

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

PINE COUNTY
PINE CITY, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

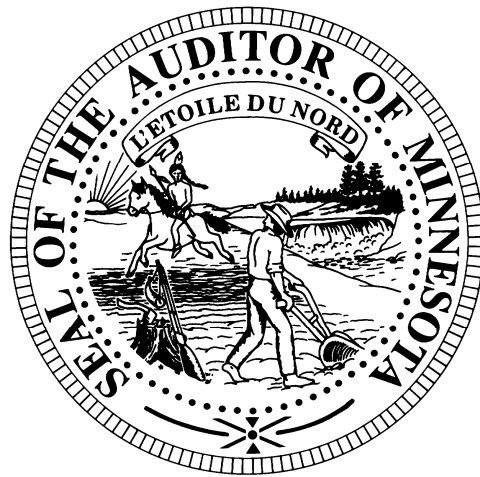
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**PINE COUNTY
PINE CITY, MINNESOTA**

Year Ended December 31, 2006



**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, 2006**

			<u>Term Expires</u>
Elected			
Commissioners			
	Steve Hallin	District 1	2010
	Edward Montbriand	District 2	2010
	Roger Nelson	District 3	2008
	Greg Bennett	District 4	2008
	Doug Carlson	District 5	2010
Attorney	John Carlson		2010
Auditor	Kaye Jorgensen		2010
Sheriff	Mark Mansavage		2010
Treasurer	Ruth A. Blahnik		2010
Appointed			
Assessor	John (Mike) Sheehy		Indefinite
County Recorder	Tamara Tricas		Indefinite
Registrar of Titles	Tamara Tricas		Indefinite
Highway Engineer	Mark LeBrun		Indefinite
Coordinator	John Stieben		Indefinite
Land Zoning Supervisor	Robert Pulford		Indefinite
Health and Human Services Director	Pat Hass		Indefinite
Human Resource Manager	Marie Pangerl		Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pine County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County, Minnesota, as of and for the year ended December 31, 2006, 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, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007, on our consideration of Pine County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 28, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PINE COUNTY
PINE CITY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(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, 2006. 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, 2006, by \$68,470,389 (net assets). Of this amount, \$6,108,131 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of 2006, Pine County's governmental funds reported combined ending fund balances of \$22,148,916. Of this balance amount, \$16,103,374 was unreserved and undesignated by Pine County. Of the total unreserved and undesignated fund balance, \$11,381,154 represents remaining unspent bond proceeds from the bonds issued during 2005 to be used to finance construction of the new Pine County courthouse and law enforcement center. The remaining \$4,722,220 of the unreserved and undesignated balance was available for spending at the County's discretion.
- At the end of 2006, unreserved/undesignated fund balance for the General Fund was \$1,434,240, or 13.1 percent, of the total General Fund expenditures for that year.
- Pine County's long-term liabilities decreased by \$824,860 as a result of principal payments made during the year on its outstanding debt.
- The Pine County Road and Bridge Department received an advance from the Minnesota Department of Transportation of future construction allotment funds in an amount of \$2,243,107. The advance was considered necessary to complete pending road projects and is shown as a liability on the government-wide statement of net assets. The advance will be eliminated by reductions in future construction allotments.
- As of December 31, 2006, construction was well underway on the County's new courthouse and law enforcement center. It is anticipated that County operations will move to the new facility sometime during the fall of 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Level Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund 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 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 \$68,470,389 at the close of 2006. The largest portion of Pine County's net assets (53.7 percent) reflects the County's investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges), less any related debt used to acquire those assets (still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Assets

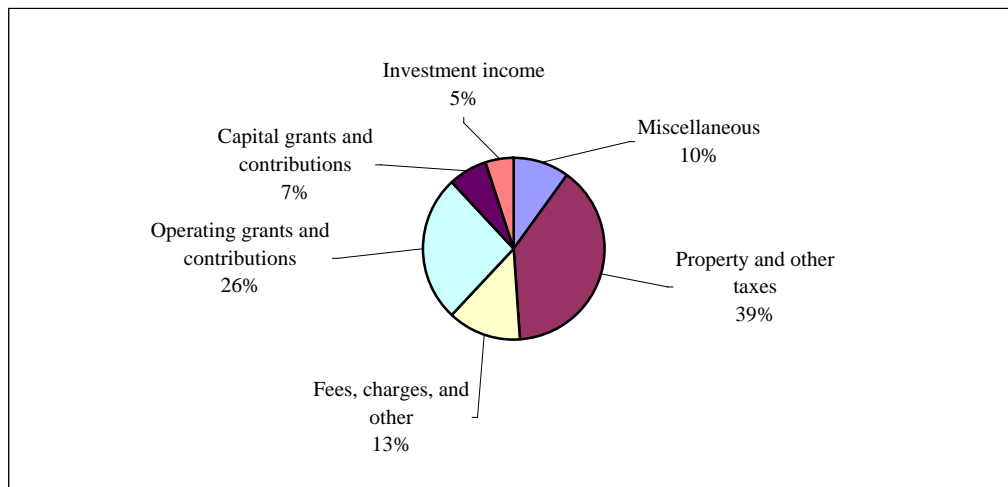
	Governmental Activities	
	2006	2005
Assets		
Current and other assets	\$ 32,479,330	\$ 42,544,240
Capital assets	<u>79,437,157</u>	<u>62,152,049</u>
Total Assets	<u>\$ 111,916,487</u>	<u>\$ 104,696,289</u>
Liabilities		
Long-term liabilities	\$ 34,220,734	\$ 35,045,594
Other liabilities	<u>9,225,364</u>	<u>4,052,117</u>
Total Liabilities	<u>\$ 43,446,098</u>	<u>\$ 39,097,711</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 58,109,704	\$ 54,680,340
Restricted	4,345,156	2,816,784
Unrestricted	<u>6,015,529</u>	<u>8,101,454</u>
Total Net Assets	<u>\$ 68,470,389</u>	<u>\$ 65,598,578</u>

The unrestricted net assets amount of \$6,015,529 as of December 31, 2006, may be used to meet the County's ongoing obligations to citizens and creditors.

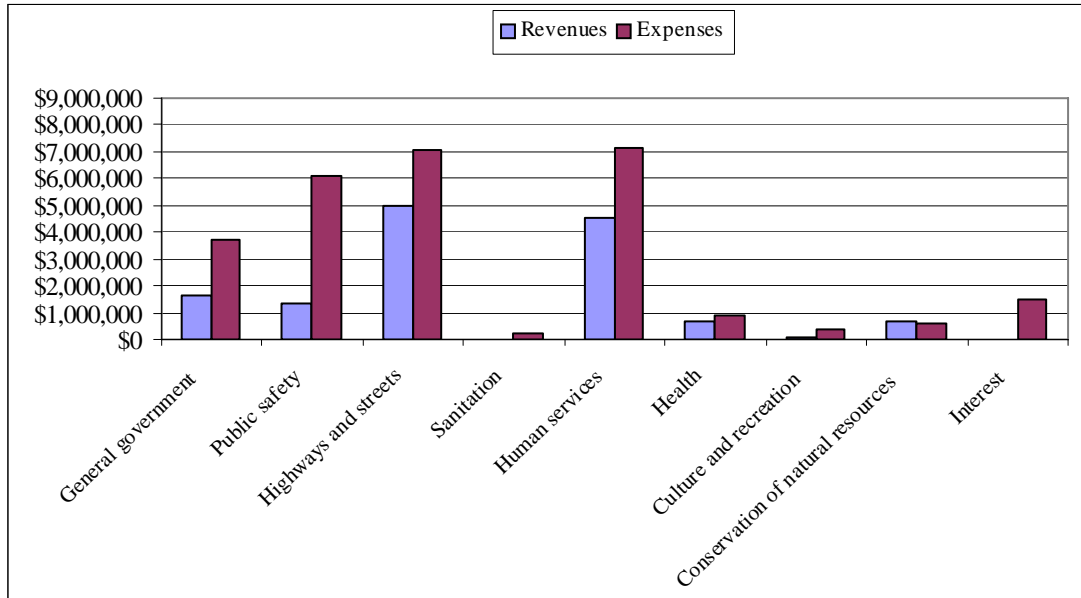
**Changes in Net Assets
(in thousands)**

	Governmental Activities	
	2006	2005
Revenues		
Program revenues		
Charges for services	\$ 3,818,387	\$ 4,134,433
Operating grants and contributions	7,859,950	7,570,695
Capital grants and contributions	2,213,825	4,646,703
General revenues		
Property taxes	11,428,109	9,755,089
Other	5,145,956	3,688,776
Total Revenues	\$ 30,466,227	\$ 29,795,696
Expenses		
General government	\$ 3,751,850	\$ 3,689,010
Public safety	6,103,602	5,838,466
Highways and streets	7,092,925	8,692,341
Sanitation	195,725	417,625
Human services	7,114,582	6,868,379
Health	884,710	845,453
Culture and recreation	393,773	104,505
Conservation of natural resources	575,302	747,572
Interest	1,481,947	589,586
Total Expenses	\$ 27,594,416	\$ 27,792,937
Increase in Net Assets	\$ 2,871,811	\$ 2,002,759
Net Assets - January 1	65,598,578	63,595,819
Net Assets - December 31	\$ 68,470,389	\$ 65,598,578

Revenues by Source - 2006



Expenses and Program Revenues - 2006



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 \$22,148,916, a decrease of \$15,621,937 in comparison with the prior year. The decrease results mainly from spending of bond proceeds to finance continuing County courthouse and law enforcement center construction activities. Of the ending fund balance, \$16,103,374 is unreserved and undesignated. Of this amount, \$4,722,220 is available for spending at the County’s discretion. The remaining \$11,381,154 represents unspent bond proceeds that will be used to finance construction of new courthouse and jail facilities. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Pine County. At the end of the current fiscal year, it had an unreserved/undesignated fund balance of \$1,434,240. 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 13.1 percent of total General Fund expenditures. In 2006, ending unreserved/undesignated fund balance in the General Fund decreased by \$145,428.

