STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

PINE COUNTY
PINE CITY, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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PINE COUNTY
PINE CITY, MINNESOTA

Year Ended December 31, 2009

Audit Practice Division
Office of the State Auditor
State of Minnesota

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PINE CITY, MINNESOTA

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Introductory Section

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PINE COUNTY
PINE CITY, MINNESOTA

ORGANIZATION
AS OF DECEMBER 31, 2009

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

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pine County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County, Minnesota, as of and for the year ended December 31, 2009, 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, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pine County's basic financial statements. The supplementary information and other schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements 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 November 19, 2010, on our consideration of Pine County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

November 19, 2010

MANAGEMENT’S DISCUSSION AND ANALYSIS

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PINE COUNTY
PINE CITY, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(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, 2009. 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, 2009, by $65,157,766 (net assets). Of this amount, $3,489,089 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and is an increase of $2,821,923 from the prior year.

- As of the close of 2009, Pine County's governmental funds reported combined ending fund balances of $7,027,591, an increase of $3,316,771 in comparison with 2008. Of this balance amount, $3,564,520 was unreserved and undesignated by Pine County.

- At the end of 2009, unreserved/undesignated fund balance for the General Fund was ($187,504), or (1.4) percent, of the total General Fund expenditures for that year.

- Pine County's long-term liabilities decreased by $694,598 as a result of principal payments made during the year on its outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Level Financial Statements

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

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.

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

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

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

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Pine County's assets exceeded liabilities by $65,157,766 at the close of 2009. The largest portion of Pine County's net assets (89.1 percent) reflects the County's investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges), less any related debt used to acquire those assets (still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Assets

	Governmental Activities	
	2009	2008
Assets		
Current and other assets	$ 13,074,019	$ 11,550,069
Capital assets	89,659,357	90,611,305
Total Assets	$ 102,733,376	$ 102,161,374
Liabilities		
Long-term liabilities	$ 33,280,247	$ 33,974,845
Other liabilities	4,295,363	5,823,028
Total Liabilities	$ 37,575,610	$ 39,797,873

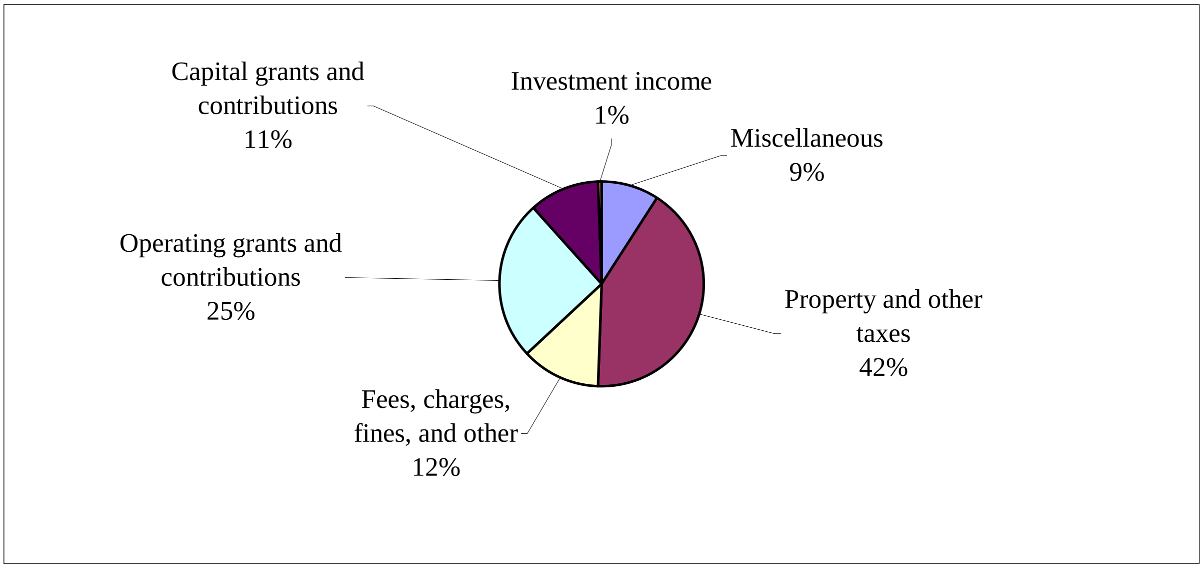
	Governmental Activities	
	2009	2008
Net Assets		
Invested in capital assets, net of related debt	$ 58,026,703	$ 58,122,059
Restricted	3,641,974	3,574,276
Unrestricted	3,489,089	667,166
Total Net Assets	$ 65,157,766	$ 62,363,501

The unrestricted net assets amount of $3,489,089 as of December 31, 2009, may be used to meet the County's ongoing obligations to citizens and creditors.

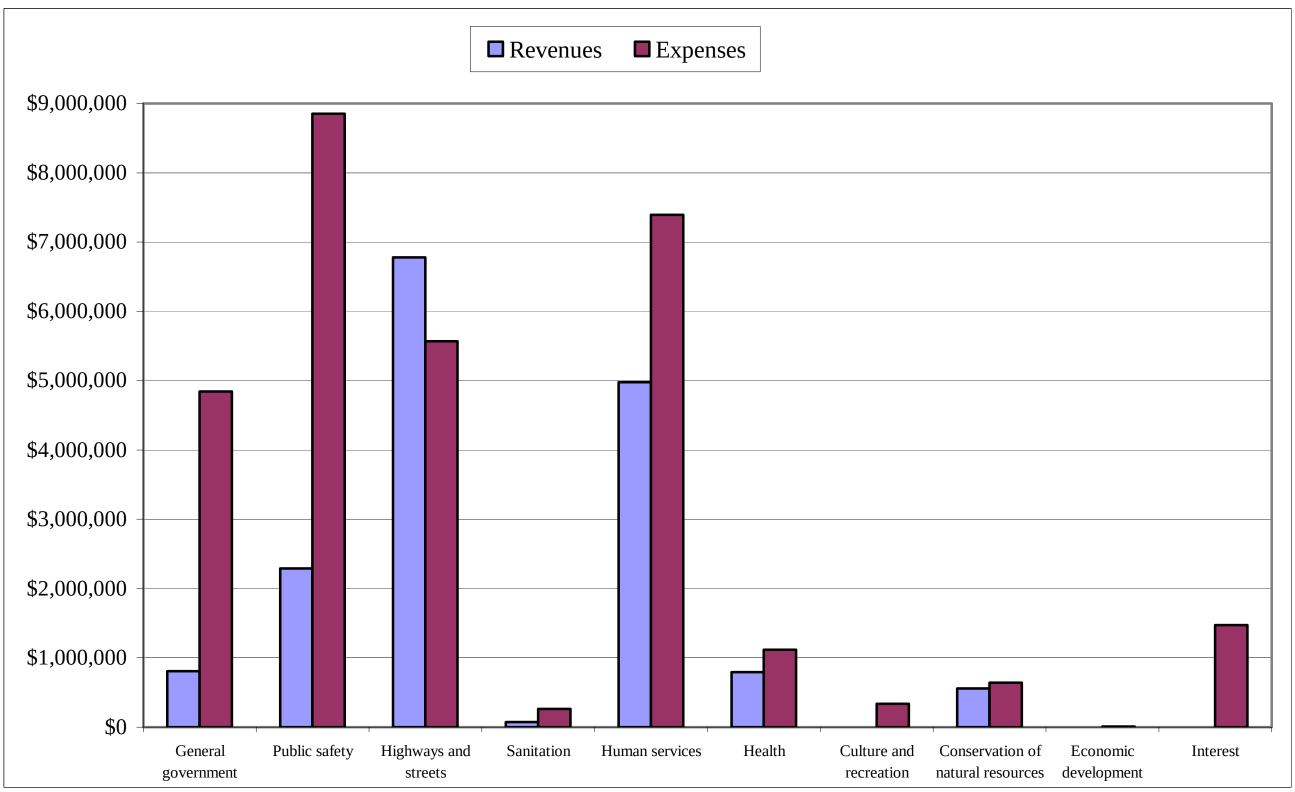
Changes in Net Assets

	Governmental Activities	
	2009	2008
Revenues		
Program revenues		
Fees, charges, fines, and other	$ 4,152,365	$ 5,281,227
Operating grants and contributions	8,377,979	7,711,574
Capital grants and contributions	3,753,571	3,498,018
General revenues		
Property taxes	13,255,040	12,920,719
Other	3,759,797	3,561,173
Total Revenues	$ 33,298,752	$ 32,972,711
Expenses		
General government	$ 4,842,757	$ 10,676,679
Public safety	8,852,870	8,433,978
Highways and streets	5,570,744	11,124,070
Sanitation	264,794	356,882
Human services	7,394,832	7,472,651
Health	1,115,364	991,193
Culture and recreation	339,351	422,227
Conservation of natural resources	643,417	990,042
Economic development	7,352	3,118
Interest	1,473,006	1,504,086
Total Expenses	$ 30,504,487	$ 41,974,926
Increase (Decrease) in Net Assets	$ 2,794,265	$ (9,002,215)
Net Assets - January 1	62,363,501	71,365,716
Net Assets – December 31	$ 65,157,766	$ 62,363,501

Revenues by Source - 2009



Expenses and Program Revenues - 2009



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 $7,027,591, an increase of $3,316,771 in comparison with the prior year. Of the ending fund balance, $3,564,520 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 ($187,504). 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 (1.4) percent of total General Fund expenditures. In 2009, ending unreserved/undesignated fund balance in the General Fund increased by $291,179 over the prior year primarily due to a reduction in expenditures.

