

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

PINE COUNTY
PINE CITY, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

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

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

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**PINE COUNTY
PINE CITY, MINNESOTA**

Year Ended December 31, 2004



**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 COUNTY
PINE CITY, MINNESOTA**

ORGANIZATION
AS OF DECEMBER 31, 2004

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

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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, 2004, 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, 2004, 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 made for the purpose of forming opinions on the financial statements that collectively comprise Pine County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, on our consideration of Pine County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PINE COUNTY
PINE CITY, MINNESOTA**

Management's Discussion and Analysis
December 31, 2004
(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, 2004. 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, 2004, by \$63,595,819 (net assets). Of this amount, \$6,268,880 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

As of the close of 2004, Pine County's governmental funds reported combined ending fund balances of \$9,970,638. Of this balance amount, \$5,420,757 was unreserved and undesignated by Pine County, and thus available for spending at the County's discretion.

At the end of 2004, unreserved fund balance for the General Fund was \$1,702,181, or 18 percent of the total General Fund expenditures for that year.

Pine County's long-term liabilities increased by \$2,485,045 during 2004.

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

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

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

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

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

Fund level 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 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 is provided as supplementary information regarding Pine County's investments and intergovernmental revenues.

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. Pine County's assets exceeded liabilities by \$63,583,765 at the close of 2004. The largest portion of Pine County's net assets (83 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.

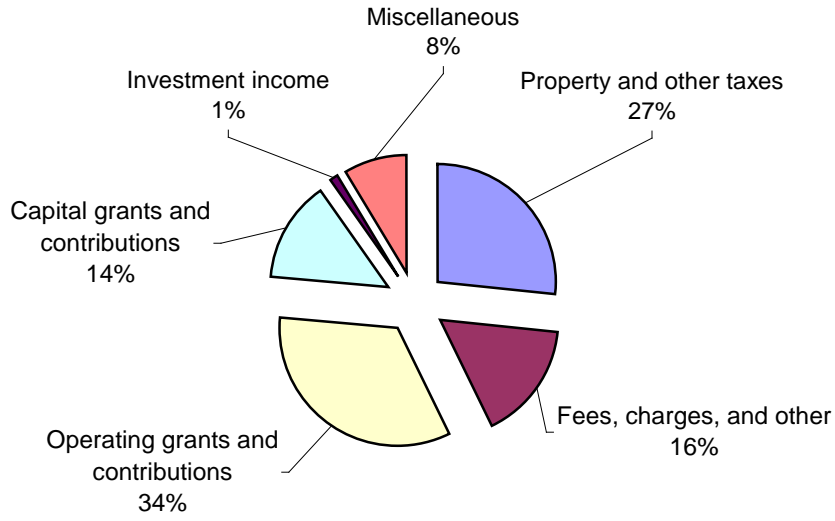
	Pine County Net Assets	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Current and other assets	\$ 17,136,957	\$ 16,064,028
Capital assets	<u>56,442,388</u>	<u>52,888,831</u>
Total Assets	<u>\$ 73,579,345</u>	<u>\$ 68,952,859</u>
Liabilities		
Long-term liabilities	\$ 5,978,710	\$ 3,188,967
Other liabilities	<u>4,004,816</u>	<u>4,387,826</u>
Total Liabilities	<u>\$ 9,983,526</u>	<u>\$ 7,576,793</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 52,665,966	\$ 50,173,774
Restricted	4,660,973	5,295,079
Unrestricted	<u>6,268,880</u>	<u>5,907,213</u>
Total Net Assets	<u>\$ 63,595,819</u>	<u>\$ 61,376,066</u>

The unrestricted net assets amount of \$6,268,880 as of December 31, 2004, may be used to meet the County's ongoing obligations to citizens and creditors.

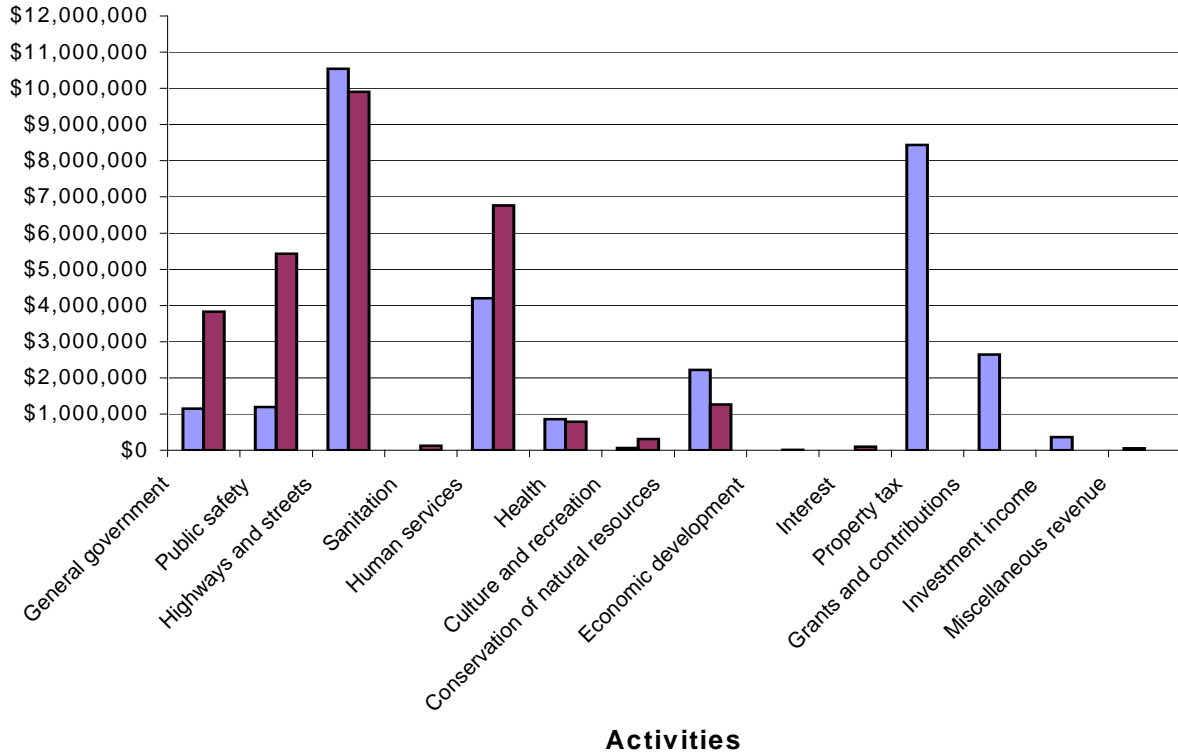
Pine County
Changes in Net Assets
(in thousands)

	Governmental Activities	
	2004	2003
Revenues		
Program revenues		
Charges for services	\$ 4,738,012	\$ 4,838,953
Operating grants and contributions	11,142,228	8,983,988
Capital grants and contributions	3,382,946	3,204,645
General revenues		
Property taxes	8,114,351	8,004,375
Other	3,407,358	3,306,799
Total Revenues	<u>\$ 30,784,895</u>	<u>\$ 28,338,760</u>
Expenses		
General government	\$ 3,806,550	\$ 3,211,422
Public safety	5,481,188	5,161,901
Highways and streets	9,871,969	7,474,343
Sanitation	128,142	117,135
Human services	6,760,255	7,106,620
Health	789,854	818,495
Culture and recreation	308,033	303,557
Conservation of natural resources	1,263,288	1,818,134
Economic development	4,902	1,599
Interest	150,961	100,407
Total Expenses	<u>\$ 28,565,142</u>	<u>\$ 26,113,613</u>
Increase in Net Assets	\$ 2,219,753	\$ 2,225,147
Net Assets - January 1	<u>61,376,066</u>	<u>59,150,919</u>
Net Assets - December 31	<u>\$ 63,595,819</u>	<u>\$ 61,376,066</u>

Revenues by Source 2004



Expenses and Program Revenues 2004



Financial Analysis of the Government's Funds

As noted earlier, Pine County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Pine County's governmental funds reported combined ending fund balances of \$9,970,638, an increase of \$1,791,956 in comparison with the prior year. Of the ending fund balance, \$8,812,611 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Pine County. At the end of the current fiscal year, it had an unreserved fund balance of \$1,702,181. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 18 percent of total General Fund expenditures. In 2004, ending fund balance in the General Fund decreased by \$25,656.