The Road and Bridge Special Revenue Fund unreserved/undesignated fund balance of \$1,175,400 at year-end represents 12.6 percent of the fund's annual expenditures. Unreserved/undesignated fund balance decreased \$2,263,563 during 2006, primarily due to increased highway construction expenditures funded through an advancement of future year's highway construction allotment funds. The advancement is shown as a liability in the government-wide statement of net assets.

The Health and Human Services Special Revenue Fund unreserved/undesignated fund balance of \$2,112,580 at year-end represents 26.5 percent of the fund's annual expenditures. Unreserved/undesignated fund balance increased \$218,674 during 2006, primarily due to increased revenues.

General Fund Budgetary Highlights

- The expenditure budget was not amended during the year. The Budgetary Comparison Schedule (Schedule 1) shows an increase of \$671,928 between the original and final expenditures budgets that results from inclusion of grant revenues received throughout the year.
- Actual revenues exceeded budgeted revenues by \$1,867,313.
- Actual expenditures were under budgeted expenditures by \$55,228.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Pine County's capital assets for its governmental activities at December 31, 2006, totaled \$79,437,157 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The major capital assets events were highway construction and construction of a new courthouse and law enforcement center.

	Governmental Capital Assets (Net of Depreciation)	
	2006	2005
Land	\$ 2,975,502	\$ 2,842,876
Construction in progress	18,360,704	3,250,416
Infrastructure	54,302,783	52,318,464
Buildings	2,234,766	2,155,017
Machinery and equipment	1,563,402	1,585,276
Total	<u>\$ 79,437,157</u>	<u>\$ 62,152,049</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 total outstanding debt of \$34,658,144, which was backed by the full faith and credit of the government.

	Outstanding Debt	
	2006	2005
PFA Loans	\$ 866,000	\$ 939,427
General Obligation Jail Bonds	16,935,000	16,935,000
Facility Lease Revenue Bonds	13,285,000	13,285,000
General Obligation Capital Notes	2,970,000	3,665,000
East Central Solid Waste	602,144	723,923
Total	<u>\$ 34,658,144</u>	<u>\$ 35,548,350</u>

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

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2006, Pine County's debt was 1.26 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 2006, Pine County approved its balanced 2007 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 Main Street, Pine City, Minnesota 55063.

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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, 2006**

	Governmental Activities
<u>Assets</u>	
Cash and pooled investments	\$ 14,207,434
Petty cash and change funds	3,610
Cash with escrow agent	13,611,033
Investments	101,676
Taxes receivable	
Prior - net	723,320
Accounts receivable - net	1,301,639
Accrued interest receivable	294,992
Loans receivable	34,850
Due from other governments	1,602,847
Prepaid items	60,358
Inventories	401,965
Deferred debt issuance cost	135,606
Capital assets	
Non-depreciable	21,336,206
Depreciable - net of accumulated depreciation	58,100,951
	\$ 111,916,487
<u>Liabilities</u>	
Cash overdraft	\$ 367,220
Accounts payable	3,758,558
Salaries payable	223,394
Contracts payable	418,946
Due to other governments	815,248
Accrued interest payable	608,891
Unearned revenue	5,000
Advance from other agencies	2,243,107
Long-term liabilities	
Due within one year	785,000
Due in more than one year	34,220,734
	\$ 43,446,098
<u>Net Assets</u>	
Invested in capital assets - net of related debt	\$ 58,109,704
Restricted for	
General government	435,824
Public safety	25,111
Highways and streets	1,032,266
Sanitation	10,000
Conservation of natural resources	888,098
Debt service	1,761,881
Other purposes	191,976
Unrestricted	6,015,529
	\$ 68,470,389

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions		Capital Grants and Contributions
Functions/Programs					
Governmental activities					
General government	\$ 3,751,850	\$ 1,189,981	\$ 63,700	\$ 408,628	\$ (2,089,541)
Public safety	6,103,602	672,114	631,842	-	(4,799,646)
Highways and streets	7,092,925	481,881	2,684,196	1,805,197	(2,121,651)
Sanitation	195,725	450	-	-	(195,275)
Human services	7,114,582	760,045	3,807,478	-	(2,547,059)
Health	884,710	239,080	424,342	-	(221,288)
Culture and recreation	393,773	-	65,909	-	(327,864)
Conservation of natural resources	575,302	474,836	182,483	-	82,017
Interest	1,481,947	-	-	-	(1,481,947)
Total governmental activities	<u>\$ 27,594,416</u>	<u>\$ 3,818,387</u>	<u>\$ 7,859,950</u>	<u>\$ 2,213,825</u>	<u>\$ (13,702,254)</u>
General Revenues					
Property taxes					\$ 11,428,109
Mortgage registry and deed tax					61,106
Payments in lieu of tax					480,247
Grants and contributions not restricted to specific programs					2,948,422
Unrestricted investment earnings					1,618,193
Miscellaneous					37,988
Total general revenues					<u>\$ 16,574,065</u>
Change in net assets					<u>\$ 2,871,811</u>
Net Assets - Beginning					<u>65,598,578</u>
Net Assets - Ending					<u>\$ 68,470,389</u>

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**PINE COUNTY
PINE CITY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 2,082,095	\$ 3,935,834	\$ 2,099,353
Petty cash and change funds	3,410	150	-
Undistributed cash in agency funds	188,564	49,170	80,031
Cash with escrow agent	-	-	-
Investments	-	-	-
Taxes receivable			
Prior	331,706	108,789	174,712
Accounts receivable	26,541	32,042	23,814
Accrued interest receivable	145,736	-	-
Loans receivable	-	-	34,850
Due from other funds	105,202	26,766	6,679
Due from other governments	135,623	995,457	460,775
Prepaid items	13,000	-	47,358
Inventories	-	401,965	-
Total Assets	<u>\$ 3,031,877</u>	<u>\$ 5,550,173</u>	<u>\$ 2,927,572</u>

EXHIBIT 3

Land Management	G.O. Jail Bonds Capital Projects	HRA Project Bond Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 1,059,888	\$ 1,960,418	\$ -	\$ 2,694,448	\$ 13,832,036
50	-	-	-	3,610
-	-	-	57,633	375,398
-	-	12,527,321	1,083,712	13,611,033
-	-	-	101,676	101,676
-	-	-	108,113	723,320
1,041,662	-	-	177,580	1,301,639
-	-	-	149,256	294,992
-	-	-	-	34,850
13,570	8,944,953	-	367,220	9,464,390
5,992	-	-	5,000	1,602,847
-	-	-	-	60,358
-	-	-	-	401,965
\$ 2,121,162	\$ 10,905,371	\$ 12,527,321	\$ 4,744,638	\$ 41,808,114

**PINE COUNTY
PINE CITY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 189,551	\$ 132,221	\$ 321,420
Cash overdraft	-	-	-
Salaries payable	133,265	32,619	55,230
Contracts payable	-	418,946	-
Due to other funds	32,187	21,553	50,789
Due to other governments	82,587	539	159,019
Deferred revenue - unavailable	280,533	1,123,673	146,326
Deferred revenue - unearned	-	-	-
Advance from other governments	-	2,243,107	-
Total Liabilities	\$ 718,123	\$ 3,972,658	\$ 732,784
Fund Balances			
Reserved for			
Cash funds	\$ -	\$ 150	\$ -
Prepaid items	13,000	-	47,358
Missing heirs	73,705	-	-
Law library	17,999	-	-
Recorder's equipment purchases	128,633	-	-
Recorder's compliance	174,438	-	-
Election equipment	98,130	-	-
Plat escrow	24,940	-	-
Sewage treatment loans	10,000	-	-
Drug forfeitures	25,111	-	-
Attorney's forfeitures	34,623	-	-
Interest payments	-	-	-
Inventories	-	401,965	-
Loans receivable	-	-	34,850
Debt service	-	-	-
Timber development	-	-	-
Road access	-	-	-
Endowments	26	-	-
Unreserved			
Designated for group health	275,499	-	-
Designated for petty cash funds	3,410	-	-
Designated for forestry	-	-	-
Undesignated	1,434,240	1,175,400	2,112,580
Unreserved, reported in nonmajor			
Special revenue funds	-	-	-
Debt service funds	-	-	-
Total Fund Balances	\$ 2,313,754	\$ 1,577,515	\$ 2,194,788
Total Liabilities and Fund Balances	\$ 3,031,877	\$ 5,550,173	\$ 2,927,572

EXHIBIT 3
(Continued)

Land Management	G.O. Jail Bonds Capital Projects	HRA Project Bond Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 11,324	\$ 3,103,949	\$ -	\$ 93	\$ 3,758,558
-	-	-	367,220	367,220
2,280	-	-	-	223,394
-	-	-	-	418,946
45,052	2,636	8,944,953	367,220	9,464,390
66,711	-	-	68	308,924
1,054,841	-	-	264,286	2,869,659
-	-	-	5,000	5,000
-	-	-	-	2,243,107
\$ 1,180,208	\$ 3,106,585	\$ 8,944,953	\$ 1,003,887	\$ 19,659,198
\$ 50	\$ -	\$ -	\$ -	\$ 200
-	-	-	-	60,358
-	-	-	-	73,705
-	-	-	-	17,999
-	-	-	-	128,633
-	-	-	-	174,438
-	-	-	-	98,130
-	-	-	-	24,940
-	-	-	-	10,000
-	-	-	-	25,111
-	-	-	-	34,623
-	-	-	83,925	83,925
-	-	-	-	401,965
-	-	-	-	34,850
-	-	-	500,000	500,000
677,130	-	-	-	677,130
39,106	-	-	-	39,106
-	-	-	-	26
-	-	-	-	275,499
-	-	-	-	3,410
224,668	-	-	-	224,668
-	7,798,786	3,582,368	-	16,103,374
-	-	-	895,158	895,158
-	-	-	2,261,668	2,261,668
\$ 940,954	\$ 7,798,786	\$ 3,582,368	\$ 3,740,751	\$ 22,148,916
\$ 2,121,162	\$ 10,905,371	\$ 12,527,321	\$ 4,744,638	\$ 41,808,114