The Road and Bridge Special Revenue Fund's unreserved/undesignated fund balance of ($860,040) at year-end represents (14.4) percent of the fund's annual expenditures. Unreserved/undesignated fund balance increased $2,165,274 during 2009 primarily due to a reduction in highway projects and expenditures.

The Health and Human Services Special Revenue Fund's unreserved/undesignated fund balance of $2,863,570 at year-end represents 33.9 percent of the fund's annual expenditures. Unreserved/undesignated fund balance increased $87,172 during 2009.

General Fund Budgetary Highlights

- The Budgetary Comparison Schedule (Schedule 1) shows an increase of $64,975 between the original and final expenditure budgets that resulted from inclusion of grants received throughout the year.

- Actual revenues exceeded budgeted revenues by $1,610,873.

- Actual expenditures exceeded budgeted expenditures by $778,066.

- The fund balance increased $548,182 over the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Pine County's capital assets for its governmental activities at December 31, 2009, totaled $89,659,357 (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)

	2009	2008
Land	$ 4,226,363	$ 4,184,660
Infrastructure	59,427,838	59,133,168
Buildings	24,249,963	24,918,655
Machinery and equipment	1,755,193	2,374,822
Total	$ 89,659,357	$ 90,611,305

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 $32,353,227, which was backed by the full faith and credit of the government.

Outstanding Debt

	2009	2008
General obligation Public Facilities Authority loans	$ 633,000	$ 713,000
General obligation jail bonds	16,935,000	16,935,000
Public project revenue bonds	13,285,000	13,285,000
General obligation capital notes	775,000	1,530,000
Special assessments	725,227	797,750
Total	$ 32,353,227	$ 33,260,750

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 2009, Pine County's debt was 1.01 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 2009, Pine County approved its balanced 2010 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, 2009

Assets		
Cash and pooled investments	$	8,140,306
Petty cash and change funds		3,610
Cash with escrow agent		500,000
Investments		101,676
Taxes receivable		
Prior - net		1,141,376
Accounts receivable - net		1,066,224
Accrued interest receivable		12,883
Due from other governments		1,260,787
Inventories		464,964
Prepaid items		274,724
Deferred debt issuance costs		107,469
Capital assets		
Non-depreciable		4,226,363
Depreciable - net of accumulated depreciation		85,432,994
Total Assets	**$**	**102,733,376**
Liabilities		
Accounts payable	$	516,421
Cash overdraft		2,046
Salaries payable		528,969
Workers' compensation payable		45,895
Contracts payable		546,827
Due to other governments		501,626
Accrued interest payable		578,699
Unearned revenue		1,164
Customer deposits		4,944
Advance from other governments		1,568,772
Long-term liabilities		
Due within one year		929,523
Due in more than one year		32,350,724
Total Liabilities	**$**	**37,575,610**
Net Assets		
Invested in capital assets - net of related debt	$	58,026,703
Restricted for		
General government		457,803
Public safety		1,002
Conservation of natural resources		767,577
Highways and streets		679,106
Sanitation		10,000
Capital projects		150,480
Debt service		1,385,881
Other purposes		190,125
Unrestricted		3,489,089
Total Net Assets	**$**	**65,157,766**

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, 2009

		Program Revenues			Net (Expense)
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Functions/Programs					
Primary government					
Governmental activities					
General government	$ 4,842,757	$ 605,064	$ 204,242	$ -	$ (4,033,451)
Public safety	8,852,870	1,590,945	701,317	-	(6,560,608)
Highways and streets	5,570,744	244,584	2,778,761	3,753,571	1,206,172
Sanitation	264,794	350	74,044	-	(190,400)
Human services	7,394,832	887,726	4,090,646	-	(2,416,460)
Health	1,115,364	265,194	528,969	-	(321,201)
Culture and recreation	339,351	-	-	-	(339,351)
Conservation of natural resources	643,417	558,502	-	-	(84,915)
Economic development	7,352	-	-	-	(7,352)
Interest	1,473,006	-	-	-	(1,473,006)
Total Governmental Activities	**$ 30,504,487**	**$ 4,152,365**	**$ 8,377,979**	**$ 3,753,571**	**$ (14,220,572)**

General Revenues	
Property taxes	$ 13,255,040
Mortgage registry and deed tax	16,857
Payments in lieu of tax	524,007
Grants and contributions not restricted to specific programs	3,063,630
Unrestricted investment earnings	155,303
Total general revenues	**$ 17,014,837**
Change in net assets	**$ 2,794,265**
Net Assets - Beginning	**62,363,501**
Net Assets - Ending	**$ 65,157,766**

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	General		Road and Bridge	
Assets				
Cash and pooled investments	$	258,879	$	1,629,808
Undistributed cash in agency funds				
(taxes and other)		414,286		77,554
Petty cash and change funds		3,410		150
Cash with escrow agent		-		-
Investments		-		-
Taxes receivable				
Prior		570,135		158,285
Accounts receivable		34,011		13,860
Accrued interest receivable		12,824		-
Due from other funds		99,492		17,476
Due from other governments		253,444		438,813
Prepaid expense		227,366		-
Inventories		-		464,964
Total Assets	**$**	**1,873,847**	**$**	**2,800,910**
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$	218,640	$	30,271
Cash overdraft		-		-
Salaries payable		335,765		67,968
Workers' compensation payable		-		45,895
Contracts payable		-		546,827
Due to other funds		15,035		707
Due to other governments		91,570		2,075
Deferred revenue - unavailable		545,316		529,144
Deferred revenue - unearned		-		-
Customer deposits		4,944		-
Advance from other governments		-		1,568,772
Total Liabilities	**$**	**1,211,270**	**$**	**2,791,659**

EXHIBIT 3

Health and Human Services	Land Management	Nonmajor Funds	Total
$ 2,622,477	$ 1,314,132	$ 1,590,827	$ 7,416,123
129,179	-	103,164	724,183
-	50	-	3,610
-	-	500,000	500,000
-	-	101,676	101,676
240,055	-	172,901	1,141,376
125,248	731,974	161,131	1,066,224
-	-	59	12,883
-	-	2,046	119,014
565,254	3,276	-	1,260,787
47,358	-	-	274,724
-	-	-	464,964
$ 3,729,571	**$ 2,049,432**	**$ 2,631,804**	**$ 13,085,564**
$ 266,646	$ 864	$ -	$ 516,421
-	-	2,046	2,046
121,691	3,545	-	528,969
-	-	-	45,895
-	-	-	546,827
28,972	72,254	2,046	119,014
186,078	108,529	66	388,318
215,256	731,974	313,913	2,335,603
-	1,164	-	1,164
-	-	-	4,944
-	-	-	1,568,772
$ 818,643	**$ 918,330**	**$ 318,071**	**$ 6,057,973**

PINE COUNTY
PINE CITY, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Road and Bridge
Liabilities and Fund Balances (Continued)		
Fund Balances		
Reserved for		
Cash funds	$ -	$ -
Prepaid items	227,366	-
Missing heirs	73,705	-
Law library	24,268	-
Recorder's equipment purchases	86,178	-
Recorder's compliance	206,784	-
Election equipment	84,447	-
Plat escrow	24,940	-
Sewage treatment loans	10,000	-
Drug forfeitures	1,002	-
Attorney forfeitures	80,394	-
Inventories	-	464,964
Debt service	-	-
Timber development	-	-
Road access	-	-
Highway projects	-	404,327
Unreserved		
Designated for group health	27,587	-
Designated for petty cash funds	3,410	-
Designated for forestry	-	-
Undesignated	(187,504)	(860,040)
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service funds	-	-
Capital projects funds	-	-
Total Fund Balances	**$ 662,577**	**$ 9,251**
Total Liabilities and Fund Balances	**$ 1,873,847**	**$ 2,800,910**

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	-	-	274,724
-	-	-	73,705
-	-	-	24,268
-	-	-	86,178
-	-	-	206,784
-	-	-	84,447
-	-	-	24,940
-	-	-	10,000
-	-	-	1,002
-	-	-	80,394
-	-	-	464,964
-	-	500,000	500,000
-	776,260	-	776,260
-	50,335	-	50,335
-	-	-	404,327
-	-	-	27,587
-	-	-	3,410
-	304,457	-	304,457
2,863,570	-	-	1,816,026
-	-	141,134	141,134
-	-	1,522,119	1,522,119
-	-	150,480	150,480
$ 2,910,928	**$ 1,131,102**	**$ 2,313,733**	**$ 7,027,591**
$ 3,729,571	**$ 2,049,432**	**$ 2,631,804**	**$ 13,085,564**

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EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS DECEMBER 31, 2009

Fund balances - total governmental funds (Exhibit 3)		**$ 7,027,591**
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.		89,659,357
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	$ 2,335,603	
Due to other governments	(113,308)	2,222,295
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	$ (775,000)	
Public project revenue bonds	(13,285,000)	
General obligation bonds	(16,935,000)	
Unamortized bond issuance costs	222,572	
Loans payable	(633,000)	
Net other post employment benefits liability	(238,847)	
Compensated absences	(910,745)	
Special assessments payable	(725,227)	
Accrued interest payable	(578,699)	
Deferred debt issuance charges	107,469	(33,751,477)
Net Assets of Governmental Activities (Exhibit 1)		**$ 65,157,766**