The Road and Bridge unreserved fund balance of \$1,278,788 at year-end represents nine percent of the fund's annual expenditures. Unreserved fund balance increased \$354,048 during 2004, primarily due to increased revenues.

The Health and Human Services unreserved fund balance of \$1,925,317 at year-end represents 26 percent of the fund's annual expenditures. Unreserved fund balance decreased \$133,374 during 2004, primarily due to expenditures.

General Fund Budgetary Highlights

The expenditure budget was not amended during the year.

Actual revenues and transfers exceeded budgeted revenues by \$846,334, primarily due to an increase in the forfeited tax sale distribution.

Actual expenditures were over budgeted expenditures by \$775,886, mostly in the Sheriff's Department, County jail, and civil defense.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. Pine County's capital assets for its governmental activities at December 31, 2004, totaled \$56,442,388 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The major capital asset events were highway construction.

	Pine County Governmental Capital Assets (net of depreciation)	
	<u>2004</u>	<u>2003</u>
Land	\$ 1,758,195	\$ 1,731,756
Infrastructure	50,490,806	46,466,697
Buildings	2,238,511	2,307,006
Machinery and equipment	<u>1,954,876</u>	<u>2,383,372</u>
Total	<u>\$ 56,442,388</u>	<u>\$ 52,888,831</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt. At the end of the current fiscal year, the County had a total outstanding debt of \$6,351,577, which was backed by the full faith and credit of the government.

	Pine County Outstanding Debt	
	<u>2004</u>	<u>2003</u>
PFA Loans	\$ 1,069,427	\$ 1,215,057
General Obligation Capital Notes	4,430,000	1,500,000
East Central Solid Waste	<u>852,150</u>	<u>1,151,475</u>
Total	<u>\$ 6,351,577</u>	<u>\$ 3,866,532</u>

The County's debt increased during the fiscal year due to the issuance of \$3,665,000 of G.O. Capital Notes.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2004, Pine County's debt was one 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 2004, Pine County approved its balanced 2005 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.

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, 2004**

	Governmental Activities
<u>Assets</u>	
Cash and pooled investments	\$ 10,697,826
Petty cash and change funds	3,860
Investments	101,676
Prior - net	522,715
Accounts receivable - net	1,669,629
Accrued interest receivable	97,590
Loans receivable	34,850
Due from other governments	3,553,425
Leases receivable	50,067
Prepaid items	60,358
Inventories	328,319
Deferred debt issuance cost	16,642
Capital assets	
Non-depreciable	1,758,195
Depreciable - net of accumulated depreciation	54,684,193
Total Assets	\$ 73,579,345
<u>Liabilities</u>	
Accounts payable	\$ 557,125
Salaries payable	161,206
Contracts payable	881,842
Due to other governments	1,487,721
Accrued interest payable	77,182
Long-term liabilities	
Due within one year	839,740
Due in more than one year	5,978,710
Total Liabilities	\$ 9,983,526
<u>Net Assets</u>	
Invested in capital assets, net of related debt	\$ 52,665,966
Restricted for	
General government	39,330
Public safety	6,145
Highways and streets	2,573,467
Sanitation	10,000
Conservation	720,204
Debt service	1,164,217
Other purposes	147,610
Unrestricted	6,268,880
Total Net Assets	\$ 63,595,819

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues			Net (Expense)	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets	
Functions/Programs					
Governmental activities					
General government	\$ 3,806,550	\$ 1,125,129	\$ 5,306	\$ 19,926	\$ (2,656,189)
Public safety	5,481,188	671,568	477,071	-	(4,332,549)
Highways and streets	9,871,969	436,286	6,174,049	3,363,020	101,386
Sanitation	128,142	3,461	-	-	(124,681)
Human services	6,760,255	700,207	3,488,064	-	(2,571,984)
Health	789,854	120,892	737,533	-	68,571
Culture and recreation	308,033	-	57,689	-	(250,344)
Conservation of natural resources	1,263,288	1,680,469	202,516	-	619,697
Economic development	4,902	-	-	-	(4,902)
Interest	150,961	-	-	-	(150,961)
Total governmental activities	<u>\$ 28,565,142</u>	<u>\$ 4,738,012</u>	<u>\$ 11,142,228</u>	<u>\$ 3,382,946</u>	<u>\$ (9,301,956)</u>
General Revenues					
Property taxes					\$ 8,114,351
Mortgage registry and deed tax					29,421
Other taxes					29,788
Payments in lieu of tax					261,176
Grants and contributions not restricted to specific programs					2,641,598
Unrestricted investment earnings					395,144
Miscellaneous					50,231
Total general revenues					<u>\$ 11,521,709</u>
Change in net assets					\$ 2,219,753
Net Assets - Beginning					<u>61,376,066</u>
Net Assets - Ending					<u>\$ 63,595,819</u>

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**PINE COUNTY
PINE CITY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 1,243,739	\$ 965,027
Petty cash and change funds	3,660	150
Undistributed cash in agency funds	110,988	28,660
Investments	-	-
Taxes receivable		
Prior	251,243	84,568
Accounts receivable	80,171	137
Accrued interest receivable	97,426	-
Loans receivable	-	-
Leases receivable		
Current	-	-
Due from other funds	559,307	918,524
Due from other governments	135,211	2,934,620
Prepaid items	13,000	-
Inventories	-	328,319
	\$ 2,494,745	\$ 5,260,005
Total Assets	\$ 2,494,745	\$ 5,260,005

EXHIBIT 3

Health and Human Services	Land Management	Street Reconstruction Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 1,782,854	\$ 2,026,642	\$ 2,635,392	\$ 1,841,316	\$ 10,494,970
-	50	-	-	3,860
47,008	-	-	16,200	202,856
-	-	-	101,676	101,676
137,094	-	-	49,810	522,715
31,682	1,150,195	-	407,444	1,669,629
-	-	-	164	97,590
34,850	-	-	-	34,850
-	-	-	50,067	50,067
8,951	35,715	-	23,283	1,545,780
483,594	-	-	-	3,553,425
47,358	-	-	-	60,358
-	-	-	-	328,319
\$ 2,573,391	\$ 3,212,602	\$ 2,635,392	\$ 2,489,960	\$ 18,666,095

**PINE COUNTY
PINE CITY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 230,173	\$ 60,902
Salaries payable	94,007	25,720
Contracts payable	-	881,842
Due to other funds	38,718	38,505
Due to other governments	109,877	866
Deferred revenue - unavailable	210,778	2,644,913
	\$ 683,553	\$ 3,652,748
Fund Balances		
Reserved for		
Cash funds	\$ 3,660	\$ 150
Prepaid items	13,000	-
Missing heirs	36,876	-
Law library	14,390	-
Plat escrow	24,940	-
Sewage treatment loans	10,000	-
Drug forfeitures	2,773	-
DUI forfeitures	3,372	-
Inventories	-	328,319
Loans receivable	-	-
Timber development	-	-
Road access	-	-
Unreserved		
Designated for group health	45,867	-
Designated for forestry	-	-
Undesignated	1,656,314	1,278,788
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service funds	-	-
Capital projects funds	-	-
	\$ 1,811,192	\$ 1,607,257
Total Liabilities and Fund Balance	\$ 2,494,745	\$ 5,260,005