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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, 2006**

Fund balances - total governmental funds	\$	22,148,916
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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.		79,437,157
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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	\$ 2,869,659	
Less: forfeited tax sale receivable due to other governments	(506,324)	2,363,335

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	\$ (602,144)	
Capital notes	(2,970,000)	
Facility lease revenue bonds	(13,285,000)	
General obligation bonds	(16,935,000)	
Unamortized bond issuance costs	263,681	
Loans payable	(866,000)	
Compensated absences	(611,271)	
Accrued interest payable	(608,891)	
Deferred debt issuance charges	135,606	(35,479,019)

Net assets of governmental activities	\$	<u>68,470,389</u>
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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, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
Revenues			
Taxes	\$ 5,017,574	\$ 1,621,213	\$ 2,645,049
Licenses and permits	103,901	-	-
Intergovernmental	3,978,453	4,243,242	4,450,714
Charges for services	1,280,069	357,577	112,583
Fines and forfeits	61,692	-	-
Gifts and contributions	72,375	-	21,541
Earnings on investments	622,398	-	-
Miscellaneous	319,850	124,304	957,930
Total Revenues	\$ 11,456,312	\$ 6,346,336	\$ 8,187,817
Expenditures			
Current			
General government	\$ 4,033,520	\$ -	\$ -
Public safety	5,982,915	-	-
Highways and streets	-	9,248,019	-
Sanitation	195,725	-	-
Human services	-	-	7,089,376
Health	-	-	882,267
Culture and recreation	393,773	-	-
Conservation of natural resources	316,783	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	73,459	-
Interest	-	28,183	-
Administrative charges	-	-	-
Total Expenditures	\$ 10,922,716	\$ 9,349,661	\$ 7,971,643
Excess of Revenues Over (Under) Expenditures	\$ 533,596	\$ (3,003,325)	\$ 216,174
Other Financing Sources (Uses)			
Transfers in	\$ 66,207	\$ 642,462	\$ -
Transfers out	(131,271)	-	-
Proceeds from sale of capital assets	-	97,300	-
Total Other Financing Sources (Uses)	\$ (65,064)	\$ 739,762	\$ -
Net Change in Fund Balances	\$ 468,532	\$ (2,263,563)	\$ 216,174
Fund Balances - January 1	1,845,222	3,735,975	1,978,614
Increase (decrease) in reserved for inventories	-	105,103	-
Fund Balances - December 31	\$ 2,313,754	\$ 1,577,515	\$ 2,194,788

EXHIBIT 5

Land Management	G.O. Jail Bonds Capital Projects	HRA Project Bond Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 2,079,995	\$ 11,363,831
-	-	-	-	103,901
39,334	-	-	257,640	12,969,383
-	-	-	26,700	1,776,929
-	-	-	-	61,692
-	-	-	-	93,916
-	-	-	995,795	1,618,193
333,544	-	-	-	1,735,628
\$ 372,878	\$ -	\$ -	\$ 3,360,130	\$ 29,723,473
\$ -	\$ -	\$ -	\$ 51	\$ 4,033,571
-	-	-	8,097	5,991,012
-	-	-	15,972	9,263,991
-	-	-	-	195,725
-	-	-	-	7,089,376
-	-	-	-	882,267
-	-	-	-	393,773
255,010	-	-	-	571,793
-	15,110,288	-	-	15,110,288
-	-	-	816,778	890,237
-	-	-	1,095,697	1,123,880
-	-	-	1,900	1,900
\$ 255,010	\$ 15,110,288	\$ -	\$ 1,938,495	\$ 45,547,813
\$ 117,868	\$ (15,110,288)	\$ -	\$ 1,421,635	\$ (15,824,340)
\$ -	\$ 8,944,953	\$ -	\$ 372,314	\$ 10,025,936
(66,207)	-	(8,944,953)	(883,505)	(10,025,936)
-	-	-	-	97,300
\$ (66,207)	\$ 8,944,953	\$ (8,944,953)	\$ (511,191)	\$ 97,300
\$ 51,661	\$ (6,165,335)	\$ (8,944,953)	\$ 910,444	\$ (15,727,040)
889,293	13,964,121	12,527,321	2,830,307	37,770,853
-	-	-	-	105,103
\$ 940,954	\$ 7,798,786	\$ 3,582,368	\$ 3,740,751	\$ 22,148,916

**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, 2006**

Net change in fund balances - total governmental funds **\$ (15,727,040)**

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	\$ 2,869,659	
Less: forfeited tax sales receivable due to other governments	(506,324)	
January 1 - deferred revenue	(2,172,086)	
Less: forfeited tax sales receivable due to other governments	478,046	669,295

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	\$ 19,333,212	
Net book value of assets disposed of	(106,162)	
Current year depreciation	(1,941,942)	17,285,108

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.

Repayment of debt principal		
East Central Solid Waste Commission	\$ 121,778	
Capital notes	695,000	
Loans payable	73,459	890,237

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	\$ (261,126)	
Amortization of discounts and deferred issuance charges	(13,733)	
Amortization of debt issuance discount	(7,849)	
Change in inventories	105,103	
Change in compensated absences	(68,184)	(245,789)

Change in net assets of governmental activities **\$ 2,871,811**

FIDUCIARY FUNDS

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**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 656,209</u>
<u>Liabilities</u>	
Accounts payable	\$ 187,010
Due to other governments	<u>469,199</u>
Total Liabilities	<u>\$ 656,209</u>

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**PINE COUNTY
PINE CITY, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2006. 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**

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 that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

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

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.

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**

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, 2006, 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 2006 were \$622,398.

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

**PINE COUNTY
PINE CITY, MINNESOTA**

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**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

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

<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 not considered to be available to liquidate liabilities of the current period.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. Fund Equity

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

9. Use of Estimates

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

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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 \$2,363,335 follows.

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	\$ 2,869,659
Due to other governments	<u>(506,324)</u>
Adjustment to Increase Fund Balance to Arrive at Net Assets--Governmental Activities	<u>\$ 2,363,335</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 detail of the \$669,295 follows.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Reconciliation of Government-Wide and Fund Financial Statements

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

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	\$	2,869,659
Less: forfeited tax sales due to other governments		(506,324)
January 1		
Deferred revenue - unavailable		(2,172,086)
Less: forfeited tax sales due to other governments		478,046
		478,046
Adjustment to Revenue	\$	669,295

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	\$	13,832,036
Undistributed cash in agency funds		375,398
Petty cash and change funds		3,610
Investments		101,676
Cash with escrow agent		13,611,033
Statement of fiduciary net assets		
Cash and pooled investments		656,209
		656,209
Total Cash and Investments	\$	28,579,962

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2006, the County's deposits were not exposed to custodial credit risk.

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

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

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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

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

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. The County does not have an investment policy for custodial credit risk.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

The following table presents the County's cash and investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. Government agency securities					
Federal National Mortgage Association Note	AAA	Moody's		1/20/2009	\$ 8,266
Federal National Mortgage Association Note	AAA	Moody's		12/1/2010	13,154
Federal National Mortgage Association Note	AAA	Moody's		12/10/2010	250,000
Federal National Mortgage Association Note	AAA	Moody's		12/27/2011	400,000
Federal National Mortgage Association Note	AAA	Moody's		5/1/2014	37,639
Federal National Mortgage Association Note	AAA	Moody's		10/11/2016	298,689
Total Federal National Mortgage Association Notes			<5%		\$ 1,007,748

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal Home Loan Bank Note	AAA	Moody's		2/9/2007	\$ 273,331
Federal Home Loan Bank Note	AAA	Moody's		5/24/2007	199,214
Federal Home Loan Bank Note	AAA	Moody's		9/10/2007	128,357
Federal Home Loan Bank Note	AAA	Moody's		10/24/2008	298,968
Federal Home Loan Bank Note	AAA	Moody's		12/5/2008	344,635
Federal Home Loan Bank Note	AAA	Moody's		12/5/2008	398,968
Federal Home Loan Bank Note	AAA	Moody's		8/26/2009	98,748
Federal Home Loan Bank Note	AAA	Moody's		9/8/2009	495,320
Federal Home Loan Bank Note	AAA	Moody's		10/26/2009	349,672
Federal Home Loan Bank Note	AAA	Moody's		10/30/2009	243,925
Federal Home Loan Bank Note	AAA	Moody's		11/16/2009	199,126
Federal Home Loan Bank Note	AAA	Moody's		3/24/2010	198,330
Federal Home Loan Bank Note	AAA	Moody's		7/22/2011	284,418
Federal Home Loan Bank Note	AAA	Moody's		9/29/2011	299,250
Federal Home Loan Bank Note	AAA	Moody's		9/29/2011	349,125
Federal Home Loan Bank Note	AAA	Moody's		5/1/2013	293,535
Federal Home Loan Bank Note	AAA	Moody's		5/22/2013	193,626
Federal Home Loan Bank Note	AAA	Moody's		6/26/2013	595,706
Federal Home Loan Bank Note	AAA	Moody's		7/24/2013	289,878
Federal Home Loan Bank Note	AAA	Moody's		7/24/2013	386,504
Federal Home Loan Bank Note	AAA	Moody's		8/13/2013	339,612
Federal Home Loan Bank Note	AAA	Moody's		8/21/2013	269,761
Total Federal Home Loan Bank Note			<5%		\$ 6,530,009
U.S. Treasury strips	AAA	Moody's	<5%	2/15/2027	\$ 1,272,475
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 2,133,409
Merrill Lynch - Government Fund	N/R	N/A	N/A	N/A	106,892
First American Government Obligations Fund	AAA	S&P	N/A	N/A	1,979
Total investment pools/mutual funds					\$ 2,242,280
Negotiable certificates of deposit					
Chase Bank	N/A	N/A	N/A	2/28/2008	\$ 97,724
Las Vegas Bank	N/A	N/A	N/A	12/20/2012	95,660
Standard Federal Bank	N/A	N/A	N/A	9/2/2008	95,532
LaSalle Bank	N/A	N/A	N/A	2/9/2011	91,834
Waypoint Bank	N/A	N/A	N/A	7/9/2013	98,459
Huntington National Bank	N/A	N/A	N/A	12/2/2014	95,567
Total negotiable certificates of deposit					\$ 574,776

