

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

**YEAR ENDED DECEMBER 31, 2005**

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**PINE COUNTY  
PINE CITY, MINNESOTA**

**Year Ended December 31, 2005**



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

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**PINE COUNTY  
PINE CITY, MINNESOTA**

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PINE CITY, MINNESOTA**

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PINE CITY, MINNESOTA**

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**PINE COUNTY  
PINE CITY, MINNESOTA**

ORGANIZATION  
AS OF DECEMBER 31, 2005

		<u>Term Expires</u>
Elected		
Commissioners		
	Eileen J. Anderson	District 1 2006
	Alan Hancock	District 2 2006
	Roger Nelson	District 3 2008
	Greg Bennett	District 4 2008
	Doug Carlson	District 5 2006
Attorney	John Carlson	2006
Auditor	Kaye Jorgensen	2006
Sheriff	Mark Mansavage	2006
Treasurer	Ruth Blahnik	2006
Appointed		
Assessor	John (Mike) Sheehy	Indefinite
County Recorder	Tamara Tricas	Indefinite
Registrar of Titles	Tamara Tricas	Indefinite
Court Administrator	Lu Ann Blegen	Indefinite
Highway Engineer	Mark LeBrun	Indefinite
Public Works Director	Mark LeBrun	Indefinite
Coordinator	John Stieben	Indefinite
Land Zoning Supervisor	Robert Pulford	Indefinite
Health and Human Services Director	Pat Hass	Indefinite
Human Resource Manager	Marie Pangerl	Indefinite

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### 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, 2005, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Pine County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2005, 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 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: August 25, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**PINE COUNTY  
PINE CITY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005  
(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, 2005. 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, 2005, by \$65,598,578 (net assets). Of this amount, \$8,101,454 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of 2005, Pine County's governmental funds reported combined ending fund balances of \$37,770,853. Of this balance amount, \$33,403,979 was unreserved and undesignated by Pine County. Of the total unreserved and undesignated fund balance, \$26,491,442 represents unspent bond proceeds issued during 2005 to be used to finance construction of the new Pine County Courthouse and Law Enforcement Center. The remaining \$6,912,537 of the unreserved and undesignated balance was available for spending at the County's discretion.
- At the end of 2005, unreserved fund balance for the General Fund was \$1,579,668, or 15.4 percent of the total General Fund expenditures for that year.
- Due to the construction of a new courthouse and law enforcement facility, Pine County's long-term liabilities increased by \$29,066,884 during 2005. This increase was the result of issuance of bonds to finance the construction of a new courthouse and law enforcement center.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## **Government-Wide Financial Statements**

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

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

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

Pine County's government-wide financial statements distinguish County operations by function. The governmental activities of Pine County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, 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 financial-related legal requirements. All of the funds of Pine County can be divided into two categories: governmental funds and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term

financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

**Notes to the Financial Statements**

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

**Other Information**

Other information is provided as supplementary information regarding Pine County’s investments and 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 \$65,598,578 at the close of 2005. The largest portion of Pine County’s net assets (83.4 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.

	<b>Net Assets</b>	
	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 42,544,240	\$ 17,136,957
Capital assets	62,152,049	56,442,388
Total Assets	\$ 104,696,289	\$ 73,579,345

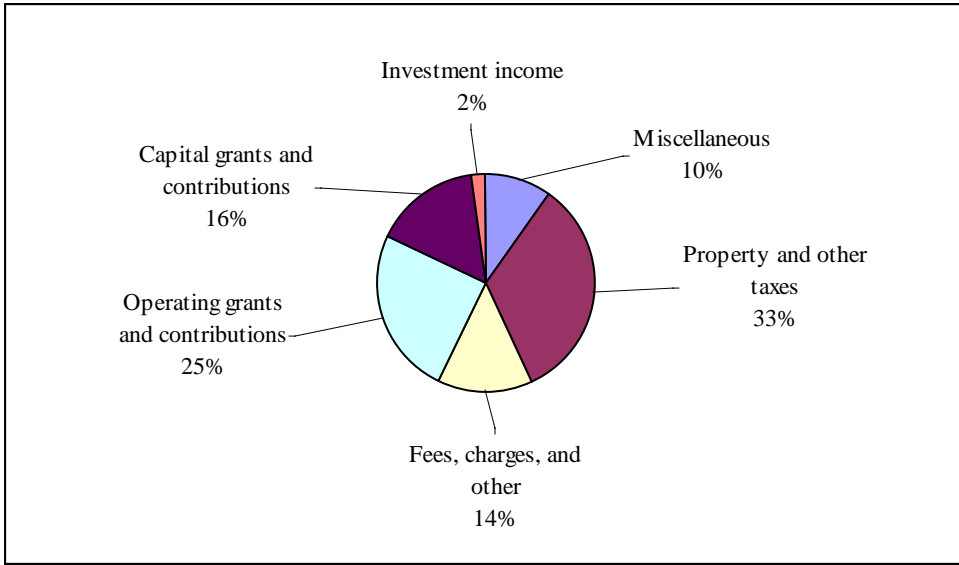
	Governmental Activities	
	2005	2004
Liabilities		
Long-term liabilities	\$ 35,045,594	\$ 5,978,710
Other liabilities	4,052,117	4,004,816
Total Liabilities	\$ 39,097,711	\$ 9,983,526
Net Assets		
Invested in capital assets, net of related debt	\$ 54,680,340	\$ 52,665,966
Restricted	2,816,784	4,660,973
Unrestricted	8,101,454	6,268,880
Total Net Assets	\$ 65,598,578	\$ 63,595,819

The unrestricted net assets amount of \$8,101,454 as of December 31, 2005, may be used to meet the County's ongoing obligations to citizens and creditors.

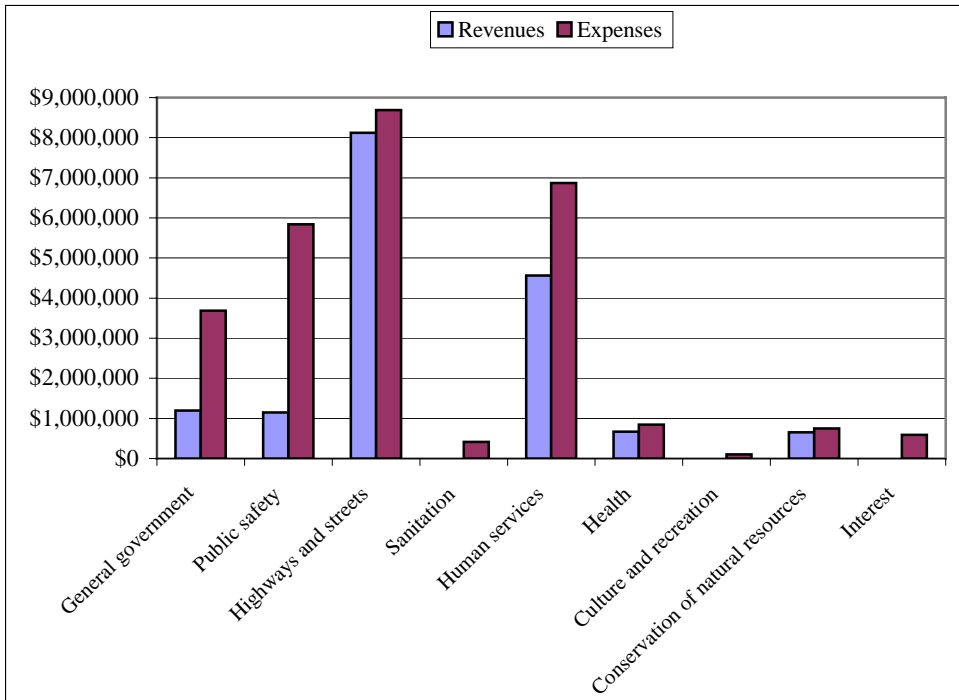
**Changes in Net Assets  
(in thousands)**

	Governmental Activities	
	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 4,134,433	\$ 4,738,012
Operating grants and contributions	7,570,695	11,142,228
Capital grants and contributions	4,646,703	3,382,946
General revenues		
Property taxes	9,755,089	8,114,351
Other	3,688,776	3,407,358
Total Revenues	\$ 29,795,696	\$ 30,784,895
Expenses		
General government	\$ 3,689,010	\$ 3,806,550
Public safety	5,838,466	5,481,188
Highways and streets	8,692,341	9,871,969
Sanitation	417,625	128,142
Human services	6,868,379	6,760,255
Health	845,453	789,854
Culture and recreation	104,505	308,033
Conservation of natural resources	747,572	1,263,288
Economic development	-	4,902
Interest	589,586	150,961
Total Expenses	\$ 27,792,937	\$ 28,565,142
Increase in Net Assets	\$ 2,002,759	\$ 2,219,753
Net Assets - January 1	63,595,819	61,376,066
Net Assets - December 31	\$ 65,598,578	\$ 63,595,819

**Revenues by Source - 2005**



**Expenses and Program Revenues - 2005**



## **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 \$37,770,853, an increase of \$27,800,215 in comparison with the prior year. Of the ending fund balance, \$33,403,979 is unreserved and undesignated. Of this amount, \$6,912,537 is available for spending at the County's discretion. The remaining \$26,491,442 represents unspent bond proceeds that will be used to finance construction of new courthouse and jail facilities. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Pine County. At the end of the current fiscal year, it had an unreserved fund balance of \$1,579,668. 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 15.4 percent of total General Fund expenditures. In 2005, ending unreserved/undesignated fund balance in the General Fund decreased by \$76,646.

The Road and Bridge Special Revenue Fund unreserved/undesignated fund balance of \$3,438,963 at year-end represents 30.2 percent of the fund's annual expenditures. Unreserved/undesignated fund balance increased \$2,160,175 during 2005, primarily due to increased revenues.

The Health and Human Services Special Revenue Fund unreserved/undesignated fund balance of \$1,893,906 at year-end represents 24.6 percent of the fund's annual expenditures. Unreserved/undesignated fund balance decreased \$31,411 during 2005, primarily due to expenditures.

### **General Fund Budgetary Highlights**

- The expenditure budget was amended by a decrease of \$567,939 during the year.
- Actual revenues exceeded budgeted revenues by \$201,060.
- Actual expenditures were over budgeted expenditures by \$207,002, mostly in the Sheriff's Department, County jail, and Sanitation.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Pine County's capital assets for its governmental activities at December 31, 2005, totaled \$62,152,049 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The major capital asset event was highway construction.

