

PINE COUNTY, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2011

**PINE COUNTY, MINNESOTA
PINE CITY, MINNESOTA
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DECEMBER 31, 2011**

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INTRODUCTORY SECTION

PINE COUNTY, MINNESOTA
PINE CITY, MINNESOTA
PRINCIPAL COUNTY OFFICIALS
DECEMBER 31, 2011

Office	Name	Term Expires
Commissioners		
1st District	Stephen Hallan	2014
2nd District	Mitchell Pangerl	2014
3rd District	Steve Chaffee	2012
4th District	Curt Rossow *	2012
5th District	Doug Carlson	2014
Officers		
Elected		
Attorney	John Carlson	2014
Auditor - Treasurer	Cathy J. Clemmer	2014
Sheriff	Robin Cole	2014
Appointed		
Assessor	John (Mike) Sheehy	Retired 12/31/11
County Recorder	Tamara Tricas	Indefinite
Registrar of Titles	Tamara Tricas	Indefinite
Highway Engineer/Coordinator	Mark LeBrun	Indefinite
Health and Human Services Director	Linda Cassman	Indefinite

* Chairperson

FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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SAINT PAUL, MN 55103-2139

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pine County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pine County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.8. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pine County's basic financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented 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 a report dated September 21, 2012, 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, 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 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.


REBECCA OTTO
STATE AUDITOR


GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 21, 2012

REQUIRED SUPPLEMENTARY INFORMATION

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

This section of the Pine County (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended December 31, 2011. The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year, 2011, and the prior year, 2010, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The assets of Pine County exceeds its liabilities on December 31, 2011, by \$75,920,396 (net assets). These county-wide net assets increased 9.8 percent in 2011 over the prior year due primarily to increases in capital assets purchased with grant funds received rather than the issuance of debt. Of this amount \$10,262,418 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- Overall governmental fund-level revenues totaled \$39,209,556 and were \$5,007,755 more than expenditures in 2011. This overage of revenues to expenditures was primarily due to an increase in tax revenues and greater than expected intergovernmental revenues.
- The General Fund's fund balance increased \$386,506 from the prior year as a result of increased tax revenue and a decrease in general government, public safety, and conservation expenditures. Of this amount, \$801,693 was unassigned fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

- The financial section of the annual report consists of three parts – required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the County:
- The first two statements are government-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how basic services such as general government, human services, and highways and streets were financed in the short-term as well as what remains for future spending.
 - Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

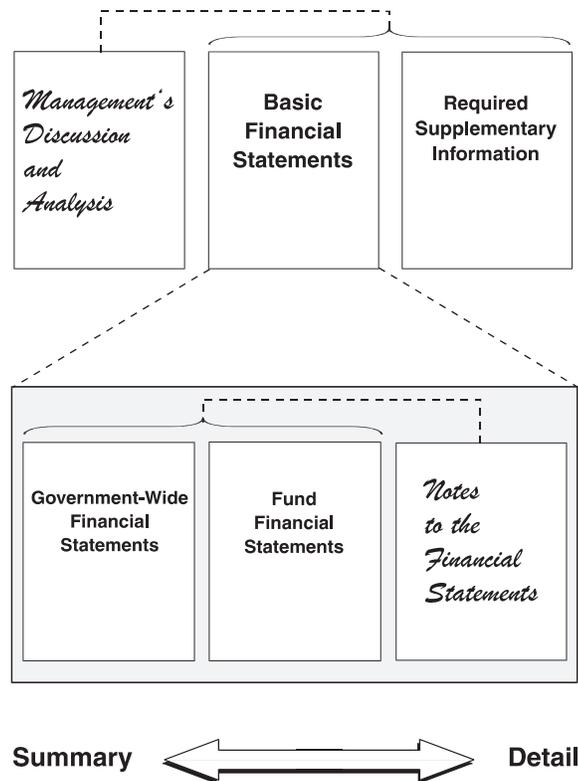
**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the County's Government-Wide and Fund Financial Statements			
Type of Statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	Instances in which the County is the trustee or agent for someone else's resources.
Required financial statements	Statement of net assets.	Balance sheet.	Statement of fiduciary net assets.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of changes in fiduciary net assets.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both short-term and long-term, Agency's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

Government-Wide Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

The two government-wide statements report the County's net assets and how they have changed. Net assets – the difference between the County's assets and liabilities – are one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of county buildings and other facilities.