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Total investments					\$ 11,627,288
Deposits					3,338,031
Petty cash					3,610
Cash with escrow agent					13,611,033
Total Cash and Investments					<u>\$ 28,579,962</u>

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

2. Receivables

Receivables as of December 31, 2006, 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	\$ 723,320	\$ -
Accounts	1,301,639	-
Interest	294,992	-
Due from other governments	1,602,847	-
Loans	34,850	-
Total Governmental Activities	<u>\$ 3,957,648</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, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,842,876	\$ 132,626	\$ -	\$ 2,975,502
Construction in progress	3,250,416	15,110,288	-	18,360,704
Total capital assets not depreciated	<u>\$ 6,093,292</u>	<u>\$ 15,242,914</u>	<u>\$ -</u>	<u>\$ 21,336,206</u>
Capital assets depreciated				
Buildings	\$ 4,515,389	\$ 163,243	\$ -	\$ 4,678,632
Machinery and equipment	5,549,924	604,355	282,710	5,871,569
Infrastructure	65,892,670	3,322,700	-	69,215,370
Total capital assets depreciated	<u>\$ 75,957,983</u>	<u>\$ 4,090,298</u>	<u>\$ 282,710</u>	<u>\$ 79,765,571</u>
Less: accumulated depreciation for				
Buildings	\$ 2,360,372	\$ 83,494	\$ -	\$ 2,443,866
Machinery and equipment	3,964,648	520,067	176,548	4,308,167
Infrastructure	13,574,206	1,338,381	-	14,912,587
Total accumulated depreciation	<u>\$ 19,899,226</u>	<u>\$ 1,941,942</u>	<u>\$ 176,548</u>	<u>\$ 21,664,620</u>
Total capital assets depreciated, net	<u>\$ 56,058,757</u>	<u>\$ 2,148,356</u>	<u>\$ 106,162</u>	<u>\$ 58,100,951</u>
Capital Assets, Net	<u>\$ 62,152,049</u>	<u>\$ 17,391,270</u>	<u>\$ 106,162</u>	<u>\$ 79,437,157</u>

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

Governmental Activities	
General government	\$ 69,767
Public safety	145,112
Highways and streets, including depreciation of infrastructure assets	1,706,177
Health and human services	16,905
Conservation of natural resources	3,981
Total Depreciation Expense - Governmental Activities	<u>\$ 1,941,942</u>

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Health and Human Services	\$ 49,980	Reimbursement
	Road and Bridge	8,374	Reimbursement - phone
	Land Management	44,603	Forfeited tax distribution
	Jail Bond Capital Projects	<u>2,245</u>	Reimburse supplies/services
	Total Due to General Fund	<u>\$ 105,202</u>	
Road and Bridge	General	\$ 25,508	Accounts receivable
	Health and Human Services	809	Rent
	Land Management	<u>449</u>	Reimburse supplies/services
Total Due to Road and Bridge Fund	<u>\$ 26,766</u>		
Health and Human Services	General	<u>\$ 6,679</u>	Miscellaneous public safety
Land Management	Road and Bridge	\$ 13,179	Gravel purchases
Land Management	Jail Bond Capital Projects	<u>391</u>	Gravel purchases
Total Due to Land Management Fund		<u>\$ 13,570</u>	
Street Reconstruction Capital Project	Street Reconstruction Debt Service	<u>\$ 367,220</u>	Eliminate cash shortfall
Jail Bond Capital Projects	HRA Bond	<u>\$ 8,944,953</u>	Reimbursement - Jail Project
Total Due To/From Other Funds		<u>\$ 9,464,390</u>	

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfers to General Fund from Land Management Fund	\$ 66,207	Forfeited tax apportionment
Transfers to Road and Bridge Fund from General Fund	\$ 126,177	Interest receivable
Street Reconstruction Capital Projects Fund	516,285	Payment of capital project
Total transfers to Road and Bridge Fund	<u>\$ 642,462</u>	
Transfers to Jail Bond Capital Projects Fund from HRA Bond Fund	\$ 8,944,953	Transfer of bond proceeds
Transfers to nonmajor governmental funds from General Fund	\$ 5,094	Allocation of interest earned
Other nonmajor governmental funds	367,220	Provide funds for cash deficit
Total transfers to nonmajor governmental funds	<u>\$ 372,314</u>	
Total Interfund Transfers	<u><u>\$ 10,025,936</u></u>	

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2006. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 10,505,980	\$ 1,111,359
Courthouse/Law Enforcement Center	<u>18,360,704 **</u>	<u>11,859,295</u>
Total Construction Commitments	<u><u>\$ 28,866,684</u></u>	<u><u>\$ 12,970,654</u></u>

** Total projected Courthouse/Law Enforcement Center contract commitments are \$30,219,999.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Other Postemployment Benefits - Retirees

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

As of year-end, the County has 30 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2006, the County expended \$109,839 for these benefits.

3. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General Obligation Capital Notes 2004 G.O. Capital Notes	2010	\$695,000 - \$775,000	1.75 - 3.00	<u>\$ 3,665,000</u>	<u>\$ 2,970,000</u>
General Obligation Jail Bonds 2005 G.O. Jail Bonds	2031	\$500,000 - \$1,685,000	4.00	<u>\$ 16,935,000</u>	<u>\$ 16,935,000</u>
General Obligation Public Facility Authority Loan					
2001 G. O. PFA Loan	2016	\$77,405 - \$108,439	3.00	<u>\$ 1,434,459*</u>	<u>\$ 866,000</u>
Public Project Revenue Bonds 2005A Public Project Revenue Bonds	2031	\$370,000 - \$1,000,000	4.00 - 5.00	<u>\$ 13,285,000</u>	<u>\$ 13,285,000</u>
East Central Solid Waste Commission - See Note 6.C.					<u>\$ 602,144</u>

*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, 2006, 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
2007	\$ 710,000	\$ 68,255	\$ -	\$ 731,761	\$ 75,000	\$ 25,980
2008	730,000	52,395	-	731,761	78,000	23,730
2009	755,000	33,443	-	731,761	80,000	21,390
2010	775,000	11,625	-	731,761	82,000	18,990
2011	-	-	500,000	721,761	85,000	16,530
2012 - 2016	-	-	2,805,000	3,286,706	466,000	42,780
2017 - 2021	-	-	3,440,000	2,645,094	-	-
2022 - 2026	-	-	4,280,000	1,805,939	-	-
2027 - 2031	-	-	5,910,000	731,015	-	-
Total	\$ 2,970,000	\$ 165,718	\$ 16,935,000	\$ 12,117,559	\$ 866,000	\$ 149,400

Year Ending December 31	2005A Public Project Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2007	\$ -	\$ 629,431	\$ 785,000	\$ 1,455,427
2008	-	629,431	808,000	1,437,317
2009	-	629,431	835,000	1,416,025
2010	-	629,431	857,000	1,391,807
2011	370,000	622,031	955,000	1,360,322
2012 - 2016	2,110,000	2,861,319	5,381,000	6,190,805
2017 - 2021	2,705,000	2,327,634	6,145,000	4,972,728
2022 - 2026	3,515,000	1,600,700	7,795,000	3,406,639
2027 - 2031	4,585,000	595,625	10,495,000	1,326,640
Total	\$ 13,285,000	\$ 10,525,033	\$ 34,056,000	\$ 22,957,710

**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, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2004 G.O. capital notes	\$ 3,665,000	\$ -	\$ 695,000	\$ 2,970,000	\$ 710,000
2005A G.O. jail bonds	16,935,000	-	-	16,935,000	-
2005A Facility lease revenue bonds	13,285,000	-	-	13,285,000	-
Less: discount on bonds	(277,383)	(31)	(13,733)	(263,681)	-
2001 G.O. PFA Loan	939,427	-	73,427	866,000	75,000
East Central Solid Waste Commission	723,922	-	121,778	602,144	N/A
Compensated absences	543,087	683,541	615,357	611,271	-
Total Long-Term Liabilities	\$ 35,814,053	\$ 683,510	\$ 1,491,829	\$ 35,005,734	\$ 785,000

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 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.

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

1. Plan Description (Continued)

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.

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.

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

1. Plan Description (Continued)

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 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 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members are required to contribute 7.00 percent of their annual covered salary in 2006. The rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Employee Retirement Systems and Pension Plans (Continued)

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.

C. Contributions

The County's contributions for the years ending December 31, 2006, 2005, and 2004, 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
2006	\$ 376,617	\$ 162,872	\$ 109,090	\$ 2,240
2005	334,539	134,284	97,238	2,120
2004	342,332	137,522	83,261	2,211

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

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Employee Retirement Systems and Pension Plans (Continued)

D. Postemployment Health Care

1. MSRS Health Care Savings Plan

In May 2006, Pine County's Board of Commissioners approved a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under the Laws of Minnesota 2001, Chapter 352.98, and through an Internal Revenue Service (IRS) private letter ruling establishing the HCSP as a tax-exempt benefit as of July 29, 2002. The plan is open to any active public employee in Minnesota if they are covered under certain public service retirement plans.

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

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

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

D. Postemployment Health Care (Continued)

2. Minnesota Service Cooperative VEBA Plan

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

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

Eligibility requirements include:

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

4. Risk Management

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

**PINE COUNTY
PINE CITY, MINNESOTA**

4. Risk Management (Continued)

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 \$390,000 per claim 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.