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, 2009

	General	Road and Bridge
Revenues		
Taxes	$ 7,253,598	$ 1,446,831
Licenses and permits	80,085	-
Intergovernmental	3,795,828	6,689,672
Charges for services	2,077,501	189,648
Fines and forfeits	40,502	-
Gifts and contributions	115,348	-
Investment earnings	154,645	-
Miscellaneous	408,195	62,224
Total Revenues	**$ 13,925,702**	**$ 8,388,375**
Expenditures		
Current		
General government	$ 4,023,878	$ -
Public safety	8,322,024	-
Highways and streets	-	5,550,738
Sanitation	261,116	-
Human services	-	-
Health	-	-
Culture and recreation	339,351	-
Conservation of natural resources	305,749	-
Intergovernmental		
Highways and streets	-	305,395
Debt service		
Principal	72,523	80,000
Interest	43,876	21,390
Project cost	-	-
Administrative - fiscal charges	-	-
Total Expenditures	**$ 13,368,517**	**$ 5,957,523**
Excess of Revenues Over (Under) Expenditures	**$ 557,185**	**$ 2,430,852**
Other Financing Sources (Uses)		
Transfers in	$ 216,136	$ 25,139
Transfers out	(225,139)	-
Proceeds from sale of capital assets	-	11,207
Total Other Financing Sources (Uses)	**$ (9,003)**	**$ 36,346**
Net Change in Fund Balance	**$ 548,182**	**$ 2,467,198**
Fund Balance - January 1	**114,395**	**(2,557,043)**
Increase (decrease) in reserved for inventories	**-**	**99,096**
Fund Balance - December 31	**$ 662,577**	**$ 9,251**

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

Health and Human Services	Land Management	Nonmajor Funds	Total
$ 2,455,903	$ -	$ 1,975,799	$ 13,132,131
-	-	-	80,085
4,879,100	42,230	204,743	15,611,573
110,692	-	19,807	2,397,648
-	-	-	40,502
2,972	-	-	118,320
-	-	658	155,303
1,042,228	461,980	-	1,974,627
$ 8,490,895	**$ 504,210**	**$ 2,201,007**	**$ 33,510,189**
$ -	$ -	$ 49,520	$ 4,073,398
-	-	167	8,322,191
-	-	-	5,550,738
-	-	-	261,116
7,340,388	-	-	7,340,388
1,098,185	-	-	1,098,185
-	-	-	339,351
-	334,861	-	640,610
-	-	-	305,395
-	-	755,000	907,523
-	-	1,394,635	1,459,901
-	-	750	750
-	-	4,175	4,175
$ 8,438,573	**$ 334,861**	**$ 2,204,247**	**$ 30,303,721**
$ 52,322	**$ 169,349**	**$ (3,240)**	**$ 3,206,468**
$ -	$ -	$ 200,940	$ 442,215
-	(216,136)	(940)	(442,215)
-	-	-	11,207
$ -	**$ (216,136)**	**$ 200,000**	**$ 11,207**
$ 52,322	**$ (46,787)**	**$ 196,760**	**$ 3,217,675**
2,858,606	**1,177,889**	**2,116,973**	**3,710,820**
-	**-**	**-**	**99,096**
$ 2,910,928	**$ 1,131,102**	**$ 2,313,733**	**$ 7,027,591**

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, 2009

Net change in fund balances - total governmental funds (Exhibit 5)		**$ 3,217,675**
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	$ 2,335,603	
Less: forfeited tax sales receivable due to other governments	(113,308)	
January 1 - deferred revenue	(2,423,692)	
Less: forfeited tax sales receivable due to other governments	(69,282)	(270,679)
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	$ 1,945,287	
Current year depreciation	(2,897,235)	(951,948)
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	$ 755,000	
Loans payable	80,000	
Special assessments payable	72,523	907,523
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	$ 14,902	
Amortization of discounts and deferred issuance costs	(13,703)	
Amortization of debt issuance costs	(9,379)	
Change in inventories	99,096	
Change in compensated absences	(78,729)	
Change in other postemployment benefits	(120,493)	(108,306)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 2,794,265**

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, 2009

Assets		
Cash and pooled investments	$	1,079,501
Accounts receivable		154
Total Assets	**$**	**1,079,655**
Liabilities		
Accounts payable	$	185,232
Due to other governments		894,423
Total Liabilities	**$**	**1,079,655**

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, 2009. 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 types:

Debt service funds account for the accumulation of resources for the payment of principal, interest, and related costs of general long-term debt.

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

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

C. Measurement Focus and Basis of Accounting

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2009, 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 2009 were $154,645.

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

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

All receivables are shown net of any allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

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

8. Fund Equity

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

9. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual nonmajor funds with expenditures in excess of budget for the year ended December 31, 2009.

	Expenditures	Budget	Excess
Special Revenue Funds			
Countywide Rehabilitation Program	$ 750	$ -	$ 750
Ambulance	167	-	167

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	$	8,140,306
Petty cash and change funds		3,610
Cash with escrow agent		500,000
Investments		101,676
Statement of fiduciary net assets		
Cash and pooled investments		1,079,501
Total Cash and Investments	$	9,825,093

a. Deposits

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

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.

3. 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, 2009, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

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

(3) 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

3. 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 has a policy for investment custodial credit risk. All of Pine County's investments in negotiable certificates of deposit are held by the counterparty to the transactions, and, therefore, are subject to custodial credit risk. A portion of these investments is covered by Securities Investor Protection Corporation insurance.

3. 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, and A1-P1 rated commercial paper. It is the County's policy that securities having potential default risk shall be limited in size so that, in case of default, the portfolio's annual investment income will not exceed a loss on a single issuer's securities.

The following table presents the County's cash and investment balances at December 31, 2009, and information relating to potential investment risks:

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Association Note	Aaa	Moody's	<5%	12/01/2010	$ 1,675
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	$ 1,470,184
Piper Jaffray	N/R	N/A	N/A	N/A	842
Total investment pools/mutual funds					$ 1,471,026
Negotiable certificates of deposit					
American Chartered Bank	N/A	N/A	N/A	03/07/2013	$ 100,012
Houston Bank	N/A	N/A	N/A	03/07/2013	100,012
GMAC	N/A	N/A	N/A	03/12/2010	96,705
LaSalle Bank	N/A	N/A	N/A	02/09/2011	96,055
Las Vegas Bank	N/A	N/A	N/A	03/07/2013	100,012
Southwest St. Louis Bank	N/A	N/A	N/A	04/11/2018	99,126
Sterling Savings	N/A	N/A	N/A	03/03/2010	96,618
Capital One Bank	N/A	N/A	N/A	03/03/2010	96,618
United Community Banks, Inc.	N/A	N/A	N/A	09/30/2010	98,203
Total negotiable certificates of deposit					$ 883,361

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Total investments					$ 2,356,062
Deposits					6,965,421
Petty cash					3,610
Cash with escrow agent					500,000
Total Cash and Investments					$ 9,825,093

N/A - Not Applicable
N/R - Not Rated
S&P - Standard & Poor's
<5% - Concentration is less than 5% of investments

2. Receivables

Receivables as of December 31, 2009, 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	$ 1,141,376	$ -
Accounts	1,066,224	-
Interest	12,883	-
Due from other governments	1,260,787	-
Total Governmental Activities	$ 3,481,270	$ -

3. Detailed Notes on All Funds

A. Assets (Continued)

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, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 4,184,660	$ 41,703	$ -	$ 4,226,363
Capital assets depreciated				
Buildings	$ 28,217,856	$ -	$ -	$ 28,217,856
Machinery and equipment	7,194,201	95,687	160,432	7,129,456
Infrastructure	76,424,522	1,807,897	-	78,232,419
Total capital assets depreciated	$ 111,836,579	$ 1,903,584	$ 160,432	$ 113,579,731
Less: accumulated depreciation for				
Buildings	$ 3,299,201	$ 668,692	$ -	$ 3,967,893
Machinery and equipment	4,819,379	715,316	160,432	5,374,263
Infrastructure	17,291,354	1,513,227	-	18,804,581
Total accumulated depreciation	$ 25,409,934	$ 2,897,235	$ 160,432	$ 28,146,737
Total capital assets depreciated, net	$ 86,426,645	$ (993,651)	$ -	$ 85,432,994
Capital Assets, Net	$ 90,611,305	$ (951,948)	$ -	$ 89,659,357

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

Governmental Activities	
General government	$ 737,496
Public safety	187,877
Highways and streets, including depreciation of infrastructure assets	1,951,953
Human services	15,609
Conservation of natural resources	4,300
Total Depreciation Expense - Governmental Activities	$ 2,897,235

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2009, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General	Health and Human Services	$ 26,666	Reimbursement
	Road and Bridge	707	Reimbursement - phone
	Land Management	72,119	Forfeited tax distribution
Total due to General Fund		$ 99,492	
Road and Bridge	General	$ 15,035	Accounts receivable
	Health and Human Services	2,306	Utilities reimbursement
	Land Management	135	Reimburse supplies/services
Total due to Road and Bridge Special Revenue Fund		$ 17,476	
Other governmental fund	Other governmental	$ 2,046	Eliminate cash deficit
Total Due To/From Other Funds		$ 119,014	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfers to General Fund from		
Land Management Special Revenue Fund	$ 50,000	Reimburse audit fees
Land Management Special Revenue Fund	166,136	Forfeited tax apportionment
Total transfers to General Fund	$ 216,136	
Transfers to Road and Bridge Special Revenue Fund from General Fund	$ 25,139	Interest revenue
Transfers to other governmental funds from other governmental funds	$ 940	Interest revenue
General Fund	200,000	To fund capital purchases
Total transfers to other governmental funds	$ 200,940	
Total Interfund Transfers	$ 442,215	

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2009. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	$ 11,466,136	$ 404,327

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
General obligation capital notes					
2004 G.O. Street Reconstruction Capital Notes	2010	$695,000 - $775,000	1.75 - 3.00	$ 3,665,000	$ 775,000
General obligation jail bonds					
2005A G.O. Jail Bonds	2031	$500,000 - $1,685,000	4.00	$ 16,935,000	$ 16,935,000
General obligation Public Facilities Authority (PFA) loan					
2001 G.O. PFA Loan	2016	$77,405 - $108,439	3.00	$ 1,434,459*	$ 633,000
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					$ 725,227

