# STATE OF MINNESOTA
## Office of the State Auditor

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

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

YEAR ENDED DECEMBER 31, 2008

# Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

# PINE COUNTY
# PINE CITY, MINNESOTA

## Year Ended December 31, 2008

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

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

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# Introductory Section

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

ORGANIZATION
AS OF DECEMBER 31, 2008

| | | | Term Expires |
|---|---|---|---|
| Elected | | | |
| Commissioners | Stephen Hallan | District 1 | 2010 |
| | Edward Montbriand | District 2 | 2010 |
| | Roger Nelson | District 3 | 2008 |
| | Curt Rossow | District 4 | 2008 |
| | Doug Carlson | District 5 | 2010 |
| Attorney | John Carlson | | 2010 |
| Auditor | Cathy Clemmer | | 2010 |
| Sheriff | Mark Mansavage | | 2010 |
| Treasurer | Ruth A. Blahnik | | 2010 |
| Appointed | | | |
| Assessor | John (Mike) Sheehy | | Indefinite |
| County Recorder | Tamara Tricas | | Indefinite |
| Registrar of Titles | Tamara Tricas | | Indefinite |
| Highway Engineer/Coordinator | Mark LeBrun | | Indefinite |
| Health and Human Services Director | Linda Cassman | | Indefinite |

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# Financial Section

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**STATE OF MINNESOTA**
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

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

# INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
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, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pine County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2008, 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.

As discussed in Note 4 to the financial statements, during the year ended December 31, 2008, Pine County adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

In accordance with *Government Auditing Standards,* we have also issued our report dated December 18, 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*

REBECCA OTTO
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 18, 2009

# MANAGEMENT’S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(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, 2008. 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, 2008, by $62,363,501 (net assets). Of this amount, $667,166 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- As of the close of 2008, Pine County's governmental funds reported combined ending fund balances of $3,710,820, a decrease of $6,274,284 in comparison with 2007. Of this balance amount, ($757,599) was unreserved and undesignated by Pine County. The unreserved and undesignated fund balance deficit mainly resulted from expenditures exceeding revenues in the General Fund and Road and Bridge Special Revenue Fund.

- At the end of 2008, unreserved/undesignated fund balance for the General Fund was ($478,683), or (3.3) percent, of the total General Fund expenditures for that year.

- Pine County's long-term liabilities decreased by $617,283 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 $2,679,772. 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, 2008, construction was completed on the County's new courthouse and law enforcement center, and all County operations were located at the new facility.

## 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 $62,363,501 at the close of 2008. The largest portion of Pine County's net assets (93.2 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 2008 | | Governmental Activities 2007 | |
|---|---|---|---|---|
| Assets | | | | |
| Current and other assets | $ | 11,550,069 | $ | 18,780,461 |
| Capital assets | | 90,611,305 | | 93,482,168 |
| Total Assets | $ | 102,161,374 | $ | 112,262,629 |
| Liabilities | | | | |
| Long-term liabilities | $ | 33,974,845 | $ | 33,711,605 |
| Other liabilities | | 5,823,028 | | 7,185,308 |
| Total Liabilities | $ | 39,797,873 | $ | 40,896,913 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | $ | 58,122,059 | $ | 60,834,954 |
| Restricted | | 3,574,276 | | 6,032,652 |
| Unrestricted | | 667,166 | | 4,498,110 |
| Total Net Assets | $ | 62,363,501 | $ | 71,365,716 |

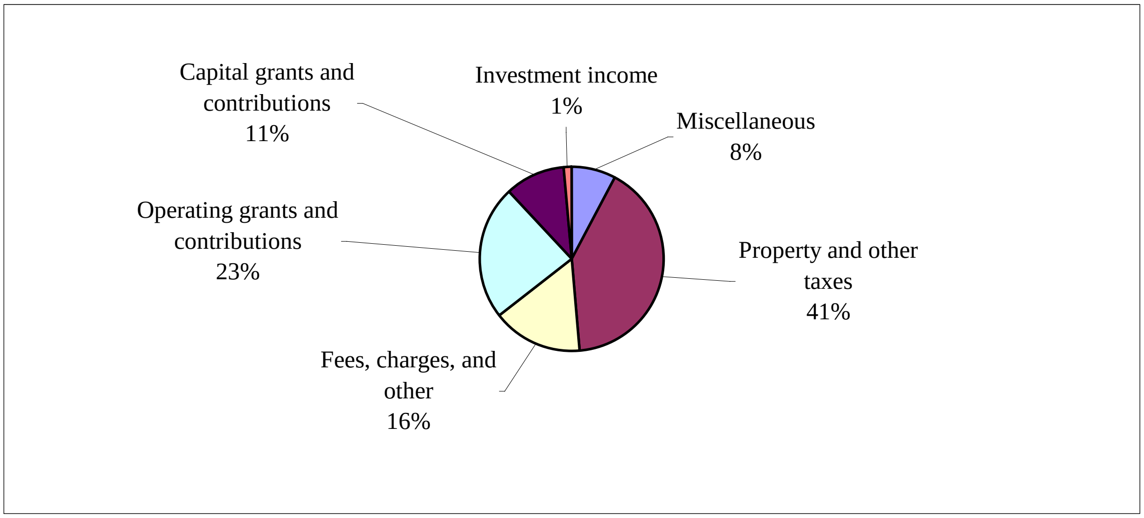
The unrestricted net assets amount of $667,166 as of December 31, 2008, may be used to meet the County’s ongoing obligations to citizens and creditors.

**Changes in Net Assets**

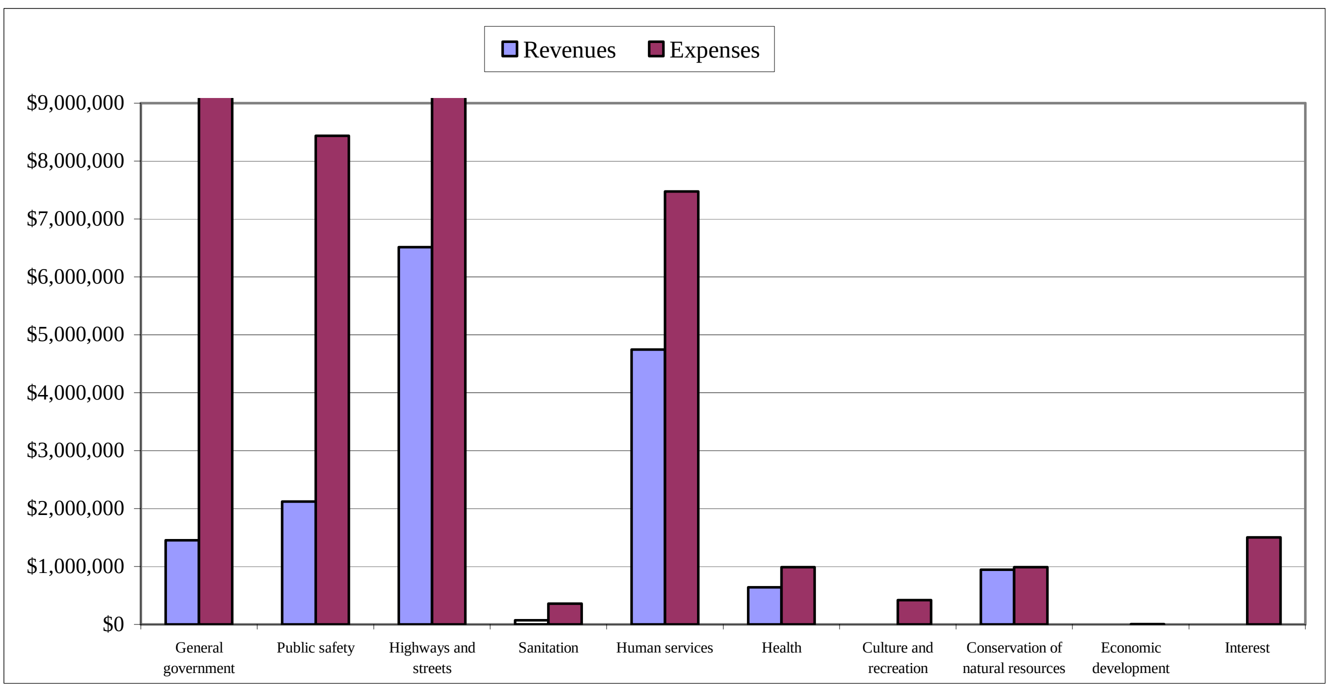
| | Governmental Activities 2008 | | Governmental Activities 2007 | |
|---|---|---|---|---|
| Revenues | | | | |
| Program revenues | | | | |
| Charges for services | $ | 5,281,227 | $ | 3,956,664 |
| Operating grants and contributions | | 7,711,574 | | 8,484,136 |
| Capital grants and contributions | | 3,498,018 | | 3,363,673 |
| General revenues | | | | |
| Property taxes | | 12,920,719 | | 12,274,561 |
| Other | | 3,561,173 | | 4,746,283 |
| Total Revenues | $ | 32,972,711 | $ | 32,825,317 |
| Expenses | | | | |
| General government | $ | 10,676,679 | $ | 4,104,048 |
| Public safety | | 8,433,978 | | 7,227,785 |
| Highways and streets | | 11,124,070 | | 7,046,113 |
| Sanitation | | 356,882 | | 196,627 |
| Human services | | 7,472,651 | | 7,223,661 |
| Health | | 991,193 | | 974,407 |
| Culture and recreation | | 422,227 | | 412,264 |
| Conservation of natural resources | | 990,042 | | 777,878 |
| Economic development | | 3,118 | | 12,965 |
| Interest | | 1,504,086 | | 1,529,666 |
| Total Expenses | $ | 41,974,926 | $ | 29,505,414 |

| | Governmental Activities 2008 | Governmental Activities 2007 |
|---|---|---|
| Increase (Decrease) in Net Assets | $ (9,002,215) | $ 3,319,903 |
| Net Assets - January 1 | 71,365,716 | 68,045,813 |
| Net Assets - December 31 | $ 62,363,501 | $ 71,365,716 |

**Revenues by Source - 2008**




**Expenses and Program Revenues - 2008**



## 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 $3,170,820, a decrease of $6,274,284 in comparison with the prior year. The decrease results mainly from expenditures exceeding revenues in the General Fund to meet current general government obligations, and in the Road and Bridge Special Revenue Fund to complete highway construction projects in progress. Of the ending fund balance, ($727,599) is unreserved and undesignated. 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 ($727,599). 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 (3.3) percent of total General Fund expenditures. In 2008, ending unreserved/undesignated fund balance in the General Fund decreased by $2,037,293, primarily due to expenditures exceeding revenues in order to meet current obligations.

The Road and Bridge Special Revenue Fund's unreserved/undesignated fund balance of ($3,025,314) at year-end represents (22.4) percent of the fund's annual expenditures. Unreserved/undesignated fund balance decreased $3,257,683 during 2008, 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 $2,776,398 at year-end represents 33.02 percent of the fund's annual expenditures. Unreserved/undesignated fund balance increased $299,286 during 2008, primarily due to increased revenues.

## General Fund Budgetary Highlights

- The Budgetary Comparison Schedule (Schedule 1) shows an increase of $399,321 between the original and final expenditure budgets that results from inclusion of grants received throughout the year.

- Budgeted revenues exceeded actual revenues by $174,098.