	Governmental Capital Assets (Net of Depreciation)	
	2005	2004
Land	\$ 2,842,876	\$ 1,758,195
Construction in progress	3,250,416	-
Infrastructure	52,318,464	50,490,806
Buildings	2,155,017	2,238,511
Machinery and equipment	1,585,276	1,954,876
Total	<u>\$ 62,152,049</u>	<u>\$ 56,442,388</u>

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 a total outstanding debt of \$35,548,350, which was backed by the full faith and credit of the government.

	Outstanding Debt	
	2005	2004
PFA Loans	\$ 939,427	\$ 1,069,427
General Obligation Jail Bonds	16,935,000	-
Facility Lease Revenue Bonds	13,285,000	-
General Obligation Capital Notes	3,665,000	4,430,000
East Central Solid Waste	723,923	852,150
Total	<u>\$ 35,548,350</u>	<u>\$ 6,351,577</u>

The County's debt increased during the fiscal year primarily due to the issuance of \$16,935,000 of G.O. Jail Bonds. An additional \$13,285,000 of Facility Lease Revenue Bonds was issued by the Pine County Housing and Redevelopment Authority (HRA) under a facilities lease arrangement with Pine County in which the County will make lease payments in accordance with the debt service schedule requirements of the HRA bonds issued.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2005, Pine County's debt was 1.83 percent of its total market value.

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

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

- Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.
- By the end of 2005, Pine County approved its balanced 2006 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 Kaye F. Jorgensen, Pine County Auditor, Pine County Courthouse, 315 - 6th Street, 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  
DECEMBER 31, 2005**

		<u>Governmental Activities</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$	23,494,973
Petty cash and change funds		3,610
Cash with escrow agent		13,111,246
Investments		101,676
Taxes receivable		
Prior - net		586,224
Accounts receivable - net		1,143,082
Accrued interest receivable		205,429
Loans receivable		34,850
Due from other governments		3,359,976
Prepaid items		62,858
Inventories		296,862
Deferred debt issuance cost		143,454
Capital assets		
Non-depreciable		6,093,292
Depreciable - net of accumulated depreciation		56,058,757
		<hr/>
<b>Total Assets</b>	<b>\$</b>	<b>104,696,289</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$	1,106,960
Salaries payable		229,569
Contracts payable		630,781
Due to other governments		968,583
Accrued interest payable		347,765
Long-term liabilities		
Due within one year		768,459
Due in more than one year		35,045,594
		<hr/>
<b>Total Liabilities</b>	<b>\$</b>	<b>39,097,711</b>
<b><u>Net Assets</u></b>		
Invested in capital assets - net of related debt	\$	54,680,340
Restricted for		
General government		19,251
Public safety		5,440
Highways and streets		593,121
Sanitation		10,000
Conservation of natural resources		613,227
Capital projects		149,065
Debt service		1,214,662
Other purposes		212,018
Unrestricted		8,101,454
		<hr/>
<b>Total Net Assets</b>	<b>\$</b>	<b>65,598,578</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions		Capital Grants and Contributions
<b>Functions/Programs</b>					
<b>Governmental activities</b>					
General government	\$ 3,689,010	\$ 1,139,409	\$ 57,763	\$ -	\$ (2,491,838)
Public safety	5,838,466	446,646	700,372	-	(4,691,448)
Highways and streets	8,692,341	1,062,706	2,414,067	4,646,703	(568,865)
Sanitation	417,625	250	-	-	(417,375)
Human services	6,868,379	767,753	3,795,101	-	(2,305,525)
Health	845,453	237,934	430,860	-	(176,659)
Culture and recreation	104,505	-	-	-	(104,505)
Conservation of natural resources	747,572	479,735	172,532	-	(95,305)
Interest	589,586	-	-	-	(589,586)
<b>Total governmental activities</b>	<b><u>\$ 27,792,937</u></b>	<b><u>\$ 4,134,433</u></b>	<b><u>\$ 7,570,695</u></b>	<b><u>\$ 4,646,703</u></b>	<b><u>\$ (11,441,106)</u></b>
<b>General Revenues</b>					
Property taxes				\$ 9,755,089	
Mortgage registry and deed tax				36,743	
Payments in lieu of tax				261,185	
Grants and contributions not restricted to specific programs				2,800,759	
Unrestricted investment earnings				547,503	
Miscellaneous				42,586	
<b>Total general revenues</b>				<b><u>\$ 13,443,865</u></b>	
<b>Change in net assets</b>				<b>\$ 2,002,759</b>	
<b>Net Assets - Beginning</b>				<b><u>63,595,819</u></b>	
<b>Net Assets - Ending</b>				<b><u>\$ 65,598,578</u></b>	

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**PINE COUNTY  
PINE CITY, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 1,642,674	\$ 1,909,548	\$ 1,878,680
Petty cash and change funds	3,410	150	-
Undistributed cash in agency funds	130,363	30,539	45,836
Cash with escrow agent	-	-	-
Investments	-	-	-
Taxes receivable			
Prior	301,525	92,434	143,137
Special assessments receivable			
Accounts receivable	22,397	1,077	66,622
Accrued interest receivable	111,538	-	-
Loans receivable	-	-	34,850
Leases receivable			
Due from other funds	229,056	20,138	8,547
Due from other governments	134,604	2,858,084	367,288
Prepaid items	13,000	-	49,858
Inventories	-	296,862	-
<b>Total Assets</b>	<b><u>\$ 2,588,567</u></b>	<b><u>\$ 5,208,832</u></b>	<b><u>\$ 2,594,818</u></b>

**EXHIBIT 3**

<b>Land Management</b>	<b>G.O. Jail Bonds Capital Projects</b>	<b>HRA Project Bond Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,361,801	\$ 14,450,489	\$ -	\$ 2,030,093	\$ 23,273,285
50	-	-	-	3,610
-	-	-	14,950	221,688
-	-	12,527,321	583,925	13,111,246
-	-	-	101,676	101,676
-	-	-	49,128	586,224
868,271	-	-	184,715	1,143,082
-	-	-	93,891	205,429
-	-	-	-	34,850
17,000	-	-	2,401	277,142
-	-	-	-	3,359,976
-	-	-	-	62,858
-	-	-	-	296,862
<b><u>\$ 2,247,122</u></b>	<b><u>\$ 14,450,489</u></b>	<b><u>\$ 12,527,321</u></b>	<b><u>\$ 3,060,779</u></b>	<b><u>\$ 42,677,928</u></b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<b>General</b>	<b>Road and Bridge</b>	<b>Health and Human Services</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 184,706	\$ 116,362	\$ 312,003
Salaries payable	146,240	31,897	51,432
Contracts payable	-	630,781	-
Due to other funds	29,906	24,701	31,917
Due to other governments	138,472	-	72,959
Deferred revenue - unavailable	244,021	669,116	147,893
	<b>\$ 743,345</b>	<b>\$ 1,472,857</b>	<b>\$ 616,204</b>
<b>Fund Balances</b>			
Reserved for			
Cash funds	\$ -	\$ 150	\$ -
Prepaid items	13,000	-	49,858
Missing heirs	73,705	-	-
Law library	19,251	-	-
Plat escrow	24,940	-	-
Sewage treatment loans	10,000	-	-
Drug forfeitures	5,440	-	-
Interest payments	-	-	-
Inventories	-	296,862	-
Loans receivable	-	-	34,850
Debt service	-	-	-
Timber development	-	-	-
Road access	-	-	-
Unreserved			
Designated for group health	115,808	-	-
Designated for capital improvements	-	-	-
Designated for petty cash funds	3,410	-	-
Designated for forestry	-	-	-
Undesignated	1,579,668	3,438,963	1,893,906
Unreserved, reported in nonmajor			
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
	<b>\$ 1,845,222</b>	<b>\$ 3,735,975</b>	<b>\$ 1,978,614</b>
<b>Total Fund Balances</b>	<b>\$ 1,845,222</b>	<b>\$ 3,735,975</b>	<b>\$ 1,978,614</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,588,567</b>	<b>\$ 5,208,832</b>	<b>\$ 2,594,818</b>

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

<b>Land Management</b>	<b>G.O. Jail Bonds Capital Projects</b>	<b>HRA Project Bond Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 6,804	\$ 486,368	\$ -	\$ 717	\$ 1,106,960
-	-	-	-	229,569
-	-	-	-	630,781
186,648	-	-	3,970	277,142
279,106	-	-	-	490,537
885,271	-	-	225,785	2,172,086
<b>\$ 1,357,829</b>	<b>\$ 486,368</b>	<b>\$ -</b>	<b>\$ 230,472</b>	<b>\$ 4,907,075</b>
\$ 50	\$ -	\$ -	\$ -	\$ 200
-	-	-	-	62,858
-	-	-	-	73,705
-	-	-	-	19,251
-	-	-	-	24,940
-	-	-	-	10,000
-	-	-	-	5,440
-	-	-	83,925	83,925
-	-	-	-	296,862
-	-	-	-	34,850
-	-	-	500,000	500,000
524,701	-	-	-	524,701
38,163	-	-	-	38,163
-	-	-	-	115,808
-	-	-	24,194	24,194
-	-	-	-	3,410
326,379	-	-	-	326,379
-	13,964,121	12,527,321	-	33,403,979
-	-	-	882,655	882,655
-	-	-	1,190,468	1,190,468
-	-	-	149,065	149,065
<b>\$ 889,293</b>	<b>\$ 13,964,121</b>	<b>\$ 12,527,321</b>	<b>\$ 2,830,307</b>	<b>\$ 37,770,853</b>
<b>\$ 2,247,122</b>	<b>\$ 14,450,489</b>	<b>\$ 12,527,321</b>	<b>\$ 3,060,779</b>	<b>\$ 42,677,928</b>

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**PINE COUNTY  
PINE CITY, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2005**

<b>Fund balances - total governmental funds</b>	<b>\$</b>	<b>37,770,853</b>
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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.		62,152,049
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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	\$ 2,172,086	
Less: forfeited tax sale receivable due to other governments	<u>(478,046)</u>	1,694,040

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

East Central Solid Waste Commission	\$ (723,922)	
Capital notes	(3,665,000)	
Facility lease revenue bonds	(13,285,000)	
General obligation bonds	(16,935,000)	
Unamortized bond issuance costs	277,383	
Loans payable	(939,427)	
Compensated absences	(543,087)	
Accrued interest payable	(347,765)	
Deferred debt issuance charges	<u>143,454</u>	<u>(36,018,364)</u>