EXHIBIT 3
(Continued)

Health and Human Services	Land Management	Street Reconstruction Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 263,819	\$ 2,189	\$ -	\$ 42	\$ 557,125
41,479	-	-	-	161,206
-	-	-	-	881,842
53,335	486,630	901,412	27,180	1,545,780
91,699	726,430	-	170	929,042
115,534	1,150,194	-	499,043	4,620,462
\$ 565,866	\$ 2,365,443	\$ 901,412	\$ 526,435	\$ 8,695,457
\$ -	\$ 50	\$ -	\$ -	\$ 3,860
47,358	-	-	-	60,358
-	-	-	-	36,876
-	-	-	-	14,390
-	-	-	-	24,940
-	-	-	-	10,000
-	-	-	-	2,773
-	-	-	-	3,372
-	-	-	-	328,319
34,850	-	-	-	34,850
-	605,185	-	-	605,185
-	33,104	-	-	33,104
-	-	-	-	45,867
-	1,382,462	-	-	1,382,462
1,925,317	(1,173,642)	1,733,980	-	5,420,757
-	-	-	810,252	810,252
-	-	-	1,164,217	1,164,217
-	-	-	(10,944)	(10,944)
\$ 2,007,525	\$ 847,159	\$ 1,733,980	\$ 1,963,525	\$ 9,970,638
\$ 2,573,391	\$ 3,212,602	\$ 2,635,392	\$ 2,489,960	\$ 18,666,095

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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, 2004**

Fund balances - total governmental funds	\$	9,970,638
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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.		56,442,388
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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	\$ 4,620,462	
Less: forfeited tax sale receivable due to other governments	(558,679)	4,061,783

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	\$ (852,150)	
Capital notes - net of discount	(4,412,390)	
Unamortized bond issuance costs	16,642	
Loans payable	(1,069,427)	
Compensated absences	(484,483)	
Accrued interest payable	(77,182)	(6,878,990)

Net assets of governmental activities	\$	<u>63,595,819</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, 2004**

	General	Road and Bridge
Revenues		
Taxes	\$ 4,081,901	\$ 1,265,904
Licenses and permits	95,110	-
Intergovernmental	2,971,389	10,318,502
Charges for services	1,080,799	180,290
Fines and forfeits	216,633	-
Gifts and contributions	78,656	-
Earnings on investments	393,933	-
Miscellaneous	261,364	313,359
	\$ 9,179,785	\$ 12,078,055
Expenditures		
Current		
General government	\$ 3,655,172	\$ -
Public safety	5,283,689	-
Highways and streets	-	13,595,599
Sanitation	128,142	-
Human services	-	-
Health	-	-
Culture and recreation	308,033	-
Conservation of natural resources	232,785	-
Capital outlay	-	-
Debt service		
Principal retirement	-	145,630
Interest	-	32,915
Bond issuance costs	-	-
Administrative charges	-	-
	\$ 9,607,821	\$ 13,774,144
Excess of Revenues Over (Under) Expenditures	\$ (428,036)	\$ (1,696,089)
Other Financing Sources (Uses)		
Transfers in	\$ 483,887	\$ 1,934,503
Transfers out	(81,507)	-
Notes issued	-	-
Discount on bond issuance	-	-
	\$ 402,380	\$ 1,934,503
Net Change in Fund Balances	\$ (25,656)	\$ 238,414
Fund Balance - January 1	1,836,848	1,422,721
Increase (decrease) in reserved for inventories	-	(53,878)
Fund Balance - December 31	\$ 1,811,192	\$ 1,607,257

EXHIBIT 5

Health and Human Services	Land Management	Street Reconstruction Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 2,081,049	\$ -	\$ -	\$ 748,743	\$ 8,177,597
-	-	-	-	95,110
4,479,937	31,081	-	125,308	17,926,217
111,072	-	-	54,686	1,426,847
-	-	-	-	216,633
10,899	-	-	-	89,555
-	-	-	1,211	395,144
710,027	1,609,957	-	50,067	2,944,774
\$ 7,392,984	\$ 1,641,038	\$ -	\$ 980,015	\$ 31,271,877
\$ -	\$ -	\$ -	\$ -	\$ 3,655,172
-	-	-	2,551	5,286,240
-	-	-	6,341	13,601,940
-	-	-	-	128,142
6,736,421	-	-	-	6,736,421
789,937	-	-	-	789,937
-	-	-	-	308,033
-	1,016,447	-	-	1,249,232
-	-	-	170,067	170,067
-	-	-	887,454	1,033,084
-	-	-	63,337	96,252
-	-	16,642	-	16,642
-	-	-	374	374
\$ 7,526,358	\$ 1,016,447	\$ 16,642	\$ 1,130,124	\$ 33,071,536
\$ (133,374)	\$ 624,591	\$ (16,642)	\$ (150,109)	\$ (1,799,659)
\$ -	\$ -	\$ -	\$ 41,875	\$ 2,460,265
-	(483,887)	(1,894,871)	-	(2,460,265)
-	-	3,665,000	-	3,665,000
-	-	(19,507)	-	(19,507)
\$ -	\$ (483,887)	\$ 1,750,622	\$ 41,875	\$ 3,645,493
\$ (133,374)	\$ 140,704	\$ 1,733,980	\$ (108,234)	\$ 1,845,834
2,140,899	706,455	-	2,071,759	8,178,682
-	-	-	-	(53,878)
\$ 2,007,525	\$ 847,159	\$ 1,733,980	\$ 1,963,525	\$ 9,970,638

**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds **\$ 1,845,834**

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	\$ 4,620,462	
Less: forfeited tax sales receivable due to other governments	(558,679)	
January 1 - deferred revenue	(5,207,959)	
Less: forfeited tax sales receivable due to other governments	<u>569,686</u>	(576,490)

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	\$ 5,458,771	
Current year depreciation	<u>(1,847,851)</u>	3,610,920

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the government-wide financial statements.

Proceeds of new debt		
Capital notes issued	\$ (3,665,000)	
Discount on notes issued	19,507	
Debt issuance costs	<u>16,642</u>	(3,628,851)

Repayment of debt principal		
East Central Solid Waste Commission	\$ 152,454	
Capital notes	735,000	
Loans payable	<u>145,630</u>	1,033,084

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	\$ (55,008)	
Amortization of debt issue discount	(1,897)	
Change in compensated absences	46,039	
Change in inventories	<u>(53,878)</u>	<u>(64,744)</u>

Change in net assets of governmental activities **\$ 2,219,753**

FIDUCIARY FUNDS

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**PINE COUNTY
PINE CITY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 448,621</u>
<u>Liabilities</u>	
Accounts payable	\$ 137,468
Due to other governments	<u>311,153</u>
Total Liabilities	<u>\$ 448,621</u>

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**PINE COUNTY
PINE CITY, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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, 2004. 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 which are described in Note 6.C. The County also participates in jointly-governed organizations which are 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 Street Reconstruction Capital Projects Fund is used to account for the reconstruction of streets financed with bond proceeds.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Pine County

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

considers all revenues to be 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 to be 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 they are 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, 2004, 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 2004 were \$377,257.

Pine County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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 non-current portion of interfund loans).

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

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

All receivables are shown net of any allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

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

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

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.