*Amount drawn down

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

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2009, 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 Loan Principal	2001 G.O. PFA Loan Interest
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	-	-	560,000	658,161	93,000	8,640
2015 - 2019	-	-	3,160,000	2,924,409	195,000	8,820
2020 - 2024	-	-	3,915,000	2,164,478	-	-
2025 - 2029	-	-	4,920,000	1,200,908	-	-
2030 - 2034	-	-	2,820,000	139,275	-	-
Total	$ 775,000	$ 11,625	$ 16,935,000	$ 9,922,275	$ 633,000	$ 78,300

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
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	420,000	573,806	72,523	23,933	1,145,523	1,264,540
2015 - 2019	2,445,000	2,560,594	362,612	59,541	6,162,612	5,553,364
2020 - 2024	3,160,000	1,921,841	-	-	7,075,000	4,086,319
2025 - 2029	4,135,000	1,031,875	-	-	9,055,000	2,232,783
2030 - 2034	1,970,000	99,250	-	-	4,790,000	238,525
Total	$ 13,285,000	$ 8,636,740	$ 725,227	$ 219,092	$ 32,353,227	$ 18,868,032

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2004 G.O. Street Reconstruction Capital Notes	$ 1,530,000	$ -	$ 755,000	$ 775,000	$ 775,000
2005A G.O. Jail Bonds	16,935,000	-	-	16,935,000	-
2005A Public Project Revenue Bonds	13,285,000	-	-	13,285,000	-
Less: discount on bonds	(236,276)	-	(13,704)	(222,572)	-
2001 G.O. PFA Loan	713,000	-	80,000	633,000	82,000
Special assessments	797,750	-	72,523	725,227	72,523
Net other postemployment benefits	118,354	120,493	-	238,847	-
Compensated absences	832,017	919,392	840,664	910,745	-
Total Long-Term Liabilities	$ 33,974,845	$ 1,039,885	$ 1,734,483	$ 33,280,247	$ 929,523

3. Detailed Notes on All Funds

C. Liabilities

4. Changes in Long-Term Liabilities (Continued)

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

5. Lease Obligations

The County is committed under various operating leases for copiers and office equipment. The following is a summary of the operating lease expense for 2009:

Type of Property	Amount
Copiers and office equipment	$ 21,643

Future minimum payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2009:

Year Ended	Amount
2010	$ 23,338
2011	20,218
2012	7,835
2013	-
2014	-
Total Future Minimum Lease Payments	$ 51,391

4. 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 (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

4. 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. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes.

4. 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 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2009	2008	2007
Public Employees Retirement Fund	$ 492,567	$ 452,071	$ 403,292
Public Employees Police and Fire Fund	266,471	224,091	190,211
Public Employees Correctional Fund	146,682	150,682	138,547

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

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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, 2009, were:

	Employee	Employer
Contribution amount	$ 6,674	$ 6,674
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.00 percent.

5. Postemployment Benefits

A. Plan Description and Funding Policy

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

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.

5. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

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, 2009, 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 accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2009, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	$	267,409
Interest on net OPEB obligation		4,734
Adjustments to ARC		(6,844)
Annual OPEB cost	$	265,299
Contributions during the year		(144,806)
Increase in net OPEB obligation	$	120,493
Net OPEB Obligation - Beginning of Year		118,354
Net OPEB Obligation - End of Year	$	238,847

5. 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 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2008	$ 260,565	$ 142,211	55.0%	$ 118,354
December 31, 2009	265,299	144,806	55.0	238,847

C. Funded Status and Funding Progress

The actuarial accrued liability for benefits as of January 1, 2008, the last date of valuation, 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 liability 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 - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

5. 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 five percent after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period. The remaining amortization period at December 31, 2009, was 28 years.

6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan

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

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

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

6. Postemployment Health Care Plans

A. MSRS Health Care Savings Plan (Continued)

hours, and personal day hours to their HCSP accounts. Non-unionized employees, according to policy, must transfer personal time off days in excess of the maximum allowed into their HCSP accounts.

B. Minnesota Service Cooperative VEBA Plan

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

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

Eligibility requirements include:

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

7. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers

7. Risk Management (Continued)

agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. 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 $430,000 per claim in 2009 and $450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

8. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from 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.

8. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

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

B. Conduit Debt

Camp Heartland Project

In 2000, the County issued $1,175,000 of Industrial Development Revenue Notes to provide financial assistance to Camp Heartland Project, Inc., a nonprofit corporation, for refinancing the corporation's debt incurred for acquiring, constructing, and equipping facilities located in Willow River. The corporation is primarily engaged in providing programs for children infected with or affected by HIV/AIDS. The notes are secured by the property financed and are payable solely from revenues of the corporation. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the accompanying financial statements. As of December 31, 2009, the outstanding principal amount payable was $838,631.

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.

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Kanabec/Pine Community Health Services (Continued)

Complete financial information can be obtained from:

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

East Central Solid Waste Commission

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

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

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

During 2007, the Commission repaid the outstanding balance of its long-term bonds. Pine County was not required to contribute toward debt service. During 2009, the County made no further contribution to the Commission, but continues to collect delinquent taxes.

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Complete financial information can be obtained from:

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

Snake River Watershed Management Board

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

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

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

Pine County provided $9,968 to this organization during 2009. 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

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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

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

Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region was established in 2001, under Minn. Stat. § 471.59, to improve access, delivery, and effectiveness of the emergency medical services system; promote systematic and cost-effective delivery of services; and identify and address system needs within the member counties. The member counties are Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright. The Region established a Board comprising one Commissioner from each member county. The Region's Board has financial responsibility, and Stearns County is the fiscal agent.

Complete financial information can be obtained from:

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

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. During 2009, Pine County expended $16,643 on transportation feasibility studies and other administrative costs.

Minneapolis-Duluth/Superior Passenger Rail Alliance Joint Powers Agreement

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

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

8. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

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

The parties shall contribute the funds necessary to carry out the purposes and powers of the Board, consistent with an annual budget and cost-sharing formula adopted by the Board and approved annually by each party's governing body. The St. Louis-Lake Regional Railroad Authority shall initially serve as the fiscal agent for the Board and shall provide contract management and the necessary legal services for said contract management until such time the Board otherwise designates a fiscal agent. During 2009, Pine County expended $25,000 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 2009, Pine County expended $106,323 to the Cooperative.

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

E. Related Organization

Pine County Housing and Redevelopment Authority

The Pine County Housing and Redevelopment Authority (HRA) is a legally separate organization having numerous rights and powers. The Pine County Board appoints all of the HRA Board members, but financial accountability necessary to include this organization as a component unit of the County is not present. Related party transactions comprise payment of $3,000 by the County to the HRA Board members for per diem expenses.

F. Tax-Forfeited Land

The County manages approximately 48,349 acres of state-owned, tax-forfeited land with a taxable market value for 2009 of $50,429,200. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

REQUIRED SUPPLEMENTARY INFORMATION

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PINE COUNTY
PINE CITY, MINNESOTA

Schedule 1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 8,425,356	$ 7,510,517	$ 7,253,598	$ (256,919)
Licenses and permits	78,000	78,000	80,085	2,085
Intergovernmental	1,181,024	1,945,264	3,795,828	1,850,564
Charges for services	2,002,673	2,002,676	2,077,501	74,825
Fines and forfeits	76,500	76,500	40,502	(35,998)
Gifts and contributions	100,000	100,000	115,348	15,348
Investment earnings	160,000	160,000	154,645	(5,355)
Miscellaneous	361,872	361,872	408,195	46,323
Non-revenue receipts	80,000	80,000	-	(80,000)
Total Revenues	**$ 12,465,425**	**$ 12,314,829**	**$ 13,925,702**	**$ 1,610,873**
Expenditures				
Current				
General government				
Commissioners	$ 194,088	$ 196,387	$ 207,634	$ (11,247)
Courts	40,000	40,000	46,668	(6,668)
Law library	20,000	20,000	18,208	1,792
County auditor	444,039	448,374	484,576	(36,202)
County treasurer	182,146	184,316	180,857	3,459
County assessor	429,214	434,014	412,612	21,402
Elections	1,200	1,200	3,935	(2,735)
Data processing	292,108	293,700	369,504	(75,804)
Central services	126,500	126,500	104,507	21,993
Personnel	213,103	215,463	216,215	(752)
Attorney	702,024	711,020	733,547	(22,527)
Contracted legal services	10,000	10,000	37,191	(27,191)
Recorder	286,035	289,614	321,927	(32,313)
Planning and zoning	100,727	101,588	109,526	(7,938)
Buildings and plant	503,587	504,937	651,388	(146,451)
Veterans service officer	77,172	77,861	62,177	15,684
Other general government	159,799	83,400	63,406	19,994
Total general government	**$ 3,781,742**	**$ 3,738,374**	**$ 4,023,878**	**$ (285,504)**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 3,645,545	$ 3,700,278	$ 4,174,659	$ (474,381)
Boat and water safety	6,200	6,200	20,934	(14,734)
Coroner	35,000	35,000	61,653	(26,653)
E-911 system	95,039	95,905	101,240	(5,335)
County jail	3,075,307	3,113,243	3,202,437	(89,194)
Sentence to serve	72,431	73,237	65,299	7,938
Probation and parole	658,310	666,572	634,773	31,799
Civil defense	45,591	45,845	37,586	8,259
Other public safety	17,400	17,400	23,443	(6,043)
Total public safety	**$ 7,650,823**	**$ 7,753,680**	**$ 8,322,024**	**$ (568,344)**
Sanitation				
Solid waste	$ 103,780	$ 103,780	$ 68,643	$ 35,137
Recycling	203,940	204,715	192,473	12,242
Total sanitation	**$ 307,720**	**$ 308,495**	**$ 261,116**	**$ 47,379**
Culture and recreation				
Historical society	$ 10,000	$ 10,000	$ 10,000	$ -
Trail assistance	-	24,975	24,975	-
Regional library	304,576	304,576	304,376	200
Total culture and recreation	**$ 314,576**	**$ 339,551**	**$ 339,351**	**$ 200**
Conservation of natural resources				
County extension	$ 136,111	$ 136,708	$ 132,327	$ 4,381
Soil and water conservation	71,398	71,398	73,951	(2,553)
Agricultural inspections	150	150	132	18
Agricultural society/County fair	10,000	10,000	10,000	-
Water planning	26,447	26,447	38,788	(12,341)
Wetland challenge	78,896	78,896	39,448	39,448
Other	10,353	10,353	11,103	(750)
Total conservation of natural resources	**$ 333,355**	**$ 333,952**	**$ 305,749**	**$ 28,203**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures (Continued)				
Unallocated				
Interest	**$ 137,260**	**$ -**	**$ -**	**$ -**
Debt service				
Principal	$ -	$ 72,523	$ 72,523	$ -
Interest	-	43,876	43,876	-
Total debt service	**$ -**	**$ 116,399**	**$ 116,399**	**$ -**
Total Expenditures	**$ 12,525,476**	**$ 12,590,451**	**$ 13,368,517**	**$ (778,066)**
Excess of Revenues Over (Under) Expenditures	**$ (60,051)**	**$ (275,622)**	**$ 557,185**	**$ 832,807**
Other Financing Sources (Uses)				
Transfers in	$ 80,000	$ 265,000	$ 216,136	$ (48,864)
Transfers out	-	-	(225,139)	(225,139)
Total Other Financing Sources (Uses)	**$ 80,000**	**$ 265,000**	**$ (9,003)**	**$ (274,003)**
Net Change in Fund Balance	**$ 19,949**	**$ (10,622)**	**$ 548,182**	**$ 558,804**
Fund Balance - January 1	**114,395**	**114,395**	**114,395**	**-**
Fund Balance - December 31	**$ 134,344**	**$ 103,773**	**$ 662,577**	**$ 558,804**