In the government-wide financial statements the County's activities are shown in a single category:

- Governmental activities – The County's basic services are included here. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or "major" funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The County has two kinds of funds:

- Governmental Funds – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary Funds – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the government-wide financial statements because the County cannot use these assets to finance its operations.

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

Over time, net assets serve as a useful indicator of the County's financial position. Pine County's total net assets were \$75,920,396 on December 31, 2011, an increase of \$6,774,345 from the prior year. The main reason for this increase is the County's investment in capital assets with grant funds received (see Table A-1).

Table A-1
The County's Net Assets

	Governmental Activities	
	2011	2010
Current and Other Assets	\$ 19,459,122	\$ 15,444,612
Capital Assets	91,144,132	90,942,016
Total Assets	<u>110,603,254</u>	<u>106,386,628</u>
Current Liabilities	3,752,464	4,541,652
Long-Term Liabilities	30,930,394	32,698,925
Total Liabilities	<u>34,682,858</u>	<u>37,240,577</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	61,528,448	60,229,080
Restricted	4,129,530	3,234,426
Unrestricted	10,262,418	5,682,545
Total Net Assets	<u>\$ 75,920,396</u>	<u>\$ 69,146,051</u>

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

CHANGE IN NET ASSETS

The government-wide total revenues were \$39,968,633 for the year ended December 31, 2011 (an increase of \$3,768,729). This increase is primarily attributable to increased capital grants and contributions. Property taxes, operating grants and contributions, and capital grants and contributions accounted for 80% of total revenue for the year (see Table A-2).

Table A-2
Change in Net Assets

	Governmental Activities		Total % Change
	2011	2010	
REVENUES			
<u>Program Revenues</u>			
Charges for Services	\$ 4,749,350	\$ 4,861,442	(2.3)%
Operating Grants and Contributions	12,970,711	12,360,763	4.9
Capital Grants and Contributions	5,569,378	2,851,377	95.3
<u>General Revenues</u>			
Property Taxes	13,432,994	13,201,433	1.8
Other	3,246,200	2,924,889	11.0
Total Revenues	<u>39,968,633</u>	<u>36,199,904</u>	10.4
EXPENSES			
General Government	4,585,405	5,159,806	(11.1)
Public Safety	9,774,804	9,166,376	6.6
Highways and Streets	7,563,460	6,581,651	14.9
Sanitation	189,967	180,396	5.3
Human Services	7,140,576	7,487,695	(4.6)
Health	1,194,210	1,235,116	(3.3)
Culture and Recreation	374,148	315,652	18.5
Conservation of Natural Resources	781,807	619,942	26.1
Economic Development	175,864	961	18200.1
Interest	1,414,047	1,464,024	(3.4)
Total Expenses	<u>33,194,288</u>	<u>32,211,619</u>	3.1
CHANGE IN NET ASSETS	6,774,345	3,988,285	69.9
Net Assets - Beginning of Year	69,146,051	65,157,766	6.1
NET ASSETS - END OF YEAR	<u>\$ 75,920,396</u>	<u>\$ 69,146,051</u>	9.8

Total revenues surpassed expenses, increasing net assets \$6,774,345 over last year.