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

Excess of Expenditures Over Budget

The following is a summary of individual nonmajor funds with expenditures in excess of budget for the year ended December 31, 2006.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Equipment Bond Debt Service Fund	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ (51)</u>

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

**PINE COUNTY
PINE CITY, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Conduit Debt

Camp Heartland Project

In 2000, the County issued \$1,175,000 of Industrial Development Revenue Notes to provide financial assistance to Camp Heartland Project, Inc., a nonprofit corporation, for refinancing the corporation's debt incurred for acquiring, constructing, and equipping facilities located in Willow River. The Corporation is primarily engaged in providing programs for children infected with or affected by HIV/AIDS. The notes are 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, 2006, the outstanding principal amount payable was \$945,449.

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.

**PINE COUNTY
PINE CITY, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Kanabec/Pine Community Health Services (Continued)

Complete financial information can be obtained from:

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

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the powers, duties, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission 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**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

At December 31, 2006, the Commission had \$1,260,000 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, 2006, is \$602,144. 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 \$148,510 for 2006.

Complete financial information can be obtained from:

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

Snake River Watershed Management Board

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

The four-member Board consists of one County Commissioner from each of the participating counties. The Kanabec County Auditor is the fiscal agent for the Board.

**PINE COUNTY
PINE CITY, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Snake River Watershed Management Board (Continued)

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 2006. 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.

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

**PINE COUNTY
PINE CITY, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Rush Line Corridor Joint Powers Agreement

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

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

Funding, if needed for administrative costs, is provided to the Task Force based on corridor county population for the most recent census year or state demographer data available. Pine County did not budget for expenditures in 2006. During 2005, Pine County appropriated \$56,886 for the County's share of anticipated future expenditures. Pine County expended \$61 each year for the purchase of corridor insurance for years 2006 and 2005. Pine County does not expect to have any significant expenditures related to this agreement during 2007.

**PINE COUNTY
PINE CITY, MINNESOTA**

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

D. Jointly-Governed Organizations

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

Pine County Children, Families, and Learning Services Collaborative

The 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 Cooperative was established to provide computer programming to member counties. During the year, Pine County expended \$44,349 to the Cooperative.

E. Related Organization

Pine County Housing and Redevelopment Authority

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

F. Tax-Forfeited Land

The County manages approximately 48,325 acres of state-owned, tax-forfeited land with a taxable market value for 2006 of \$2,754,493,900. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

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REQUIRED SUPPLEMENTARY INFORMATION

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**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,924,663	\$ 4,924,663	\$ 5,017,574	\$ 92,911
Licenses and permits	98,000	98,000	103,901	5,901
Intergovernmental	2,871,540	2,868,540	3,978,453	1,109,913
Charges for services	1,161,698	1,161,698	1,280,069	118,371
Fines and forfeits	40,500	40,500	61,692	21,192
Gifts and contributions	92,000	92,000	72,375	(19,625)
Earnings on investments	200,000	200,000	622,398	422,398
Miscellaneous	90,384	203,598	319,850	116,252
Total Revenues	\$ 9,478,785	\$ 9,588,999	\$ 11,456,312	\$ 1,867,313
Expenditures				
Current				
General government				
Commissioners	\$ 198,266	\$ 198,266	\$ 178,883	\$ 19,383
Courts	35,753	35,753	121,479	(85,726)
Law library	20,000	20,000	15,511	4,489
County auditor	489,866	489,866	489,407	459
County treasurer	194,839	194,839	175,678	19,161
County assessor	422,297	422,297	394,191	28,106
Elections	39,255	435,255	340,810	94,445
Data processing	447,435	447,435	307,689	139,746
Central services	126,711	126,711	111,791	14,920
Personnel	358,889	358,889	320,038	38,851
Attorney	687,340	687,340	601,675	85,665
Contracted legal services	20,000	20,000	61,066	(41,066)
Recorder	295,013	295,013	296,850	(1,837)
Planning and zoning	241,264	241,264	174,483	66,781
Buildings and plant	216,809	216,809	215,445	1,364
Veterans service officer	51,246	51,246	51,813	(567)
Other general governmental	163,275	163,275	176,711	(13,436)
Total general government	\$ 4,008,258	\$ 4,404,258	\$ 4,033,520	\$ 370,738
Public safety				
Sheriff	\$ 3,186,058	\$ 3,186,058	\$ 3,377,516	\$ (191,458)
Boat and water safety	5,430	20,329	10,063	10,266
Coroner	30,275	30,275	31,592	(1,317)
E-911 system	78,755	78,755	70,513	8,242
County jail	1,576,753	1,576,753	1,765,972	(189,219)
Sentence to serve	54,909	54,909	60,276	(5,367)
Probation and parole	558,782	558,782	532,934	25,848
Civil defense	48,673	196,488	115,191	81,297
Other public safety	25,370	25,370	18,858	6,512
Total public safety	\$ 5,565,005	\$ 5,727,719	\$ 5,982,915	\$ (255,196)

**PINE COUNTY
PINE CITY, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 185,258	\$ 185,258	\$ 195,725	\$ (10,467)
Culture and recreation				
Historical society	\$ 12,000	\$ 12,000	\$ 12,000	\$ -
Trail assistance	-	113,214	113,214	-
Regional library	256,500	256,500	268,559	(12,059)
Total culture and recreation	\$ 268,500	\$ 381,714	\$ 393,773	\$ (12,059)
Conservation of natural resources				
Cooperative extension	\$ 126,121	\$ 126,121	\$ 119,860	\$ 6,261
Soil and water conservation	72,472	72,472	69,041	3,431
Agricultural inspections	100	100	119	(19)
Agricultural society/County fair	-	-	8,055	(8,055)
Water planning	36,968	36,968	36,969	(1)
Wetland challenge	32,981	32,981	72,430	(39,449)
Other	10,353	10,353	10,309	44
Total conservation of natural resources	\$ 278,995	\$ 278,995	\$ 316,783	\$ (37,788)
Total Expenditures	\$ 10,306,016	\$ 10,977,944	\$ 10,922,716	\$ 55,228
Excess of Revenues Over (Under) Expenditures	\$ (827,231)	\$ (1,388,945)	\$ 533,596	\$ 1,922,541
Other Financing Sources (Uses)				
Transfers in	\$ 762,535	\$ 762,535	\$ 66,207	\$ (696,328)
Transfers out	-	-	(131,271)	(131,271)
Total Other Financing Sources (Uses)	\$ 762,535	\$ 762,535	\$ (65,064)	\$ (827,599)
Net Change in Fund Balance	\$ (64,696)	\$ (626,410)	\$ 468,532	\$ 1,094,942
Fund Balance - January 1	1,845,222	1,845,222	1,845,222	-
Fund Balance - December 31	\$ 1,780,526	\$ 1,218,812	\$ 2,313,754	\$ 1,094,942

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,654,219	\$ 1,654,219	\$ 1,621,213	\$ (33,006)
Intergovernmental	7,521,461	7,521,461	4,243,242	(3,278,219)
Charges for services	256,000	256,000	357,577	101,577
Investment earnings	80,000	80,000	-	(80,000)
Miscellaneous	159,642	159,642	124,304	(35,338)
Total Revenues	\$ 9,671,322	\$ 9,671,322	\$ 6,346,336	\$ (3,324,986)
Expenditures				
Current				
Highways and streets				
Administration	\$ 444,492	\$ 444,492	\$ 600,537	\$ (156,045)
Maintenance	2,165,730	2,165,730	1,572,937	592,793
Construction	6,674,410	6,572,768	5,594,748	978,020
Equipment maintenance and shop	959,543	959,543	1,429,774	(470,231)
Materials and services for resale	-	-	187	(187)
Unallocated highways and streets	60,000	60,000	49,836	10,164
Total highways and streets	\$ 10,304,175	\$ 10,202,533	\$ 9,248,019	\$ 954,514
Debt service				
Principal	\$ -	\$ 73,459	\$ 73,459	\$ -
Interest	-	28,183	28,183	-
Total debt service	\$ -	\$ 101,642	\$ 101,642	\$ -
Total Expenditures	\$ 10,304,175	\$ 10,304,175	\$ 9,349,661	\$ 954,514
Excess of Revenues Over (Under) Expenditures	\$ (632,853)	\$ (632,853)	\$ (3,003,325)	\$ (2,370,472)
Other Financing Sources (Uses)				
Transfers in	\$ 635,000	\$ 635,000	\$ 642,462	\$ 7,462
Proceeds from sale of assets	-	-	97,300	97,300
Total Other Financing Sources (Uses)	\$ 635,000	\$ 635,000	\$ 739,762	\$ 104,762
Net Change in Fund Balance	\$ 2,147	\$ 2,147	\$ (2,263,563)	\$ (2,265,710)
Fund Balance - January 1	3,735,975	3,735,975	3,735,975	-
Increase (decrease) in reserved for inventories	-	-	105,103	105,103
Fund Balance - December 31	\$ 3,738,122	\$ 3,738,122	\$ 1,577,515	\$ (2,160,607)

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,000,920	\$ 3,000,920	\$ 2,645,049	\$ (355,871)
Intergovernmental	3,864,749	3,864,749	4,450,714	585,965
Charges for services	68,612	68,612	112,583	43,971
Gifts and contributions	6,306	6,306	21,541	15,235
Miscellaneous	973,529	973,529	957,930	(15,599)
Total Revenues	\$ 7,914,116	\$ 7,914,116	\$ 8,187,817	\$ 273,701
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,856,541	\$ 1,856,541	\$ 1,835,716	\$ 20,825
Social services	5,460,989	5,460,989	5,253,660	207,329
Total human services	\$ 7,317,530	\$ 7,317,530	\$ 7,089,376	\$ 228,154
Health				
Nursing service	\$ 700,894	\$ 700,894	\$ 736,593	\$ (35,699)
Maternal and child health	57,653	57,653	65,367	(7,714)
Environmental health	38,162	38,162	39,438	(1,276)
Health education	43,650	43,650	40,869	2,781
Total health	\$ 840,359	\$ 840,359	\$ 882,267	\$ (41,908)
Total Expenditures	\$ 8,157,889	\$ 8,157,889	\$ 7,971,643	\$ 186,246
Excess of Revenues Over (Under) Expenditures	\$ (243,773)	\$ (243,773)	\$ 216,174	\$ 459,947
Fund Balance - January 1	1,978,614	1,978,614	1,978,614	-
Fund Balance - December 31	\$ 1,734,841	\$ 1,734,841	\$ 2,194,788	\$ 459,947