- Actual expenditures exceeded budgeted expenditures by $1,054,371.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Pine County's capital assets for its governmental activities at December 31, 2008, totaled $90,611,305 (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)**

| | 2008 | 2007 |
|---|---|---|
| Land | $ 4,184,660 | $ 4,216,398 |
| Construction in progress | - | 29,213,440 |
| Infrastructure | 59,133,168 | 56,257,137 |
| Buildings | 24,918,655 | 2,180,681 |
| Machinery and equipment | 2,374,822 | 1,614,512 |
| Total | $ 90,611,305 | $ 93,482,168 |

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 $33,260,750, which was backed by the full faith and credit of the government.

**Outstanding Debt**

| | 2008 | 2007 |
|---|---|---|
| PFA Loans | $ 713,000 | $ 791,000 |
| General Obligation Jail Bonds | 16,935,000 | 16,935,000 |
| Facility Lease Revenue Bonds | 13,285,000 | 13,285,000 |
| General Obligation Capital Notes | 1,530,000 | 2,260,000 |
| Special Assessments | 797,750 | 870,273 |
| Total | $ 33,260,750 | $ 34,141,273 |

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

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2008, Pine County's debt was 1.13 percent of its total market value.

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

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- By the end of 2008, Pine County approved its balanced 2009 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, 2008**

| | | |
|---|---|---|
| **Assets** | | |
| Cash and pooled investments | $ | 6,879,690 |
| Petty cash and change funds | | 3,610 |
| Cash with escrow agent | | 501,775 |
| Investments | | 101,676 |
| Taxes receivable | | |
| Prior - net | | 995,348 |
| Accounts receivable - net | | 734,719 |
| Accrued interest receivable | | 87,917 |
| Loan receivable | | 34,850 |
| Due from other governments | | 1,667,410 |
| Inventories | | 365,868 |
| Prepaid items | | 60,358 |
| Deferred debt issuance costs | | 116,848 |
| Capital assets | | |
| Non-depreciable | | 4,184,660 |
| Depreciable - net of accumulated depreciation | | 86,426,645 |
| **Total Assets** | **$** | **102,161,374** |
| **Liabilities** | | |
| Accounts payable | $ | 601,288 |
| Cash overdraft | | 49,177 |
| Salaries payable | | 474,483 |
| Workers' compensation payable | | 17,294 |
| Contracts payable | | 596,965 |
| Due to other governments | | 804,495 |
| Accrued interest payable | | 593,601 |
| Customer deposits | | 5,953 |
| Advance from other governments | | 2,679,772 |
| Long-term liabilities | | |
| Due within one year | | 907,523 |
| Due in more than one year | | 33,067,322 |
| **Total Liabilities** | **$** | **39,797,873** |
| **Net Assets** | | |
| Invested in capital assets - net of related debt | $ | 58,122,059 |
| Restricted for | | |
| General government | | 446,450 |
| Public safety | | 12,778 |
| Conservation of natural resources | | 752,740 |
| Highways and streets | | 494,093 |
| Sanitation | | 10,000 |
| Debt service | | 1,666,976 |
| Other purposes | | 190,299 |
| Unrestricted | | 667,166 |
| **Total Net Assets** | **$** | **62,363,501** |

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, 2008

| | | 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 | $ 10,676,679 | $ 1,219,269 | $ 236,009 | $ - | $ (9,221,401) |
| Public safety | 8,433,978 | 1,334,518 | 788,121 | - | (6,311,339) |
| Highways and streets | 11,124,070 | 807,562 | 2,208,679 | 3,498,018 | (4,609,811) |
| Sanitation | 356,882 | 200 | 69,423 | - | (287,259) |
| Human services | 7,472,651 | 762,601 | 3,982,788 | - | (2,727,262) |
| Health | 991,193 | 214,282 | 426,554 | - | (350,357) |
| Culture and recreation | 422,227 | - | - | - | (422,227) |
| Conservation of natural resources | 990,042 | 942,795 | - | - | (47,247) |
| Economic development | 3,118 | - | - | - | (3,118) |
| Interest | 1,504,086 | - | - | - | (1,504,086) |
| **Total Governmental Activities** | **$ 41,974,926** | **$ 5,281,227** | **$ 7,711,574** | **$ 3,498,018** | **$ (25,484,107)** |

| | |
|---|---|
| **General Revenues** | |
| Property taxes | $ 12,920,719 |
| Mortgage registry and deed tax | 19,964 |
| Payments in lieu of tax | 498,469 |
| Grants and contributions not restricted to specific programs | 2,490,823 |
| Unrestricted investment earnings | 485,341 |
| Miscellaneous | 66,576 |
| **Total general revenues** | **$ 16,481,892** |
| **Change in net assets** | **$ (9,002,215)** |
| **Net Assets - Beginning** | **71,365,716** |
| **Net Assets - Ending** | **$ 62,363,501** |

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

# FUND FINANCIAL STATEMENTS

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# GOVERNMENTAL FUNDS

# PINE COUNTY
# PINE CITY, MINNESOTA

## BALANCE SHEET
## GOVERNMENTAL FUNDS
## DECEMBER 31, 2008

| | General | | Road and Bridge | |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and pooled investments | $ | - | $ | 542,466 |
| Undistributed cash in agency funds (taxes and other) | | 254,465 | | 84,548 |
| Petty cash and change funds | | 3,410 | | 150 |
| Cash with escrow agent | | - | | - |
| Investments | | - | | - |
| Taxes receivable | | | | |
| Prior | | 436,269 | | 173,560 |
| Accounts receivable | | 22,929 | | - |
| Accrued interest receivable | | 87,831 | | - |
| Loans receivable | | - | | - |
| Due from other funds | | 286,697 | | 14,452 |
| Due from other governments | | 658,887 | | 439,725 |
| Prepaid expense | | 13,000 | | - |
| Inventories | | - | | 365,868 |
| **Total Assets** | **$** | **1,763,488** | **$** | **1,620,769** |
| **Liabilities and Fund Balances** | | | | |
| **Liabilities** | | | | |
| Accounts payable | $ | 265,163 | $ | 77,550 |
| Cash overdraft | | 39,185 | | - |
| Salaries payable | | 306,836 | | 61,297 |
| Workers' compensation payable | | - | | 16,377 |
| Contracts payable | | - | | 596,965 |
| Due to other funds | | 9,658 | | 2,578 |
| Due to other governments | | 143,919 | | 152,273 |
| Deferred revenue - unavailable | | 878,379 | | 591,000 |
| Customer deposits | | 5,953 | | - |
| Advance from other governments | | - | | 2,679,772 |
| **Total Liabilities** | **$** | **1,649,093** | **$** | **4,177,812** |

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

| Health and Human Services | | Land Management | | Nonmajor Funds | | Total | |
|---|---|---|---|---|---|---|---|
| $ | 2,568,343 | $ | 1,816,695 | $ | 1,426,737 | $ | 6,354,241 |
| | 109,641 | | - | | 76,795 | | 525,449 |
| | - | | 50 | | - | | 3,610 |
| | - | | - | | 501,775 | | 501,775 |
| | - | | - | | 101,676 | | 101,676 |
| | 232,842 | | - | | 152,677 | | 995,348 |
| | 94,520 | | 452,862 | | 164,408 | | 734,719 |
| | - | | - | | 86 | | 87,917 |
| | 34,850 | | - | | - | | 34,850 |
| | - | | - | | 2,046 | | 303,195 |
| | 568,798 | | - | | - | | 1,667,410 |
| | 47,358 | | - | | - | | 60,358 |
| | - | | - | | - | | 365,868 |
| **$** | **3,656,352** | **$** | **2,269,607** | **$** | **2,426,200** | **$** | **11,736,416** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| $ | 257,990 | $ | 585 | $ | - | $ | 601,288 |
| | - | | - | | 9,992 | | 49,177 |
| | 102,322 | | 4,028 | | - | | 474,483 |
| | - | | 917 | | - | | 17,294 |
| | - | | - | | - | | 596,965 |
| | 35,483 | | 253,430 | | 2,046 | | 303,195 |
| | 197,689 | | 379,896 | | - | | 873,777 |
| | 204,262 | | 452,862 | | 297,189 | | 2,423,692 |
| | - | | - | | - | | 5,953 |
| | - | | - | | - | | 2,679,772 |
| **$** | **797,746** | **$** | **1,091,718** | **$** | **309,227** | **$** | **8,025,596** |

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

**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**DECEMBER 31, 2008**

| | General | Road and Bridge |
|---|---|---|
| **Liabilities and Fund Balances (Continued)** | | |
| **Fund Balances** | | |
| Reserved for | | |
| Cash funds | $ - | $ - |
| Prepaid items | 13,000 | - |
| Missing heirs | 73,705 | - |
| Law library | 12,305 | - |
| Recorder's equipment purchases | 87,087 | - |
| Recorder's compliance | 198,464 | - |
| Election equipment | 90,949 | - |
| Plat escrow | 24,940 | - |
| Sewage treatment loans | 10,000 | - |
| Drug forfeitures | 12,778 | - |
| Attorney forfeitures | 69,850 | - |
| Inventories | - | 365,868 |
| Loans receivable | - | - |
| Debt service | - | - |
| Timber development | - | - |
| Road access | - | - |
| Highway projects | - | 102,403 |
| Unreserved | | |
| Designated for forestry | - | - |
| Undesignated | (478,683) | (3,025,314) |
| Unreserved, reported in nonmajor | | |
| Special revenue funds | - | - |
| Debt service | - | - |
| Capital projects | - | - |
| **Total Fund Balances** | **$ 114,395** | **$ (2,557,043)** |
| **Total Liabilities and Fund Balances** | **$ 1,763,488** | **$ 1,620,769** |

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

***EXHIBIT 3***
***(Continued)***

| Health and Human Services | Land Management | Nonmajor Funds | Total |
|---|---|---|---|
| $ - | $ 50 | $ - | $ 50 |
| 47,358 | - | - | 60,358 |
| - | - | - | 73,705 |
| - | - | - | 12,305 |
| - | - | - | 87,087 |
| - | - | - | 198,464 |
| - | - | - | 90,949 |
| - | - | - | 24,940 |
| - | - | - | 10,000 |
| - | - | - | 12,778 |
| - | - | - | 69,850 |
| - | - | - | 365,868 |
| 34,850 | - | - | 34,850 |
| - | - | 500,000 | 500,000 |
| - | 768,348 | - | 768,348 |
| - | 43,410 | - | 43,410 |
| - | - | - | 102,403 |
| | | | |
| - | 366,081 | - | 366,081 |
| 2,776,398 | - | - | (727,599) |
| | | | |
| - | - | 121,668 | 121,668 |
| - | - | 1,494,365 | 1,494,365 |
| - | - | 940 | 940 |
| **$ 2,858,606** | **$ 1,177,889** | **$ 2,116,973** | **$ 3,710,820** |
| **$ 3,656,352** | **$ 2,269,607** | **$ 2,426,200** | **$ 11,736,416** |

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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, 2008

| | | | | |
|---|---|---|---|---|
| **Fund balances - total governmental funds (Exhibit 3)** | | | **$** | **3,710,820** |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | | | 90,611,305 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. Forfeited tax sale receivables included in deferred revenue will be paid to other governments when collected. That portion of deferred revenue is reported in the statement of net assets as due to other governments. | | | | |
| Deferred revenue - unavailable | $ | 2,423,692 | | |
| Due to other governments | | 69,282 | | 2,492,974 |
| 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 | $ | (1,530,000) | | |
| Facility lease revenue bonds | | (13,285,000) | | |
| General obligation bonds | | (16,935,000) | | |
| Unamortized bond issuance costs | | 236,276 | | |
| Loans payable | | (713,000) | | |
| Net OPEB liability | | (118,354) | | |
| Compensated absences | | (832,017) | | |
| Special assessments payable | | (797,750) | | |
| Accrued interest payable | | (593,601) | | |
| Deferred debt issuance charges | | 116,848 | | (34,451,598) |
| **Net Assets of Governmental Activities (Exhibit 1)** | | | **$** | **62,363,501** |