**PINE COUNTY
PINE CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

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

9. Use of Estimates

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Governmental Activities		
Cash and pooled investments	\$	10,697,826
Petty cash		3,860
Investments		101,676
Agency funds		
Cash and pooled investments		<u>448,621</u>
Total Cash and Investments	\$	<u>11,251,983</u>

**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 deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$3,099,450. The bank balance deposit amount was \$2,963,691. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 300,000
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>2,356,098</u>
Total covered deposits	\$ 2,656,098
Uncollateralized	<u>307,593</u>
Total	<u>\$ 2,963,691</u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 3,355,576	\$ -	\$ 4,239,499	\$ 7,595,175
Negotiable certificates of deposit	38,784	-	356,504	395,288
Total Investments	\$ 3,394,360	\$ -	\$ 4,596,003	\$ 7,990,363
Add				
Petty cash				3,860
Money market mutual funds				102,300
MAGIC Fund				56,010
Deposits				3,099,450
Total Cash and Investments				\$ 11,251,983

2. Receivables

Receivables as of December 31, 2004, 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	\$ 522,715	\$ -
Accounts	1,669,629	-
Interest	97,590	-
Leases	50,067	1
Due from other governments	3,553,425	-
Loans	34,850	-
Total Governmental Activities	\$ 5,928,276	\$ 1

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Lease Receivable

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

4. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,731,756	\$ 26,439	\$ -	\$ 1,758,195
Capital assets depreciated				
Buildings	\$ 4,515,389	\$ -	\$ -	\$ 4,515,389
Machinery and equipment	5,859,731	138,481	57,363	5,940,849
Infrastructure	57,554,802	5,293,851	-	62,848,653
Total capital assets depreciated	\$ 67,929,922	\$ 5,432,332	\$ 57,363	\$ 73,304,891
Less: accumulated depreciation for				
Buildings	\$ 2,208,383	\$ 68,495	\$ -	\$ 2,276,878
Machinery and equipment	3,476,359	509,614	-	3,985,973
Infrastructure	11,088,105	1,269,742	-	12,357,847
Total accumulated depreciation	\$ 16,772,847	\$ 1,847,851	\$ -	\$ 18,620,698
Total capital assets depreciated, net	\$ 51,157,075	\$ 3,584,481	\$ 57,363	\$ 54,684,193
Capital Assets, Net	\$ 52,888,831	\$ 3,610,920	\$ 57,363	\$ 56,442,388

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

Governmental Activities	
General government	\$ 60,263
Public safety	191,580
Highways and streets, including depreciation of infrastructure assets	1,563,270
Human services	17,980
Conservation of natural resources	14,758
Total Depreciation Expense - Governmental Activities	<u>\$ 1,847,851</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, 2004, 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	\$ 53,001	Reimbursement
	Road and Bridge	2,790	Reimbursement - phone
	Land Management	486,045	Forfeited tax distribution
	Other governmental funds	17,471	To cover cash deficit
	Total Due to General Fund		\$ 559,307
Road and Bridge	General	\$ 16,193	Accounts receivable
	Street Reconstruction	901,412	Payment of capital street project
	Health and Human Services	334	Rent
	Land Management	585	Reimburse supplies/services
Total Due to Road and Bridge Fund		\$ 918,524	
Health and Human Services	General	\$ 8,951	Miscellaneous public safety
Land Management	Road and Bridge	\$ 35,715	Interest receivable
Other governmental funds	General	\$ 13,574	Reimbursement for equipment
	Other governmental funds	9,709	Interest receivable
Total Due to Other Governmental Funds		\$ 23,283	Miscellaneous
Total Due To/From Other Funds		\$ 1,545,780	

**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, 2004, consisted of the following:

Transfers to General Fund from Land Management Fund	\$ 483,887	Forfeited tax apportionment
Transfers to Road and Bridge Fund from General Fund	\$ 39,632	Investment earnings
Street Reconstruction Fund	<u>1,894,871</u>	Payment of capital project
Total to Road and Bridge Fund	<u>\$ 1,934,503</u>	
Transfers to nonmajor governmental funds from General Fund	\$ 41,875	Investment earnings
Total Interfund Transfers	<u>\$ 2,460,265</u>	

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities Roads and Bridges	\$ \$10,512,183	\$204,558

2. Other Postemployment Benefits

Retirees

The County provides post-retirement health care benefits for certain retirees and their dependents. This benefit is provided based on various union contracts. Employees who retired before January 1, 1983, qualify to receive these benefits

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits

Retirees (Continued)

with the County providing 100 percent of the single coverage premium plus 50 percent of dependent coverage if that coverage option is selected. Employees hired before January 1, 1986, qualify to receive these benefits with the County providing 100 percent of single coverage premium plus 60 percent of dependent coverage if that coverage option is selected.

As of year-end, the County has 29 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2004, the County expended \$98,070 for these benefits.

3. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General Obligation Capital Notes					
2002 G.O. Capital Notes	2005	\$500,000 - \$765,000	1.80 - 2.80	\$ 2,000,000	\$ 765,000
2004 G.O. Capital Notes	2010	\$695,000 - \$775,000	1.75 - 3.00	<u>3,665,000</u>	<u>3,665,000</u>
Total General Obligation Capital Notes				<u>\$ 5,665,000</u>	<u>\$ 4,430,000</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>\$ 1,069,427</u>
East Central Solid Waste Commission - See Note 6.C.					<u>\$ 852,150</u>

*Amount drawn down

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

**PINE COUNTY
PINE CITY, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Governmental Activities

Year Ending December 31	2002 G. O. Capital Notes		2004 G. O. Street Reconstruction Capital Notes		2001 G. O. PFA Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 765,000	\$ 10,710	\$ -	\$ 109,397	\$ 74,740	\$ 32,084
2006	-	-	695,000	81,436	77,614	29,841
2007	-	-	710,000	68,255	80,489	27,513
2008	-	-	730,000	52,395	83,365	25,097
2009	-	-	755,000	33,443	86,239	22,597
2010 - 2014	-	-	775,000	11,625	462,819	72,965
2015 - 2016	-	-	-	-	204,161	9,229
Total	<u>\$ 765,000</u>	<u>\$ 10,710</u>	<u>\$ 3,665,000</u>	<u>\$ 356,551</u>	<u>\$ 1,069,427</u>	<u>\$ 219,326</u>

Year Ending December 31	Total	
	Principal	Interest
2005	\$ 839,740	\$ 152,191
2006	772,614	111,277
2007	790,489	95,768
2008	813,365	77,492
2009	841,239	56,040
2010 - 2014	1,237,819	84,590
2015 - 2016	204,161	9,229
Total	<u>\$ 5,499,427</u>	<u>\$ 586,587</u>

**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, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2002 G.O. capital notes	\$ 1,500,000	\$ -	\$ 735,000	\$ 765,000	\$ 765,000
2004 G.O. capital notes	-	3,665,000	-	3,665,000	-
Less: discount on notes	-	(19,507)	(1,897)	(17,610)	-
2001 PFA Loan	1,197,943	-	128,516	1,069,427	74,740
2002 PFA Loan	17,114	-	17,114	-	-
East Central Solid Waste Commission	1,151,475	-	299,325	852,150	Not Available
Compensated absences	438,444	46,039	-	484,483	-
 Total Long-Term Liabilities	 <u>\$ 4,304,976</u>	 <u>\$ 3,691,532</u>	 <u>\$ 1,178,058</u>	 <u>\$ 6,818,450</u>	 <u>\$ 839,740</u>

* Included in reductions is a \$146,871 reduction in Pine County's share of East Central Solid Waste's debt, due to a refunding.

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.

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.

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

1. Plan Description (Continued)

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

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

1. Plan Description (Continued)

Employees Correctional Fund. That report may be obtained on the web 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 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. 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:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75
Public Employees Defined Contribution Plan	5.00

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.