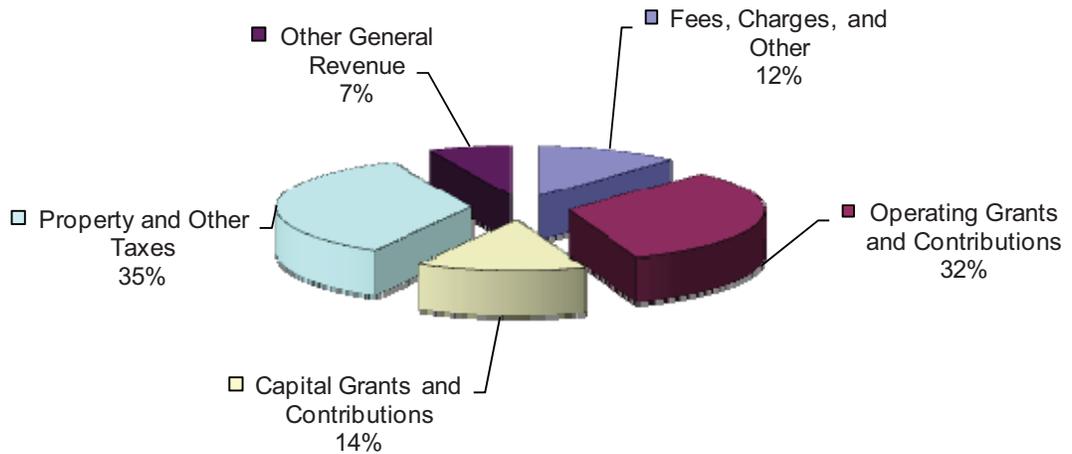
**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

CHANGE IN NET ASSETS (CONTINUED)

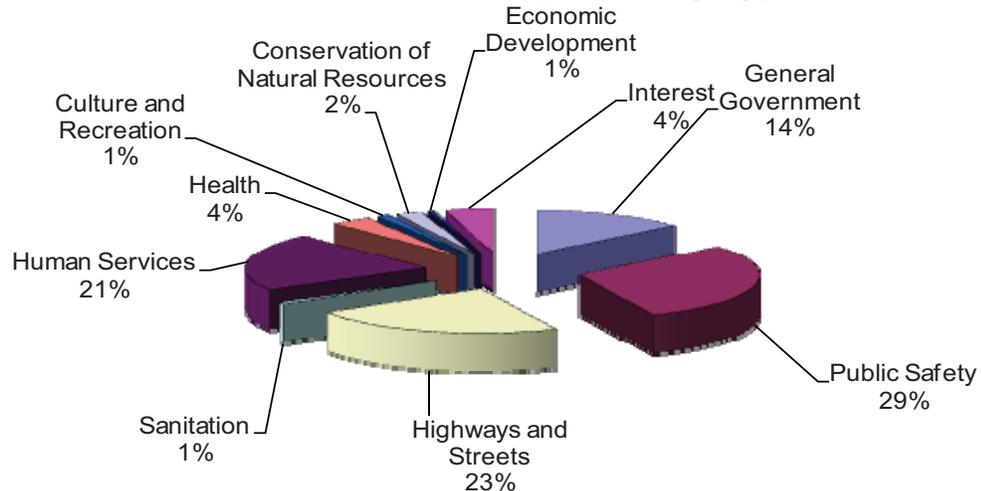
The government-wide cost of all governmental activities this year was \$33,194,288.

- Some of the cost was paid by the users of the County's programs (\$4,749,350).
- The federal and state governments subsidized certain programs with grants and contributions (\$18,540,089).
- The remainder of the County's governmental activities costs (\$9,904,849) was paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities and the increase in net assets was covered by \$13,432,994 in property taxes, \$2,355,111 of state aid, \$891,089 of investment earnings, and other general revenues.