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, 2008

| | General | Road and Bridge |
|---|---|---|
| **Revenues** | | |
| Taxes | $ 5,714,289 | $ 2,251,494 |
| Licenses and permits | 70,350 | - |
| Intergovernmental | 3,140,272 | 6,744,373 |
| Charges for services | 1,833,776 | 208,489 |
| Fines and forfeits | 87,761 | - |
| Gifts and contributions | 103,681 | - |
| Earnings on investments | 477,385 | - |
| Miscellaneous | 263,079 | 613,879 |
| **Total Revenues** | **$ 11,690,593** | **$ 9,818,235** |
| **Expenditures** | | |
| **Current** | | |
| General government | $ 4,671,219 | $ - |
| Public safety | 8,197,905 | - |
| Highways and streets | - | 13,430,437 |
| Sanitation | 355,096 | - |
| Human services | - | - |
| Health | - | - |
| Culture and recreation | 422,227 | - |
| Conservation of natural resources | 392,256 | - |
| Economic development | - | - |
| **Capital outlay** | | |
| General government | - | - |
| **Debt service** | | |
| Principal | 72,523 | 78,000 |
| Interest | 47,865 | 23,730 |
| Administrative charges | - | - |
| **Total Expenditures** | **$ 14,159,091** | **$ 13,532,167** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (2,468,498)** | **$ (3,713,932)** |
| **Other Financing Sources (Uses)** | | |
| Transfers in | $ 342,245 | $ 146,222 |
| Transfers out | (146,222) | - |
| Proceeds from sale of capital assets | - | 73,002 |
| **Total Other Financing Sources (Uses)** | **$ 196,023** | **$ 219,224** |
| **Net Change in Fund Balance** | **$ (2,272,475)** | **$ (3,494,708)** |
| **Fund Balance - January 1** | **2,386,870** | **1,103,034** |
| **Increase (decrease) in reserved for inventories** | **-** | **(165,369)** |
| **Fund Balance - December 31** | **$ 114,395** | **$ (2,557,043)** |

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

# *EXHIBIT 5*

| Health and Human Services | Land Management | Nonmajor Funds | Total |
|---|---|---|---|
| $ 2,894,022 | $ - | $ 2,012,172 | $ 12,871,977 |
| - | - | - | 70,350 |
| 4,713,807 | 36,108 | 207,426 | 14,841,986 |
| 137,237 | - | 27,480 | 2,206,982 |
| - | - | - | 87,761 |
| 3,354 | - | - | 107,035 |
| - | - | 7,956 | 485,341 |
| 839,646 | 1,001,813 | - | 2,718,417 |
| **$ 8,588,066** | **$ 1,037,921** | **$ 2,255,034** | **$ 33,389,849** |
| $ - | $ - | $ - | $ 4,671,219 |
| - | - | 4,889 | 8,202,794 |
| - | - | 19,731 | 13,450,168 |
| - | - | - | 355,096 |
| 7,424,530 | - | - | 7,424,530 |
| 981,712 | - | - | 981,712 |
| - | - | - | 422,227 |
| - | 588,783 | - | 981,039 |
| - | - | 2,348 | 2,348 |
| - | - | 710,903 | 710,903 |
| - | - | 730,000 | 880,523 |
| - | - | 1,413,587 | 1,485,182 |
| - | - | 4,025 | 4,025 |
| **$ 8,406,242** | **$ 588,783** | **$ 2,885,483** | **$ 39,571,766** |
| **$ 181,824** | **$ 449,138** | **$ (630,449)** | **$ (6,181,917)** |
| $ - | $ - | $ 710,903 | $ 1,199,370 |
| - | (283,097) | (770,051) | (1,199,370) |
| - | - | - | 73,002 |
| **$ -** | **$ (283,097)** | **$ (59,148)** | **$ 73,002** |
| **$ 181,824** | **$ 166,041** | **$ (689,597)** | **$ (6,108,915)** |
| **2,676,782** | **1,011,848** | **2,806,570** | **9,985,104** |
| - | - | - | **(165,369)** |
| **$ 2,858,606** | **$ 1,177,889** | **$ 2,116,973** | **$ 3,710,820** |

## 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, 2008

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds (Exhibit 5)** | | **$ (6,108,915)** |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| In the funds, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable. Pine County has receivables for forfeited tax sales included in deferred revenue. When collected, they will be paid to other governments. | | |
| December 31 - deferred revenue | $ 2,423,692 | |
| Less: forfeited tax sales receivable due to other governments | 69,282 | |
| January 1 - deferred revenue | (3,004,472) | |
| Less: forfeited tax sales receivable due to other governments | 38,322 | (473,176) |
| 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 | $ 5,470,681 | |
| Net book value of assets expensed | (5,426,666) | |
| Current year depreciation | (2,914,878) | (2,870,863) |
| 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 | $ 730,000 | |
| Loans payable | 78,000 | |
| Special assessments payable | 72,523 | 880,523 |
| Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds. | | |
| Change in accrued interest payable | $ 8,203 | |
| Amortization of discounts and deferred issuance costs | (13,703) | |
| Amortization of debt issuance costs | (9,379) | |
| Change in inventories | (165,369) | |
| Change in compensated absences | (131,182) | |
| Change in other postemployment benefits | (118,354) | (429,784) |
| **Change in Net Assets of Governmental Activities (Exhibit 2)** | | **$ (9,002,215)** |

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, 2008**

| | | |
|---|---|---|
| **Assets** | | |
| Cash and pooled investments | $ | 792,834 |
| Accounts receivable | | 191 |
| **Total Assets** | **$** | **793,025** |
| **Liabilities** | | |
| Accounts payable | $ | 186,473 |
| Due to other governments | | 606,552 |
| **Total Liabilities** | **$** | **793,025** |

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, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Pine County was established March 1, 1856, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Pine County. Pine County has no component units. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

The County participates in several joint ventures described in Note 8.C. The County also participates in jointly-governed organizations described in Note 8.D. A related organization is described in Note 8.E.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

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

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

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.

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, 2008, 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 2008 were $477,385.

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."

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

All receivables are shown net of any allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

4. Capital Assets

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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 financial statements.

6. Deferred Revenue

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

7. Long-Term Obligations

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

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

8. Fund Equity

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

9. Use of Estimates

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

E. Net Assets Restricted by Enabling Legislation

The government-wide statement of net assets reports $3,574,276 of restricted net assets, of which $1,341,913 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 | $ | 6,879,690 |
| Petty cash and change funds | | 3,610 |
| Cash with escrow agent | | 501,775 |
| Investments | | 101,676 |
| Cash overdraft | | (49,177) |
| Statement of fiduciary net assets | | |
| Cash and pooled investments | | 792,834 |
| Total Cash and Investments | $ | 8,230,408 |

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and invest in certificates of deposit. All County deposits are required by Minn. Stat. § 118A.03 to 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 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 and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has a deposit policy for custodial credit risk and follows Minnesota statutes regarding pledged collateral. As of December 31, 2008, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

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

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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.

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's policy states investment custodial credit risk will be eliminated by permitting brokers that obtained investments for Pine County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to Pine County's custodian. As of December 31, 2008, the County's investments were not exposed to custodial credit risk.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2008, and information relating to potential investment risks:

| | Credit Risk | | Concentration Risk | Interest Rate Risk | |
|---|---|---|---|---|---|
| Investment Type | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | Carrying (Fair) Value |
| U.S. government agency securities | | | | | |
| Federal National Mortgage Association Note | Aaa | Moody's | | 01/20/2009 | $ 85 |
| Federal National Mortgage Association Note | Aaa | Moody's | | 12/01/2010 | 4,055 |
| Federal National Mortgage Association Note | Aaa | Moody's | | 12/12/2017 | 350,328 |
| Federal National Mortgage Association Note | Aaa | Moody's | | 01/29/2018 | 751,935 |
| Total Federal National Mortgage Association Notes | | | <5% | | $ 1,106,403 |
| Federal Home Loan Bank Note | Aaa | Moody's | <5% | 02/21/2018 | $ 400,516 |
| Federal Home Loan Mortgage Corporation Note | Aaa | Moody's | | 03/26/2018 | $ 250,875 |
| Federal Home Loan Mortgage Corporation Note | Aaa | Moody's | | 02/12/2016 | 400,532 |
| Federal Home Loan Mortgage Corporation Note | Aaa | Moody's | | 03/15/2018 | 649,201 |
| Federal Home Loan Mortgage Corporation Note | Aaa | Moody's | | 03/16/2018 | 250,275 |
| Federal Home Loan Mortgage Corporation Note | Aaa | Moody's | | 05/21/2018 | 300,639 |
| Federal Home Loan Mortgage Corporation Note | Aaa | Moody's | | 12/18/2017 | 301,014 |
| Total Federal Home Loan Mortgage Corporation Notes | | | <5% | | $ 2,152,536 |

## 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 |
|---|---|---|---|---|---|
| Investment pools/mutual funds | | | | | |
| MAGIC Fund | N/R | N/A | N/A | N/A | $ 1,314,617 |
| 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 | 1,141 |
| Total investment pools/mutual funds | | | | | $ 1,417,434 |
| Negotiable certificates of deposit | | | | | |
| American Chartered Bank | N/A | N/A | N/A | 03/07/2013 | $ 95,872 |
| Houston Bank | N/A | N/A | N/A | 03/07/2013 | 95,872 |
| East West Bank | N/A | N/A | N/A | 03/25/2009 | 96,000 |
| GMAC | N/A | N/A | N/A | 03/12/2010 | 96,934 |
| LaSalle Bank | N/A | N/A | N/A | 02/09/2011 | 93,161 |
| Las Vegas Bank | N/A | N/A | N/A | 03/07/2013 | 95,872 |
| Southwest St. Louis Bank | N/A | N/A | N/A | 04/11/2018 | 96,833 |
| Sterling Savings | N/A | N/A | N/A | 03/03/2010 | 96,945 |
| Capital One Bank | N/A | N/A | N/A | 03/03/2010 | 96,945 |
| Huntington National Bank | N/A | N/A | N/A | 09/03/2009 | 100,640 |
| United Community Banks, Inc. | N/A | N/A | N/A | 09/30/2010 | 96,686 |
| Columbia River Bank | N/A | N/A | N/A | 09/12/2013 | 100,333 |
| Total negotiable certificates of deposit | | | | | $ 1,162,093 |
| Total investments | | | | | $ 6,238,982 |
| Deposits | | | | | 1,486,041 |
| Petty cash | | | | | 3,610 |
| Cash with escrow agent | | | | | 501,775 |
| Total Cash and Investments | | | | | $ 8,230,408 |

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

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2008, 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 | $ 995,348 | $ - |
| Accounts | 734,719 | - |
| Interest | 87,917 | - |
| Due from other governments | 1,667,410 | - |
| Loans | 34,850 | 34,850 |
| Total Governmental Activities | $ 3,520,244 | $ 34,850 |

3. Lease Receivable

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

4. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

| | Beginning Balance | Increase | Decrease | Reclassification | Ending Balance |
|---|---|---|---|---|---|
| Capital assets not depreciated | | | | | |
| Land | $ 4,216,398 | $ 9,007 | $ 40,745 | $ - | $ 4,184,660 |
| Construction in progress | 29,213,440 | 881,828 | 5,610,511* | (24,484,757) | - |
| Total capital assets not depreciated | $ 33,429,838 | $ 890,835 | $ 5,651,256 | $ (24,484,757) | $ 4,184,660 |

2. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

| | Beginning Balance | Increase | Decrease | Reclassification | Ending Balance |
|---|---|---|---|---|---|
| Capital assets depreciated | | | | | |
| Buildings | $ 4,730,840 | $ - | $ 52,208 | $ 23,539,224 | $ 28,217,856 |
| Machinery and equipment | 6,056,186 | 729,617 | 537,135 | 945,533 | 7,194,201 |
| Infrastructure | 72,574,293 | 3,850,229 | - | - | 76,424,522 |
| Total capital assets depreciated | $ 83,361,319 | $ 4,579,846 | $ 589,343 | $ 24,484,757 | $ 111,836,579 |
| Less: accumulated depreciation for | | | | | |
| Buildings | $ 2,550,159 | $ 698,815 | $ (50,227) | $ - | $ 3,299,201 |
| Machinery and equipment | 4,441,674 | 738,988 | 361,283 | - | 4,819,379 |
| Infrastructure | 16,317,156 | 1,477,075 | 502,877 | - | 17,291,354 |
| Total accumulated depreciation | $ 23,308,989 | $ 2,914,878 | $ 813,933 | $ - | $ 25,409,934 |
| Total capital assets depreciated, net | $ 60,052,330 | $ 1,664,968 | $ (224,590) | $ 24,484,757 | $ 86,426,645 |
| Capital Assets, Net | $ 93,482,168 | $ 2,555,803 | $ 5,426,666 | $ - | $ 90,611,305 |

*Represents asset values below the $5,000 capitalization threshold that were carried in work in progress during the construction period and expensed at project end.