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 30,310	\$ 30,310	\$ 39,334	\$ 9,024
Miscellaneous	1,156,000	1,156,000	333,544	(822,456)
Total Revenues	\$ 1,186,310	\$ 1,186,310	\$ 372,878	\$ (813,432)
Expenditures				
Current				
Conservation of natural resources				
Land use	687,082	687,082	255,010	432,072
Excess of Revenues Over (Under) Expenditures	\$ 499,228	\$ 499,228	\$ 117,868	\$ (381,360)
Other Financing Sources (Uses)				
Transfers out	(488,618)	(488,618)	(66,207)	422,411
Net Change in Fund Balance	\$ 10,610	\$ 10,610	\$ 51,661	\$ 41,051
Fund Balance - January 1	889,293	889,293	889,293	-
Fund Balance - December 31	\$ 899,903	\$ 899,903	\$ 940,954	\$ 41,051

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**PINE COUNTY
PINE CITY, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, none of the major funds had expenditures that exceeded appropriations.

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

**PINE COUNTY
PINE CITY, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	Special Revenue	Debt Service	Capital Projects	Total
<u>Assets</u>				
Cash and pooled investments	\$ 788,771	\$ 1,905,677	\$ -	\$ 2,694,448
Undistributed cash in agency funds	-	57,633	-	57,633
Cash with escrow agent	-	1,083,712	-	1,083,712
Investments	101,676	-	-	101,676
Taxes receivable				
Prior	-	108,113	-	108,113
Accounts receivable	177,580	-	-	177,580
Accrued interest receivable	4,872	144,384	-	149,256
Due from other funds	-	-	367,220	367,220
Due from other governments	5,000	-	-	5,000
Total Assets	\$ 1,077,899	\$ 3,299,519	\$ 367,220	\$ 4,744,638
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 93	\$ -	\$ -	\$ 93
Cash overdraft	-	-	367,220	367,220
Due to other funds	-	367,220	-	367,220
Due to other governments	68	-	-	68
Deferred revenue - unavailable	177,580	86,706	-	264,286
Deferred revenue - unearned	5,000	-	-	5,000
Total Liabilities	\$ 182,741	\$ 453,926	\$ 367,220	\$ 1,003,887
Fund Balances				
Reserved for debt service	\$ -	\$ 500,000	\$ -	\$ 500,000
Reserved for interest payments	-	83,925	-	83,925
Unreserved				
Designated for capital improvements	-	606,267	-	606,267
Undesignated	895,158	1,655,401	-	2,550,559
Total Fund Balances	\$ 895,158	\$ 2,845,593	\$ -	\$ 3,740,751
Total Liabilities and Fund Balances	\$ 1,077,899	\$ 3,299,519	\$ 367,220	\$ 4,744,638

**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, 2006**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues				
Taxes	\$ -	\$ 2,079,995	\$ -	\$ 2,079,995
Intergovernmental	5,000	252,640	-	257,640
Charges for services	26,700	-	-	26,700
Earnings on investments	4,872	990,923	-	995,795
Total Revenues	\$ 36,572	\$ 3,323,558	\$ -	\$ 3,360,130
Expenditures				
Current				
General government	\$ -	\$ 51	\$ -	\$ 51
Public safety	8,097	-	-	8,097
Highways and streets	15,972	-	-	15,972
Debt service				
Principal	-	816,778	-	816,778
Interest	-	1,095,697	-	1,095,697
Administrative charges	-	1,900	-	1,900
Total Expenditures	\$ 24,069	\$ 1,914,426	\$ -	\$ 1,938,495
Excess of Revenues Over (Under) Expenditures	\$ 12,503	\$ 1,409,132	\$ -	\$ 1,421,635
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 5,094	\$ 367,220	\$ 372,314
Transfers out	-	(367,220)	(516,285)	(883,505)
Total Other Financing Sources (Uses)	\$ -	\$ (362,126)	\$ (149,065)	\$ (511,191)
Net Change in Fund Balance	\$ 12,503	\$ 1,047,006	\$ (149,065)	\$ 910,444
Fund Balance - January 1	882,655	1,798,587	149,065	2,830,307
Fund Balance - December 31	\$ 895,158	\$ 2,845,593	\$ -	\$ 3,740,751

**PINE COUNTY
PINE CITY, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2006**

	Ditch	Countywide Rehabilitation Program	Ambulance	Total
<u>Assets</u>				
Cash and pooled investments	\$ 6,814	\$ 11,697	\$ 770,260	\$ 788,771
Investments	-	101,676	-	101,676
Accounts receivable	-	-	177,580	177,580
Accrued interest receivable	-	4,872	-	4,872
Due from other governments	-	5,000	-	5,000
Total Assets	\$ 6,814	\$ 123,245	\$ 947,840	\$ 1,077,899
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 93	\$ -	\$ -	\$ 93
Due to other governments	-	-	68	68
Deferred revenue - unavailable	-	-	177,580	177,580
Deferred revenue - unearned	-	5,000	-	5,000
Total Liabilities	\$ 93	\$ 5,000	\$ 177,648	\$ 182,741
Fund Balances				
Unreserved				
Undesignated	6,721	118,245	770,192	895,158
Total Liabilities and Fund Balances	\$ 6,814	\$ 123,245	\$ 947,840	\$ 1,077,899

**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, 2006**

	<u>Ditch</u>	<u>Countywide Rehabilitation Program</u>	<u>Ambulance</u>	<u>Total</u>
Revenues				
Intergovernmental	\$ 5,000	\$ -	\$ -	\$ 5,000
Charges for services	21,663	-	5,037	26,700
Earnings on investments	-	4,872	-	4,872
Total Revenues	\$ 26,663	\$ 4,872	\$ 5,037	\$ 36,572
Expenditures				
Current				
Public safety	\$ -	\$ -	\$ 8,097	\$ 8,097
Highways and streets	15,972	-	-	15,972
Total Expenditures	\$ 15,972	\$ -	\$ 8,097	\$ 24,069
Excess of Revenues Over (Under) Expenditures	\$ 10,691	\$ 4,872	\$ (3,060)	\$ 12,503
Fund Balance - January 1	(3,970)	113,373	773,252	882,655
Fund Balance - December 31	\$ 6,721	\$ 118,245	\$ 770,192	\$ 895,158

**PINE COUNTY
PINE CITY, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
DECEMBER 31, 2006**

	Equipment Bond	East Central Solid Waste Commission
<u>Assets</u>		
Cash and pooled investments	\$ 206,396	\$ 48,808
Undistributed cash in agency funds	1,282	1,100
Cash with escrow agent	-	-
Taxes receivable		
Prior	11,493	9,352
Accrued interest receivable	-	-
	-	-
Total Assets	\$ 219,171	\$ 59,260
 <u>Liabilities and Fund Balances</u>		
Liabilities		
Due to other funds	\$ -	\$ -
Deferred revenue - unavailable	11,493	8,967
	11,493	8,967
Total Liabilities	\$ 11,493	\$ 8,967
Fund Balances		
Reserved for debt service	\$ -	\$ -
Reserved for interest payments	-	-
Unreserved		
Designated for capital improvements	-	-
Undesignated	207,678	50,293
	207,678	50,293
Total Fund Balances	\$ 207,678	\$ 50,293
Total Liabilities and Fund Balances	\$ 219,171	\$ 59,260

Statement 5

Street Reconstruction Bond	General Obligation Jail Bond	HRA Project Bonds	Total
\$ 760,893 20,999 - 37,881 - <hr style="border: 0.5px solid black;"/> \$ 819,773	\$ 621,816 18,827 - 27,147 37,903 <hr style="border: 0.5px solid black;"/> \$ 705,693	\$ 267,764 15,425 1,083,712 22,240 106,481 <hr style="border: 0.5px solid black;"/> \$ 1,495,622	\$ 1,905,677 57,633 1,083,712 108,113 144,384 <hr style="border: 0.5px solid black;"/> \$ 3,299,519
\$ 367,220 30,080 <hr style="border: 0.5px solid black;"/> \$ 397,300	\$ - 19,880 <hr style="border: 0.5px solid black;"/> \$ 19,880	\$ - 16,286 <hr style="border: 0.5px solid black;"/> \$ 16,286	\$ 367,220 86,706 <hr style="border: 0.5px solid black;"/> \$ 453,926
\$ - - - 422,473 <hr style="border: 0.5px solid black;"/> \$ 422,473	\$ - - - 685,813 <hr style="border: 0.5px solid black;"/> \$ 685,813	\$ 500,000 83,925 606,267 289,144 <hr style="border: 0.5px solid black;"/> \$ 1,479,336	\$ 500,000 83,925 606,267 1,655,401 <hr style="border: 0.5px solid black;"/> \$ 2,845,593
\$ 819,773	\$ 705,693	\$ 1,495,622	\$ 3,299,519

**PINE COUNTY
PINE CITY, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Equipment Bond	East Central Solid Waste Commission
Revenues		
Taxes	\$ 7,054	\$ 142,300
Intergovernmental	-	29,722
Earnings on investments	-	-
	\$ 7,054	\$ 172,022
Expenditures		
Current		
General government	\$ 51	\$ -
Debt service		
Principal	-	121,778
Interest	-	26,732
Administrative charges	-	-
	\$ 51	\$ 148,510
Excess of Revenues Over (Under) Expenditures	\$ 7,003	\$ 23,512
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	-	-
	\$ -	\$ -
Net Change in Fund Balance	\$ 7,003	\$ 23,512
Fund Balance - January 1	200,675	26,781
Fund Balance - December 31	\$ 207,678	\$ 50,293