<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>65,598,578</u></b>
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**PINE COUNTY  
PINE CITY, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
<b>Revenues</b>			
Taxes	\$ 5,358,735	\$ 1,470,710	\$ 2,205,805
Licenses and permits	106,191	-	-
Intergovernmental	3,304,924	9,244,683	4,411,627
Charges for services	1,129,038	943,536	96,661
Fines and forfeits	109,394	-	-
Gifts and contributions	137,390	-	8,185
Earnings on investments	308,281	-	-
Miscellaneous	287,892	141,639	937,841
<b>Total Revenues</b>	<b>\$ 10,741,845</b>	<b>\$ 11,800,568</b>	<b>\$ 7,660,119</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 3,777,238	\$ -	\$ -
Public safety	5,640,559	-	-
Highways and streets	-	11,222,601	-
Sanitation	417,625	-	-
Human services	-	-	6,846,352
Health	-	-	842,678
Culture and recreation	104,505	-	-
Conservation of natural resources	295,014	-	-
<b>Capital outlay</b>	-	-	-
<b>Debt service</b>			
Principal	-	130,000	-
Interest	-	32,084	-
Bond issuance costs	-	-	-
Administrative charges	-	-	-
<b>Total Expenditures</b>	<b>\$ 10,234,941</b>	<b>\$ 11,384,685</b>	<b>\$ 7,689,030</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 506,904</b>	<b>\$ 415,883</b>	<b>\$ (28,911)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 207,470	\$ 1,712,835	\$ -
Transfers out	(680,344)	-	-
Bonds issued	-	-	-
Discount on bond issuance	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (472,874)</b>	<b>\$ 1,712,835</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 34,030</b>	<b>\$ 2,128,718</b>	<b>\$ (28,911)</b>
<b>Fund Balances - January 1</b>	<b>1,811,192</b>	<b>1,607,257</b>	<b>2,007,525</b>
<b>Fund Balances - December 31</b>	<b>\$ 1,845,222</b>	<b>\$ 3,735,975</b>	<b>\$ 1,978,614</b>

**EXHIBIT 5**

<b>Land Management</b>	<b>G.O. Jail Bonds Capital Projects</b>	<b>HRA Project Bond Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 716,706	\$ 9,751,956
-	-	-	-	106,191
31,863	-	-	98,191	17,091,288
-	-	-	53,301	2,222,536
-	-	-	-	109,394
-	-	-	-	145,575
-	-	-	239,222	547,503
664,026	-	-	50,067	2,081,465
<b>\$ 695,889</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,157,487</b>	<b>\$ 32,055,908</b>
\$ -	\$ -	\$ -	\$ -	\$ 3,777,238
-	-	-	781	5,641,340
-	-	-	32,823	11,255,424
-	-	-	-	417,625
-	-	-	-	6,846,352
-	-	-	-	842,678
-	-	-	-	104,505
446,285	-	-	-	741,299
-	2,626,680	-	623,736	3,250,416
-	-	-	893,523	1,023,523
-	-	-	148,319	180,403
-	61,198	67,562	-	128,760
-	-	-	673	673
<b>\$ 446,285</b>	<b>\$ 2,687,878</b>	<b>\$ 67,562</b>	<b>\$ 1,699,855</b>	<b>\$ 34,210,236</b>
<b>\$ 249,604</b>	<b>\$ (2,687,878)</b>	<b>\$ (67,562)</b>	<b>\$ (542,368)</b>	<b>\$ (2,154,328)</b>
\$ -	\$ -	\$ -	\$ 1,271,029	\$ 3,191,334
(207,470)	(123,736)	(583,925)	(1,595,859)	(3,191,334)
-	16,935,000	13,285,000	-	30,220,000
-	(159,265)	(106,192)	-	(265,457)
<b>\$ (207,470)</b>	<b>\$ 16,651,999</b>	<b>\$ 12,594,883</b>	<b>\$ (324,830)</b>	<b>\$ 29,954,543</b>
<b>\$ 42,134</b>	<b>\$ 13,964,121</b>	<b>\$ 12,527,321</b>	<b>\$ (867,198)</b>	<b>\$ 27,800,215</b>
<b>847,159</b>	<b>-</b>	<b>-</b>	<b>3,697,505</b>	<b>9,970,638</b>
<b>\$ 889,293</b>	<b>\$ 13,964,121</b>	<b>\$ 12,527,321</b>	<b>\$ 2,830,307</b>	<b>\$ 37,770,853</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Net change in fund balances - total governmental funds** **\$ 27,800,215**

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditures 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 (decrease) in revenues deferred as unavailable. Pine County has receivables for forfeited tax sales included in deferred revenue. When these are collected, they will be paid to other governments.

December 31 - deferred revenue	\$ 2,172,086	
Less: forfeited tax sales receivable due to other governments	(478,046)	
January 1 - deferred revenue	(4,620,462)	
Less: forfeited tax sales receivable due to other governments	558,679	(2,367,743)

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.

Expenditures for general capital assets and infrastructure	\$ 7,510,308	
Net book value of assets disposed of	(22,469)	
Current year depreciation	(1,778,178)	5,709,661

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, 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, these amounts are deferred and amortized in the government-wide financial statements.

Proceeds of new debt		
G.O. and facility lease revenue bonds issued	\$ (30,220,000)	
Discount on bonds issued	265,457	
Debt issuance costs	128,760	(29,825,783)

Repayment of debt principal		
East Central Solid Waste Commission	\$ 128,228	
Capital notes	765,000	
Loans payable	130,000	1,023,228

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 governmental funds. These activities consist of:

Change in accrued interest payable	\$ (270,583)	
Amortization of discounts and deferred issuance charges	(5,684)	
Amortization of debt issuance discount	(1,948)	
Change in compensated absences	(58,604)	(336,819)

**Change in net assets of governmental activities** **\$ 2,002,759**

**FIDUCIARY FUNDS**

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**PINE COUNTY  
PINE CITY, MINNESOTA**

***EXHIBIT 7***

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2005**

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 567,077</u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 228,294
Due to other governments	<u>338,783</u>
<b>Total Liabilities</b>	<u>\$ 567,077</u>

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**PINE COUNTY  
PINE CITY, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

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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) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

The County participates in several joint ventures described in Note 6.C. The County also participates in jointly-governed organizations described in Note 6.D. A related organization is described in Note 6.E.

B. Basic Financial Statements

1. Government-Wide Statements

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

**PINE COUNTY  
PINE CITY, MINNESOTA**

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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 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.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

The G.O. Jail Bonds Capital Projects Fund is used to account for financial resources to be used for capital acquisition and construction of capital facilities.

The HRA Project Bond Capital Projects Fund is used to account for financial resources to be used for capital acquisition and construction of capital facilities.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

**PINE COUNTY  
PINE CITY, MINNESOTA**

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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 90 days after the end of the current period. 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, 2005, 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 2005 were \$308,281.

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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of pool shares.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

All other outstanding balances between funds are reported as “due to/from other funds.”

All receivables are shown net of any allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

**PINE COUNTY  
PINE CITY, MINNESOTA**

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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 is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Public domain infrastructure	50 - 75
Equipment and vehicles	5 - 10

5. Compensated Absences

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

6. Deferred Revenue

All County funds and the government-wide statements defer revenue for resources that have been received but not earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are 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.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

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

8. Fund Equity

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

9. Use of Estimates

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

E. Reconciliation of Government-Wide and Fund Financial Statements

1. Governmental Fund Balance Sheet and Statement of Net Assets

Exhibit 4 provides a reconciliation between fund balance as reported in the governmental fund balance sheet and net assets--governmental activities as reported in the statement of net assets. One element of that reconciliation is "other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds." The detail of this \$1,694,040 follows.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Reconciliation of Government-Wide and Fund Financial Statements

1. Governmental Fund Balance Sheet and Statement of Net Assets (Continued)

Included in the long-term assets are receivables for forfeited tax sales. Forfeited tax sales are distributed to the County and certain governments within the County. Receivables not available to pay current expenditures have been deferred. On the government-wide financial statements, the portion of this receivable that will be distributed to the County is reported as revenue, and the amount to be distributed to others is reported as due to other governments.

Deferred revenue	\$ 2,172,086
Due to other governments	<u>(478,046)</u>
Adjustment to Increase Fund Balance to Arrive at Net Assets--Governmental Activities	<u>\$ 1,694,040</u>

2. Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities

Exhibit 6 is a reconciliation between the increase in governmental funds fund balance and the increase in net assets--governmental activities. One element of that increase is "in the funds, under the modified accrual basis, receivables not available for expenditures are deferred in the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable." The details of the \$2,367,743 follow.

Included in deferred revenue are forfeited tax sales receivable that, when received, will be paid to other governments. On the government-wide statements, these are reported as due to other governments.

December 31	
Deferred revenue – unavailable	\$ 2,172,086
Less: forfeited tax sales due to other governments	(478,046)
January 1	
Deferred revenue – unavailable	(4,620,462)
Less: forfeited tax sales due to other governments	<u>558,679</u>
Adjustment to Revenue	<u>\$ (2,367,743)</u>

**PINE COUNTY  
PINE CITY, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 23,273,285
Undistributed cash in agency funds	221,688
Petty cash and change funds	3,610
Investments	101,676
Cash with escrow agent	13,111,246
Statement of fiduciary net assets	
Cash and pooled investments	<u>567,077</u>
 Total Cash and Investments	 <u>\$ 37,278,582</u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard 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 that is not owned or controlled by the financial institution furnishing the collateral.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (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

**PINE COUNTY  
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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments. It is the County's policy to keep securities to a maximum average life of ten years, except treasury strips and zero coupons, which are limited to 15 percent of the investment portfolio at time of purchase.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. It is in the County's investment policy that a bond, pledged collateral, or depository insurance protects the investment to 110 percent.