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

| | |
|---|---|
| Governmental Activities | |
| General government | $ 750,655 |
| Public safety | 194,003 |
| Highways and streets, including depreciation of infrastructure assets | 1,947,074 |
| Human services | 16,904 |
| Conservation of natural resources | 6,242 |
| Total Depreciation Expense - Governmental Activities | $ 2,914,878 |

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

1. Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount | Purpose |
|---|---|---|---|
| General | Health and Human Services | $ 30,855 | Reimbursement |
| | Road and Bridge | 2,578 | Reimbursement - phone |
| | Land Management | 253,264 | Forfeited tax distribution |
| Total due to General Fund | | $ 286,697 | |
| Road and Bridge | General | $ 9,658 | Accounts receivable |
| | Health and Human Services | 4,628 | Utilities reimbursement |
| | Land Management | 166 | Reimburse supplies/services |
| Total due to Road and Bridge Special Revenue Fund | | $ 14,452 | |
| Transfers to other governmental funds from G.O. Jail Bond Debt Service Fund | | $ 2,046 | Eliminate cash deficit |
| Total Due To/From Other Funds | | $ 303,195 | |

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

| | | |
|---|---|---|
| Transfers to General Fund from | | |
| Land Management Special Revenue Fund | $ 30,000 | Reimburse audit fees |
| Land Management Special Revenue Fund | 253,097 | Forfeited tax apportionment |
| East Central Solid Waste Commission (nonmajor) Debt Service Fund | 59,148 | Transfer of excess funds |
| Total transfers to General Fund | $ 342,245 | |
| Transfers to Road and Bridge Special Revenue Fund from | | |
| General Fund | $ 146,222 | Interest earnings |
| Transfers to G.O. Jail Bonds Capital Projects Fund from | | |
| G.O. Jail Bonds Debt Service Fund | $ 2,046 | Eliminate cash deficit |
| HRA Project Bonds Debt Service Fund | 635,694 | HRA bond proceeds transfer |
| HRA Project Bonds Capital Projects Fund | 73,163 | HRA bond proceeds transfer |
| Total transfers to G.O. Jail Bonds Capital Projects Fund | $ 710,903 | |
| Total Interfund Transfers | $ 1,199,370 | |

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2008. The projects include the following:

| | Spent-to-Date | Remaining Commitment |
|---|---|---|
| Governmental Activities | | |
| Roads and bridges | $ 10,266,055 | $ 473,311 |

2. Long-Term Debt

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2008 |
|---|---|---|---|---|---|
| General obligation capital notes | | | | | |
| 2004 G.O. Capital Notes | 2010 | $695,000 - $775,000 | 1.75 - 3.00 | $ 3,665,000 | $ 1,530,000 |
| General obligation jail bonds | | | | | |
| 2005 G.O. Jail Bonds | 2031 | $500,000 - $1,685,000 | 4.00 | $ 16,935,000 | $ 16,935,000 |
| General obligation Public Facilities Authority loan | | | | | |
| 2001 G.O. PFA Loan | 2016 | $77,405 - $108,439 | 3.00 | $ 1,434,459* | $ 713,000 |
| 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 | | | | | $ 797,750 |

*Amount drawn down

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

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

| 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 |
|---|---|---|---|---|---|---|
| 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 | - | - | 540,000 | 680,161 | 90,000 | 11,340 |
| 2014 - 2018 | - | - | 3,035,000 | 3,052,069 | 288,000 | 17,460 |
| 2019 - 2023 | - | - | 3,745,000 | 2,332,041 | - | - |
| 2024 - 2028 | - | - | 4,695,000 | 1,412,648 | - | - |
| 2029 - 2031 | - | - | 3,900,000 | 290,475 | - | - |
| Total | $ 1,530,000 | $ 45,068 | $ 16,935,000 | $ 10,654,038 | $ 713,000 | $ 99,690 |

| Year Ending December 31 | 2005A Public Project Revenue Bonds Principal | 2005A Public Project Revenue Bonds Interest | Special Assessments Principal | Special Assessments Interest | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 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 | 400,000 | 590,981 | 72,523 | 27,921 | 1,102,523 | 1,310,403 |
| 2014 - 2018 | 2,325,000 | 2,667,394 | 362,614 | 79,775 | 6,010,614 | 5,816,698 |
| 2019 - 2023 | 3,000,000 | 2,066,097 | 72,521 | 3,698 | 6,817,521 | 4,401,836 |
| 2024 - 2028 | 3,915,000 | 1,233,125 | - | - | 8,610,000 | 2,645,773 |
| 2029 - 2031 | 2,890,000 | 220,751 | - | - | 6,790,000 | 511,226 |
| Total | $ 13,285,000 | $ 9,266,172 | $ 797,750 | $ 262,967 | $ 33,260,750 | $ 20,327,935 |

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | | | | | |
| 2004 G.O. Capital Notes | $ 2,260,000 | $ - | $ 730,000 | $ 1,530,000 | $ 755,000 |
| 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 | (249,980) | - | (13,704) | (236,276) | - |
| 2001 G.O. PFA Loan | 791,000 | - | 78,000 | 713,000 | 80,000 |
| Special assessments | 870,273 | - | 72,523 | 797,750 | 72,523 |
| Net other postemployment benefits | - | 118,354 | - | 118,354 | - |
| Compensated absences | 700,835 | 928,928 | 797,746 | 832,017 | - |
| Total Long-Term Liabilities | $ 34,592,128 | $ 1,047,282 | $ 1,664,565 | $ 33,974,845 | $ 907,523 |

2. Detailed Notes on All Funds

   C. Liabilities

      4. Changes in Long-Term Liabilities (Continued)

During 2005, Pine County issued $16,935,000 in General Obligation Jail Bonds, and the Pine County Housing and Redevelopment Authority (HRA) issued an additional $13,285,000 in 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.

      5. 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 2008:

| Type of Property | Amount |
|---|---|
| Rental of office space and parking | $ 2,450 |
| Copiers and office equipment | 35,702 |
| Radio tower and equipment | 250 |
| Total Rental Expense | $ 38,402 |

Future minimum payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2008:

| Year Ended | Amount |
|---|---|
| 2009 | $ 24,657 |
| 2010 | 23,338 |
| 2011 | 20,218 |
| 2012 | 7,835 |
| Total Future Minimum Lease Payments | $ 76,048 |

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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the 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. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. The County makes annual contributions to the pension plans equal to the amount required by state statutes.

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

2. Funding Policy (Continued)

Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. The rate increased to 9.4 percent in 2009. 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 2008 and 2009:

| | 2008 | 2009 |
|---|---|---|
| Public Employees Retirement Fund | | |
| Basic Plan members | 11.78% | 11.78% |
| Coordinated Plan members | 6.50 | 6.75 |
| Public Employees Police and Fire Fund | 12.90 | 14.10 |
| Public Employees Correctional Fund | 8.75 | 8.75 |

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Public Employees Retirement Fund | $ 452,071 | $ 403,292 | $ 376,617 |
| Public Employees Police and Fire Fund | 224,091 | 190,211 | 162,872 |
| Public Employees Correctional Fund | 150,682 | 138,547 | 109,090 |

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

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 established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2008, were:

| | Employee | Employer |
|---|---|---|
| Contribution amount | $ 6,583 | $ 6,583 |
| Percentage of covered payroll | 5.0% | 5.0% |

Required contribution rates were 5.00 percent.

4. Postemployment Benefits

In 2008, Pine County implemented the requirements of a new accounting statement, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

A. Plan Description and Funding Policy

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

4. Postemployment Benefits

   A. Plan Description and Funding Policy (Continued)

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

The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees who retire from the County when eligible to receive a retirement benefit from PERA (or a similar plan), and do not participate in any other health benefits program providing coverage similar to that, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2008, approximately 50 retirees were receiving health benefits from the County's health plan.

   B. Annual OPEB Costs and Net OPEB Obligation

The County's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

| | | |
|---|---|---|
| ARC | $ | 99,418 |
| Adjustments to ARC | | 161,147 |
| Annual OPEB cost | $ | 260,565 |
| Contributions during the year | | (142,211) |
| Net OPEB Obligation - End of Year | $ | 118,354 |

4. Postemployment Benefits

B. Annual OPEB Costs and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the excess OPEB contributions or net OPEB obligation for 2008 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Employer Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| December 31, 2008 | $ 260,565 | $ 142,211 | 55.0 % | $ 118,354 |

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits as of January 1, 2008, is $2.72 million. The County currently has no assets that have been irrevocably deposited in a trust for future health benefits, thus the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is $9.71 million. The ratio of the unfunded actuarially accrued liabilities to covered payroll is 27.98 percent.

D. Actuarial Methods and Assumptions

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

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

4. Postemployment Benefits

D. Actuarial Methods and Assumptions (Continued)

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a four percent discount rate, which is based on the estimated long-term investment yield on the general assets of the County. The annual health care cost trend rate is ten percent initially, reduced incrementally to an ultimate rate of 5.00 percent after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period.

5. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan

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

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

5. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan (Continued)

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

B. Minnesota Service Cooperative VEBA Plan

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

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

Eligibility requirements include:

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

6. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $410,000 per claim in 2008 and $430,000 per claim in 2009. 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.

7. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

The Ditch Special Revenue Fund had a deficit fund balance of $7,946 as of December 31, 2008. This deficit will be eliminated by future special assessment levies against benefited properties.

7. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts (Continued)

The Road and Bridge Special Revenue Fund had a deficit balance of $2,557,043. This deficit will be eliminated through a reduction in future expenditures, receipt of Turnback funds due the County, and use of future highway construction allotment funds.

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, 2008.

| | Expenditures | Budget | Excess |
|---|---|---|---|
| Special Revenue Funds | | | |
| Countywide Rehabilitation Program | $ 2,348 | $ - | $ 2,348 |
| Ambulance | 140 | - | 140 |
| HRA Project Bonds Debt Service Fund | 632,556 | 631,431 | 1,125 |

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

8. 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.