Statement 6

Street Reconstruction Bond	General Obligation Jail Bond	HRA Project Bonds	Total
\$ 721,695	\$ 664,532	\$ 544,414	\$ 2,079,995
89,167	74,306	59,445	252,640
-	408,850	582,073	990,923
\$ 810,862	\$ 1,147,688	\$ 1,185,932	\$ 3,323,558
\$ -	\$ -	\$ -	\$ 51
695,000	-	-	816,778
81,436	672,814	314,715	1,095,697
450	1,450	-	1,900
\$ 776,886	\$ 674,264	\$ 314,715	\$ 1,914,426
\$ 33,976	\$ 473,424	\$ 871,217	\$ 1,409,132
\$ 5,094	\$ -	\$ -	\$ 5,094
(367,220)	-	-	(367,220)
\$ (362,126)	\$ -	\$ -	\$ (362,126)
\$ (328,150)	\$ 473,424	\$ 871,217	\$ 1,047,006
750,623	212,389	608,119	1,798,587
\$ 422,473	\$ 685,813	\$ 1,479,336	\$ 2,845,593

**PINE COUNTY
PINE CITY, MINNESOTA**

Statement 7

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUND
DECEMBER 31, 2006**

	<u>Street Reconstruction Fund</u>
<u>Assets</u>	
Due from other funds	<u>\$ 367,220</u>
<u>Liabilities</u>	
Cash overdraft	<u>\$ 367,220</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, 2006**

	2002 Capital Project	Building Fund	Street Reconstruction Fund	Total
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 367,220	\$ 367,220
Transfers out	-	-	(516,285)	(516,285)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (149,065)	\$ (149,065)
Net Change in Fund Balance	\$ -	\$ -	\$ (149,065)	\$ (149,065)
Fund Balance - January 1	-	-	149,065	149,065
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
COUNTYWIDE REHABILITATION SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Earnings on investments	\$ 750	\$ 750	\$ 4,872	\$ 4,122
Net Change in Fund Balance	\$ 750	\$ 750	\$ 4,872	\$ 4,122
Fund Balance - January 1	113,373	113,373	113,373	-
Fund Balance - December 31	\$ 114,123	\$ 114,123	\$ 118,245	\$ 4,122

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
AMBULANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 5,037	\$ 5,037	\$ 5,037	\$ -
Expenditures				
Current				
Public safety				
Ambulance	8,097	8,097	8,097	-
Excess of Revenues Over (Under)				
Expenditures	\$ (3,060)	\$ (3,060)	\$ (3,060)	\$ -
Fund Balance - January 1	<u>773,252</u>	<u>773,252</u>	<u>773,252</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 770,192</u>	<u>\$ 770,192</u>	<u>\$ 770,192</u>	<u>\$ -</u>

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
EQUIPMENT BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 7,054	\$ 7,054
Expenditures				
Current				
General government				
Other general government	-	-	51	(51)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 7,003	\$ 7,003
Fund Balance - January 1	<u>200,675</u>	<u>200,675</u>	<u>200,675</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 200,675</u>	<u>\$ 200,675</u>	<u>\$ 207,678</u>	<u>\$ 7,003</u>

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
EAST CENTRAL SOLID WASTE COMMISSION DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 138,351	\$ 138,351	\$ 142,300	\$ 3,949
Intergovernmental	29,722	29,722	29,722	-
Total Revenues	\$ 168,073	\$ 168,073	\$ 172,022	\$ 3,949
Expenditures				
Debt service				
Principal	\$ 140,905	\$ 140,905	\$ 121,778	\$ 19,127
Interest	26,732	26,732	26,732	-
Total Expenditures	\$ 167,637	\$ 167,637	\$ 148,510	\$ 19,127
Excess of Revenues Over (Under) Expenditures	\$ 436	\$ 436	\$ 23,512	\$ 23,076
Fund Balance - January 1	26,781	26,781	26,781	-
Fund Balance - December 31	\$ 27,217	\$ 27,217	\$ 50,293	\$ 23,076

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
2004 STREET RECONSTRUCTION DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 828,700	\$ 828,700	\$ 721,695	\$ (107,005)
Intergovernmental	-	-	89,167	89,167
Interest on investments	40,000	40,000	-	(40,000)
Total Revenues	\$ 868,700	\$ 868,700	\$ 810,862	\$ (57,838)
Expenditures				
Debt service				
Principal	\$ 732,466	\$ 732,466	\$ 695,000	\$ 37,466
Interest	92,234	92,234	81,436	10,798
Administrative charges	600	600	450	150
Total Expenditures	\$ 825,300	\$ 825,300	\$ 776,886	\$ 48,414
Excess of Revenues Over (Under) Expenditures	\$ 43,400	\$ 43,400	\$ 33,976	\$ (9,424)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 5,094	\$ 5,094
Transfers out	-	-	(367,220)	(367,220)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (362,126)	\$ (362,126)
Net Change in Fund Balance	\$ 43,400	\$ 43,400	\$ (328,150)	\$ (371,550)
Fund Balance - January 1	750,623	750,623	750,623	-
Fund Balance - December 31	\$ 794,023	\$ 794,023	\$ 422,473	\$ (371,550)

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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 311,465	\$ 25,880,446	\$ 25,754,805	\$ 437,106
<u>Liabilities</u>				
Due to other governments	\$ 311,465	\$ 25,880,446	\$ 25,754,805	\$ 437,106
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 27,318	\$ 550,662	\$ 545,887	\$ 32,093
<u>Liabilities</u>				
Due to other governments	\$ 27,318	\$ 550,662	\$ 545,887	\$ 32,093
 <u>PINE COUNTY CHILDREN, FAMILIES, AND LEARNING SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 228,294	\$ 404,130	\$ 445,414	\$ 187,010
<u>Liabilities</u>				
Accounts payable	\$ 228,294	\$ 404,130	\$ 445,414	\$ 187,010

**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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 567,077</u>	<u>\$ 26,835,238</u>	<u>\$ 26,746,106</u>	<u>\$ 656,209</u>
<u>Liabilities</u>				
Accounts payable	\$ 228,294	\$ 404,130	\$ 445,414	\$ 187,010
Due to other governments	<u>338,783</u>	<u>26,431,108</u>	<u>26,300,632</u>	<u>469,199</u>
Total Liabilities	<u>\$ 567,077</u>	<u>\$ 26,835,238</u>	<u>\$ 26,746,046</u>	<u>\$ 656,209</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, 2006**

	Total Governmental Funds
Shared Revenue	
State	
Highway users tax	\$ 3,604,321
Road gas tax	11,015
Homestead credit	1,359,433
PERA rate reimbursement	36,545
Disparity reduction aid	1,034
Police aid	134,284
Enhanced 911	105,072
Market value credit	1,486,124
Casino aid/tribal tax agreement	54,271
	\$ 6,792,099
Total Shared Revenue	
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 1,726,806
Payments	
State	
Payments in lieu of taxes	\$ 480,247
Grants	
State	
Minnesota Department of	
Education	\$ 8,919
Corrections	207,165
Health	166,823
Natural Resources	125,158
Human Services	1,338,956
Soil and Water Resources	65,909
Trial Courts	5,721
Office of Environmental Assistance	57,325
Miscellaneous departments	5,000
	\$ 1,980,976
Total State	

**PINE COUNTY
PINE CITY, MINNESOTA**

***Schedule 10
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Total Governmental Funds
Grants (Continued)	
Federal	
Department of	
Agriculture	\$ 192,378
Interior	2,979
Justice	232
Transportation	445,927
Health and Human Services	826,397
Homeland Security	125,342
Election Assistance Commission	396,000
	<hr/>
Total Federal	\$ 1,989,255
	<hr/>
Total State and Federal Grants	\$ 3,970,231
	<hr/>
Total Intergovernmental Revenue	\$ 12,969,383

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**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 11

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Pine County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Pine County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Pine County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Pine County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Help America Vote Act	CFDA #90.401
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 the County's elected officials and department heads be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the County's internal control policies and procedures are being implemented by staff. These oversight procedures should include:

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

Client's Response:

Pine County is aware of this condition and will send a memo to the departments involved.

ITEMS ARISING THIS YEAR

06-1 Preparation of Financial Statements

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

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

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

Client's Response:

The County will address this item with the proposed addition of personnel in the Auditor's Office in the first half of 2008 that will provide capabilities required to manage the needed functions.

06-2 Audit Adjustments

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

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

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

Client's Response:

The County will address this item with the proposed addition of personnel in the Auditor's Office in the first half of 2008 that will provide capabilities required to manage the needed functions.

06-3 SSIS Segregation of Duties

In October 2006, the County Health and Human Service Department implemented the Minnesota Department of Human Services (DHS) newly issued Social Services Information System Fiscal Payment (SSIS) software module. The County uses this module to pay vendors providing services to the various social services programs.

The software allows the County's SSIS system administrator flexibility in assigning staff access to the software. One basic objective of internal control is to provide for segregation of incompatible duties so that no single individual can establish a vendor, authorize a transaction, record the transaction, and obtain custody of the asset resulting from the transaction. The size of the County department and its staff size sometimes limit the application of adequate segregation of duties. County management must perform a risk assessment to determine if incompatible access exists that affects the internal control over the SSIS system. When it is not possible to limit an employee's incompatible access, mitigating controls should be implemented, such as independent review, to ensure that transactions are authorized and appropriate.

County management has not performed a risk assessment to determine if incompatible access exists since initially assigning staff access to the SSIS system.

We recommend that County management review staff's access to the SSIS system and identify those with incompatible or inappropriate access. If assigning incompatible access is unavoidable, management should develop appropriate mitigating controls to minimize the risk of undetected errors or fraud.