Governmental Activities Revenues by Source 2011



Governmental Activities Expenses by Type 2011



**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

CHANGE IN NET ASSETS (CONTINUED)

Table A-3 presents the cost of each of the County's program function, as well as each function's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

Table A-3
Expenses and Net (Revenue) Cost of Services

	Total Cost of Services		Percentage Change	Net (Revenue) Cost of Services		Percentage Change
	2011	2010		2011	2010	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 4,585,405	\$ 5,159,806	(11.1)%	\$ 2,846,544	\$ 3,393,062	(16.1)%
Public Safety	9,774,804	9,166,376	6.6	7,493,831	6,759,472	10.9
Highways and Streets	7,563,460	6,581,651	14.9	(5,426,728)	(2,516,489)	115.6
Sanitation	189,967	180,396	5.3	116,828	110,169	6.0
Human Services	7,140,576	7,487,695	(4.6)	2,396,851	2,409,503	(0.5)
Health	1,194,210	1,235,116	(3.3)	445,812	374,861	18.9
Culture and Recreation	374,148	315,652	18.5	374,148	315,652	18.5
Conservation of Natural Resources	781,807	619,942	26.1	67,652	(173,178)	(139.1)
Economic Development	175,864	961	18200.1	175,864	961	18200.1
Interest	1,414,047	1,464,024	(3.4)	1,414,047	1,464,024	(3.4)
Total	<u>\$ 33,194,288</u>	<u>\$ 32,211,619</u>	3.1	<u>\$ 9,904,849</u>	<u>\$ 12,138,037</u>	(18.4)

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County, as a whole, is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$14,008,259. Revenues for the County's governmental funds were \$39,209,556, while total expenditures were \$34,201,801.

The General Fund includes the primary operations of the County in providing services to citizens. Fund balance increased by \$386,506 during 2011. This increase is primarily due to an increase in tax revenues and a decrease in expenditures.

The Road and Bridge Fund has a total fund balance of \$6,345,520. The fund balance increased in 2011 primarily due to an increase in intergovernmental revenues.

The Health and Human Services Fund has a total fund balance of \$2,548,787. It decreased \$378,401 from 2010 due to decreased grant revenues.

The Land Management Fund has a total fund balance of \$698,725. It increased \$84,487 from 2010 due to an increase in miscellaneous revenues.

The Street Reconstruction Bond Fund has a total fund balance of \$51,229. It increased \$17,001 from 2010 due to an increase in property tax collections.

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)

The following schedule presents a summary of General Fund Revenues:

Total General Fund revenues increased by \$425,740, or 3.0%, from the previous year due primarily to increases in tax levy and miscellaneous revenues, which offset the decrease in intergovernmental and fines and forfeits revenues.

Table A-4
General Fund Revenues

Fund	Year Ended		Change	
	December 31, 2011	December 31, 2010	Increase (Decrease)	Percent
Taxes	\$ 7,541,070	\$ 7,383,056	\$ 158,014	2.1 %
Licenses and Permits	65,822	70,265	(4,443)	(6.3)
Intergovernmental	3,534,537	3,754,834	(220,297)	(5.9)
Charges for Services	2,059,673	2,063,312	(3,639)	(0.2)
Fines and Forfeits	20,657	29,948	(9,291)	(31.0)
Gifts and Contributions	86,745	96,829	(10,084)	(10.4)
Interest	107,014	61,258	45,756	74.7
Miscellaneous and Other	1,035,283	565,559	469,724	83.1
Total General Fund Revenues	\$ 14,450,801	\$ 14,025,061	\$ 425,740	3.0

The following schedule presents a summary of General Fund Expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change	
	December 31, 2011	December 31, 2010	Increase (Decrease)	Percent
General Government	\$ 4,157,368	\$ 4,360,462	\$ (203,094)	(4.7)%
Public Safety	8,561,693	8,795,770	(234,077)	(2.7)
Sanitation	184,094	177,898	6,196	3.5
Culture and Recreation	374,148	315,652	58,496	18.5
Conservation	243,677	370,965	(127,288)	(34.3)
Debt Service	108,422	112,410	(3,988)	(3.5)
Total Expenditures	\$ 13,629,402	\$ 14,133,157	\$ (503,755)	(3.6)

The decrease in General Fund expenditures is due primarily to a decrease general government, public safety, and conservation expenditures.

