB trust will be established, the County will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and

- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Pine County, GASB Statement 45 would be implemented for the year ended December 31, 2008.

Client's Response:

The County will be implementing GASB Statement 45 for the year ended December 31, 2008.

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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, Minnesota, as of and for the year ended December 31, 2007, and have issued our report thereon dated April 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4, 06-1, 06-2, 06-5 through 06-7, and 07-1 through 07-3 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our tests indicate that, for the items tested, 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 items 06-8 and 07-5.

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to Pine County and are reporting them for that purpose.

Pine County's written responses to the significant deficiencies, material weakness, legal compliance findings, management practices comments, and other item 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 22, 2009

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

Board of County Commissioners
Pine County

Compliance

We have audited the compliance of Pine County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. 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 on the County's compliance with those requirements.

In our opinion, Pine County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in Pine County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 07-4 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Pine County's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Schedule of Expenditures of Federal Awards

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, 2007, and have issued our report thereon dated April 22, 2009. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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 STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 22, 2009

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PINE COUNTY
PINE CITY, MINNESOTA

Schedule 14

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

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number		Expenditures
U.S. Department of Agriculture				
Passed Through Minnesota Department of Health				
Special Supplemental Nutrition Program for Women, Infants, and Children		10.557	$	174,933
Passed Through Minnesota Department of Natural Resources				
Cooperative Forestry Agreement		10.664		139,875
Total U.S. Department of Agriculture			**$**	**314,808**
U.S. Department of Housing and Urban Development				
Passed Through the Minnesota Department of Employee and Economic Development				
Lead Hazard Reduction Demonstration Project		14.905	**$**	**5,000**
U.S. Department of Interior				
Direct				
Payments in Lieu of Taxes		15.226	**$**	**2,964**
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction		20.205	**$**	**586,220**
U.S. Elections Assistance Commission				
Passed Through Minnesota Secretary of State				
Help America Vote Act Grant	A87520	90.401	**$**	**7,888**
U.S. Department of Health and Human Services				
Passed Through Kanabec/Pine Community Health Services				
Centers for Disease Control and Prevention - Investigations and Technical Assistance		93.283	$	35,687
Maternal and Child Health Services		93.994		39,878
Passed Through Minnesota Department of Human Services				
Temporary Assistance for Needy Families (TANF)		93.558		378,626
Child Care Cluster				
Child Care Development Block Grant		93.575		7,418
Child Care Mandatory and Matching Funds		93.596		13,832
Title IV-B-1 Alternative Response Grant		93.645		12,042
Foster Care Title IV-E		93.658		94,489
Social Services Block Grant Title XX		93.667		193,957
Chafee Foster Care Independence Program		93.674		4,654
Block Grants for Community Mental Health Services		93.958		5,258
Total U.S. Department of Health and Human Services			**$**	**785,841**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 14
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number		Expenditures
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance		97.012	$	4,731
Passed Through Minnesota Department of Public Safety				
Emergency Management Performance Grant Cluster		97.042		12,843
Total U.S. Department of Homeland Security			**$**	**17,574**
Total Federal Awards			**$**	**1,720,295**

Notes to Schedule of Expenditures of Federal Awards

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

2. The expenditures on this schedule are on the modified accrual basis of accounting. Expenditures on this schedule differ from federal revenues reported due to certain expenditures reported when the revenues are not available for recognition. In 2007, a deferred revenue of $525,000 was not recognized as revenue because the period of availability criteria had not been met under modified accrual reporting. In addition, $7,888 recognized as expenditures in 2007 was recognized as revenue in 2006.

3. During 2007, the County did not pass any federal money to subrecipients.

4. Unlisted pass-through grant numbers were not assigned by the pass-through agencies.