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

B. Conduit Debt

Camp Heartland Project

In 2000, the County issued $1,175,000 of Industrial Development Revenue Notes to provide financial assistance to Camp Heartland Project, Inc., a nonprofit corporation, for refinancing the corporation's debt incurred for acquiring, constructing, and equipping facilities located in Willow River. The Corporation is primarily engaged in providing programs for children infected with or affected by HIV/AIDS. The notes are secured by the property financed and are payable solely from revenues of the Corporation. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the accompanying financial statements. As of December 31, 2008, the outstanding principal amount payable was $841,894.

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

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

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, 2009. 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 was not required to contribute toward debt service. During 2008, the County made no further contribution to the Commission, but continues to collect delinquent taxes.

Complete financial information can be obtained from:

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

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Snake River Watershed Management Board

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

The four-member Board consists of one County Commissioner from each of the participating counties. The Kanabec County Auditor is the fiscal agent for the Board. The Board is funded through an annual budget and participation in the administrative cost 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 2008. 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,

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

utility costs shared based on square footage, and repair/maintenance costs shared equally. The term of the agreement is for 20 years or until the state releases its interest in the facility and land. The agreement states that if the County withdraws early, it is not entitled to reimbursement for any contributions made toward construction. If ISD 2580 withdraws and the facility is sold, ISD 2580 must pay the County an amount equal to the County's initial investment, less proceeds of the sale to which the County is entitled. Once the state releases its interest, ownership reverts to the County.

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

Central Minnesota Emergency Medical Services Region

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

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

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.

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rush Line Corridor Joint Powers Agreement (Continued)

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 2008. During 2008, Pine County expended $8,594 on transportation feasibility studies and other administrative costs.

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 2008, Pine County expended $78,260 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 $1,525 by the County to the HRA Board members for per diem expenses.

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

F. Tax-Forfeited Land

The County manages approximately 48,334 acres of state-owned, tax-forfeited land with a taxable market value for 2008 of $50,638,700. 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.

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# 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, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Taxes | $ 6,794,016 | $ 6,794,016 | $ 5,714,289 | $ (1,079,727) |
| Licenses and permits | 53,000 | 53,000 | 70,350 | 17,350 |
| Intergovernmental | 2,390,088 | 2,452,366 | 3,140,272 | 687,906 |
| Charges for services | 1,727,091 | 1,727,091 | 1,833,776 | 106,685 |
| Fines and forfeits | 55,200 | 55,200 | 87,761 | 32,561 |
| Gifts and contributions | 92,000 | 92,000 | 103,681 | 11,681 |
| Investment earnings | 443,000 | 443,000 | 477,385 | 34,385 |
| Miscellaneous | 152,474 | 264,294 | 263,079 | (1,215) |
| **Total Revenues** | **$ 11,706,869** | **$ 11,880,967** | **$ 11,690,593** | **$ (190,374)** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **General government** | | | | |
| Commissioners | $ 207,129 | $ 208,911 | $ 204,510 | $ 4,401 |
| Courts | 35,000 | 35,000 | 30,228 | 4,772 |
| Law library | 20,000 | 20,000 | 17,660 | 2,340 |
| County auditor | 343,541 | 346,539 | 419,862 | (73,323) |
| County treasurer | 239,551 | 241,973 | 268,608 | (26,635) |
| County assessor | 583,520 | 587,535 | 398,675 | 188,860 |
| Elections | 40,100 | 40,100 | 47,218 | (7,118) |
| Data processing | 600,204 | 602,280 | 581,755 | 20,525 |
| Central services | 120,000 | 120,000 | 125,502 | (5,502) |
| Personnel | 434,864 | 439,728 | 402,281 | 37,447 |
| Attorney | 700,424 | 706,798 | 682,242 | 24,556 |
| Contracted legal services | 20,000 | 20,000 | 76,612 | (56,612) |
| Recorder | 337,373 | 340,728 | 472,854 | (132,126) |
| Planning and zoning | 154,755 | 156,957 | 156,193 | 764 |
| Buildings and plant | 571,013 | 572,282 | 662,001 | (89,719) |
| Veterans service officer | 54,637 | 55,235 | 56,897 | (1,662) |
| Other general government | 74,100 | 194,488 | 68,121 | 126,367 |
| **Total general government** | **$ 4,536,211** | **$ 4,688,554** | **$ 4,671,219** | **$ 17,335** |

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, 2008**

| | Budgeted Amounts | | | | Actual | | Variance with | |
|---|---|---|---|---|---|---|---|---|
| | Original | | Final | | Amounts | | Final Budget | |
| **Expenditures** | | | | | | | | |
| **Current (Continued)** | | | | | | | | |
| **Public safety** | | | | | | | | |
| Sheriff | $ | 3,568,841 | $ | 3,607,871 | $ | 4,118,041 | $ | (510,170) |
| Boat and water safety | | 6,200 | | 6,200 | | 28,133 | | (21,933) |
| Coroner | | 35,275 | | 35,275 | | 53,409 | | (18,134) |
| E-911 system | | 105,407 | | 106,151 | | 99,763 | | 6,388 |
| County jail | | 2,817,996 | | 2,842,127 | | 3,048,205 | | (206,078) |
| Sentence to serve | | 118,912 | | 120,139 | | 83,131 | | 37,008 |
| Probation and parole | | 589,692 | | 595,867 | | 610,033 | | (14,166) |
| Civil defense | | 50,173 | | 112,923 | | 129,712 | | (16,789) |
| Other public safety | | 32,695 | | 32,695 | | 27,478 | | 5,217 |
| **Total public safety** | **$** | **7,325,191** | **$** | **7,459,248** | **$** | **8,197,905** | **$** | **(738,657)** |
| **Sanitation** | | | | | | | | |
| Solid waste | $ | 66,798 | $ | 67,448 | $ | 251,029 | $ | (183,581) |
| Recycling | | 131,216 | | 131,216 | | 104,067 | | 27,149 |
| **Total sanitation** | **$** | **198,014** | **$** | **198,664** | **$** | **355,096** | **$** | **(156,432)** |
| **Culture and recreation** | | | | | | | | |
| Historical society | $ | 10,000 | $ | 10,000 | $ | 10,000 | $ | - |
| Trail assistance | | - | | 111,820 | | 111,820 | | - |
| Regional library | | 300,764 | | 300,764 | | 300,407 | | 357 |
| **Total culture and recreation** | **$** | **310,764** | **$** | **422,584** | **$** | **422,227** | **$** | **357** |
| **Conservation of natural resources** | | | | | | | | |
| County extension | $ | 128,113 | $ | 128,564 | $ | 123,593 | $ | 4,971 |
| Soil and water conservation | | 71,398 | | 71,398 | | 75,347 | | (3,949) |
| Agricultural inspections | | 125 | | 125 | | 75 | | 50 |
| Agricultural society/County fair | | 8,055 | | 8,055 | | 8,055 | | - |
| Water planning | | 38,279 | | 38,279 | | 56,520 | | (18,241) |
| Wetland challenge | | 78,896 | | 78,896 | | 118,344 | | (39,448) |
| Other | | 10,353 | | 10,353 | | 10,322 | | 31 |
| **Total conservation of natural resources** | **$** | **335,219** | **$** | **335,670** | **$** | **392,256** | **$** | **(56,586)** |

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

***Schedule 1***
***(Continued)***

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Expenditures (Continued)** | | | | |
| **Debt service** | | | | |
| Principal | $ - | $ - | $ 72,523 | $ (72,523) |
| Interest | - | - | 47,865 | (47,865) |
| **Total debt service** | **$ -** | **$ -** | **$ 120,388** | **$ (120,388)** |
| **Total Expenditures** | **$ 12,705,399** | **$ 13,104,720** | **$ 14,159,091** | **$ (1,054,371)** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (998,530)** | **$ (1,223,753)** | **$ (2,468,498)** | **$ (1,244,745)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | $ 608,000 | $ 608,000 | $ 342,245 | $ (265,755) |
| Transfers out | - | - | (146,222) | (146,222) |
| **Total Other Financing Sources (Uses)** | **$ 608,000** | **$ 608,000** | **$ 196,023** | **$ (411,977)** |
| **Net Change in Fund Balance** | **$ (390,530)** | **$ (615,753)** | **$ (2,272,475)** | **$ (1,656,722)** |
| **Fund Balance - January 1** | **2,386,870** | **2,386,870** | **2,386,870** | **-** |
| **Fund Balance - December 31** | **$ 1,996,340** | **$ 1,771,117** | **$ 114,395** | **$ (1,656,722)** |

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, 2008

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 2,504,984 | $ 2,504,984 | $ 2,251,494 | $ (253,490) |
| Intergovernmental | 6,232,953 | 6,232,953 | 6,744,373 | 511,420 |
| Charges for services | 210,000 | 210,000 | 208,489 | (1,511) |
| Investment earnings | 125,000 | 125,000 | - | (125,000) |
| Miscellaneous | 107,000 | 107,000 | 613,879 | 506,879 |
| **Total Revenues** | **$ 9,179,937** | **$ 9,179,937** | **$ 9,818,235** | **$ 638,298** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Highways and streets** | | | | |
| Administration | $ 327,763 | $ 334,000 | $ 663,669 | $ (329,669) |
| Maintenance | 1,535,186 | 1,561,442 | 1,826,127 | (264,685) |
| Construction | 6,024,733 | 6,036,469 | 9,067,127 | (3,030,658) |
| Equipment maintenance and shop | 1,656,066 | 1,661,837 | 1,873,514 | (211,677) |
| **Total highways and streets** | **$ 9,543,748** | **$ 9,593,748** | **$ 13,430,437** | **$ (3,836,689)** |
| **Debt service** | | | | |
| Principal | $ - | $ - | $ 78,000 | $ (78,000) |
| Interest | - | - | 23,730 | (23,730) |
| **Total debt service** | **$ -** | **$ -** | **$ 101,730** | **$ (101,730)** |
| **Total Expenditures** | **$ 9,543,748** | **$ 9,593,748** | **$ 13,532,167** | **$ (3,938,419)** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (363,811)** | **$ (413,811)** | **$ (3,713,932)** | **$ (3,300,121)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | $ - | $ - | $ 146,222 | $ 146,222 |
| Proceeds from sale of assets | - | - | 73,002 | 73,002 |
| **Total Other Financing Sources (Uses)** | **$ -** | **$ -** | **$ 219,224** | **$ 219,224** |
| **Net Change in Fund Balance** | **$ (363,811)** | **$ (413,811)** | **$ (3,494,708)** | **$ (3,080,897)** |
| **Fund Balance - January 1** | **1,103,034** | **1,103,034** | **1,103,034** | **-** |
| **Increase (decrease) in reserved for inventories** | **-** | **-** | **(165,369)** | **(165,369)** |
| **Fund Balance - December 31** | **$ 739,223** | **$ 689,223** | **$ (2,557,043)** | **$ (3,246,266)** |