Client's Response:

During the year 2007, Pine County Health and Human Services has been defining the staff duties on SSIS. Management has done an assessment of the roles and the duties of the staff who have access to SSIS and has limited staff access to certain functions. Management will continue to review access activity and modify the roles as the SSIS system is updated and functions are added.

06-4 Disbursements Approval

One basic objective of internal control is to provide a means for the prevention or detection of the payment of erroneous or false claims. Responsibilities should be separated among employees so that a single individual is not able to authorize a transaction, record the transaction in accounts, and gain custody of the asset resulting

from the transaction. If it is not possible to segregate these functions to the desired level, management's review and approval of transactions is a mitigating control offsetting the internal control weakness resulting from limited segregation of duties.

The responsibility for approving disbursement transactions lies with County management. We noted in our review that claims for payment were not always being approved by the Sheriff, the Highway Engineer, and the County Attorney. In those departments, this duty was sometimes delegated to administrative assistants. This creates an internal control weakness over management's review and approval of these transactions. Management approval of payment of claims is an important preventive and detective internal control where staffing limitations do not always allow for a desirable level of segregation of duties.

We recommend that the County Board review their current practice and, if necessary, approve and implement a written policy requiring department heads to review and approve claims presented for payment to ensure all County disbursements are proper.

Client's Response:

The County Board will reiterate to the Department Heads that they need to sign warrants under their control, we expect this will handle the situation, if needed it will be added to the purchasing policy the County has, or will be implemented as part of a payment process.

06-5 Computer Risk Management

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

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

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

Client's Response:

The County will develop a plan after the completion of our move to our new facility.

06-6 Budgeting

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

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

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

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

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

Client's Response:

The County will develop an official budget policy in 2008.

06-7 Accounting Policies and Procedures Manual

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

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

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

Client's Response:

The County will address this item with the proposed addition of personnel in the Auditor's Office in the first half of 2008 that will provide capabilities required to manage the needed functions.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

06-8 Late Payment of Claims

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

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

- Check #31945 - invoice date 1/03/06 paid on 2/24/06 - 44 days,
- Check #32374 - invoice date 2/07/06 paid on 3/24/06 - 46 days,
- Check #61356 - invoice date 6/13/06 paid on 7/27/06 - 52 days, and
- Check #61555 - invoice date 6/19/06 paid on 8/04/06 - 45 days.

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

Client's Response (County Coordinator):

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

Client's Response (Health and Human Services):

In August of 2007, Pine County Health and Human Services implemented two payment runs each month. The first to be mailed out the Friday following the Human Services Board, and the second to be mailed out the following Friday. Under the two payment runs, bills should be paid within the 35 days required by Minn. Stat. § 471.425. Management will monitor the payments, to assure that the invoices are paid within the 35 days.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-11 Information Systems Department Review

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

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

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

Client's Response:

The County will develop a plan after the completion of our move to our new facility.

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, 2006. Providing an unsecured loan to the 5CMHC could result in loss of County assets should the 5CMHC be unable to repay the loan.

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

Client's Response:

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

97-4 Advances to Five County Mental Health Center

During 1997 and 1998, the County made quarterly advances to the 5CMHC totaling \$253,750 and \$203,000, respectively. The 5CMHC reports expenditures monthly to the County and then settles overpayments, usually twice each year. At December 31, 2006, the balance remaining as advanced to the 5CMHC was

\$47,358. This is shown on the financial statements as part of the prepaid items account balance. This advance, plus the outstanding loan previously discussed (item 96-13), could result in losses to the County should this organization be unable to refund the overpayment and repay the loan.

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

Client's Response:

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

ITEMS ARISING THIS YEAR

06-9 Capital Assets Policy

For financial reporting and asset management purposes, Pine County is required to keep records of its capital assets, including infrastructure. Currently, the County has established its capitalization threshold at \$5,000; however, a comprehensive capital assets policy has not been formally approved by the County Board. Also, the County does not have a policy requiring a periodic physical inventory of capital assets. A formal capital assets policy should be adopted which defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, depreciation methods, reporting additions and deletions, and the recording of infrastructure as a part of a complete and comprehensive policies and procedures manual.

We recommend the County Board establish a capital assets policy to define the County's accounting policies over capital assets. Also, we recommend a physical inventory of capital assets be performed periodically. This physical inventory can

be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every five years. Some critical capital assets may need more frequent accounting.

Client's Response:

The County asset plan will be revised to reflect the pertinent information.

06-10

Utility Trailer Purchase

The County Sheriff purchased a utility trailer from a private citizen at a cost of \$8,600 to be used as a mobile command post center. The trailer was paid for in three separate payments. On April 14, 2006, the County made a down payment of \$3,000 to the vendor. On June 8, 2006, an additional payment of \$3,000 was made. A final payment of \$2,600 was made on June 29, 2006. The purchase was funded out of private donations solicited by the Sheriff's Mounted Patrol volunteers from local businesses and associations. Not all the donations received have been properly approved for their designated purpose by the County Board.

The purchase did not conform to County purchasing policy. The policy calls for all purchases between \$500 and \$10,000 to be supported by two quotes from at least two qualified vendors. County policy does not allow for splitting of purchases to avoid statutory limits or County policy. Capital assets purchased are to be reported to the County Coordinator in a timely manner for inclusion on the County's capital asset records. Donations received should be approved by the County Board as to amount, donor, and purpose in the official County Board minutes.

We recommend that the Sheriff follow County purchasing policy for future purchases. Donations solicited and received should be reported to the County Board for approval and inclusion in the Board minutes. This reporting could be accomplished by provision of a monthly or quarterly list of donations received, the donor, and the purpose.

Client's Response:

The County Board will notify the Sheriff of the situation and provide the Sheriff's Department with a copy of the purchasing policy for which it is expected they should follow on all purchases.

PREVIOUSLY REPORTED ITEMS RESOLVED

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

Instances were detected in which the receivable and payable detailed accrual reports supporting general ledger control account totals varied from what was being reported in the general ledger.

Resolution

No significant variances were noted in the current year.

Ditch Fund Deficit (05-2)

At December 31, 2005, 2004, and 2003, the Ditch Special Revenue Fund had reported deficit unreserved, undesignated fund balances.

Resolution

In the current year, the deficit fund balance was eliminated through special assessments levied against benefited properties.

C. **OTHER ITEMS 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, similar to 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.

Statement on Auditing Standards (SAS) 112

In May 2006, the American Institute of Certified Public Accountants (AICPA), issued Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified In An Audit*. The AICPA establishes auditing standards generally accepted in the United States of America that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities, and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the auditor to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses.

Specifically, this SAS does the following:

- defines the terms significant deficiency and material weakness;
- provides guidance on evaluating the severity of control deficiencies identified in an audit of financial statements; and
- requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in the audit.

SAS No. 112 will affect every audit of a local government entity whether conducted by governmental auditors or a CPA firm. This standard, as well as other new auditing standards, will increase the emphasis placed on the need for adequate internal controls over financial reporting, including controls over the preparation of annual financial statements and disclosures. It will also increase the likelihood of more reportable audit findings. Pine County management and those charged with governance should familiarize themselves with the terms and implications of this statement and perform a risk analysis with the goal of evaluating the adequacy of the current internal controls that operate over the Pine County financial reporting system.



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

Board of County Commissioners
Pine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County, Minnesota, as of and for the year ended December 31, 2006, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pine County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4 and 06-1 through 06-7 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Pine County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 06-8.

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

Pine County's written responses to the significant deficiencies, material weakness, legal compliance findings, and management practice comments identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 28, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

Board of County Commissioners
Pine County

Compliance

We have audited the compliance of Pine County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. 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, 2006.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 28, 2007. 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, others within Pine County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 28, 2007

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**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 12

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Supplemental Food Program for Women, Infants, and Children (WIC)		10.557	\$ 131,351
Passed Through Minnesota Department of Human Services Food Stamp Employment and Training Administration		10.561	11,027
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Agreement		10.664	<u>50,000</u>
Total U.S. Department of Agriculture			\$ <u>192,378</u>
U.S. Department of the Interior			
Direct Payments in Lieu of Taxes		15.226	\$ <u>2,979</u>
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety Law Enforcement Assistance - Narcotics and Dangerous Drugs Training		16.004	\$ <u>232</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation State and Community Highway Safety		20.600	\$ 4,000
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants		20.601	1,500
Highway Safety Act		20.604	<u>2,000</u>
Total U.S. Department of Transportation			\$ <u>7,500</u>
U.S. Elections Assistance Commission			
Passed Through Minnesota Secretary of State Help America Vote Act Grant	A87520	90.401	\$ <u>297,870</u>
U.S. Department of Health and Human Services			
Passed Through Kanabec/Pine Community Health Services Centers for Disease Control and Prevention - Investigations and Technical Assistance		93.283	\$ 35,560
Maternal and Child Health		93.994	38,317

**PINE COUNTY
PINE CITY, MINNESOTA**

*Schedule 12
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Title IV-B-2 Promoting Safe and Stable Families		93.556	1,674
Temporary Assistance for Needy Families		93.558	352,166
Child Care Development Block Grant		93.575	18,535
Title IV-B-1 Alternative Response Grant		93.645	5,820
Foster Care Title IV-E		93.658	165,902
Social Services Block Grant Title XX		93.667	193,959
Chafee Foster Care Independence Program		93.674	3,660
Block Grants for Community Mental Health Services		93.958	10,804
Total U.S. Department of Health and Human Services			\$ 826,397
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance - cluster		97.042	\$ 12,628
Homeland Security Grant Program - cluster		97.067	97,815
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance		97.012	14,899
Total U.S. Department of Homeland Security			\$ 125,342
Total Federal Awards			\$ 1,452,698

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 2006, a receivable of \$438,427 was recognized as revenue because the period of availability criteria had not been met in the prior year under modified accrual reporting, and \$98,130 of current year federal revenues were not recognized as expenditures because they had not been spent by year-end.
3. During 2006, 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.