**PINE COUNTY
PINE CITY, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. 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, 2004, 2003, and 2002, 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
2004	\$ 342,332	\$ 137,522	\$ 83,261	\$ 2,211
2003	319,697	118,810	70,785	2,128
2002	310,013	120,060	65,432	2,122

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

4. Risk Management

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

**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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

The Employee Benefits Division of the MCIT Health Plan is self-insured. Benefits under the plan are paid from assets of the 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 the 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 the MCIT from catastrophic loss due to unexpected plan costs.

5. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

The Ditch Special Revenue Fund and the Equipment Capital Projects Fund had deficit balances at December 31, 2004, of \$11,574 and \$10,944, respectively.

**PINE COUNTY
PINE CITY, MINNESOTA**

5. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The following is a summary of individual nonmajor funds with expenditures in excess of budget for the year ended December 31, 2004.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
East Central Solid Waste Commission Debt Service Fund	\$ 185,919	\$ 25,205	\$ 160,714

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Conduit Debt

Health Care Revenue Notes

In 1995, the County issued \$1,300,000 of industrial development revenue notes to provide financial assistance to Amhurst H. Wilder Foundation, a nonprofit corporation, for the construction and equipping of a building for a short-term residential school for children. The bonds are secured by the property financed and are payable solely from revenues of the foundation. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the accompanying financial statements. As of December 31, 2004, the outstanding principal amount payable was \$11,180.

**PINE COUNTY
PINE CITY, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Conduit Debt (Continued)

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, 2004, the outstanding principal amount payable was \$1,039,265.

C. Joint Ventures

Kanabec/Pine Community Health Services

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

Complete financial information can be obtained from:

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

East Central Solid Waste Commission

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

**PINE COUNTY
PINE CITY, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

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.

At December 31, 2004, the Commission had \$4,360,000 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, 2004, is \$852,150. 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 \$159,389 for 2004.

**PINE COUNTY
PINE CITY, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Complete financial information can be obtained from:

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

Snake River Watershed Management Board

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

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

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

Pine County provided \$9,968 to this organization during 2004. 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
PINE CITY, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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

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

Central Minnesota Emergency Medical Services Region

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

**PINE COUNTY
PINE CITY, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Workforce Investment/Workforce Center Systems Joint Powers Board

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

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 \$44,552 to the Cooperative.

**PINE COUNTY
PINE CITY, MINNESOTA**

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

E. Related Organization

Pine County Housing and Redevelopment Authority

The Pine County Housing and Redevelopment Authority is a legally separate organization having numerous rights and powers. The Pine County Board appoints all of the Housing Authority Board members, but financial accountability necessary to include this organization as a component unit of the County is not present. Related party transactions comprise payment of \$1,225 by the County to the Housing Authority Board members for per diem expenses.

F. Tax-Forfeited Land

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

G. Subsequent Event

New Pine County Jail Facility

The Pine County Board authorized the issuance of \$16,935,000 in general obligation bonds. The proceeds of these bonds will be used to construct a new County jail facility. The bond issuance was approved at the July 5, 2005, County Board meeting.

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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, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,097,790	\$ 5,097,790	\$ 4,081,901	\$ (1,015,889)
Licenses and permits	122,500	122,500	95,110	(27,390)
Intergovernmental	1,850,295	1,850,293	2,971,389	1,121,096
Charges for services	1,096,602	1,096,602	1,080,799	(15,803)
Fines and forfeits	239,995	239,995	216,633	(23,362)
Gifts and contributions	112,500	112,500	78,656	(33,844)
Earnings on investments	175,300	175,300	393,933	218,633
Miscellaneous	122,358	122,358	261,364	139,006
Total Revenues	\$ 8,817,340	\$ 8,817,338	\$ 9,179,785	\$ 362,447
Expenditures				
Current				
General government				
Commissioners	\$ 173,302	\$ 173,302	\$ 190,326	\$ (17,024)
Courts	494,631	494,631	495,263	(632)
Law library	20,000	20,000	17,373	2,627
County auditor	350,789	350,789	381,893	(31,104)
County treasurer	161,152	161,152	164,045	(2,893)
County assessor	342,792	342,792	364,134	(21,342)
Elections	16,250	16,250	51,888	(35,638)
Data processing	372,436	372,436	306,418	66,018
Central services	120,850	120,850	114,708	6,142
Personnel	197,976	197,976	212,421	(14,445)
Attorney	532,036	532,036	550,542	(18,506)
Contracted legal services	64,098	64,098	123,545	(59,447)
Recorder	208,424	208,424	204,929	3,495
Surveyor	33,875	33,875	16,938	16,937
Planning and zoning	260,157	260,157	189,657	70,500
Buildings and plant	253,971	253,971	202,873	51,098
Veterans service officer	38,796	38,796	30,222	8,574
Other general governmental	2,871	2,871	37,997	(35,126)
Total general government	\$ 3,644,406	\$ 3,644,406	\$ 3,655,172	\$ (10,766)

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,560,596	\$ 2,560,596	\$ 3,054,220	\$ (493,624)
Boat and water safety	5,400	5,400	6,389	(989)
Emergency services	18,000	18,000	-	18,000
Coroner	24,000	24,000	34,218	(10,218)
E-911 system	59,384	59,384	68,282	(8,898)
County jail	1,202,090	1,202,090	1,372,298	(170,208)
Caseload reduction	50,834	50,834	71,065	(20,231)
Sentence to serve	55,186	55,186	48,157	7,029
Probation and parole	408,858	408,858	411,734	(2,876)
Civil defense	34,426	34,426	180,601	(146,175)
Other public safety	14,500	14,500	36,725	(22,225)
Total public safety	\$ 4,433,274	\$ 4,433,274	\$ 5,283,689	\$ (850,415)
Sanitation				
Solid waste	\$ 139,818	\$ 139,818	\$ 128,142	\$ 11,676
Culture and recreation				
Historical society	\$ 6,300	\$ 6,300	\$ 6,300	\$ -
Trail assistance	-	-	102,188	(102,188)
Regional library	199,570	199,570	199,545	25
Total culture and recreation	\$ 205,870	\$ 205,870	\$ 308,033	\$ (102,163)
Conservation of natural resources				
Cooperative extension	\$ 117,770	\$ 117,770	\$ 105,444	\$ 12,326
Soil and water conservation	62,577	62,577	59,390	3,187
Agricultural inspections	500	500	56	444
Agricultural society/County fair	8,055	8,055	8,055	-
Water planning	36,341	36,341	18,000	18,341
Wetland challenge	71,148	71,148	31,700	39,448
Other	9,976	9,976	10,140	(164)
Total conservation of natural resources	\$ 306,367	\$ 306,367	\$ 232,785	\$ 73,582
Unallocated				
Insurance	\$ 76,000	\$ 76,000	\$ -	\$ 76,000
Other	26,200	26,200	-	26,200
Total unallocated	\$ 102,200	\$ 102,200	\$ -	\$ 102,200
Total Expenditures	\$ 8,831,935	\$ 8,831,935	\$ 9,607,821	\$ (775,886)

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ (14,595)	\$ (14,597)	\$ (428,036)	\$ (413,439)
Other Financing Sources (Uses)				
Transfers in	\$ 22,000	\$ 22,000	\$ 483,887	\$ 461,887
Transfers out	-	-	(81,507)	(81,507)
Total Other Financing Sources (Uses)	\$ 22,000	\$ 22,000	\$ 402,380	\$ 380,380
Net Change in Fund Balance	\$ 7,405	\$ 7,403	\$ (25,656)	\$ (33,059)
Fund Balance - January 1	1,836,848	1,836,848	1,836,848	-
Fund Balance - December 31	\$ 1,844,253	\$ 1,844,251	\$ 1,811,192	\$ (33,059)