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, 2008

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Taxes | $ 3,200,000 | $ 3,200,000 | $ 2,894,022 | $ (305,978) |
| Intergovernmental | 4,224,184 | 4,224,184 | 4,713,807 | 489,623 |
| Charges for services | 97,424 | 97,424 | 137,237 | 39,813 |
| Gifts and contributions | 9,000 | 9,000 | 3,354 | (5,646) |
| Miscellaneous | 762,937 | 762,937 | 839,646 | 76,709 |
| **Total Revenues** | **$ 8,293,545** | **$ 8,293,545** | **$ 8,588,066** | **$ 294,521** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Human services** | | | | |
| Income maintenance | $ 2,124,577 | $ 2,124,577 | $ 1,998,809 | $ 125,768 |
| Social services | 5,531,036 | 5,531,036 | 5,425,721 | 105,315 |
| **Total human services** | **$ 7,655,613** | **$ 7,655,613** | **$ 7,424,530** | **$ 231,083** |
| **Health** | | | | |
| Nursing service | $ 685,023 | $ 685,023 | $ 725,375 | $ (40,352) |
| Women, infants, and children | 120,814 | 120,814 | 133,272 | (12,458) |
| Maternal and child health | 67,205 | 67,205 | 60,294 | 6,911 |
| Environmental health | 42,886 | 42,886 | 28,570 | 14,316 |
| Health education | 50,330 | 50,330 | 34,201 | 16,129 |
| **Total health** | **$ 966,258** | **$ 966,258** | **$ 981,712** | **$ (15,454)** |
| **Total Expenditures** | **$ 8,621,871** | **$ 8,621,871** | **$ 8,406,242** | **$ 215,629** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (328,326)** | **$ (328,326)** | **$ 181,824** | **$ 510,150** |
| **Fund Balance - January 1** | **2,676,782** | **2,676,782** | **2,676,782** | **-** |
| **Fund Balance - December 31** | **$ 2,348,456** | **$ 2,348,456** | **$ 2,858,606** | **$ 510,150** |

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, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Intergovernmental | $ 33,552 | $ 33,552 | $ 36,108 | $ 2,556 |
| Miscellaneous | 697,989 | 697,989 | 1,001,813 | 303,824 |
| **Total Revenues** | **$ 731,541** | **$ 731,541** | **$ 1,037,921** | **$ 306,380** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Conservation of natural resources** | | | | |
| Land use | $ 458,826 | $ 458,826 | $ 566,001 | $ (107,175) |
| Other conservation | - | - | 22,782 | (22,782) |
| **Total Expenditures** | **$ 458,826** | **$ 458,826** | **$ 588,783** | **$ (129,957)** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 272,715** | **$ 272,715** | **$ 449,138** | **$ 176,423** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers out | 215,174 | 215,174 | (283,097) | (498,271) |
| **Net Change in Fund Balance** | **$ 487,889** | **$ 487,889** | **$ 166,041** | **$ (321,848)** |
| **Fund Balance - January 1** | **1,011,848** | **1,011,848** | **1,011,848** | **-** |
| **Fund Balance - December 31** | **$ 1,499,737** | **$ 1,499,737** | **$ 1,177,889** | **$ (321,848)** |

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

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

***Schedule 5***

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2008

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

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

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008

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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, 2008, expenditures exceeded appropriations by $1,054,371 in the General Fund, by $3,938,419 in the Road and Bridge Special Revenue Fund, and by $129,957 in the Land Management Special Revenue Fund. In the General Fund, the over-expenditures were funded by transfers and use of available fund balance. In the Road and Bridge Special Revenue Fund, the over-expenditures were funded through use of available fund balance and advances on future highway construction allotments. 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.

3. <u>Other Postemployment Benefits</u>

In 2008, Pine County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only one year's worth of data is available. Future reports will provide additional trend analysis to meet the three-year funding status requirement as the information becomes available.

See Note 4 in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

## SUPPLEMENTARY INFORMATION

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## NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

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

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PINE COUNTY
PINE CITY, MINNESOTA

***Statement 1***

**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS**
**DECEMBER 31, 2008**

| | Special Revenue | Debt Service | Capital Projects | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and pooled investments | $ 27,852 | $ 1,398,885 | $ - | $ 1,426,737 |
| Undistributed cash in agency funds | - | 76,795 | - | 76,795 |
| Cash with escrow agent | - | 500,835 | 940 | 501,775 |
| Investments | 101,676 | - | - | 101,676 |
| Taxes receivable | | | | |
| Prior | - | 152,677 | - | 152,677 |
| Accounts receivable | 164,408 | - | - | 164,408 |
| Accrued interest receivable | 86 | - | - | 86 |
| Due from other funds | - | - | 2,046 | 2,046 |
| **Total Assets** | **$ 294,022** | **$ 2,129,192** | **$ 2,986** | **$ 2,426,200** |
| **Liabilities and Fund Balances** | | | | |
| **Liabilities** | | | | |
| Cash overdraft | $ 7,946 | $ - | $ 2,046 | $ 9,992 |
| Due to other funds | - | 2,046 | - | 2,046 |
| Deferred revenue - unavailable | 164,408 | 132,781 | - | 297,189 |
| **Total Liabilities** | **$ 172,354** | **$ 134,827** | **$ 2,046** | **$ 309,227** |
| **Fund Balances** | | | | |
| Reserved for debt service | $ - | $ 500,000 | $ - | $ 500,000 |
| Unreserved | | | | |
| Designated for capital improvements | - | 330,271 | - | 330,271 |
| Undesignated | 121,668 | 1,164,094 | 940 | 1,286,702 |
| **Total Fund Balances** | **$ 121,668** | **$ 1,994,365** | **$ 940** | **$ 2,116,973** |
| **Total Liabilities and Fund Balances** | **$ 294,022** | **$ 2,129,192** | **$ 2,986** | **$ 2,426,200** |

**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, 2008**

| | Special Revenue | Debt Service | Capital Projects | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | $ - | $ 2,012,172 | $ - | $ 2,012,172 |
| Intergovernmental | - | 207,426 | - | 207,426 |
| Charges for services | 27,480 | - | - | 27,480 |
| Earnings on investments | - | 7,956 | - | 7,956 |
| **Total Revenues** | **$ 27,480** | **$ 2,227,554** | **$ -** | **$ 2,255,034** |
| **Expenditures** | | | | |
| **Current** | | | | |
| Public safety | $ 140 | $ 4,749 | $ - | $ 4,889 |
| Highways and streets | 19,731 | - | - | 19,731 |
| Economic development | 2,348 | - | - | 2,348 |
| **Capital outlay** | | | | |
| General government | - | - | 710,903 | 710,903 |
| **Debt service** | | | | |
| Principal | - | 730,000 | - | 730,000 |
| Interest | - | 1,413,587 | - | 1,413,587 |
| Administrative - fiscal charges | - | 4,025 | - | 4,025 |
| **Total Expenditures** | **$ 22,219** | **$ 2,152,361** | **$ 710,903** | **$ 2,885,483** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 5,261** | **$ 75,193** | **$ (710,903)** | **$ (630,449)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | $ - | $ - | $ 710,903 | $ 710,903 |
| Transfers out | - | (696,888) | (73,163) | (770,051) |
| **Total Other Financing Sources (Uses)** | **$ -** | **$ (696,888)** | **$ 637,740** | **$ (59,148)** |
| **Net Change in Fund Balance** | **$ 5,261** | **$ (621,695)** | **$ (73,163)** | **$ (689,597)** |
| **Fund Balance - January 1** | **116,407** | **2,616,060** | **74,103** | **2,806,570** |
| **Fund Balance - December 31** | **$ 121,668** | **$ 1,994,365** | **$ 940** | **$ 2,116,973** |

PINE COUNTY
PINE CITY, MINNESOTA

*Statement 3*

## COMBINING BALANCE SHEET
## NONMAJOR GOVERNMENTAL FUNDS
## SPECIAL REVENUE FUNDS
## DECEMBER 31, 2008

| | Ditch | Countywide Rehabilitation Program | Ambulance | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and pooled investments | $ - | $ 14,832 | $ 13,020 | $ 27,852 |
| Investments | - | 101,676 | - | 101,676 |
| Accounts receivable | - | - | 164,408 | 164,408 |
| Accrued interest receivable | - | 86 | - | 86 |
| **Total Assets** | **$ -** | **$ 116,594** | **$ 177,428** | **$ 294,022** |
| **Liabilities and Fund Balances** | | | | |
| **Liabilities** | | | | |
| Cash overdraft | $ 7,946 | $ - | $ - | $ 7,946 |
| Deferred revenue - unavailable | - | - | 164,408 | 164,408 |
| **Total Liabilities** | **$ 7,946** | **$ -** | **$ 164,408** | **$ 172,354** |
| **Fund Balances** | | | | |
| Unreserved | | | | |
| Undesignated | (7,946) | 116,594 | 13,020 | 121,668 |
| **Total Liabilities and Fund Balances** | **$ -** | **$ 116,594** | **$ 177,428** | **$ 294,022** |

## 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, 2008

| | Ditch | Countywide Rehabilitation Program | Ambulance | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| Charges for services | **$ 22,869** | **$ -** | **$ 4,611** | **$ 27,480** |
| **Expenditures** | | | | |
| **Current** | | | | |
| Public safety | $ - | $ - | $ 140 | $ 140 |
| Highways and streets | 19,731 | - | - | 19,731 |
| Economic development | - | 2,348 | - | 2,348 |
| **Total Expenditures** | **$ 19,731** | **$ 2,348** | **$ 140** | **$ 22,219** |
| **Net Change in Fund Balance** | **$ 3,138** | **$ (2,348)** | **$ 4,471** | **$ 5,261** |
| **Fund Balance - January 1** | **(11,084)** | **118,942** | **8,549** | **116,407** |
| **Fund Balance - December 31** | **$ (7,946)** | **$ 116,594** | **$ 13,020** | **$ 121,668** |

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

***Statement 5***

**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS**
**DEBT SERVICE FUNDS**
**DECEMBER 31, 2008**

| | Equipment Bond | East Central Solid Waste Commission | Street Reconstruction Bond | General Obligation Jail Bond | HRA Project Bonds | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and pooled investments | $ 2,888 | $ - | $ 828,919 | $ 264,878 | $ 302,200 | $ 1,398,885 |
| Undistributed cash in agency funds | 76 | 319 | 28,427 | 26,361 | 21,612 | 76,795 |
| Cash with escrow agent | - | - | - | - | 500,835 | 500,835 |
| Taxes receivable | | | | | | |
| Prior | 4,853 | 2,939 | 56,155 | 48,771 | 39,959 | 152,677 |
| **Total Assets** | **$ 7,817** | **$ 3,258** | **$ 913,501** | **$ 340,010** | **$ 864,606** | **$ 2,129,192** |
| **Liabilities and Fund Balances** | | | | | | |
| **Liabilities** | | | | | | |
| Due to other funds | $ - | $ - | $ - | $ 2,046 | $ - | $ 2,046 |
| Deferred revenue - unavailable | 4,853 | 2,939 | 48,741 | 41,913 | 34,335 | 132,781 |
| **Total Liabilities** | **$ 4,853** | **$ 2,939** | **$ 48,741** | **$ 43,959** | **$ 34,335** | **$ 134,827** |
| **Fund Balances** | | | | | | |
| Reserved for debt service | $ - | $ - | $ - | $ - | $ 500,000 | $ 500,000 |
| Unreserved | | | | | | |
| Designated for capital improvements | - | - | - | - | 330,271 | 330,271 |
| Undesignated | 2,964 | 319 | 864,760 | 296,051 | - | 1,164,094 |
| **Total Fund Balances** | **$ 2,964** | **$ 319** | **$ 864,760** | **$ 296,051** | **$ 830,271** | **$ 1,994,365** |
| **Total Liabilities and Fund Balances** | **$ 7,817** | **$ 3,258** | **$ 913,501** | **$ 340,010** | **$ 864,606** | **$ 2,129,192** |