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

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 1,585,000	$ 1,438,099	$ 1,446,831	$ 8,732
Intergovernmental	4,422,139	4,569,040	6,689,672	2,120,632
Charges for services	215,000	215,000	189,648	(25,352)
Investment earnings	100,000	100,000	-	(100,000)
Miscellaneous	122,000	122,000	62,224	(59,776)
Total Revenues	**$ 6,444,139**	**$ 6,444,139**	**$ 8,388,375**	**$ 1,944,236**
Expenditures				
Current				
Highways and streets				
Administration	$ 539,966	$ 539,966	$ 638,654	$ (98,688)
Maintenance	1,494,084	1,494,084	1,746,555	(252,471)
Construction	2,998,807	2,998,807	2,283,283	715,524
Equipment maintenance and shop	1,365,115	1,365,115	882,246	482,869
Unallocated - highways and streets	50,946	50,946	-	50,946
Total highways and streets	**$ 6,448,918**	**$ 6,448,918**	**$ 5,550,738**	**$ 898,180**
Intergovernmental				
Highways and streets	**$ -**	**$ -**	**$ 305,395**	**$ (305,395)**
Debt service				
Principal	$ -	$ -	$ 80,000	$ (80,000)
Interest	-	-	21,390	(21,390)
Total debt service	**$ -**	**$ -**	**$ 101,390**	**$ (101,390)**
Total Expenditures	**$ 6,448,918**	**$ 6,448,918**	**$ 5,957,523**	**$ 491,395**
Excess of Revenues Over (Under) Expenditures	**$ (4,779)**	**$ (4,779)**	**$ 2,430,852**	**$ 2,435,631**
Other Financing Sources (Uses)				
Transfers in	$ -	$ -	$ 25,139	$ 25,139
Proceeds from sale of capital assets	-	-	11,207	11,207
Total Other Financing Sources (Uses)	**$ -**	**$ -**	**$ 36,346**	**$ 36,346**
Net Change in Fund Balance	**$ (4,779)**	**$ (4,779)**	**$ 2,467,198**	**$ 2,471,977**
Fund Balance - January 1	**(2,557,043)**	**(2,557,043)**	**(2,557,043)**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**99,096**	**99,096**
Fund Balance - December 31	**$ (2,561,822)**	**$ (2,561,822)**	**$ 9,251**	**$ 2,571,073**

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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,100,000	$ 2,685,771	$ 2,455,903	$ (229,868)
Intergovernmental	4,405,414	4,412,551	4,879,100	466,549
Charges for services	73,525	73,525	110,692	37,167
Gifts and contributions	5,000	5,000	2,972	(2,028)
Miscellaneous	887,337	747,337	1,042,228	294,891
Total Revenues	**$ 8,471,276**	**$ 7,924,184**	**$ 8,490,895**	**$ 566,711**
Expenditures				
Current				
Human services				
Income maintenance	$ 2,203,541	$ 2,167,541	$ 2,139,041	$ 28,500
Social services	5,631,049	5,445,217	5,201,347	243,870
Total human services	**$ 7,834,590**	**$ 7,612,758**	**$ 7,340,388**	**$ 272,370**
Health				
Nursing service	$ 802,794	$ 802,794	$ 761,682	$ 41,112
Women, infants, and children	129,320	129,320	158,683	(29,363)
Maternal and child health	58,324	58,324	104,776	(46,452)
Environmental health	26,532	26,532	41,328	(14,796)
Health education	50,420	50,420	31,716	18,704
Total health	**$ 1,067,390**	**$ 1,067,390**	**$ 1,098,185**	**$ (30,795)**
Total Expenditures	**$ 8,901,980**	**$ 8,680,148**	**$ 8,438,573**	**$ 241,575**
Excess of Revenues Over (Under) Expenditures	**$ (430,704)**	**$ (755,964)**	**$ 52,322**	**$ 808,286**
Fund Balance - January 1	**2,858,606**	**2,858,606**	**2,858,606**	**-**
Fund Balance - December 31	**$ 2,427,902**	**$ 2,102,642**	**$ 2,910,928**	**$ 808,286**

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

Schedule 4

BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 36,845	$ 36,845	$ 42,230	$ 5,385
Miscellaneous	481,548	481,548	461,980	(19,568)
Total Revenues	**$ 518,393**	**$ 518,393**	**$ 504,210**	**$ (14,183)**
Expenditures				
Current				
Conservation of natural resources				
Land use	$ 488,053	$ 488,053	$ 318,678	$ 169,375
Other conservation	-	-	16,183	(16,183)
Total Expenditures	**$ 488,053**	**$ 488,053**	**$ 334,861**	**$ 153,192**
Excess of Revenues Over (Under) Expenditures	**$ 30,340**	**$ 30,340**	**$ 169,349**	**$ 139,009**
Other Financing Sources (Uses)				
Transfers out	50,000	50,000	(216,136)	(266,136)
Net Change in Fund Balance	**$ 80,340**	**$ 80,340**	**$ (46,787)**	**$ (127,127)**
Fund Balance - January 1	**1,177,889**	**1,177,889**	**1,177,889**	**-**
Fund Balance - December 31	**$ 1,258,229**	**$ 1,258,229**	**$ 1,131,102**	**$ (127,127)**

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, 2009

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, 2009

1. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level, except for the General Fund, which is at the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2009, the following departments of the General Fund had expenditures that exceeded appropriations. During the budget process, the Pine County Board of Commissioners did not take into account the receipt of County Program Aid due to the uncertainty of State unallotments. The aid that was received was adequate in offsetting department expenditures.

2. Excess of Expenditures Over Appropriations (Continued)

General Fund by Department Level	Budget	Expenditures	Excess
Current			
General government			
Commissioners	$ 196,387	$ 207,634	$ 11,247
Courts	40,000	46,668	6,668
County auditor	448,374	484,576	36,202
Elections	1,200	3,935	2,735
Data processing	293,700	369,504	75,804
Personnel	215,463	216,215	752
Attorney	711,020	733,547	22,527
Contracted legal services	10,000	37,191	27,191
Recorder	289,614	321,927	32,313
Planning and zoning	101,588	109,526	7,938
Building and plant	504,937	651,388	146,451
Public safety			
Sheriff	3,700,278	4,174,659	474,381
Boat and water safety	6,200	20,934	14,734
Coroner	35,000	61,653	26,653
E-911 system	95,905	101,240	5,335
County jail	3,113,243	3,202,437	89,194
Other public safety	17,400	23,443	6,043
Conservation of natural resources			
Soil and water conservation	71,398	73,951	2,553
Water planning	26,447	38,788	12,341
Other	10,353	11,103	750
Total	$ 9,888,507	$ 10,890,319	$ 1,001,812