**PINE COUNTY  
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

B. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal National Mortgage Association Note	N/F	N/A		12/1/2010	\$ 18,100
Federal National Mortgage Association Note	AAA	Moody's		12/29/2006	98,281
Federal National Mortgage Association Note	AAA	N/A		1/1/2009	14,446
Federal National Mortgage Association Note	N/F	N/A		5/1/2014	58,936
Federal National Mortgage Association Note	AAA	N/A		7/28/2006	462,633
Total Federal National Mortgage Association Notes			<5%		\$ 652,396
Federal Home Loan Bank Note	AAA	Moody's		9/8/2009	\$ 498,445
Federal Home Loan Bank Note	AAA	Moody's		10/30/2009	244,520
Federal Home Loan Bank Note	AAA	S&P		10/30/2009	197,106
Federal Home Loan Bank Note	AAA	Moody's		7/22/2011	286,950
Federal Home Loan Bank Note	AAA	S&P		10/27/2006	314,080
Federal Home Loan Bank Note	AAA	S&P		10/27/2006	1,622,709
Federal Home Loan Bank Note	AAA	S&P		10/30/2006	1,122,278
Federal Home Loan Bank Note	AAA	S&P		12/27/2006	249,250
Federal Home Loan Bank Note	AAA	S&P		2/9/2007	273,295
Federal Home Loan Bank Note	AAA	S&P		5/24/2007	199,520
Federal Home Loan Bank Note	AAA	Moody's		9/10/2007	128,448
Federal Home Loan Bank Note	AAA	Moody's		10/12/2007	199,260
Federal Home Loan Bank Note	AAA	Moody's		12/5/2008	342,902
Federal Home Loan Bank Note	AAA	Moody's		5/12/2009	149,130

**PINE COUNTY  
PINE CITY, MINNESOTA**

1. Detailed Notes on All Funds

1. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Federal Home Loan Bank Note	AAA	Moody's		8/26/2009	98,509
Federal Home Loan Bank Note	AAA	Moody's		5/1/2013	295,434
Federal Home Loan Bank Note	AAA	Moody's		5/22/2013	195,208
Federal Home Loan Bank Note	AAA	Moody's		6/26/2013	598,450
Federal Home Loan Bank Note	AAA	Moody's		7/24/2013	681,604
Federal Home Loan Bank Note	AAA	Moody's		8/13/2013	341,796
Federal Home Loan Bank Note	AAA	S&P		8/21/2013	270,683
Federal Home Loan Bank Note	AAA	Moody's		10/24/2008	298,500
Federal Home Loan Bank Note	AAA	Moody's		6/30/2006	98,719
Federal Home Loan Bank Note	AAA	Moody's		11/16/2009	196,562
Total Federal Home Loan Bank Notes			<5%		\$ 8,903,358
Federal Home Loan Mortgage Corporation	AAA	Moody's	<5%	6/5/2006	\$ 341,889
Federal Home Loan Mortgage Corporation Bullet Bond	AAA	Moody's	<5%	8/15/2006	\$ 395,375
Freddie Mac	AAA	S&P	<5%	12/29/2006	\$ 398,896
U.S. Treasury strips	AAA	Moody's	<5%	2/15/2027	\$ 377,960
Commercial paper					
Gotham Funding Corporation	P-1	Moody's	<5%	1/31/2006	\$ 497,500
Orion Financial USA LLC	P-1	Moody's	<5%	1/31/2006	497,500
Total commercial paper					\$ 995,000
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 360,645
First American Government Obligations Fund	AAA	S&P	N/A	N/A	1,103
Total investment pools/mutual funds					\$ 361,748
Negotiable certificates of deposit					
US Bank N.A.	N/A	N/A	N/A	1/9/2006	\$ 4,552,000
Capital One Bank	N/A	N/A	N/A	5/23/2006	100,484
Standard Federal Bank	N/A	N/A	N/A	9/2/2008	97,466
Lasalle Bank	N/A	N/A	N/A	2/9/2011	94,317
M&I Bank	N/A	N/A	N/A	12/20/2012	95,388
Waypoint Bank	N/A	N/A	N/A	7/9/2013	98,060
Huntington National Bank	N/A	N/A	N/A	12/2/2014	95,893
Total negotiable certificates of deposit					\$ 5,133,608

**PINE COUNTY  
PINE CITY, MINNESOTA**

1. Detailed Notes on All Funds

1. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Total investments					\$ 17,560,230
Deposits					6,603,496
Petty cash					3,610
Cash with escrow agent					13,111,246
Total Cash and Investments					<u>\$ 37,278,582</u>

N/A – Not Applicable

N/R – Not Rated

N/F – Not Found

2. Receivables

Receivables as of December 31, 2005, 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	\$ 586,224	\$ -
Accounts	1,143,082	-
Interest	205,429	-
Due from other governments	3,359,976	-
Loans	34,850	-
Total Governmental Activities	<u>\$ 5,329,561</u>	<u>\$ -</u>

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 will receive \$1.00 a year.

**PINE COUNTY  
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,758,195	\$ 1,084,681	\$ -	\$ 2,842,876
Construction in progress	-	3,250,416	-	3,250,416
Total capital assets not depreciated	\$ 1,758,195	\$ 4,335,097	\$ -	\$ 6,093,292
Capital assets depreciated				
Buildings	\$ 4,515,389	\$ -	\$ -	\$ 4,515,389
Machinery and equipment	5,940,849	131,194	522,119	5,549,924
Infrastructure	62,848,653	3,044,017	-	65,892,670
Total capital assets depreciated	\$ 73,304,891	\$ 3,175,211	\$ 522,119	\$ 75,957,983
Less: accumulated depreciation for				
Buildings	\$ 2,276,878	\$ 83,494	\$ -	\$ 2,360,372
Machinery and equipment	3,985,973	478,325	499,650	3,964,648
Infrastructure	12,357,847	1,216,359	-	13,574,206
Total accumulated depreciation	\$ 18,620,698	\$ 1,778,178	\$ 499,650	\$ 19,899,226
Total capital assets depreciated, net	\$ 54,684,193	\$ 1,397,033	\$ 22,469	\$ 56,058,757
Capital Assets, Net	\$ 56,442,388	\$ 5,732,130	\$ 22,469	\$ 62,152,049

**PINE COUNTY  
PINE CITY, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	31,111
Public safety		170,284
Highways and streets, including depreciation of infrastructure assets		1,553,966
Human services		17,443
Conservation of natural resources		5,374
		5,374
Total Depreciation Expense - Governmental Activities	\$	1,778,178

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General	Health and Human Services Road and Bridge Land Management Ditch	\$ 31,141 7,701 186,244 3,970	Reimbursement Reimbursement – phone Forfeited tax distribution Eliminate deficit cash balance
Total Due to General Fund		\$ 229,056	
Road and Bridge	General Health and Human Services Land Management	\$ 18,958 776 404	Accounts receivable Rent Reimburse supplies/services
Total Due to Road and Bridge Fund		\$ 20,138	
Health and Human Services	General	\$ 8,547	Miscellaneous public safety
Land Management	Road and Bridge	\$ 17,000	Gravel purchases
Other governmental funds	General	\$ 2,401	Reimbursement for equipment, interest receivable
Total Due To/From Other Funds		\$ 277,142	

**PINE COUNTY  
PINE CITY, MINNESOTA**

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2. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfers to General Fund from Land Management Fund	\$ 207,470	Forfeited tax apportionment
Transfers to Road and Bridge Fund from General Fund	\$ 127,920	Interest receivable
Street Reconstruction Fund	<u>1,584,915</u>	Payment of capital project
Total transfers to Road and Bridge Fund	<u>\$ 1,712,835</u>	
Transfers to nonmajor governmental funds from General Fund	\$ 552,424	Provide funds for bond payment, allocation of interest earned
Other nonmajor governmental funds	<u>718,605</u>	Provide funds for capital outlay, close fund, and funding purposes
Total transfers to nonmajor governmental funds	<u>\$ 1,271,029</u>	
Total Interfund Transfers	<u>\$ 3,191,334</u>	

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 7,387,351	\$ 632,287
Courthouse/Law Enforcement Center	<u>3,176,844</u>	<u>27,043,155</u>
Total Construction Commitments	<u>\$ 10,564,195</u>	<u>\$ 27,675,442</u>

**PINE COUNTY  
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Other Postemployment Benefits - Retirees

The County provides post-retirement health care benefits for certain retirees and their dependents. This benefit is provided based on various union contracts. Employees who retired before January 1, 1983, qualify to receive these benefits with the County providing 100 percent of the single coverage premium plus 50 percent of dependent coverage if that coverage option is selected. Employees hired before January 1, 1986, qualify to receive these benefits, with the County providing 100 percent of single coverage premium plus 60 percent of dependent coverage if that coverage option is selected.

As of year-end, the County has 29 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2005, the County expended \$106,252 for these benefits.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General Obligation Capital Notes 2004 G.O. Capital Notes	2010	\$695,000 - \$775,000	1.75 - 3.00	\$ 3,665,000	\$ 3,665,000
General Obligation Jail Bonds 2005 G.O. Jail Bonds	2031	\$500,000 - \$1,685,000	4.00	\$ 16,935,000	\$ 16,935,000
General Obligation Public Facility Authority Loan 2001 G. O. PFA Loan	2016	\$77,405 - \$108,439	3.00	\$ 1,434,459*	\$ 939,459
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
East Central Solid Waste Commission (See Note 6.C.)					\$ 723,923

\*Amount drawn down

**PINE COUNTY  
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

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

4. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

Governmental Activities

Year Ending December 31	2004 G.O. Street Reconstruction Capital Notes		2005A G.O. Jail Bonds		2001 G.O. PFA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 695,000	\$ 81,436	\$ -	\$ 613,866	\$ 73,459	\$ 28,184
2007	710,000	68,255	-	613,866	75,000	25,980
2008	730,000	52,395	-	613,866	78,000	23,730
2009	755,000	33,443	-	613,866	80,000	21,390
2010	775,000	11,625	-	613,866	82,000	18,990
2011 - 2015	-	-	2,700,000	3,396,806	452,000	56,340
2016 - 2020	-	-	3,295,000	2,788,925	99,000	2,970
2021 - 2025	-	-	4,095,000	1,989,259	-	-
2026 - 2030	-	-	5,160,000	977,613	-	-
2031	-	-	1,685,000	37,913	-	-
<b>Total</b>	<b>\$ 3,665,000</b>	<b>\$ 247,154</b>	<b>\$ 16,935,000</b>	<b>\$ 12,259,846</b>	<b>\$ 939,459</b>	<b>\$ 177,584</b>