## 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, 2008

| | Equipment Bond | East Central Solid Waste Commission | Street Reconstruction Bond | General Obligation Jail Bond | HRA Project Bonds | Total |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Taxes | $ 2,321 | $ 227 | $ 749,981 | $ 692,453 | $ 567,190 | $ 2,012,172 |
| Intergovernmental | - | - | 74,573 | 65,220 | 67,633 | 207,426 |
| Earnings on investments | - | - | - | - | 7,956 | 7,956 |
| **Total Revenues** | **$ 2,321** | **$ 227** | **$ 824,554** | **$ 757,673** | **$ 642,779** | **$ 2,227,554** |
| **Expenditures** | | | | | | |
| **Current** | | | | | | |
| Public safety | $ - | $ - | $ - | $ 4,749 | $ - | $ 4,749 |
| **Debt service** | | | | | | |
| Principal | - | - | 730,000 | - | - | 730,000 |
| Interest | - | - | 52,395 | 731,761 | 629,431 | 1,413,587 |
| Administrative - fiscal charges | - | - | 450 | 450 | 3,125 | 4,025 |
| **Total Expenditures** | **$ -** | **$ -** | **$ 782,845** | **$ 736,960** | **$ 632,556** | **$ 2,152,361** |
| **Excess of Revenues Over (Under) Expenditures** | **$ 2,321** | **$ 227** | **$ 41,709** | **$ 20,713** | **$ 10,223** | **$ 75,193** |
| **Other Financing Sources (Uses)** | | | | | | |
| Transfers out | - | (59,148) | - | (2,046) | (635,694) | (696,888) |
| **Net Change in Fund Balance** | **$ 2,321** | **$ (58,921)** | **$ 41,709** | **$ 18,667** | **$ (625,471)** | **$ (621,695)** |
| **Fund Balance - January 1** | **643** | **59,240** | **823,051** | **277,384** | **1,455,742** | **2,616,060** |
| **Fund Balance - December 31** | **$ 2,964** | **$ 319** | **$ 864,760** | **$ 296,051** | **$ 830,271** | **$ 1,994,365** |

# PINE COUNTY
# PINE CITY, MINNESOTA

***Statement 7***

## COMBINING BALANCE SHEET
## NONMAJOR GOVERNMENTAL FUNDS
## CAPITAL PROJECT FUNDS
## DECEMBER 31, 2008

| | G.O. Jail Bonds Capital Projects | HRA Project Bonds Capital Projects | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash with escrow agent | $ - | $ 940 | $ 940 |
| Due from other funds | 2,046 | - | 2,046 |
| **Total Assets** | **$ 2,046** | **$ 940** | **$ 2,986** |
| **Liabilities and Fund Balances** | | | |
| **Liabilities** | | | |
| Cash overdraft | $ 2,046 | $ - | $ 2,046 |
| **Fund Balances** | | | |
| Undesignated | - | 940 | 940 |
| **Total Liabilities and Fund Balance** | **$ 2,046** | **$ 940** | **$ 2,986** |

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

***Statement 8***

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**
**NONMAJOR GOVERNMENTAL FUNDS**
**CAPITAL PROJECT FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | G.O. Jail Bonds Capital Projects | HRA Project Bonds Capital Projects | Total |
|---|---|---|---|
| **Expenditures** | | | |
| **Capital outlay** | | | |
| General government | **$ 710,903** | **$ -** | **$ 710,903** |
| **Other Financing Sources (Uses)** | | | |
| Transfers in | $ 710,903 | $ - | $ 710,903 |
| Transfers out | - | (73,163) | (73,163) |
| **Total Other Financing Sources (Uses)** | **$ 710,903** | **$ (73,163)** | **$ 637,740** |
| **Net Change in Fund Balance** | **$ -** | **$ (73,163)** | **$ (73,163)** |
| **Fund Balance - January 1** | **-** | **74,103** | **74,103** |
| **Fund Balance - December 31** | **$ -** | **$ 940** | **$ 940** |

# PINE COUNTY
# PINE CITY, MINNESOTA

***Schedule 6***

### BUDGETARY COMPARISON SCHEDULE
### COUNTYWIDE REHABILITATION PROGRAM SPECIAL REVENUE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2008

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Earnings on investments | $ 2,500 | $ 2,500 | $ - | $ (2,500) |
| **Expenditures** | | | | |
| **Current** | | | | |
| Economic development | - | - | 2,348 | (2,348) |
| **Net Change in Fund Balance** | **$ 2,500** | **$ 2,500** | **$ (2,348)** | **$ (4,848)** |
| **Fund Balance - January 1** | **118,942** | **118,942** | **118,942** | **-** |
| **Fund Balance - December 31** | **$ 121,442** | **$ 121,442** | **$ 116,594** | **$ (4,848)** |

# PINE COUNTY
# PINE CITY, MINNESOTA

***Schedule 7***

**BUDGETARY COMPARISON SCHEDULE**
**AMBULANCE SPECIAL REVENUE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Charges for services | $ - | $ - | $ 4,611 | $ 4,611 |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Public safety** | | | | |
| Emergency services | - | - | 140 | (140) |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ 4,471** | **$ 4,471** |
| **Fund Balance - January 1** | **8,549** | **8,549** | **8,549** | **-** |
| **Fund Balance - December 31** | **$ 8,549** | **$ 8,549** | **$ 13,020** | **$ 4,471** |

## PINE COUNTY
## PINE CITY, MINNESOTA

***Schedule 8***

### BUDGETARY COMPARISON SCHEDULE
### DITCH SPECIAL REVENUE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2008

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Charges for services | $ 22,803 | $ 22,803 | $ 22,869 | $ 66 |
| **Expenditures** | | | | |
| **Current** | | | | |
| Highways and streets | 22,803 | 22,803 | 19,731 | 3,072 |
| **Excess of Revenues Over (Under) Expenditures** | **$ -** | **$ -** | **$ 3,138** | **$ 3,138** |
| **Fund Balance - January 1** | **(11,084)** | **(11,084)** | **(11,084)** | **-** |
| **Fund Balance - December 31** | **$ (11,084)** | **$ (11,084)** | **$ (7,946)** | **$ 3,138** |

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

***Schedule 9***

**BUDGETARY COMPARISON SCHEDULE**
**HRA PROJECT BONDS DEBT SERVICE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Original | | Final | | Actual Amounts | | Variance with Final Budget | |
| **Revenues** | | | | | | | | |
| Taxes | $ | 631,431 | $ | 631,431 | $ | 567,190 | $ | (64,241) |
| Intergovernmental | | - | | - | | 67,633 | | 67,633 |
| Earnings on investments | | - | | - | | 7,956 | | 7,956 |
| **Total Revenues** | **$** | **631,431** | **$** | **631,431** | **$** | **642,779** | **$** | **11,348** |
| **Expenditures** | | | | | | | | |
| **Debt service** | | | | | | | | |
| Interest | $ | 629,431 | $ | 629,431 | $ | 629,431 | $ | - |
| Administrative charges | | 2,000 | | 2,000 | | 3,125 | | (1,125) |
| **Total Expenditures** | **$** | **631,431** | **$** | **631,431** | **$** | **632,556** | **$** | **(1,125)** |
| **Excess of Revenues Over (Under) Expenditures** | **$** | **-** | **$** | **-** | **$** | **10,223** | **$** | **10,223** |
| **Other Financing Sources (Uses)** | | | | | | | | |
| Transfers out | | - | | - | | (635,694) | | (635,694) |
| **Net Change in Fund Balance** | **$** | **-** | **$** | **-** | **$** | **(625,471)** | **$** | **(625,471)** |
| **Fund Balance - January 1** | | **1,455,742** | | **1,455,742** | | **1,455,742** | | **-** |
| **Fund Balance - December 31** | **$** | **1,455,742** | **$** | **1,455,742** | **$** | **830,271** | **$** | **(625,471)** |

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

***Schedule 10***

**BUDGETARY COMPARISON SCHEDULE**
**EQUIPMENT BOND DEBT SERVICE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Taxes | $ - | $ - | $ 2,321 | $ 2,321 |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ 2,321** | **$ 2,321** |
| **Fund Balance - January 1** | **643** | **643** | **643** | **-** |
| **Fund Balance - December 31** | **$ 643** | **$ 643** | **$ 2,964** | **$ 2,321** |

## PINE COUNTY
## PINE CITY, MINNESOTA

***Schedule 11***

### BUDGETARY COMPARISON SCHEDULE
### EAST CENTRAL SOLID WASTE COMMISSION DEBT SERVICE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2008

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ - | $ - | $ 227 | $ 227 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers out | - | - | (59,148) | (59,148) |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ (58,921)** | **$ (58,921)** |
| **Fund Balance - January 1** | **59,240** | **59,240** | **59,240** | **-** |
| **Fund Balance - December 31** | **$ 59,240** | **$ 59,240** | **$ 319** | **$ (58,921)** |

## PINE COUNTY
## PINE CITY, MINNESOTA

***Schedule 12***

### BUDGETARY COMPARISON SCHEDULE
### STREET RECONSTRUCTION BOND DEBT SERVICE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2008

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Taxes | $ 834,800 | $ 834,800 | $ 749,981 | $ (84,819) |
| Intergovernmental | - | - | 74,573 | 74,573 |
| **Total Revenues** | **$ 834,800** | **$ 834,800** | **$ 824,554** | **$ (10,246)** |
| **Expenditures** | | | | |
| **Debt service** | | | | |
| Principal | $ 730,000 | $ 730,000 | $ 730,000 | $ - |
| Interest | 52,395 | 52,395 | 52,395 | - |
| Administrative charges | 4,500 | 4,500 | 450 | 4,050 |
| **Total Expenditures** | **$ 786,895** | **$ 786,895** | **$ 782,845** | **$ 4,050** |
| **Net Change in Fund Balance** | **$ 47,905** | **$ 47,905** | **$ 41,709** | **$ (6,196)** |
| **Fund Balance - January 1** | **823,051** | **823,051** | **823,051** | **-** |
| **Fund Balance - December 31** | **$ 870,956** | **$ 870,956** | **$ 864,760** | **$ (6,196)** |

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# FIDUCIARY FUNDS

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## AGENCY FUNDS

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

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## PINE COUNTY
## PINE CITY, MINNESOTA

***Statement 9***

### COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
### ALL AGENCY FUNDS
### FOR THE YEAR ENDED DECEMBER 31, 2008

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **PINE COUNTY CHILDREN, FAMILIES, AND LEARNING SERVICES COLLABORATIVE** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | **$ 187,081** | **$ 195,215** | **$ 195,823** | **$ 186,473** |
| **Liabilities** | | | | |
| Accounts payable | **$ 187,081** | **$ 195,215** | **$ 195,823** | **$ 186,473** |
| **STATE** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 21,315 | $ 862,725 | $ 874,519 | $ 9,521 |
| Accounts receivable | - | 191 | - | 191 |
| **Total Assets** | **$ 21,315** | **$ 862,916** | **$ 874,519** | **$ 9,712** |
| **Liabilities** | | | | |
| Due to other governments | **$ 21,315** | **$ 862,916** | **$ 874,519** | **$ 9,712** |
| **TAXES AND PENALTIES** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | **$ 532,529** | **$ 36,925,974** | **$ 36,861,663** | **$ 596,840** |
| **Liabilities** | | | | |
| Due to other governments | **$ 532,529** | **$ 36,925,974** | **$ 36,861,663** | **$ 596,840** |

PINE COUNTY
PINE CITY, MINNESOTA

***Statement 9***
***(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **TOTAL ALL AGENCY FUNDS** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 740,925 | $ 37,983,914 | $ 37,932,005 | $ 792,834 |
| Accounts receivable | - | 191 | - | 191 |
| **Total Assets** | **$ 740,925** | **$ 37,984,105** | **$ 37,932,005** | **$ 793,025** |
| **Liabilities** | | | | |
| Accounts payable | $ 187,081 | $ 195,215 | $ 195,823 | $ 186,473 |
| Due to other governments | 553,844 | 37,788,890 | 37,736,182 | 606,552 |
| **Total Liabilities** | **$ 740,925** | **$ 37,984,105** | **$ 37,932,005** | **$ 793,025** |