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,410,500	\$ 1,410,500	\$ 1,265,904	\$ (144,596)
Intergovernmental	5,381,109	5,381,109	10,318,502	4,937,393
Charges for services	27,000	27,000	180,290	153,290
Miscellaneous	285,600	285,600	313,359	27,759
Total Revenues	\$ 7,104,209	\$ 7,104,209	\$ 12,078,055	\$ 4,973,846
Expenditures				
Current				
Highways and streets				
Administration	\$ 422,246	\$ 422,246	\$ 820,818	\$ (398,572)
Maintenance	2,554,064	2,554,064	1,851,669	702,395
Construction	3,392,720	3,392,720	10,077,378	(6,684,658)
Equipment maintenance and shop	751,394	751,394	798,214	(46,820)
Materials and services for resale	-	-	(2,988)	2,988
Unallocated highways and streets	69,317	69,317	50,508	18,809
Total highways and streets	\$ 7,189,741	\$ 7,189,741	\$ 13,595,599	\$ (6,405,858)
Debt service				
Principal retirement	\$ -	\$ -	\$ 145,630	\$ (145,630)
Interest	-	-	32,915	(32,915)
Total debt service	\$ -	\$ -	\$ 178,545	\$ (178,545)
Total Expenditures	\$ 7,189,741	\$ 7,189,741	\$ 13,774,144	\$ (6,584,403)
Excess of Revenues Over (Under) Expenditures	\$ (85,532)	\$ (85,532)	\$ (1,696,089)	\$ (1,610,557)
Other Financing Sources (Uses)				
Transfers in	-	-	1,934,503	1,934,503
Net Change in Fund Balance	\$ (85,532)	\$ (85,532)	\$ 238,414	\$ 323,946
Fund Balance - January 1	1,422,721	1,422,721	1,422,721	-
Increase (decrease) in reserved for inventories	-	-	(53,878)	(53,878)
Fund Balance - December 31	\$ 1,337,189	\$ 1,337,189	\$ 1,607,257	\$ 270,068

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,499,663	\$ 2,499,663	\$ 2,081,049	\$ (418,614)
Intergovernmental	5,113,587	5,113,587	4,479,937	(633,650)
Charges for services	75,566	75,566	111,072	35,506
Gifts and contributions	-	-	10,899	10,899
Miscellaneous	571,986	571,986	710,027	138,041
Total Revenues	\$ 8,260,802	\$ 8,260,802	\$ 7,392,984	\$ (867,818)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,632,354	\$ 1,632,354	\$ 1,524,667	\$ 107,687
Social services	5,707,073	5,707,073	5,211,754	495,319
Total human services	\$ 7,339,427	\$ 7,339,427	\$ 6,736,421	\$ 603,006
Health				
Nursing service	\$ 921,375	\$ 921,375	\$ 670,932	\$ 250,443
Maternal and child health	-	-	51,937	(51,937)
Environmental health	-	-	35,141	(35,141)
Health education	-	-	31,927	(31,927)
Total health	\$ 921,375	\$ 921,375	\$ 789,937	\$ 131,438
Total Expenditures	\$ 8,260,802	\$ 8,260,802	\$ 7,526,358	\$ 734,444
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (133,374)	\$ (133,374)
Fund Balance - January 1	2,140,899	2,140,899	2,140,899	-
Fund Balance - December 31	\$ 2,140,899	\$ 2,140,899	\$ 2,007,525	\$ (133,374)

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 30,310	\$ 30,310	\$ 31,081	\$ 771
Miscellaneous	1,096,300	1,096,300	1,609,957	513,657
Total Revenues	\$ 1,126,610	\$ 1,126,610	\$ 1,641,038	\$ 514,428
Expenditures				
Current				
Conservation of natural resources				
Land use	1,099,700	1,099,700	1,016,447	83,253
Excess of Revenues Over (Under) Expenditures	\$ 26,910	\$ 26,910	\$ 624,591	\$ 597,681
Other Financing Sources (Uses)				
Transfers out	-	-	(483,887)	(483,887)
Net Change in Fund Balance	\$ 26,910	\$ 26,910	\$ 140,704	\$ 113,794
Fund Balance - January 1	706,455	706,455	706,455	-
Fund Balance - December 31	\$ 733,365	\$ 733,365	\$ 847,159	\$ 113,794

**PINE COUNTY
PINE CITY, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Budgetary Information

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

Departments submit requests for appropriations to the Pine County Coordinator so that a budget can be prepared. Before September 30, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the Auditor no later than December 31.

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the Road and Bridge Special Revenue Fund by \$6,584,403. The over-expenditures were funded by greater than anticipated revenues, transfers in, and use of available fund balance. Expenditures exceeded appropriations in the General Fund by \$775,886. The over-expenditures were funded by greater than anticipated revenues, transfers in, and use of available fund balance.

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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**PINE COUNTY
PINE CITY, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Equipment Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Assets</u>				
Cash and pooled investments	\$ 719,776	\$ 1,121,540	\$ -	\$ 1,841,316
Undistributed cash in agency funds	-	16,200	-	16,200
Investments	101,676	-	-	101,676
Taxes receivable				
Prior	-	49,810	-	49,810
Accounts receivable	407,444	-	-	407,444
Accrued interest receivable	164	-	-	164
Leases receivable				
Current	50,067	-	-	50,067
Due from other funds	-	18,621	4,662	23,283
Total Assets	<u>\$ 1,279,127</u>	<u>\$ 1,206,171</u>	<u>\$ 4,662</u>	<u>\$ 2,489,960</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 42	\$ -	\$ -	\$ 42
Due to other funds	11,574	-	15,606	27,180
Due to other governments	170	-	-	170
Deferred revenue - unavailable	457,089	41,954	-	499,043
Total Liabilities	<u>\$ 468,875</u>	<u>\$ 41,954</u>	<u>\$ 15,606</u>	<u>\$ 526,435</u>
Fund Balances				
Unreserved				
Undesignated	810,252	1,164,217	(10,944)	1,963,525
Total Liabilities and Fund Balances	<u>\$ 1,279,127</u>	<u>\$ 1,206,171</u>	<u>\$ 4,662</u>	<u>\$ 2,489,960</u>

**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, 2004**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Equipment Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
Taxes	\$ -	\$ 748,743	\$ -	\$ 748,743
Intergovernmental	-	125,308	-	125,308
Charges for services	54,686	-	-	54,686
Earnings on investments	1,211	-	-	1,211
Miscellaneous	50,067	-	-	50,067
Total Revenues	\$ 105,964	\$ 874,051	\$ -	\$ 980,015
Expenditures				
Current				
Public safety	\$ 2,551	\$ -	\$ -	\$ 2,551
Highways and streets	6,341	-	-	6,341
Capital outlay	-	-	170,067	170,067
Debt service				
Principal retirement	-	887,454	-	887,454
Interest	-	63,337	-	63,337
Administrative charges	-	374	-	374
Total Expenditures	\$ 8,892	\$ 951,165	\$ 170,067	\$ 1,130,124
Excess of Revenues Over (Under) Expenditures	\$ 97,072	\$ (77,114)	\$ (170,067)	\$ (150,109)
Other Financing Sources (Uses)				
Transfers in	-	41,875	-	41,875
Net Change in Fund Balance	\$ 97,072	\$ (35,239)	\$ (170,067)	\$ (108,234)
Fund Balance - January 1	713,180	1,199,456	159,123	2,071,759
Fund Balance - December 31	\$ 810,252	\$ 1,164,217	\$ (10,944)	\$ 1,963,525