Year Ending December 31	2005A Public Project Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2006	\$ -	\$ 398,640	\$ 768,459	\$ 1,122,126
2007	-	629,431	785,000	1,337,532
2008	-	629,431	808,000	1,319,422
2009	-	629,431	835,000	1,298,130
2010	-	629,431	857,000	1,273,912
2011 - 2015	2,015,000	2,948,731	5,167,000	6,401,877
2016 - 2020	2,570,000	2,447,403	5,964,000	5,239,298
2021 - 2025	3,335,000	1,766,800	7,430,000	3,756,059
2026 - 2030	4,365,000	819,375	9,525,000	1,796,988
2031	1,000,000	25,000	2,685,000	62,913
<b>Total</b>	<b>\$ 13,285,000</b>	<b>\$ 10,923,673</b>	<b>\$ 34,824,459</b>	<b>\$ 23,608,257</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2002 G.O. Capital Notes	\$ 765,000	\$ -	\$ 765,000	\$ -	\$ -
2004 G.O. Capital Notes	3,665,000	-	-	3,665,000	695,000
2005A G.O. Jail Bonds	-	16,935,000	-	16,935,000	-
2005A Facility Lease Revenue Bonds	-	13,285,000	-	13,285,000	-
Less: discount on notes	(17,610)	(265,457)	(5,684)	(277,383)	-
2001 G.O. PFA Loan	1,069,427	-	130,000	939,427	73,459
East Central Solid Waste Commission	852,150	-	128,228	723,922	N/A
Compensated absences	484,483	628,608	570,004	543,087	-
 Total Long-Term Liabilities	 \$ 6,818,450	 \$ 30,583,151	 \$ 1,587,548	 \$ 35,814,053	 \$ 768,459

N/A - Not available

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

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

1. Plan Description

All full-time and certain part-time employees of Pine County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public

**PINE COUNTY  
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3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

1. Plan Description (Continued)

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 and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

**PINE COUNTY  
PINE CITY, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

1. Plan Description (Continued)

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

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

The 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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary in 2005. The rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

2. Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

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3. Employee Retirement Systems and Pension Plans (Continued)

C. Contributions

The County's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, the Public Employees Correctional Fund, and the Public Employees Defined Contribution Plan were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund	Public Employees Defined Contribution Plan
2005	\$ 334,539	\$ 134,284	\$ 97,238	\$ 2,120
2004	342,332	137,522	83,261	2,211
2003	319,697	118,810	70,785	2,128

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

4. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of the MCIT Workers' Compensation, Property 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 \$760,000 per claim in 2005 and \$390,000 in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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4. Risk Management (Continued)

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 \$125,000 is available to protect the assets held in trust by MCIT from catastrophic loss due to unexpected plan costs.

5. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

The Ditch Special Revenue Fund had a deficit fund balance of \$3,970 as of December 31, 2005. This deficit will be eliminated by future special assessment levies against benefited properties.

B. Excess of Expenditures Over Budget

The following is a summary of the individual nonmajor fund with expenditures in excess of budget for the year ended December 31, 2005.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
East Central Solid Waste Commission Debt Service Fund	\$ 156,735	\$ 31,226	\$ 125,509

The over-expenditures were funded through the use of the fund balance.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Conduit Debt

Health Care Revenue Notes

In 1995, the County issued \$1,300,000 of Industrial Development Revenue Notes to provide financial assistance to Amhurst H. Wilder Foundation, a nonprofit corporation, for the construction and equipping of a building for a short-term residential school for children. The bonds are secured by the property financed and are payable solely from revenues of the foundation. 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. During 2005, final payment was made on the \$11,180 revenue note's outstanding balance.

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, 2005, the outstanding principal amount payable was \$993,515.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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

C. Joint Ventures

Kanabec/Pine Community Health Services

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

Complete financial information can be obtained from:

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

East Central Solid Waste Commission

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

Each county's proportionate share of the total operating costs is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of counties. The Commission will remain in existence so long as two or more counties remain as parties to the agreement or until January 1, 2008. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities, and the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data.

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

**PINE COUNTY  
PINE CITY, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

At December 31, 2005, the Commission had \$2,830,000 in long-term bonds outstanding. The bonds will be retired from solid waste fee revenues. Should these revenues be insufficient to retire the debt, the participating counties are currently responsible in the following proportion:

Chisago County	28.0%
Isanti County	23.7
Kanabec County	11.7
Mille Lacs County	17.1
Pine County	19.5

Pine County's proportionate share of the bonds payable at December 31, 2005, is \$723,922. This amount is included in the statement of net assets.

During 1993, the participating counties were notified that the Commission was unable to meet its cash needs for debt service. The counties were assessed for their proportionate share for 1993 and the following years. Pine County's contribution was \$156,735 for 2005.

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 on 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.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Snake River Watershed Management Board (Continued)

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

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

Pine County provided \$9,968 to this organization during 2005. Upon dissolution, the personal property shall be returned to the member county contributing the same.

Complete financial information can be obtained from:

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

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

Pine County entered into a joint powers agreement with ISD 2580 in April 1998, pursuant to Minn. Stat. § 471.59, to provide for the construction and operation of a joint use at-risk children, family, social, and human services facility. The County purchased the land and building, 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.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

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

Central Minnesota Emergency Medical Services Region

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

Complete financial information can be obtained from:

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

Workforce Investment/Workforce Center Systems Joint Powers Board

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

**PINE COUNTY  
PINE CITY, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Rush Line Corridor Joint Powers Agreement

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

As part of the agreement, a joint powers board called the Rush Line Corridor Task Force was created to make the decisions needed to carry out the terms of the joint powers agreement. This Task Force consists of one member and one alternate appointed from each party with their membership terms beginning on January 15 and ending on January 14 of the next succeeding year, or until a successor is appointed. The Task Force has the authority to adopt budgets; enter into transactions, contracts, and leases; incur debts, liabilities, and obligations; employ agents and employees; and enter into legal claims. The Task Force is also a separate entity from its members, and the members are not liable for the Task Force's actions.

Funding, if needed for administrative costs, is provided to the Task Force based on Corridor county population for the most recent census year or state demographer data available. During 2005, Pine County appropriated \$56,886 for the County's share of anticipated future expenditures.

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  
PINE CITY, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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 the year, Pine County expended \$42,962 to the Cooperative.

E. Related Organization

Pine County Housing and Redevelopment Authority

The Pine County Housing and Redevelopment Authority is a legally separate organization having numerous rights and powers. The Pine County Board appoints all of the Housing Authority Board members, but financial accountability necessary to include this organization as a component unit of the County is not present. Related-party transactions comprise payment of \$1,750 by the County to the Housing Authority Board members for per diem expenses.