3. Other Postemployment Benefits

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

PINE COUNTY
PINE CITY, MINNESOTA

Statement 1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	Special Revenue	Debt Service	Capital Projects	Total
Assets				
Cash and pooled investments	$ 39,465	$ 1,400,882	$ 150,480	$ 1,590,827
Undistributed cash in agency funds	-	103,164	-	103,164
Cash with escrow agent	-	500,000	-	500,000
Investments	101,676	-	-	101,676
Taxes receivable				
Prior	-	172,901	-	172,901
Accounts receivable	161,131	-	-	161,131
Accrued interest receivable	59	-	-	59
Due from other funds	-	-	2,046	2,046
Total Assets	**$ 302,331**	**$ 2,176,947**	**$ 152,526**	**$ 2,631,804**
Liabilities and Fund Balances				
Liabilities				
Cash overdraft	$ -	$ -	$ 2,046	$ 2,046
Due to other funds	-	2,046	-	2,046
Due to other governments	66	-	-	66
Deferred revenue - unavailable	161,131	152,782	-	313,913
Total Liabilities	**$ 161,197**	**$ 154,828**	**$ 2,046**	**$ 318,071**
Fund Balances				
Reserved for debt service	$ -	$ 500,000	$ -	$ 500,000
Unreserved				
Designated for capital improvements	-	65,239	-	65,239
Undesignated	141,134	1,456,880	150,480	1,748,494
Total Fund Balances	**$ 141,134**	**$ 2,022,119**	**$ 150,480**	**$ 2,313,733**
Total Liabilities and Fund Balances	**$ 302,331**	**$ 2,176,947**	**$ 152,526**	**$ 2,631,804**

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, 2009**

	Special Revenue	Debt Service	Capital Projects	Total
Revenues				
Taxes	$ -	$ 1,975,799	$ -	$ 1,975,799
Intergovernmental	-	204,743	-	204,743
Charges for services	19,807	-	-	19,807
Investment earnings	576	82	-	658
Total Revenues	**$ 20,383**	**$ 2,180,624**	**$ -**	**$ 2,201,007**
Expenditures				
Current				
General government	$ -	$ -	$ 49,520	$ 49,520
Public safety	167	-	-	167
Debt service				
Principal	-	755,000	-	755,000
Interest	-	1,394,635	-	1,394,635
Project cost	750	-	-	750
Administrative - fiscal charges	-	4,175	-	4,175
Total Expenditures	**$ 917**	**$ 2,153,810**	**$ 49,520**	**$ 2,204,247**
Excess of Revenues Over (Under) Expenditures	**$ 19,466**	**$ 26,814**	**$ (49,520)**	**$ (3,240)**
Other Financing Sources (Uses)				
Transfers in	$ -	$ 940	$ 200,000	$ 200,940
Transfers out	-	-	(940)	(940)
Total Other Financing Sources (Uses)	**$ -**	**$ 940**	**$ 199,060**	**$ 200,000**
Net Change in Fund Balance	**$ 19,466**	**$ 27,754**	**$ 149,540**	**$ 196,760**
Fund Balance - January 1	**121,668**	**1,994,365**	**940**	**2,116,973**
Fund Balance - December 31	**$ 141,134**	**$ 2,022,119**	**$ 150,480**	**$ 2,313,733**

PINE COUNTY
PINE CITY, MINNESOTA

Statement 3

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2009

	Ditch	Countywide Rehabilitation Program	Ambulance	Total
Assets				
Cash and pooled investments	$ 8,554	$ 14,685	$ 16,226	$ 39,465
Investments	-	101,676	-	101,676
Accounts receivable	-	-	161,131	161,131
Accrued interest receivable	-	59	-	59
Total Assets	**$ 8,554**	**$ 116,420**	**$ 177,357**	**$ 302,331**
Liabilities and Fund Balances				
Liabilities				
Due to other governments	$ -	$ -	$ 66	$ 66
Deferred revenue - unavailable	-	-	161,131	161,131
Total Liabilities	**$ -**	**$ -**	**$ 161,197**	**$ 161,197**
Fund Balances				
Unreserved				
Undesignated	8,554	116,420	16,160	141,134
Total Liabilities and Fund Balances	**$ 8,554**	**$ 116,420**	**$ 177,357**	**$ 302,331**

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, 2009

	Ditch	Countywide Rehabilitation Program	Ambulance	Total
Revenues				
Charges for services	$ 16,500	$ -	$ 3,307	$ 19,807
Investment earnings	-	576	-	576
Total Revenues	**$ 16,500**	**$ 576**	**$ 3,307**	**$ 20,383**
Expenditures				
Current				
Public safety	$ -	$ -	$ 167	$ 167
Debt service				
Project cost	-	750	-	750
Total Expenditures	**$ -**	**$ 750**	**$ 167**	**$ 917**
Net Change in Fund Balance	**$ 16,500**	**$ (174)**	**$ 3,140**	**$ 19,466**
Fund Balance - January 1	**(7,946)**	**116,594**	**13,020**	**121,668**
Fund Balance - December 31	**$ 8,554**	**$ 116,420**	**$ 16,160**	**$ 141,134**

PINE COUNTY
PINE CITY, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
DECEMBER 31, 2009

	Equipment Bond		East Central Solid Waste Commission	
Assets				
Cash and pooled investments	$	3,835	$	826
Undistributed cash in agency funds		116		70
Cash with escrow agent		-		-
Taxes receivable				
Prior		3,662		2,292
Total Assets	**$**	**7,613**	**$**	**3,188**
Liabilities and Fund Balances				
Liabilities				
Due to other funds	$	-	$	-
Deferred revenue - unavailable		3,662		2,292
Total Liabilities	**$**	**3,662**	**$**	**2,292**
Fund Balances				
Reserved for debt service	$	-	$	-
Unreserved				
Designated for capital improvements		-		-
Undesignated		3,951		896
Total Fund Balances	**$**	**3,951**	**$**	**896**
Total Liabilities and Fund Balances	**$**	**7,613**	**$**	**3,188**

	Street Reconstruction Bond	General Obligation Jail Bond	HRA Project Bonds	Total
	$ 821,081	$ 285,218	$ 289,922	$ 1,400,882
	37,430	36,029	29,519	103,164
	-	-	500,000	500,000
	62,721	57,280	46,946	172,901
	$ 921,232	**$ 378,527**	**$ 866,387**	**$ 2,176,947**
	$ -	$ 2,046	$ -	$ 2,046
	55,439	50,224	41,165	152,782
	$ 55,439	**$ 52,270**	**$ 41,165**	**$ 154,828**
	$ -	$ -	$ 500,000	$ 500,000
	-	-	65,239	65,239
	865,793	326,257	259,983	1,456,880
	$ 865,793	**$ 326,257**	**$ 825,222**	**$ 2,022,119**
	$ 921,232	**$ 378,527**	**$ 866,387**	**$ 2,176,947**

PINE COUNTY
PINE CITY, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Equipment Bond	East Central Solid Waste Commission
Revenues		
Taxes	$ 987	$ 577
Intergovernmental	-	-
Investment earnings	-	-
Total Revenues	**$ 987**	**$ 577**
Expenditures		
Debt service		
Principal	$ -	$ -
Interest	-	-
Administrative - fiscal charges	-	-
Total Expenditures	**$ -**	**$ -**
Excess of Revenues Over (Under) Expenditures	**$ 987**	**$ 577**
Other Financing Sources (Uses)		
Transfers in	-	-
Net Change in Fund Balance	**$ 987**	**$ 577**
Fund Balance - January 1	**2,964**	**319**
Fund Balance - December 31	**$ 3,951**	**$ 896**

Statement 6

Street Reconstruction Bond	General Obligation Jail Bond	HRA Project Bonds	Total
$ 715,800	$ 691,839	$ 566,596	$ 1,975,799
74,125	71,853	58,765	204,743
-	-	82	82
$ 789,925	**$ 763,692**	**$ 625,443**	**$ 2,180,624**
$ 755,000	$ -	$ -	$ 755,000
33,442	731,761	629,432	1,394,635
450	1,725	2,000	4,175
$ 788,892	**$ 733,486**	**$ 631,432**	**$ 2,153,810**
$ 1,033	**$ 30,206**	**$ (5,989)**	**$ 26,814**
-	-	940	940
$ 1,033	**$ 30,206**	**$ (5,049)**	**$ 27,754**
864,760	**296,051**	**830,271**	**1,994,365**
$ 865,793	**$ 326,257**	**$ 825,222**	**$ 2,022,119**

PINE COUNTY
PINE CITY, MINNESOTA

Statement 7

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECT FUNDS
DECEMBER 31, 2009

	G.O. Jail Bonds	Governmental Buildings	Total
Assets			
Cash and pooled investments	$ -	$ 150,480	$ 150,480
Due from other funds	2,046	-	2,046
Total Assets	**$ 2,046**	**$ 150,480**	**$ 152,526**
Liabilities and Fund Balances			
Liabilities			
Cash overdraft	$ 2,046	$ -	$ 2,046
Fund Balances			
Undesignated	-	150,480	150,480
Total Liabilities and Fund Balances	**$ 2,046**	**$ 150,480**	**$ 152,526**

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, 2009

	G.O. Jail Bonds	Governmental Buildings	Total
Expenditures			
Current			
General government	$ -	$ 49,520	$ 49,520
Other Financing Sources (Uses)			
Transfers in	$ -	$ 200,000	$ 200,000
Transfers out	(940)	-	(940)
Total Other Financing Sources (Uses)	$ (940)	$ 200,000	$ 199,060
Net Change in Fund Balance	$ (940)	$ 150,480	$ 149,540
Fund Balance - January 1	940	-	940
Fund Balance - December 31	$ -	$ 150,480	$ 150,480

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 6

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Charges for services	$ 12,125	$ 12,125	$ 16,500	$ 4,375
Expenditures				
Current				
Highways and streets	12,125	12,125	-	12,125
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 16,500**	**$ 16,500**
Fund Balance - January 1	**(7,946)**	**(7,946)**	**(7,946)**	**-**
Fund Balance - December 31	**$ (7,946)**	**$ (7,946)**	**$ 8,554**	**$ 16,500**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 7