**PINE COUNTY
PINE CITY, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2004**

	<u>Ditch</u>	<u>Countywide Rehabilitation Program</u>	<u>Ambulance</u>	<u>Total</u>
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 8,894	\$ 710,882	\$ 719,776
Investments	-	101,676	-	101,676
Accounts receivable	-	-	407,444	407,444
Accrued interest receivable	-	164	-	164
Leases receivable				
Current	-	-	50,067	50,067
Total Assets	\$ -	\$ 110,734	\$ 1,168,393	\$ 1,279,127
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 42	\$ 42
Due to other funds	11,574	-	-	11,574
Due to other governments	-	-	170	170
Deferred revenue - unavailable	-	-	457,089	457,089
Total Liabilities	\$ 11,574	\$ -	\$ 457,301	\$ 468,875
Fund Balances				
Unreserved				
Undesignated	(11,574)	110,734	711,092	810,252
Total Liabilities and Fund Balances	\$ -	\$ 110,734	\$ 1,168,393	\$ 1,279,127

**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, 2004**

	<u>Ditch</u>	<u>Countywide Rehabilitation Program</u>	<u>Ambulance</u>	<u>Total</u>
Revenues				
Charges for services	\$ 17,541	\$ -	\$ 37,145	\$ 54,686
Earnings on investments	-	1,211	-	1,211
Miscellaneous	-	-	50,067	50,067
Total Revenues	\$ 17,541	\$ 1,211	\$ 87,212	\$ 105,964
Expenditures				
Current				
Public safety	\$ -	\$ -	\$ 2,551	\$ 2,551
Highways and streets	6,341	-	-	6,341
Total Expenditures	\$ 6,341	\$ -	\$ 2,551	\$ 8,892
Excess of Revenues Over (Under) Expenditures	\$ 11,200	\$ 1,211	\$ 84,661	\$ 97,072
Fund Balance - January 1	(22,774)	109,523	626,431	713,180
Fund Balance - December 31	\$ (11,574)	\$ 110,734	\$ 711,092	\$ 810,252

**PINE COUNTY
PINE CITY, MINNESOTA**

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
DECEMBER 31, 2004**

	Equipment Bond	East Central Solid Waste Commission	Street Reconstruction Bond	Total
<u>Assets</u>				
Cash and pooled investments	\$ 939,400	\$ 149,968	\$ 32,172	\$ 1,121,540
Undistributed cash in agency funds	16,200	-	-	16,200
Taxes receivable				
Prior	42,088	7,722	-	49,810
Due from other funds	9,716	-	8,905	18,621
	\$ 1,007,404	\$ 157,690	\$ 41,077	\$ 1,206,171
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Deferred revenue - unavailable	\$ 34,576	\$ 7,378	\$ -	\$ 41,954
 Fund Balances				
Unreserved				
Undesignated	972,828	150,312	41,077	1,164,217
	\$ 1,007,404	\$ 157,690	\$ 41,077	\$ 1,206,171

**PINE COUNTY
PINE CITY, MINNESOTA**

Statement 6

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Equipment Bond</u>	<u>East Central Solid Waste Commission</u>	<u>Street Reconstruction Bond</u>	<u>Total</u>
Revenues				
Taxes	\$ 721,523	\$ 27,220	\$ -	\$ 748,743
Intergovernmental	121,551	3,757	-	125,308
Total Revenues	\$ 843,074	\$ 30,977	\$ -	\$ 874,051
Expenditures				
Debt service				
Principal retirement	\$ 735,000	\$ 152,454	\$ -	\$ 887,454
Interest	29,872	33,465	-	63,337
Administrative charges	374	-	-	374
Total Expenditures	\$ 765,246	\$ 185,919	\$ -	\$ 951,165
Excess of Revenues Over (Under) Expenditures	\$ 77,828	\$ (154,942)	\$ -	\$ (77,114)
Other Financing Sources (Uses)				
Transfers in	798	-	41,077	41,875
Net Change in Fund Balance	\$ 78,626	\$ (154,942)	\$ 41,077	\$ (35,239)
Fund Balance - January 1	894,202	305,254	-	1,199,456
Fund Balance - December 31	\$ 972,828	\$ 150,312	\$ 41,077	\$ 1,164,217

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
COUNTYWIDE REHABILITATION SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest on investments	\$ -	\$ -	\$ 1,211	\$ 1,211
Fund Balance - January 1	<u>109,523</u>	<u>109,523</u>	<u>109,523</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 109,523</u>	<u>\$ 109,523</u>	<u>\$ 110,734</u>	<u>\$ 1,211</u>

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
AMBULANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 522,500	\$ 522,500	\$ 37,145	\$ (485,355)
Miscellaneous	-	-	50,067	50,067
Total Revenues	\$ 522,500	\$ 522,500	\$ 87,212	\$ (435,288)
Expenditures				
Current				
Public safety				
Ambulance	474,726	474,726	2,551	472,175
Excess of Revenues Over (Under) Expenditures	\$ 47,774	\$ 47,774	\$ 84,661	\$ 36,887
Fund Balance - January 1	626,431	626,431	626,431	-
Fund Balance - December 31	\$ 674,205	\$ 674,205	\$ 711,092	\$ 36,887

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
EQUIPMENT BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 846,388	\$ 846,388	\$ 721,523	\$ (124,865)
Intergovernmental	-	-	121,551	121,551
Total Revenues	\$ 846,388	\$ 846,388	\$ 843,074	\$ (3,314)
Expenditures				
Debt service				
Principal retirement	\$ 797,513	\$ 797,513	\$ 735,000	\$ 62,513
Interest	-	-	29,872	(29,872)
Administrative charges	-	-	374	(374)
Total Expenditures	\$ 797,513	\$ 797,513	\$ 765,246	\$ 32,267
Excess of Revenues Over (Under) Expenditures	\$ 48,875	\$ 48,875	\$ 77,828	\$ 28,953
Other Financing Sources (Uses)				
Transfers in	20,000	20,000	798	(19,202)
Net Change in Fund Balance	\$ 68,875	\$ 68,875	\$ 78,626	\$ 9,751
Fund Balance - January 1	894,202	894,202	894,202	-
Fund Balance - December 31	\$ 963,077	\$ 963,077	\$ 972,828	\$ 9,751

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
EAST CENTRAL SOLID WASTE COMMISSION DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 27,205	\$ 27,205	\$ 27,220	\$ 15
Intergovernmental	-	-	3,757	3,757
Total Revenues	\$ 27,205	\$ 27,205	\$ 30,977	\$ 3,772
Expenditures				
Debt service				
Principal retirement	\$ 25,205	\$ 25,205	\$ 152,454	\$ (127,249)
Interest	-	-	33,465	(33,465)
Total Expenditures	\$ 25,205	\$ 25,205	\$ 185,919	\$ (160,714)
Excess of Revenues Over (Under) Expenditures	\$ 2,000	\$ 2,000	\$ (154,942)	\$ (156,942)
Fund Balance - January 1	305,254	305,254	305,254	-
Fund Balance - December 31	\$ 307,254	\$ 307,254	\$ 150,312	\$ (156,942)

FIDUCIARY FUNDS

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**PINE COUNTY
PINE CITY, MINNESOTA**

Statement 7

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 315,707	\$ 21,595,654	\$ 21,635,746	\$ 275,615
<u>Liabilities</u>				
Due to other governments	\$ 315,707	\$ 21,595,654	\$ 21,635,746	\$ 275,615
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 26,015	\$ 980,672	\$ 971,149	\$ 35,538
<u>Liabilities</u>				
Due to other governments	\$ 26,015	\$ 980,672	\$ 971,149	\$ 35,538
 <u>PINE COUNTY CHILDREN, FAMILIES, AND LEARNING SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 181,990	\$ 881,019	\$ 925,541	\$ 137,468
<u>Liabilities</u>				
Accounts payable	\$ 181,990	\$ 881,019	\$ 925,541	\$ 137,468