F. Tax-Forfeited Land

The County manages approximately 47,982 acres of state-owned tax-forfeited land. 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, 2005**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 6,499,922	\$ 6,499,922	\$ 5,358,735	\$ (1,141,187)
Licenses and permits	127,000	127,000	106,191	(20,809)
Intergovernmental	2,284,330	2,284,330	3,304,924	1,020,594
Charges for services	1,154,976	1,120,883	1,129,038	8,155
Fines and forfeits	118,850	118,850	109,394	(9,456)
Gifts and contributions	92,000	92,000	137,390	45,390
Earnings on investments	200,000	200,000	308,281	108,281
Miscellaneous	97,800	97,800	287,892	190,092
<b>Total Revenues</b>	<b>\$ 10,574,878</b>	<b>\$ 10,540,785</b>	<b>\$ 10,741,845</b>	<b>\$ 201,060</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 188,805	\$ 182,386	\$ 181,684	\$ 702
Courts	306,930	273,653	300,012	(26,359)
Law library	20,000	20,000	13,898	6,102
County auditor	450,228	455,076	482,411	(27,335)
County treasurer	157,347	168,907	176,707	(7,800)
County assessor	408,537	400,705	397,477	3,228
Elections	12,000	12,000	213	11,787
Data processing	420,815	456,715	447,248	9,467
Central services	120,000	120,000	120,381	(381)
Personnel	293,481	332,629	304,409	28,220
Attorney	668,098	654,682	655,856	(1,174)
Contracted legal services	15,000	15,000	37,607	(22,607)
Recorder	225,266	220,508	127,736	92,772
Surveyor	34,500	34,500	34,500	-
Planning and zoning	221,462	220,173	188,913	31,260
Buildings and plant	699,657	198,832	212,728	(13,896)
Veterans service officer	55,940	55,420	47,256	8,164
Other general governmental	120,150	120,150	48,202	71,948
<b>Total general government</b>	<b>\$ 4,418,216</b>	<b>\$ 3,941,336</b>	<b>\$ 3,777,238</b>	<b>\$ 164,098</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 3,128,079	\$ 3,057,112	\$ 3,264,510	\$ (207,398)
Boat and water safety	4,930	4,930	10,325	(5,395)
Coroner	30,000	30,000	39,812	(9,812)
E-911 system	72,297	72,297	79,451	(7,154)
County jail	1,543,448	1,526,765	1,605,383	(78,618)
Caseload reduction	80,646	-	-	-
Sentence to serve	47,778	50,063	53,799	(3,736)
Probation and parole	475,673	515,530	505,672	9,858
Civil defense	58,399	58,399	64,960	(6,561)
Other public safety	17,410	17,410	16,647	763
<b>Total public safety</b>	<b>\$ 5,458,660</b>	<b>\$ 5,332,506</b>	<b>\$ 5,640,559</b>	<b>\$ (308,053)</b>
<b>Sanitation</b>				
Solid waste	\$ 236,061	\$ 235,354	\$ 417,625	\$ (182,271)
<b>Culture and recreation</b>				
Historical society	\$ 6,300	\$ 6,300	\$ 6,300	\$ -
Trail assistance	-	-	98,205	(98,205)
Regional library	206,050	241,968	-	241,968
<b>Total culture and recreation</b>	<b>\$ 212,350</b>	<b>\$ 248,268</b>	<b>\$ 104,505</b>	<b>\$ 143,763</b>
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 101,502	\$ 101,386	\$ 101,721	\$ (335)
Soil and water conservation	69,530	69,530	66,603	2,927
Agricultural inspections	500	500	50	450
Agricultural society/County fair	8,055	8,055	8,055	-
Water planning	48,041	48,041	36,601	11,440
Wetland challenge	32,334	32,334	71,782	(39,448)
Other	10,629	10,629	10,202	427
<b>Total conservation of natural resources</b>	<b>\$ 270,591</b>	<b>\$ 270,475</b>	<b>\$ 295,014</b>	<b>\$ (24,539)</b>
<b>Total Expenditures</b>	<b>\$ 10,595,878</b>	<b>\$ 10,027,939</b>	<b>\$ 10,234,941</b>	<b>\$ (207,002)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (21,000)</b>	<b>\$ 512,846</b>	<b>\$ 506,904</b>	<b>\$ (5,942)</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 22,000	\$ 22,000	\$ 207,470	\$ 185,470
Transfers out	-	-	(680,344)	(680,344)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 22,000</b>	<b>\$ 22,000</b>	<b>\$ (472,874)</b>	<b>\$ (494,874)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,000</b>	<b>\$ 534,846</b>	<b>\$ 34,030</b>	<b>\$ (500,816)</b>
<b>Fund Balance - January 1</b>	<b>1,811,192</b>	<b>1,811,192</b>	<b>1,811,192</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,812,192</b>	<b>\$ 2,346,038</b>	<b>\$ 1,845,222</b>	<b>\$ (500,816)</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,685,797	\$ 1,685,797	\$ 1,470,710	\$ (215,087)
Intergovernmental	7,243,234	7,243,234	9,244,683	2,001,449
Charges for services	1,310,000	1,310,000	943,536	(366,464)
Investment earnings	75,000	75,000	-	(75,000)
Miscellaneous	164,500	164,500	141,639	(22,861)
<b>Total Revenues</b>	<b>\$ 10,478,531</b>	<b>\$ 10,478,531</b>	<b>\$ 11,800,568</b>	<b>\$ 1,322,037</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 425,969	\$ 395,737	\$ 646,513	\$ (250,776)
Maintenance	1,883,851	1,888,496	1,525,320	363,176
Construction	7,208,385	7,232,785	7,890,729	(657,944)
Equipment maintenance and shop	903,326	902,468	1,113,200	(210,732)
Materials and services for resale	-	-	457	(457)
Unallocated highways and streets	57,000	57,000	46,382	10,618
<b>Total highways and streets</b>	<b>\$ 10,478,531</b>	<b>\$ 10,476,486</b>	<b>\$ 11,222,601</b>	<b>\$ (746,115)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 130,000	\$ (130,000)
Interest	-	-	32,084	(32,084)
<b>Total debt service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 162,084</b>	<b>\$ (162,084)</b>
<b>Total Expenditures</b>	<b>\$ 10,478,531</b>	<b>\$ 10,476,486</b>	<b>\$ 11,384,685</b>	<b>\$ (908,199)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ 2,045</b>	<b>\$ 415,883</b>	<b>\$ 413,838</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	1,712,835	1,712,835
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ 2,045</b>	<b>\$ 2,128,718</b>	<b>\$ 2,126,673</b>
<b>Fund Balance - January 1</b>	<b>1,607,257</b>	<b>1,607,257</b>	<b>1,607,257</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,607,257</b>	<b>\$ 1,609,302</b>	<b>\$ 3,735,975</b>	<b>\$ 2,126,673</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,511,411	\$ 2,511,411	\$ 2,205,805	\$ (305,606)
Intergovernmental	3,983,814	3,983,814	4,411,627	427,813
Charges for services	103,198	103,198	96,661	(6,537)
Gifts and contributions	3,000	3,000	8,185	5,185
Miscellaneous	748,960	748,960	937,841	188,881
<b>Total Revenues</b>	<b>\$ 7,350,383</b>	<b>\$ 7,350,383</b>	<b>\$ 7,660,119</b>	<b>\$ 309,736</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,654,044	\$ 1,654,044	\$ 1,619,520	\$ 34,524
Social services	5,037,703	5,037,703	5,226,832	(189,129)
<b>Total human services</b>	<b>\$ 6,691,747</b>	<b>\$ 6,691,747</b>	<b>\$ 6,846,352</b>	<b>\$ (154,605)</b>
<b>Health</b>				
Nursing service	\$ 733,941	\$ 733,941	\$ 713,007	\$ 20,934
Maternal and child health	89,708	89,708	66,470	23,238
Environmental health	41,337	41,337	32,300	9,037
Health education	43,650	43,650	30,901	12,749
<b>Total health</b>	<b>\$ 908,636</b>	<b>\$ 908,636</b>	<b>\$ 842,678</b>	<b>\$ 65,958</b>
<b>Total Expenditures</b>	<b>\$ 7,600,383</b>	<b>\$ 7,600,383</b>	<b>\$ 7,689,030</b>	<b>\$ (88,647)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (250,000)</b>	<b>\$ (250,000)</b>	<b>\$ (28,911)</b>	<b>\$ 221,089</b>
<b>Fund Balance - January 1</b>	<b>2,007,525</b>	<b>2,007,525</b>	<b>2,007,525</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,757,525</b>	<b>\$ 1,757,525</b>	<b>\$ 1,978,614</b>	<b>\$ 221,089</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
LAND MANAGEMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 30,310	\$ 30,310	\$ 31,863	\$ 1,553
Miscellaneous	1,319,331	1,319,331	664,026	(655,305)
<b>Total Revenues</b>	<b>\$ 1,349,641</b>	<b>\$ 1,349,641</b>	<b>\$ 695,889</b>	<b>\$ (653,752)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Land use	1,292,114	1,316,574	446,285	870,289
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 57,527</b>	<b>\$ 33,067</b>	<b>\$ 249,604</b>	<b>\$ 216,537</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(22,000)	(22,000)	(207,470)	(185,470)
<b>Net Change in Fund Balance</b>	<b>\$ 35,527</b>	<b>\$ 11,067</b>	<b>\$ 42,134</b>	<b>\$ 31,067</b>
<b>Fund Balance - January 1</b>	<b>847,159</b>	<b>847,159</b>	<b>847,159</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 882,686</b>	<b>\$ 858,226</b>	<b>\$ 889,293</b>	<b>\$ 31,067</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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1. Budgetary Information

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

Departments submit requests for appropriations to the Pine County Coordinator so that a budget can be prepared. Before September 30, the proposed budget is presented to the County Board for review. A final budget 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.

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, 2005, expenditures exceeded appropriations in the General Fund by \$207,002, Road and Bridge Special Revenue Fund by \$908,199, and the Health and Human Services Special Revenue Fund by \$88,647. The over-expenditures were funded by greater than anticipated revenues, transfers in, and use of available fund balance.

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**SUPPLEMENTARY INFORMATION**

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**NONMAJOR GOVERNMENTAL FUNDS**

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**PINE COUNTY  
PINE CITY, MINNESOTA**

*Statement 1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Total Nonmajor Governmental Funds</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 785,667	\$ 1,095,361	\$ 149,065	\$ 2,030,093
Undistributed cash in agency funds	-	14,950	-	14,950
Cash with escrow agent	-	583,925	-	583,925
Investments	101,676	-	-	101,676
Taxes receivable				
Prior	-	49,128	-	49,128
Accounts receivable	184,715	-	-	184,715
Accrued interest receivable	-	93,891	-	93,891
Due from other funds	-	2,401	-	2,401
	<b>\$ 1,072,058</b>	<b>\$ 1,839,656</b>	<b>\$ 149,065</b>	<b>\$ 3,060,779</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 717	\$ -	\$ -	\$ 717
Due to other funds	3,970	-	-	3,970
Deferred revenue - unavailable	184,716	41,069	-	225,785
	<b>\$ 189,403</b>	<b>\$ 41,069</b>	<b>\$ -</b>	<b>\$ 230,472</b>
<b>Fund Balances</b>				
Reserved for bond contingency	\$ -	\$ 500,000	\$ -	\$ 500,000
Reserved for interest payments	-	83,925	-	83,925
Unreserved				
Undesignated	882,655	1,190,468	149,065	2,222,188
Designated for capital improvements	-	24,194	-	24,194
	<b>\$ 882,655</b>	<b>\$ 1,798,587</b>	<b>\$ 149,065</b>	<b>\$ 2,830,307</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,072,058</b>	<b>\$ 1,839,656</b>	<b>\$ 149,065</b>	<b>\$ 3,060,779</b>

**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, 2005**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Revenues</b>				
Taxes	\$ -	\$ 716,706	\$ -	\$ 716,706
Intergovernmental	-	98,191	-	98,191
Charges for services	53,301	-	-	53,301
Earnings on investments	2,639	236,583	-	239,222
Miscellaneous	50,067	-	-	50,067
<b>Total Revenues</b>	<b>\$ 106,007</b>	<b>\$ 1,051,480</b>	<b>\$ -</b>	<b>\$ 1,157,487</b>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	\$ 781	\$ -	\$ -	\$ 781
Highways and streets	32,823	-	-	32,823
<b>Capital outlay</b>	-	-	623,736	623,736
<b>Debt service</b>				
Principal	-	893,523	-	893,523
Interest	-	148,319	-	148,319
Administrative charges	-	673	-	673
<b>Total Expenditures</b>	<b>\$ 33,604</b>	<b>\$ 1,042,515</b>	<b>\$ 623,736</b>	<b>\$ 1,699,855</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 72,403</b>	<b>\$ 8,965</b>	<b>\$ (623,736)</b>	<b>\$ (542,368)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ 636,349	\$ 634,680	\$ 1,271,029
Transfers out	-	(10,944)	(1,584,915)	(1,595,859)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 625,405</b>	<b>\$ (950,235)</b>	<b>\$ (324,830)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 72,403</b>	<b>\$ 634,370</b>	<b>\$ (1,573,971)</b>	<b>\$ (867,198)</b>
<b>Fund Balance - January 1</b>	<b>810,252</b>	<b>1,164,217</b>	<b>1,723,036</b>	<b>3,697,505</b>
<b>Fund Balance - December 31</b>	<b>\$ 882,655</b>	<b>\$ 1,798,587</b>	<b>\$ 149,065</b>	<b>\$ 2,830,307</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Statement 3*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
DECEMBER 31, 2005**

	Ditch	Countywide Rehabilitation Program	Ambulance	Total
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 11,697	\$ 773,970	\$ 785,667
Investments	-	101,676	-	101,676
Accounts receivable	-	-	184,715	184,715
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 113,373</b>	<b>\$ 958,685</b>	<b>\$ 1,072,058</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 717	\$ 717
Due to other funds	3,970	-	-	3,970
Deferred revenue - unavailable	-	-	184,716	184,716
<b>Total Liabilities</b>	<b>\$ 3,970</b>	<b>\$ -</b>	<b>\$ 185,433</b>	<b>\$ 189,403</b>
<b>Fund Balances</b>				
Unreserved Undesignated	(3,970)	113,373	773,252	882,655
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 113,373</b>	<b>\$ 958,685</b>	<b>\$ 1,072,058</b>