# OTHER SCHEDULE

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PINE COUNTY
PINE CITY, MINNESOTA

*Schedule 13*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| | | |
|---|---|---|
| **Shared Revenue** | | |
| **State** | | |
| Highway users tax | $ | 5,951,354 |
| Road gas tax | | 4,449 |
| Homestead credit | | 1,037,202 |
| PERA rate reimbursement | | 36,545 |
| Disparity reduction aid | | 443 |
| Police aid | | 180,645 |
| Enhanced 911 | | 105,164 |
| Market value credit | | 1,357,416 |
| Agricultural preserve credit | | 605 |
| Agricultural conservation credit | | 2,012 |
| Wildlife wetlands credit | | 776 |
| **Total Shared Revenue** | **$** | **8,676,611** |
| **Reimbursement for Services** | | |
| **State** | | |
| Minnesota Department of Human Services | **$** | **405,650** |
| **Payments** | | |
| **State** | | |
| Payments in lieu of taxes | **$** | **498,469** |
| **Grants** | | |
| **State** | | |
| Minnesota Department/Board of | | |
| Corrections | $ | 232,129 |
| Health | | 157,218 |
| Natural Resources | | 111,820 |
| Human Services | | 1,388,534 |
| Water and Soil Resources | | 74,409 |
| Trial Courts | | 7,375 |
| Office of Environmental Assistance | | 69,423 |
| **Total State** | **$** | **2,040,908** |
| **Grants** | | |
| **Federal** | | |
| Department of | | |
| Agriculture | $ | 322,411 |
| Transportation | | 561,559 |
| Health and Human Services | | 2,281,696 |
| Homeland Security | | 54,682 |
| **Total Federal** | **$** | **3,220,348** |
| **Total State and Federal Grants** | **$** | **5,261,256** |
| **Total Intergovernmental Revenue** | **$** | **14,841,986** |

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**Management and**
**Compliance Section**

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***Schedule 14***

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

## I. SUMMARY OF AUDITOR'S RESULTS

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

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Pine County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*" One of the significant deficiencies is a material weakness.

C. No instances of noncompliance material to the financial statements of Pine County were disclosed during the audit.

D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."

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

F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

G. The major programs are:

| | |
|---|---|
| State Administrative Matching Grant for Supplemental Nutrition Assistance Program | CFDA #10.561 |
| Child Support Enforcement Title IV-D | CDFA #93.563 |
| Medical Assistance Program | CFDA #93.778 |

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*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, 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.

Client's Response:

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

06-1 Preparation of Financial Statements

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

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic 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. Pine County has and will continue to expand its responsibilities in the preliminary preparation of all required statements within its limitations which have and continue to be determined by staffing knowledge and experience in the preparation of the required GASB 34 and State of Minnesota financial reports.*

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 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 assisted in providing 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 adjust for additional receivables detected, reclassify revenues offset against expenditure account balances, defer revenues received after the period of availability, reclassify federal and state grant revenues, adjust for state aid highway allotments and advances, and to adjust reserves and designations of fund balances. 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:

*Pine County has implemented procedures recommended by the Office of the State Auditor including the review of the general ledger accounts and federal programs activity, and has extended its involvement in the preparation of the schedules to the Financial Statement for 2009.*

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 implementing the Radius server that will be on line by the end of December 2009. The Radius server authenticates 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. Pine County is in the process of developing a plan to further reduce the risk associated with the County's computer systems.*

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 intends to complete the Accounting Policies and Procedures Manual in 2010.*

07-2 Reconciliation of Interfund Balances

The County was unable to reconcile its interfund account balances without assistance from its external auditors. The County's Integrated Financial System (IFS) 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:

*The appropriate controls have been implemented in 2009 and accounts are currently in balance. Reconciliation of accounts are being monitored throughout the year.*

ITEM ARISING THIS YEAR

08-1 Reconciliation of Escrow Agent Bank Statement

Pine County did not reconcile bank statements issued by the escrow agent holding its HRA Public Project Revenue Bond funds to its IFS accounting records on a regular basis. Interest payments due on the bonds were made by the escrow agent. To meet a scheduled interest payment, the escrow agent used $52,357 of available funds held in escrow for this purpose. Pine County was billed for the remaining balance of the interest payment due. Because the County had not adequately reconciled its accounting records to the escrow agent bank statement, it was unaware of the disbursement of $52,357 of funds being held by the escrow agent. The County's IFS accounting records did not correctly reflect the actual amount of cash available with the escrow agent.

We recommend that Pine County staff reconcile escrow agent bank statements to the accounting records on a monthly basis to properly account for all transactions that have occurred and correctly reflect the cash balance held by the escrow agent.

Client's Response:

*Pine County has implemented controls and a review process prior to making disbursements of funds. An improved line of communication with the escrow agent has also been implemented in 2009.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Budgeting (06-6)**

The County Board had not adopted a formal budgeting policy.

**Resolution**

The County Board adopted a formal budget policy during 2008.

**Bond Interest on Deposit with Escrow Agent (07-1)**

Pine County improperly accounted for interest earned on HRA Public Project Revenue Bonds (HRA Bond) proceeds on deposit with the escrow agent.

**Resolution**

Interest earnings on HRA Bond proceeds on deposit with the escrow agent were properly accounted for.

**Prior Period Adjustments (07-3)**

Prior period adjustments were required to correctly restate the beginning fund balances of the government-wide financial statements and the HRA Project Bonds Debt Service Fund.

**Resolution**

No material prior period adjustments were necessary to restate beginning fund balances.

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

PREVIOUSLY REPORTED ITEM RESOLVED

**Identification of Federal Awards - Highway Planning and Construction (07-4)**

Pine County had not adequately identified federal awards and expenditures for a highway construction project in progress.

**Resolution**

Pine County correctly identified its federal highway construction financial assistance.

## IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

**Late Payment of Claims (06-8)**

Pine County had not complied with Munn. Stat. § 471.425 requiring vendor claims to be paid within 35 days or pay interest at 1.5 percent.

**Resolution**

We did not note any noncompliance during our current year testing.

**Safekeeping of Investments (07-5)**

Pine County had investments held by brokers who did not qualify under Minn. Stat. § 118A.06 as a primary reporting dealer nor did they have their principal offices in Minnesota.

**Resolution**

Pine County investments were being held in compliance with 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 offsite back-up storage facilities, and
- any agreements regarding back-up processing sites.

Client's Response:

*Pine County has a Technology Committee that covers all of the County's technology needs. The County continues to address a Disaster Recovery Plan and will be setting timeframes for the implementation of all things listed including appointing a Disaster Recovery Team. The team will address all aspects of the MIS Dept. and design a Recovery Program that will meet the County's needs as well as the State Standards. Discussions with vendors for the provision of Off-Site Storage for Backups and Archives will continue.*

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, 2008. 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:

*The County Board passed a resolution to forgive the Five County Mental Health Center loan at their meeting held December 15, 2009. It was determined this was a reinvestment into the mental health center.*

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, 2008, the balance remaining as advanced to the 5CMHC was $47,358. 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 ensure repayment of the loan.*

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:

*The appropriate revenue and expenditure control accounts were implemented in 2009 to isolate the distribution of revenues by County, Compliance, and Technology Fees as required by Minnesota statutes.*

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**STATE OF MINNESOTA**
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

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

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

Board of County Commissioners
Pine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 18, 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, 06-7, 07-2, and 08-1 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.

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

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

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

| | |
|---|---|
| */s/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

December 18, 2009

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**STATE OF MINNESOTA**
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

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

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

Board of County Commissioners
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, 2008. 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, 2008.

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.

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 18, 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 and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

| | |
|---|---|
| */s/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>EPUTY STATE AUDITOR |

December 18, 2009

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PINE COUNTY
PINE CITY, MINNESOTA

***Schedule 15***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| Federal Grantor<br>Pass-Through Agency<br>Grant Program Title | Pass-Through Grant Numbers | Federal CFDA Number | Expenditures |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| Passed Through Kanabec/Pine Community Health Services | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | | 10.557 | $ 116,821 |
| Passed Through Minnesota Department of Human Services | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | | 10.561 | 143,312 |
| Passed Through Minnesota Department of Natural Resources | | | |
| Cooperative Forestry Assistance | | 10.664 | 62,278 |
| **Total U.S. Department of Agriculture** | | | **$ 322,411** |
| **U.S. Department of the Interior** | | | |
| Direct | | | |
| Payments in Lieu of Taxes | | 15.226 | **$ 4,704** |
| **U.S. Department of Transportation** | | | |
| Passed Through Minnesota Department of Transportation | | | |
| Highway Planning and Construction | | 20.205 | $ 28,474 |
| State and Community Highway Safety | | 20.600 | 3,381 |
| **Total U.S. Department of Transportation** | | | **$ 31,855** |
| **U.S. Elections Assistance Commission** | | | |
| Passed Through Minnesota Secretary of State | | | |
| Help America Vote Act Requirements Payments | A87520 | 90.401 | **$ 6,681** |
| **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 | $ 27,326 |
| Maternal and Child Health Services Block Grant | | 93.994 | 42,738 |
| Passed Through Minnesota Department of Human Services | | | |
| Temporary Assistance for Needy Families (TANF) | | 93.558 | 524,028 |
| Child Support Enforcement | | 93.563 | 532,914 |
| Refugee and Entrant Assistance - State-Administered Programs | | 93.566 | 367 |
| Child Care Cluster | | | |
| Child Care and Development Block Grant | | 93.575 | 19,783 |
| Child Care Mandatory and Matching Funds | | 93.596 | 4,335 |
| Child Welfare Services - State Grants | | 93.645 | 12,034 |

PINE COUNTY
PINE CITY, MINNESOTA

*Schedule 15*
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| Federal Grantor<br>Pass-Through Agency<br>Grant Program Title | Pass-Through Grant Numbers | Federal CFDA Number | Expenditures |
|---|---|---|---|
| **U.S. Department of Health and Human Services** | | | |
| Passed Through Minnesota Department of Human Services (Continued) | | | |
| Foster Care Title IV-E | | 93.658 | 138,332 |
| Social Services Block Grant | | 93.667 | 192,223 |
| Chafee Foster Care Independence Program | | 93.674 | 3,130 |
| Children's Health Insurance Program | | 93.767 | 515 |
| Medical Assistance Progam | | 93.778 | 772,846 |
| Block Grants for Community Mental Health Services | | 93.958 | 11,125 |
| **Total U.S. Department of Health and Human Services** | | | **$ 2,281,696** |
| **U.S. Department of Homeland Security** | | | |
| Passed Through Minnesota Department of Natural Resources | | | |
| Boating Safety Financial Assistance | | 97.012 | $ 24,024 |
| Passed Through Minnesota Department of Public Safety | | | |
| Emergency Management Performance Grants | | 97.042 | 30,658 |
| **Total U.S. Department of Homeland Security** | | | **$ 54,682** |
| **Total Federal Awards** | | | **$ 2,702,029** |

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 2008, a deferred revenue of $525,000 was recognized as revenue but was not recognized as expenditures under the modified accrual reporting. In addition, $6,681 recognized as expenditures in 2008 was recognized as revenue and reserved in 2006.

3. During 2008, the County did not pass any federal money to subrecipients.

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