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)

General Fund Budgetary Highlights

Over the course of the year, the County revised the annual operating budget for the General Fund for the allocation of cost of living adjustments and step increases. The adjustment increased the departmental budgets, and reduced the Other General Government budget. The total budget did not change. In general, the County does not make a significant amount of budget amendments during the year.

- Actual revenues were \$1,358,130 more than budgeted; this is due primarily to the receipt of County Program Aid and other miscellaneous revenues.
- The actual expenditures were \$97,327 less than budget.
- The budget of other financing sources and uses was amended during 2011 to account for a transfer to the 800 MHz project fund of \$650,000 as the County intends to fund their 800 MHz projects rather than bond for it.

CAPITAL ASSETS

By the end of 2011, the County had invested approximately \$124,800,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 3.A.4 to the financial statements). Total depreciation expense for the year was \$3,059,756.

Table A-6
The County's Capital Assets

	Governmental Activities		Percent Change
	2011	2010	
Land	\$ 4,261,512	\$ 4,259,587	0.0 %
Construction-in-Progress	-	161,570	(100.0)
Buildings	27,936,035	28,217,856	(1.0)
Machinery, Furniture, and Equipment	8,028,259	7,476,174	7.4
Software	157,921	-	100.0
Infrastructure	84,464,350	81,759,971	3.3
Less: Accumulated Depreciation	(33,703,945)	(30,933,142)	9.0
Total	\$ 91,144,132	\$ 90,942,016	0.2

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

LONG-TERM LIABILITIES

At year-end, the County had \$32,196,233 in long-term liabilities outstanding, including the current portion of long-term debt.

- The County's governmental activities total debt decreased \$713,459 during the fiscal year, due primarily to the repayment of bonds according to the repayment schedules.
- Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2011, Pine County's debt was 0.99 percent of its total market value.

Table A-7
The County's Long-Term Liabilities

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
GOVERNMENTAL ACTIVITIES			
General Obligation Public Facilities			
Authority Loans	\$ 466,000	\$ 551,000	(15.4)%
General Obligation Jail Bonds	16,435,000	16,935,000	(3.0)
Public Project Revenue Bonds	12,915,000	13,285,000	(2.8)
Special Assessments	580,181	652,704	(11.1)
Compensated Absences	1,053,444	994,942	5.9
Other Postemployment Benefit Plan	746,608	491,046	52.0
Total	<u>\$ 32,196,233</u>	<u>\$ 32,909,692</u>	(2.2)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

By the end of 2011, Pine County approved its balanced 2012 revenue and expenditure budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. Questions about this report or additional financial information should be addressed to Cathy J. Clemmer, Pine County Auditor, Pine County Courthouse, 635 Northridge Drive N.W., Suite 240, Pine City, Minnesota 55063.

BASIC FINANCIAL STATEMENTS

**PINE COUNTY
PINE CITY, MINNESOTA
STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

ASSETS	
Cash and Pooled Investments	\$ 13,369,076
Petty Cash and Change Funds	3,360
Cash with Escrow Agent	500,000
Restricted Cash and Investments - CDBG Grant	94,295
Taxes Receivable - Delinquent	1,227,305
Accounts Receivable - Net	1,099,904
Accrued Interest Receivable	14,800
Due from Other Governments	2,219,154
Inventory	558,824
Deferred Charges	89,635
Prepaid Items	282,769
Non-Depreciable Capital Assets	
Land	4,261,512
Depreciable Capital Assets - Net of Accumulated Depreciation	
Buildings	22,737,084
Machinery, Furniture, and Equipment	1,576,383
Software	126,337
Infrastructure	62,442,816
Total Assets	110,603,254
LIABILITIES	
Accounts Payable	775,584
Salaries Payable	514,457
Workers Compensation Payable	111,968
Contracts Payable	221,192
Customer Deposits	6,948
Due to Other Governments	503,502
Accrued Interest Payable	553,290
General Obligation Bonds Payable - Due Within One Year	905,000
Special Assessments - Due Within One Year	72,523
Loans Payable - Due Within One Year	88,000
General Obligation Bonds Payable - Due in More Than One Year	28,244,684
Special Assessments - Due in More Than One Year	507,658
Loans Payable - Due in More Than One Year	378,000
Other Postemployment Benefits Payable - Due in More Than One Year	746,608
Compensated Absences Payable - Due in More Than One Year	1,053,444
Total Liabilities	34,682,858
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	61,528,448
Restricted For:	
General Government	619,112
Public Safety	84,907
Highways and Streets	1,220,146
Economic Development	545,520
Conservation of Natural Resources	46,778
Debt Service	1,613,067
Unrestricted	10,262,418
Total Net Assets	\$ 75,920,396