BUDGETARY COMPARISON SCHEDULE
COUNTYWIDE REHABILITATION PROGRAM SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Investment earnings	$ -	$ -	$ 576	$ 576
Expenditures				
Debt service				
Project cost	-	-	750	(750)
Net Change in Fund Balance	**$ -**	**$ -**	**$ (174)**	**$ (174)**
Fund Balance - January 1	**116,594**	**116,594**	**116,594**	**-**
Fund Balance - December 31	**$ 116,594**	**$ 116,594**	**$ 116,420**	**$ (174)**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 8

BUDGETARY COMPARISON SCHEDULE
AMBULANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Charges for services	$ -	$ -	$ 3,307	$ 3,307
Expenditures				
Current				
Public safety				
Emergency services	-	-	167	(167)
Net Change in Fund Balance	**$ -**	**$ -**	**$ 3,140**	**$ 3,140**
Fund Balance - January 1	**13,020**	**13,020**	**13,020**	**-**
Fund Balance - December 31	**$ 13,020**	**$ 13,020**	**$ 16,160**	**$ 3,140**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 9

BUDGETARY COMPARISON SCHEDULE
EQUIPMENT BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ -	$ -	$ 987	$ 987
Net Change in Fund Balance	$ -	$ -	$ 987	$ 987
Fund Balance - January 1	2,964	2,964	2,964	-
Fund Balance - December 31	$ 2,964	$ 2,964	$ 3,951	$ 987

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 10

BUDGETARY COMPARISON SCHEDULE
EAST CENTRAL SOLID WASTE COMMISSION DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ -	$ -	$ 577	$ 577
Net Change in Fund Balance	$ -	$ -	$ 577	$ 577
Fund Balance - January 1	319	319	319	-
Fund Balance - December 31	$ 319	$ 319	$ 896	$ 577

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 11

BUDGETARY COMPARISON SCHEDULE
STREET RECONSTRUCTION BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 792,943	$ 792,943	$ 715,800	$ (77,143)
Intergovernmental	-	-	74,125	74,125
Total Revenues	**$ 792,943**	**$ 792,943**	**$ 789,925**	**$ (3,018)**
Expenditures				
Debt service				
Principal	$ 755,000	$ 755,000	$ 755,000	$ -
Interest	33,443	33,443	33,442	1
Administrative - fiscal charges	4,500	4,500	450	4,050
Total Expenditures	**$ 792,943**	**$ 792,943**	**$ 788,892**	**$ 4,051**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 1,033**	**$ 1,033**
Fund Balance - January 1	**864,760**	**864,760**	**864,760**	**-**
Fund Balance - December 31	**$ 864,760**	**$ 864,760**	**$ 865,793**	**$ 1,033**

PINE COUNTY
PINE CITY, MINNESOTA

Schedule 12

BUDGETARY COMPARISON SCHEDULE
HRA PROJECT BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts							
	Original		Final		Actual Amounts		Variance with Final Budget	
Revenues								
Taxes	$	631,556	$	631,556	$	566,596	$	(64,960)
Intergovernmental		-		-		58,765		58,765
Investment earnings		-		-		82		82
Total Revenues	**$**	**631,556**	**$**	**631,556**	**$**	**625,443**	**$**	**(6,113)**
Expenditures								
Debt service								
Interest	$	629,431	$	629,431	$	629,432	$	(1)
Administrative charges		2,125		2,125		2,000		125
Total Expenditures	**$**	**631,556**	**$**	**631,556**	**$**	**631,432**	**$**	**124**
Excess of Revenues Over (Under) Expenditures	**$**	**-**	**$**	**-**	**$**	**(5,989)**	**$**	**(5,989)**
Other Financing Sources (Uses)								
Transfers in		-		-		940		940
Net Change in Fund Balance	**$**	**-**	**$**	**-**	**$**	**(5,049)**	**$**	**(5,049)**
Fund Balance - January 1		**830,271**		**830,271**		**830,271**		**-**
Fund Balance - December 31	**$**	**830,271**	**$**	**830,271**	**$**	**825,222**	**$**	**(5,049)**

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, 2009

	Balance January 1	Additions	Deductions	Balance December 31
PINE COUNTY CHILDREN, FAMILIES, AND LEARNING SERVICES COLLABORATIVE				
Assets				
Cash and pooled investments	**$ 186,473**	**$ 157,855**	**$ 163,911**	**$ 180,417**
Liabilities				
Accounts payable	**$ 186,473**	**$ 157,855**	**$ 163,911**	**$ 180,417**
STATE				
Assets				
Cash and pooled investments	$ 9,521	$ 581,810	$ 555,436	$ 35,895
Accounts receivable	191	154	191	154
Total Assets	**$ 9,712**	**$ 581,964**	**$ 555,627**	**$ 36,049**
Liabilities				
Due to other governments	**$ 9,712**	**$ 581,964**	**$ 555,627**	**$ 36,049**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 596,840**	**$ 35,787,682**	**$ 35,521,333**	**$ 863,189**
Liabilities				
Accounts payable	$ -	$ 4,815	$ -	$ 4,815
Due to other governments	596,840	35,782,867	35,521,333	858,374
	$ 596,840	**$ 35,787,682**	**$ 35,521,333**	**$ 863,189**

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, 2009

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 792,834	$ 36,527,347	$ 36,240,680	$ 1,079,501
Accounts receivable	191	154	191	154
Total Assets	**$ 793,025**	**$ 36,527,501**	**$ 36,240,871**	**$ 1,079,655**
Liabilities				
Accounts payable	$ 186,473	$ 162,670	$ 163,911	$ 185,232
Due to other governments	606,552	36,364,831	36,076,960	894,423
Total Liabilities	**$ 793,025**	**$ 36,527,501**	**$ 36,240,871**	**$ 1,079,655**

OTHER SCHEDULE

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PINE COUNTY
PINE CITY, MINNESOTA

Schedule 13

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2009

Shared Revenue		
State		
Highway users tax	$	6,205,275
Road gas tax		8,725
Homestead credit		1,337,525
PERA rate reimbursement		36,545
Disparity reduction aid		442
Police aid		183,969
Enhanced 911		105,164
Sales tax rebate		297,786
Market value credit		1,333,039
Agricultural preserve credit		279
Agricultural conservation credit		1,775
Wildlife wetlands credit		479
Casino aid/tribal tax agreement		51,375
Total shared revenue	**$**	**9,562,378**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**682,714**
Payments		
State		
Payments in lieu of taxes	**$**	**524,007**
Grants		
State		
Minnesota Department/Board of		
Corrections	$	223,336
Health		208,753
Natural Resources		31,092
Human Services		1,165,445
Soil and Water Resources		18,750
Trial Courts		3,899
Veterans Affairs		9,270
Office of Environmental Assistance		74,044
Total state	**$**	**1,734,589**
Federal		
Department of		
Agriculture	$	354,945
Interior		4,815
Justice		8,395
Transportation		333,423
Health and Human Services		2,372,294
Homeland Security		34,013
Total federal	**$**	**3,107,885**
Total state and federal grants	**$**	**4,842,474**
Total Intergovernmental Revenue	**$**	**15,611,573**

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PINE COUNTY
PINE CITY, MINNESOTA

Schedule 14

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

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

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

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

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

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

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

G. The major programs are:

State Administrative Matching Grant for the Supplemental Nutrition Assistance Program (SNAP) Cluster	
State Administrative Matching Grant for SNAP	CFDA #10.561
State Administrative Matching Grant for SNAP - ARRA	CFDA #10.561
Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563

Foster Care Title IV-E Cluster	
Foster Care Title IV-E	CFDA #93.658
Foster Care Title IV-E - ARRA	CFDA #93.658
Medical Assistance	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, the proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

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

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. The County has assumed a more active role and will continue to increase its role in the preparation of the financial statements, time and staff levels permitting.

06-2 Audit Adjustments

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

During our audit, we proposed adjustments that resulted in significant changes to some of the County's fund level financial statements. County staff assisted in providing various schedules and other information necessary for financial reporting. However, material audit adjustments were made to the Road and Bridge Special Revenue Fund to adjust federal and state grant receivables, adjust state aid highway allotments and advances, and and record contract payables. Material adjustments were also made to the Health and Human Services Special Revenue Fund to properly classify federal grant revenues; the Land Management Special Revenue Fund to record the current year's forfeited tax apportionment and land and timber receivables; the nonmajor Ambulance Special Revenue Fund to correct the year-end accounts receivable balance; and the nonmajor HRA Project Bonds Debt Service Fund to eliminate a negative designated fund balance. Audit adjustments were also necessary to adjust modified accrual financial statements to the full accrual basis for the government-wide financial statements. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend 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, an analysis of federal financial awards, a review of draft financial statements by a qualified individual to identify potential misstatements, and an assessment of risk the County may be exposed to as a result of a lack of internal control over the financial reporting process.

Client's Response:

Pine County implemented a schedule for the personnel involved with the Federal and State Grants that is monitored by the Fiscal Supervisor in the Auditor's Department. Additional training of staff will continue to ensure preparation and reporting of financial statements are completed accurately.

06-5 Computer Risk Management

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

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

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

Client's Response:

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

ITEMS ARISING THIS YEAR

09-1 Payroll Internal Controls

Our tests of internal controls over payroll detected two instances in which employees' time sheets from the Pine County Highway Department lacked supervisory approval. These time sheets were processed with other employees whose timesheets had been approved. Supervisory approval of employee time reports is a basic internal control designed to prevent error and fraudulent time reporting.

We recommend that supervisors review all employee time sheets and sign off as approved before being processed through payroll.

Client's Response:

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

09-2 Network Access Termination

When employees are terminated, the County has no formal written procedures to inform the MIS Department of the need to remove the employees from network access in a timely manner. Testing of internal controls over IT security identified four terminated employees that still had access to County systems. When terminated employees have access to County systems, there is a risk of malicious damage to the County's data files and systems, fraud, and/or misstatements to occur.