**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, 2005**

	<u>Ditch</u>	<u>Countywide Rehabilitation Program</u>	<u>Ambulance</u>	<u>Total</u>
<b>Revenues</b>				
Charges for services	\$ 40,427	\$ -	\$ 12,874	\$ 53,301
Earnings on investments	-	2,639	-	2,639
Miscellaneous	-	-	50,067	50,067
<b>Total Revenues</b>	<b>\$ 40,427</b>	<b>\$ 2,639</b>	<b>\$ 62,941</b>	<b>\$ 106,007</b>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	\$ -	\$ -	\$ 781	\$ 781
Highways and streets	32,823	-	-	32,823
<b>Total Expenditures</b>	<b>\$ 32,823</b>	<b>\$ -</b>	<b>\$ 781</b>	<b>\$ 33,604</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 7,604</b>	<b>\$ 2,639</b>	<b>\$ 62,160</b>	<b>\$ 72,403</b>
<b>Fund Balance - January 1</b>	<b>(11,574)</b>	<b>110,734</b>	<b>711,092</b>	<b>810,252</b>
<b>Fund Balance - December 31</b>	<b>\$ (3,970)</b>	<b>\$ 113,373</b>	<b>\$ 773,252</b>	<b>\$ 882,655</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Statement 5*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DEBT SERVICE FUNDS  
DECEMBER 31, 2005**

	<b>Equipment Bond</b>	<b>East Central Solid Waste Commission</b>	<b>Street Reconstruction Bond</b>	<b>General Obligation Jail Bond</b>	<b>HRA Project Bonds</b>	<b>Total</b>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 200,324	\$ 25,688	\$ 726,657	\$ 142,692	\$ -	\$ 1,095,361
Undistributed cash in agency funds	300	711	13,939	-	-	14,950
Cash with escrow agent	-	-	-	-	583,925	583,925
Taxes receivable						
Prior	18,700	5,658	24,770	-	-	49,128
Accrued interest receivable	-	-	-	69,697	24,194	93,891
Due from other funds	51	-	2,350	-	-	2,401
<b>Total Assets</b>	<b><u>\$ 219,375</u></b>	<b><u>\$ 32,057</u></b>	<b><u>\$ 767,716</u></b>	<b><u>\$ 212,389</u></b>	<b><u>\$ 608,119</u></b>	<b><u>\$ 1,839,656</u></b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Deferred revenue - unavailable	\$ 18,700	\$ 5,276	\$ 17,093	\$ -	\$ -	\$ 41,069
<b>Fund Balances</b>						
Reserved for bond contingency	-	-	-	-	500,000	500,000
Reserved for interest payments	-	-	-	-	83,925	83,925
Unreserved						
Designated for capital improvements	-	-	-	-	24,194	24,194
Undesignated	200,675	26,781	750,623	212,389	-	1,190,468
<b>Total Fund Balances</b>	<b><u>\$ 200,675</u></b>	<b><u>\$ 26,781</u></b>	<b><u>\$ 750,623</u></b>	<b><u>\$ 212,389</u></b>	<b><u>\$ 608,119</u></b>	<b><u>\$ 1,798,587</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 219,375</u></b>	<b><u>\$ 32,057</u></b>	<b><u>\$ 767,716</u></b>	<b><u>\$ 212,389</u></b>	<b><u>\$ 608,119</u></b>	<b><u>\$ 1,839,656</u></b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Statement 6*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
DEBT SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Equipment Bond</u>	<u>East Central Solid Waste Commission</u>	<u>Street Reconstruction Bond</u>	<u>General Obligation Jail Bond</u>	<u>HRA Bonds Capital Projects</u>	<u>Total</u>
<b>Revenues</b>						
Taxes	\$ 14,874	\$ 29,700	\$ 672,132	\$ -	\$ -	\$ 716,706
Intergovernmental	-	3,504	94,687	-	-	98,191
Investment earnings	-	-	-	212,389	24,194	236,583
<b>Total Revenues</b>	<b>\$ 14,874</b>	<b>\$ 33,204</b>	<b>\$ 766,819</b>	<b>\$ 212,389</b>	<b>\$ 24,194</b>	<b>\$ 1,051,480</b>
<b>Expenditures</b>						
<b>Current</b>						
<b>Debt service</b>						
Principal	\$ 765,000	\$ 128,523	\$ -	\$ -	\$ -	\$ 893,523
Interest	10,710	28,212	109,397	-	-	148,319
Administrative charges	373	-	300	-	-	673
<b>Total Expenditures</b>	<b>\$ 776,083</b>	<b>\$ 156,735</b>	<b>\$ 109,697</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,042,515</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (761,209)</b>	<b>\$ (123,531)</b>	<b>\$ 657,122</b>	<b>\$ 212,389</b>	<b>\$ 24,194</b>	<b>\$ 8,965</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	\$ -	\$ -	\$ 52,424	\$ -	\$ 583,925	\$ 636,349
Transfers out	(10,944)	-	-	-	-	(10,944)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (10,944)</b>	<b>\$ -</b>	<b>\$ 52,424</b>	<b>\$ -</b>	<b>\$ 583,925</b>	<b>\$ 625,405</b>
<b>Net Change in Fund Balance</b>	<b>\$ (772,153)</b>	<b>\$ (123,531)</b>	<b>\$ 709,546</b>	<b>\$ 212,389</b>	<b>\$ 608,119</b>	<b>\$ 634,370</b>
<b>Fund Balance - January 1</b>	<b>972,828</b>	<b>150,312</b>	<b>41,077</b>	<b>-</b>	<b>-</b>	<b>1,164,217</b>
<b>Fund Balance - December 31</b>	<b>\$ 200,675</b>	<b>\$ 26,781</b>	<b>\$ 750,623</b>	<b>\$ 212,389</b>	<b>\$ 608,119</b>	<b>\$ 1,798,587</b>

PINE COUNTY  
PINE CITY, MINNESOTA

*Statement 7*

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
CAPITAL PROJECTS FUND  
DECEMBER 31, 2005

	<u>Street Reconstruction Fund</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 149,065</u>
<b><u>Liabilities and Fund Balances</u></b>	
<b>Fund Balances</b>	
Undesignated	<u>\$ 149,065</u>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Statement 8*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	2002 Capital Project	Building Fund	Street Reconstruction Fund	Total
<b>Expenditures</b>				
<b>Current</b>				
Capital outlay	\$ -	\$ 623,736	\$ -	\$ 623,736
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ (623,736)	\$ -	\$ (623,736)
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 10,944	\$ 623,736	\$ -	\$ 634,680
Transfers out	-	-	(1,584,915)	(1,584,915)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 10,944</b>	<b>\$ 623,736</b>	<b>\$ (1,584,915)</b>	<b>\$ (950,235)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 10,944</b>	<b>\$ -</b>	<b>\$ (1,584,915)</b>	<b>\$ (1,573,971)</b>
<b>Fund Balance - January 1</b>	<b>(10,944)</b>	<b>-</b>	<b>1,733,980</b>	<b>1,723,036</b>
<b>Fund Balance - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 149,065</b>	<b>\$ 149,065</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
COUNTYWIDE REHABILITATION SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Interest on investments	\$ 750	\$ 750	\$ 2,639	\$ 1,889
<b>Net Change in Fund Balance</b>	\$ 750	\$ 750	\$ 2,639	\$ 1,889
<b>Fund Balance - January 1</b>	110,734	110,734	110,734	-
<b>Fund Balance - December 31</b>	\$ 111,484	\$ 111,484	\$ 113,373	\$ 1,889

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Schedule 6*

**BUDGETARY COMPARISON SCHEDULE  
AMBULANCE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for services	\$ -	\$ -	\$ 12,874	\$ 12,874
Miscellaneous	-	-	50,067	50,067
<b>Total Revenues</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 62,941</b>	<b>\$ 62,941</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Ambulance	-	-	781	(781)
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 62,160</b>	<b>\$ 62,160</b>
<b>Fund Balance - January 1</b>	<b>711,092</b>	<b>711,092</b>	<b>711,092</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 711,092</b>	<b>\$ 711,092</b>	<b>\$ 773,252</b>	<b>\$ 62,160</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Schedule 7*

**BUDGETARY COMPARISON SCHEDULE  
EQUIPMENT BOND DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 14,874	\$ 14,874
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 765,000	\$ (765,000)
Interest	-	-	10,710	(10,710)
Administrative charges	-	-	373	(373)
<b>Total Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 776,083</b>	<b>\$ (776,083)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (761,209)</b>	<b>\$ (761,209)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(10,944)	(10,944)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (772,153)</b>	<b>\$ (772,153)</b>
<b>Fund Balance - January 1</b>	<b>972,828</b>	<b>972,828</b>	<b>972,828</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 972,828</b>	<b>\$ 972,828</b>	<b>\$ 200,675</b>	<b>\$ (772,153)</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Schedule 8*

**BUDGETARY COMPARISON SCHEDULE  
EAST CENTRAL SOLID WASTE COMMISSION DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 33,226	\$ 33,226	\$ 29,700	\$ (3,526)
Intergovernmental	-	-	3,504	3,504
<b>Total Revenues</b>	<b>\$ 33,226</b>	<b>\$ 33,226</b>	<b>\$ 33,204</b>	<b>\$ (22)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 31,226	\$ 31,226	\$ 128,523	\$ (97,297)
Interest	-	-	28,212	(28,212)
<b>Total Expenditures</b>	<b>\$ 31,226</b>	<b>\$ 31,226</b>	<b>\$ 156,735</b>	<b>\$ (125,509)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 2,000</b>	<b>\$ 2,000</b>	<b>\$ (123,531)</b>	<b>\$ (125,531)</b>
<b>Fund Balance - January 1</b>	<b>150,312</b>	<b>150,312</b>	<b>150,312</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 152,312</b>	<b>\$ 152,312</b>	<b>\$ 26,781</b>	<b>\$ (125,531)</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

**Schedule 9**

**BUDGETARY COMPARISON SCHEDULE  
2004 STREET RECONSTRUCTION DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 786,518	\$ 786,518	\$ 672,132	\$ (114,386)
Intergovernmental	-	-	94,687	94,687
Interest on investments	50,000	50,000	-	(50,000)
<b>Total Revenues</b>	<b>\$ 836,518</b>	<b>\$ 836,518</b>	<b>\$ 766,819</b>	<b>\$ (69,699)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 695,000	\$ 695,000	\$ -	\$ 695,000
Interest	87,517	87,517	109,397	(21,880)
Bond issuance costs	600	600	-	600
<b>Total Expenditures</b>	<b>\$ 783,117</b>	<b>\$ 783,117</b>	<b>\$ 109,697</b>	<b>\$ 673,420</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 53,401</b>	<b>\$ 53,401</b>	<b>\$ 657,122</b>	<b>\$ 603,721</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	52,424	52,424
<b>Net Change in Fund Balance</b>	<b>\$ 53,401</b>	<b>\$ 53,401</b>	<b>\$ 709,546</b>	<b>\$ 656,145</b>
<b>Fund Balance - January 1</b>	<b>41,077</b>	<b>41,077</b>	<b>41,077</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 94,478</b>	<b>\$ 94,478</b>	<b>\$ 750,623</b>	<b>\$ 656,145</b>