**PINE COUNTY
PINE CITY, MINNESOTA**

*Statement 7
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 523,712	\$ 23,457,345	\$ 23,532,436	\$ 448,621
<u>Liabilities</u>				
Accounts payable	\$ 181,990	\$ 881,019	\$ 925,541	\$ 137,468
Due to other governments	341,722	22,576,326	22,606,895	311,153
Total Liabilities	\$ 523,712	\$ 23,457,345	\$ 23,532,436	\$ 448,621

OTHER SCHEDULES

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**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 9

**SCHEDULE OF INVESTMENTS
DECEMBER 31, 2004**

	Interest Rate (%)	Maturity Date	Fair Value
Pooled Investments			
Federal Home Loan Bank		Dates vary	\$ 4,691,746
Federal Home Loan Mortgage Corporation		Dates vary	150,024
Federal National Mortgage Association		Dates vary	116,561
Freddie Mac	2.75	December 29, 2006	399,908
FHL	3.25	November 16, 2009	199,188
U.S. Treasury Obligation			646,710
Negotiable CD's		Dates vary	395,288
Minnesota Association of Governments Investing for Counties Liquid Asset Fund		Not applicable	1,446,948
Money Market Mutual Fund		Not applicable	624
Total pooled investments			\$ 8,046,997
Fund Investments			
Countywide Rehabilitation Program Special Revenue Fund Mutual Fund			101,676
Total Investments			\$ 8,148,673

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 10

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$	9,577,987
Homestead credit		1,116,434
PERA rate reimbursement		35,238
Disparity reduction aid		1,034
Police aid		96,871
Agricultural reserve credit		368
Enhanced 911		51,378
Market value credit		1,345,429
Casino aid/tribal tax agreement		143,095

Total Shared Revenue **\$ 12,367,834**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,463,718
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Payments

Local

Local contributions	\$	5,975
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State

Payments in lieu of taxes		261,176
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Total Payments **\$ 267,151**

Grants

State

Minnesota Department/Board of		
Education	\$	297,830
Corrections		189,580
Public Safety		4,922
Health		289,679
Natural Resources		138,802
Human Services		1,174,028
Soil and Water Resources		57,689
Trial Courts		861
Office of Environmental Assistance		63,714

Total State **\$ 2,221,550**

Federal

Department of		
Agriculture	\$	64,730
Justice		11,852
Transportation		529,391
Health and Human Services		932,177
Homeland Security		63,738
Environmental Protection Agency		4,076

Total Federal **\$ 1,605,964**

Total State and Federal Grants **\$ 3,827,514**

Total Intergovernmental Revenue **\$ 17,926,217**

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**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 11

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Pine County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Pine County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The reportable condition is not a material weakness.
- C. No instances of noncompliance or other matters material to the financial statements of Pine County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program 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 program 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 program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Pine County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-4 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, the proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

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

Client's Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Highway Planning and Construction (CFDA #20.205) (03-1)

Review of certified payrolls submitted by Tri-City Paving, a subcontractor on state-aid project number 058-615-03 (federal project number 5802), disclosed that wage rates paid did not meet the minimum hourly rates required by the prevailing wage rate requirements of the Davis-Bacon Act.

Resolution

Tri-City Paving issued back pay to make up the difference between the rate they were providing and the prevailing rate. The company stated they were not aware of the wage rate change.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-2 Collateral Pledged to Secure Deposits

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

We recommend the County Treasurer closely monitor deposits and the related collateral pledged to secure those deposits to ensure sufficient coverage.

Client's Response:

Pine County will monitor this much closer in the future.

PREVIOUSLY REPORTED ITEM RESOLVED

Open Meeting Law (03-3)

Board minutes for five Board meetings held during 2003 indicated closed sessions were held. However, the reason for the meeting being closed was not recorded in the Board minutes.

Resolution

Prior to closing a meeting, the Board states on record the reason for the meeting being closed.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-11 **Information Systems Department Review**

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

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

- a detailed list of recovery procedures,
- a time line of when procedures will take place,
- identification of a disaster recovery team,
- a list of emergency telephone numbers,
- responsibilities of the disaster recovery team,
- hardware configuration and minimum equipment requirements,
- a master operations schedule and critical job schedule,

- a list of forms or supplies necessary,
- an organizational chart and directory of personnel,
- information relative to off-site back-up storage facilities, and
- any agreements regarding back-up processing sites.

Client's Response:

The MIS Department Head will be working to develop and complete a Disaster Recovery Plan for the MIS Department. This will either be done internally, or we may possibly hire an outside consultant to help with this written plan. As of December 31, 2004, Disaster Recovery Plan has not commenced.

96-13

Five County Mental Health Center Loan

During 1995, the County loaned the Five County Mental Health Center (5CMHC) \$45,250 to meet cash flow needs. There was no security for this loan, and no repayment schedule was available for review. During 2001, the County received \$10,400 in repayment of this loan. The balance of \$34,850 remains in the loans receivable balance sheet account of the Health and Human Services Special Revenue Fund at December 31, 2004. Providing an unsecured loan to the 5CMHC could result in loss of County assets should the 5CMHC be unable to repay the loan.

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

Client's Response:

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

97-4

Advances to Five County Mental Health Center

During 1997 and 1998, the County made quarterly advances to the 5CMHC totaling \$253,750 and \$203,000, respectively. The 5CMHC reports expenditures monthly to the County and then settles overpayments, usually twice each year. At December 31, 2004, the balance remaining as advanced to the 5CMHC was \$47,358. This is shown on the financial statements as part of the prepaid items account balance. This advance, plus the outstanding loan previously discussed (96-13), could result in losses to the County should this organization be unable to refund the overpayment and repay the loan.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Ditch Fund Deficit (02-2)

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

Resolution

The County levied assessments in 2004 and 2005 to eliminate the deficit balance in the Ditch fund.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

- Determine if the employees are provided OPEB.
- If OPEB are being provided, the County Board will have to decide whether it will advance fund the benefits or pay for them on a pay as you go basis.
- If OPEB are being provided, the County Board will have to decide whether to establish a trust fund to hold the OPEB.
- 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.

Schedule 11
(Continued)

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



STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Pine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2004, and have issued our report thereon dated September 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that for the items tested, Pine County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 03-2.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 23, 2005



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Pine County

Compliance

We have audited the compliance of Pine County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. Pine County's major federal program is 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 its major federal program 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 its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Pine County as of and for the year ended December 31, 2004, and have issued our report thereon dated September 23, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 23, 2005

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 12

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	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	\$ 64,730
U.S. Department of Justice		
Passed Through Minnesota Department of Employment and Economic Development Juvenile Accountability Incentive Block Grant	16.523	\$ 11,852
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Grant	20.205	\$ 521,038
State and Community Highway Safety	20.600	8,353
Total Department of Transportation		\$ 529,391
U.S. Environmental Protection Agency		
Passed through Pine County Human Services Radon Grant	66.032	\$ 4,076
U.S. Department of Health and Human Services		
Passed Through Kanabec/Pine Community Health Services Health Alert Network Grant	93.283	\$ 33,415
Maternal and Child Health	93.994	39,184
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families	93.558	262,494
Basic Sliding Fee and Child Care Development Fund	93.596	216,066
Foster Care Title IV-E	93.658	161,339
Social Services Block Grant Title XX	93.667	212,891
Support for Emancipation and Living Functionally (SELF)	93.674	6,788
Total Department of Health and Human Services		\$ 932,177

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 12
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support	97.004	\$ 25,136
Emergency Management Performance	97.042	34,410
State and Local All Hazards Emergency Operations Planning	97.051	3,204
Community Emergency Response Teams - Citizen Corps	97.053	988
Total Department of Homeland Security		\$ 63,738
Total Federal Awards		\$ 1,605,964

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.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.

**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 12

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**PINE COUNTY
PINE CITY, MINNESOTA**

Schedule 12
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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