We recommend that the County implement internal controls that allow for the removal of a terminated employee's network access in a timely manner, preferably within one or two days, or immediately where circumstances require it.

Client's Response:

The MIS and Coordinator's Departments have developed and adopted the necessary procedures as recommended.

09-3 Unreconciled Taxes and Penalties Fund

Taxes collected throughout the year are recorded into the County's Taxes and Penalties Agency Fund to be apportioned at a later date. Some other types of receipts may also be temporarily recorded into this fund. Our review of the County's Taxes and Penalties Agency Fund identified excess cash remaining that could not be reconciled to its proper source after adjusting for the December apportionment. This condition has existed for a number of years. The remaining balance of approximately $190,000 is not explainable as refunds or prepayments. It remains unknown at this time as to whether the amount remaining is owed to other taxing districts or belongs to another fund of the County.

We recommend that County staff review past activity in this fund to determine the nature of the excess cash balance. Once identified, the excess should either be paid over to the rightful taxing authority or transferred to another fund of the County.

Client's Response:

The Pine County Auditor has been made aware of the excess cash balance and will review past activity in this fund to determine its nature. Any excess identified will be paid to the appropriate taxing authority or transferred to another fund of the County.

PREVIOUSLY REPORTED ITEMS RESOLVED

Accounting Policies and Procedures Manual (06-7)

The County Board had not adopted a current and comprehensive accounting policies and procedures manual.

Resolution

The County Board adopted an accounting policies and procedures manual.

Reconciliation of Interfund Balances (07-2)

The County was unable to reconcile its interfund account balances without assistance from its external auditors.

Resolution

Interfund account balances were reconciled to the proper fund level IFS control account.

Reconciliation of Escrow Agent Bank Statement (08-1)

The County did not regularly reconcile bank statements issued by the escrow agent holding its HRA Public Project Revenue Bonds to County accounting records.

Resolution

Escrow agent bank statements were reconciled to the accounting records.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

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

The Pine County Health and Human Services (HHS) Special Revenue Fund receives federal indirect administrative aid as reimbursement for carrying out mandated programs. As a part of our testing of major federal programs, we reviewed a sample of HHS administrative aid quarterly reports. During this testing, the Fiscal Supervisor reported that, due to an error in the time study, 100 percent of his time was not being allocated to HHS departments and programs. As a result, a portion of his time was not being allocated to the child support program. The time study flows into the labor distribution and to the general ledger, which is the basis for the cost reports submitted for administrative aid reimbursement. This understated the amount of federal reimbursement the HHS fund could receive. Revised cost reports had not been submitted to the Minnesota Department of Human Services until questioned by the auditor. This condition had existed since 2006, and the time study had not been updated since that time.

This condition indicates a failure in monitoring internal controls that should ensure time studies are accurate and timely. Time studies should be updated at least quarterly to reflect changing circumstances and should be based upon activities actually performed. The failure to monitor and update the time study in a timely manner resulted in inaccurate administrative cost reports and potential loss of federal reimbursement.

We recommend that the County's HHS Department more closely monitor its system and ensure time studies that support federal reimbursement are accurate and current. When reporting errors are detected, timely amended reports should be prepared and submitted to ensure any reimbursement received is proper.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Russell Baron, HHS Fiscal Supervisor

Corrective Action Planned:

Time study review will be done quarterly and if adjustments are required, amended reports will be timely submitted.

Anticipated Completion Date:

Commenced in 2010.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

09-5 Safekeeping of Investments

The County is required by Minn. Stat. § 118A.06 to hold all investments in safekeeping with:

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

At December 31, 2009, Wells Fargo Advisors held securities on behalf of Pine County. Minnesota law in effect at this time permitted only brokers with a "principal executive office" in the State of Minnesota to hold public securities. Wells Fargo Advisors does not have a principal executive office in the State of Minnesota.

The 2010 Legislature changed this requirement so that as of August 1, 2010, brokers can hold public investments to the extent they have insurance to protect their clients through the Securities Investors Protection Corporation (SIPC) coverage or excess SIPC coverage. We recommend that all County securities be held only by entities that meet the criteria of Minn. Stat. § 118A.06. For brokers such as Wells Fargo Advisors, the County must verify that the brokers have SIPC coverage and excess SIPC coverage sufficient to protect all County securities in their possession in order to be in compliance with Minn. Stat. § 118A.06 after August 1, 2010.

Client's Response:

All brokers have provided documentation supporting the required SIPC coverage and excess SIPC coverage in accordance with Minnesota statutes.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-11 Information Systems Department Review

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

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

- a detailed list of recovery procedures,
- a timeline of when procedures will take place,
- identification of a disaster recovery team,
- a list of emergency telephone numbers,
- responsibilities of the disaster recovery team,
- hardware configuration and minimum equipment requirements,
- a master operations schedule and critical job schedule,
- a list of forms or supplies necessary,
- an organizational chart and directory of personnel,

- information relative to off-site back-up storage facilities, and

- any agreements regarding back-up processing sites.

<u>Client's Response</u>:

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 Department 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.

97-4 <u>Advances to Five County Mental Health Center</u>

During 1997 and 1998, the County made quarterly advances to the Five County Mental Health Center (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, 2009, 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 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.

<u>Client's Response</u>:

All debt was forgiven by County Board Resolution on December 15, 2009, with the exception of $47,358 to be further reviewed. After subsequent review, the remaining debt was forgiven by County Board Resolution on February 16, 2010.

07-6 <u>Recorder's Technology and Compliance Funds</u>

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 is 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 Funds 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.

PREVIOUSLY REPORTED ITEM RESOLVED

Five County Mental Health Center Loan (96-13)

An unsecured loan was made to the Five County Mental Health Center (5CMHC) in 1995, with no repayment activity since then.

Resolution

The County Board passed a resolution to forgive the 5CMHC loan on December 15, 2009. This was determined to be a reinvestment into 5CMHC.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

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

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

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

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

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

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

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.

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

Board of County Commissioners
Pine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 19, 2010. 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4, 06-1, 06-5, and 09-1 through 09-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pine County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because that provision did not apply.

The results of our tests indicate that, for the items tested, Pine County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 09-5.

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

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

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

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

November 19, 2010

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

Board of County Commissioners
Pine County

Compliance

We have audited the compliance of Pine County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. 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, 2009.

Internal Control Over Compliance

Management of Pine County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 09-4. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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, 2009, and have issued our report thereon dated November 19, 2010. Our audit was performed for the purpose of forming opinions on Pine County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pine County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 19, 2010

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Schedule 15

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Agriculture			
Passed Through the Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children		10.557	$ 191,316
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster			
State Administrative Matching Grants for SNAP		10.561	155,875
State Administrative Matching Grants for SNAP - ARRA		10.561	7,754
Total U.S. Department of Agriculture			**$ 354,945**
U.S. Department of the Interior			
Direct			
Payments in Lieu of Taxes		15.226	**$ 4,815**
U.S. Department of Justice			
Direct			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program - ARRA	2009-SB-B9-2915	16.804	$ 120
Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program - ARRA		16.810	8,275
Total U.S. Department of Justice			**$ 8,395**
U.S. Department of Transportation			
Passed Through the Minnesota Department of Transportation			
Highway Planning and Construction		20.205	$ 434,199
Passed Through Kanabec County			
State and Community Highway Safety		20.600	3,503
Total U.S. Department of Transportation			**$ 437,702**
U.S. Elections Assistance Commission			
Passed Through Minnesota Secretary of State			
Help America Vote Act Requirements payments	A87520	90.401	**$ 7,341**

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

Schedule 15
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services			
Passed Through Kanabec/Pine Community Health Services			
Public Health Emergency Preparedness		93.069	$ 30,257
Passed Through Minnesota Department of Health			
Centers for Disease Control and Prevention - Investigations and Technical Assistance		93.283	25,551
Maternal and Child Health Services Block Grant		93.994	36,268
Passed Through Minnesota Department of Human Services			
Projects for Assistance in Transition from Homelessness (PATH)		93.150	3,518
Promoting Safe and Stable Families		93.556	7,409
Temporary Assistance for Needy Families		93.558	468,350
Child Support Enforcement Cluster			
Child Support Enforcement		93.563	616,544
Child Support Enforcement - ARRA		93.563	89,650
Refugee and Entrant Assistance - State-Administered Programs		93.566	408
Child Care Mandatory and Matching Funds of the Child Care and Development Fund		93.596	24,251
Child Welfare Services - State Grants		93.645	17,583
Foster Care Title IV-E Cluster			
Foster Care Title IV-E		93.658	86,558
Foster Care Title IV-E - ARRA		93.658	7,079
Social Services Block Grant		93.667	192,731
Chafee Foster Care Independence Program		93.674	6,342
Children's Health Insurance Program		93.767	91
Medical Assistance Program		93.778	751,981
Block Grants for Community Mental Health Services		93.958	7,723
Total U.S. Department of Health and Human Services			**$ 2,372,294**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance		97.012	$ 10,177
Passed Through the Minnesota Department of Public Safety			
Homeland Security Grant Program	2006-GE-T6-0005	97.067	23,836
Total U.S. Department of Homeland Security			**$ 34,013**
Total Federal Awards			**$ 3,219,505**

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

PINE COUNTY
PINE CITY, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pine County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of Pine County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pine County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	3,107,885
Grants received more than 60 days after year-end, deferred in 2009		
Highway Planning and Construction		104,279
Expenditures recognized in 2009 for revenue recognized in 2006		
Help America Vote Act Requirements payments		7,341
Expenditures Per Schedule of Expenditures of Federal Awards	$	3,219,505

5. Subrecipients

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

6. American Recovery and Reinvestment Act

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