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**FIDUCIARY FUNDS**

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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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 275,615	\$ 25,398,396	\$ 25,362,546	\$ 311,465
<b><u>Liabilities</u></b>				
Due to other governments	\$ 275,615	\$ 25,398,396	\$ 25,362,546	\$ 311,465
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 35,538	\$ 799,702	\$ 807,922	\$ 27,318
<b><u>Liabilities</u></b>				
Due to other governments	\$ 35,538	\$ 799,702	\$ 807,922	\$ 27,318
 <b><u>PINE COUNTY CHILDREN, FAMILIES, AND LEARNING SERVICES COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 137,468	\$ 811,676	\$ 720,850	\$ 228,294
<b><u>Liabilities</u></b>				
Accounts payable	\$ 137,468	\$ 811,676	\$ 720,850	\$ 228,294

**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, 2005**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 1,310,325</u>	<u>\$ 80,229,620</u>	<u>\$ 79,866,032</u>	<u>\$ 1,673,913</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 1,310,325	\$ 80,229,620	\$ 79,866,032	\$ 1,673,913
Due to other governments	<u>1,310,325</u>	<u>80,229,620</u>	<u>79,866,032</u>	<u>1,673,913</u>
<b>Total Liabilities</b>	<u><b>\$ 6,551,625</b></u>	<u><b>\$ 401,148,100</b></u>	<u><b>\$ 399,330,160</b></u>	<u><b>\$ 8,369,565</b></u>

**OTHER SCHEDULE**

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**PINE COUNTY  
PINE CITY, MINNESOTA**

Schedule 10

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Total Governmental Funds</u>
<b>Shared Revenue</b>	
<b>State</b>	
Highway users tax	\$ 8,242,344
Road gas tax	5,059
Homestead credit	1,302,975
PERA rate reimbursement	36,545
Disparity reduction aid	1,034
Police aid	138,167
Criminal justice aid	135,893
Agricultural reserve credit	3,220
Enhanced 911	79,205
Market value credit	1,390,911
Casino aid/tribal tax agreement	61,015
<b>Total Shared Revenue</b>	<b><u>\$ 11,396,368</u></b>
<b>Reimbursement for Services</b>	
<b>State</b>	
Minnesota Department of Human Services	<b><u>\$ 1,685,730</u></b>
<b>Payments</b>	
<b>Local</b>	
Local contributions	\$ 394
<b>State</b>	
Payments in lieu of taxes	261,185
<b>Total Payments</b>	<b><u>\$ 261,579</u></b>
<b>Grants</b>	
<b>State</b>	
Minnesota Department of Education	\$ 6,904
Corrections	186,079
Health	186,099
Natural Resources	104,987
Human Services	1,420,042
Trial Courts	45,654
Office of Environmental Assistance	67,545
<b>Total State</b>	<b><u>\$ 2,017,310</u></b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

**Schedule 10**  
**(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Total Governmental Funds</b>
<b>Grants (Continued)</b>	
<b>Federal</b>	
Department of	
Agriculture	\$ 141,236
Interior	2,929
Justice	10,684
Transportation	798,771
Health and Human Services	763,727
Homeland Security	12,954
	<hr/>
<b>Total Federal</b>	<b>\$ 1,730,301</b>
	<hr/>
<b>Total State and Federal Grants</b>	<b>\$ 3,747,611</b>
	<hr/>
<b>Total Intergovernmental Revenue</b>	<b>\$ 17,091,288</b>



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**PINE COUNTY  
PINE CITY, MINNESOTA**

**Schedule 11**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the basic financial statements of Pine County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Pine County and is 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*." The reportable condition is not a material weakness.
- C. No instances of noncompliance or other matters material to the financial statements of Pine County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Pine County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Pine County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM 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 Pine 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 will send a memo to the departments involved.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

**A. MINNESOTA LEGAL COMPLIANCE**

**PREVIOUSLY REPORTED ITEM RESOLVED**

**Collateral Pledged to Secure Deposits (03-2)**

Collateral pledged to secure deposits at First National Bank of Pine City on December 31, 2004 was insufficient by \$307,593. In 2003, it was insufficient by \$6,676. Minn. Stat. §118A.03, subd. 3, requires the total collateral computed at its market value to be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day.

**Resolution**

Collateral pledged to secure deposits was adequate at December 31, 2005.

**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 time line of when procedures will take place,

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

Client's Response:

*The MIS Department Head will be working to develop and complete a Disaster Recovery Plan for the MIS Department. This will either be done internally, or we may possibly hire an outside consultant to help with this written plan. As of December 31, 2005, a Disaster Recovery Plan has not commenced.*

96-13

Five County Mental Health Center Loan

During 1995, the County loaned the Five County Mental Health Center (5CMHC) \$45,250 to meet cash flow needs. There was no security for this loan, and no repayment schedule was available for review. During 2001, the County received \$10,400 in repayment of this loan. The balance of \$34,850 remains in the loans receivable balance sheet account of the Health and Human Services Special Revenue Fund at December 31, 2005. Providing an unsecured loan to the 5CMHC could result in loss of County assets should the 5CMHC be unable to repay the loan.

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

Client's Response:

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

97-4

Advances to Five County Mental Health Center

During 1997 and 1998, the County made quarterly advances to the 5CMHC totaling \$253,750 and \$203,000, respectively. The 5CMHC reports expenditures monthly to the County and then settles overpayments, usually twice each year. At December 31, 2005, the balance remaining as advanced to the 5CMHC was \$47,358. This is shown on the financial statements as part of the prepaid items account balance. This advance, plus the outstanding loan previously discussed (96-13), could result in losses to the County should this organization be unable to refund the overpayment and repay the loan.

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

Client's Response:

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

ITEMS ARISING THIS YEAR

05-1 Integrated Financial System (IFS) Modified Accrual Reporting

Pine County implemented the IFS modified accrual computer reporting package in 2003. IFS software allows County staff coding receipt and disbursement transactions to automatically set up receivable and payable accruals. The system then reverses these accruals in the subsequent reporting period.

For the reporting package to properly record year-end accruals within the designated recognition period, transactions occurring after year-end must be coded to the correct service period. The County's receivable and payable control account balances are supported by detailed reports listing all the individual transactions that were accrued.

In several instances, our testing of the detailed reports identified differences between the balances in those reports and the related control accounts. These differences were then determined to be the result of programming errors that were subsequently resolved.

We recommend County staff review the detailed year-end transaction reports to ensure that the accrual detail agrees to the control account balances and to ensure that the accounting package is operating correctly.

Client's Response:

*This was a programming issue that has been resolved by our software vendor. County staff will review the IFS detail payable and receivable transaction reports that are generated at year-end to ensure they agree in total with amounts presented in Balance Sheet control accounts.*

05-2 Ditch Fund Deficit

At December 31, 2005, 2004, and 2003, the Ditch Special Revenue Fund had a deficit unreserved, undesignated fund balance of \$3,970, \$11,574, and \$22,774, respectively. These deficits are for County Ditch #1. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend the County eliminate the ditch system fund balance deficit by levying assessments pursuant to Minn. Stat. §103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.

Client's Response:

*The deficit will be eliminated by future special assessment levies against benefited properties.*

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees, such as health, dental, life, and long-term care insurance coverage.

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

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Pine County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.



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PATRICIA ANDERSON  
STATE AUDITOR

**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, 2005, and have issued our report thereon dated August 25, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our tests indicate that, for the items tested, Pine County complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: August 25, 2006



# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### **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, 2005. 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, 2005.

### Internal Control Over Compliance

The management of Pine County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### 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, 2005, and have issued our report thereon dated August 25, 2006. Our audit was performed for the purpose of forming opinions on the 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.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: August 25, 2006

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Schedule 12*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Health Supplemental Food Program for Women, Infants, and Children (WIC)		10.557	\$ 131,152
Passed Through Minnesota Department of Human Services Food Stamp Employment and Training Administration		10.561	904
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Agreement		10.664	9,180
<b>Total U.S. Department of Agriculture</b>			<b>\$ 141,236</b>
<b>U.S. Department of the Interior</b>			
Direct Federal PILT		15.226	<b>\$ 2,929</b>
<b>U.S. Department of Justice</b>			
Direct Edward Byrne Memorial Formula Grant		16.579	<b>\$ 10,684</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction Grant	SP 58-661-14 & 16	20.205	\$ 19,650
State and Community Highway Safety		20.600	4,018
Alcohol Traffic Safety and Drunk Driving		20.601	3,000
<b>Total U.S. Department of Transportation</b>			<b>\$ 26,668</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Kanabec/Pine Community Health Services Centers for Disease Control and Prevention - Investigations and Technical Assistance		93.283	\$ 29,803
Maternal and Child Health		93.994	39,504
Passed Through Minnesota Department of Human Services Title IV-B-2 Promoting Safe and Stable Families		93.556	18,644
Temporary Assistance for Needy Families		93.558	262,588
Child Care Development Block Grant		93.575	3,400
Basic Sliding Fee and Child Care Development Fund		93.596	18,919
Children's Justice Act		93.643	1,700
Title IV-B-1 Alternative Response Grant		93.645	6,934
Foster Care Title IV-E		93.658	172,923
Social Services Block Grant Title XX		93.667	194,475
Chafee Foster Care Independence Program		93.674	7,607
Children's Mental Health Grant		93.958	7,230
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 763,727</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

*Schedule 12*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Pass-Through Grant Numbers</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program		97.067	\$ <u>12,954</u>
<b>Total Federal Awards</b>			<b>\$ <u>958,198</u></b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Pine County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Expenditures on this schedule differ from federal revenues reported due to certain expenditures reported when the revenues are not available for recognition. In 2005, a receivable of \$772,103 was recognized as revenue because the period of availability criteria had not been met in the prior year under modified accrual reporting.
3. During 2005, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers are presented for grants for which they have been assigned.