See accompanying Notes to Financial Statements.

**PINE COUNTY
PINE CITY, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense)
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
GOVERNMENTAL ACTIVITIES					Governmental Activities
General Government	\$ 4,585,405	\$ 1,309,699	\$ 429,162	\$ -	\$ (2,846,544)
Public Safety	9,774,804	1,511,542	769,431	-	(7,493,831)
Highways and Streets	7,563,460	355,708	7,065,102	5,569,378	5,426,728
Sanitation	189,967	400	72,739	-	(116,828)
Human Services	7,140,576	610,868	4,132,857	-	(2,396,851)
Health	1,194,210	246,978	501,420	-	(445,812)
Culture and Recreation	374,148	-	-	-	(374,148)
Conservation of Natural Resources	781,807	714,155	-	-	(67,652)
Economic Development	175,864	-	-	-	(175,864)
Interest	1,414,047	-	-	-	(1,414,047)
Total Governmental Activities	\$ 33,194,288	\$ 4,749,350	\$ 12,970,711	\$ 5,569,378	(9,904,849)
GENERAL REVENUES					
					13,432,994
Property Taxes					11,615
Mortgage Registry and Deed Tax					561,076
Payments in Lieu of Tax					2,355,111
Grants and Contributions not Restricted for a Particular Purpose					110,379
Investment Earnings					198,905
Miscellaneous					9,114
Gain on Sale of Capital Assets					16,679,194
Total General Revenues					6,774,345
CHANGE IN NET ASSETS					
					69,146,051
Net Assets - Beginning of Year					\$ 75,920,396
NET ASSETS - END OF YEAR					

See accompanying Notes to Financial Statements.

**PINE COUNTY
PINE CITY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

ASSETS	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
Cash and Pooled Investments	\$ 1,357,772	\$ 5,839,814	\$ 2,301,404
Undistributed Cash in Agency Funds (Taxes and Other)	234,111	35,331	58,654
Petty Cash and Change Funds	3,210	150	-
Cash with Escrow Agent	-	-	-
Restricted Cash and Investments - CDBG Grant	-	-	-
Taxes Receivable			
Delinquent	693,967	147,990	236,486
Accounts Receivable	20,292	6,564	127,702
Accrued Interest Receivable	14,800	-	-
Due from Other Funds	216,176	24,010	1,240
Due from Other Governments	245,964	1,533,895	437,697
Prepaid Items	181,151	-	101,415
Inventories	-	558,824	-
Total Assets	<u>\$ 2,967,443</u>	<u>\$ 8,146,578</u>	<u>\$ 3,264,598</u>

See accompanying Notes to Financial Statements.

Land Management	Street Reconstruction Bond	Other Governmental Funds	Total Governmental Funds
\$ 1,192,119	\$ 51,229	\$ 2,248,337	\$ 12,990,675
-	-	50,305	378,401
-	-	-	3,360
-	-	500,000	500,000
-	-	94,295	94,295
-	-	148,862	1,227,305
945,346	-	-	1,099,904
-	-	-	14,800
-	-	-	241,426
1,598	-	-	2,219,154
203	-	-	282,769
-	-	-	558,824
<u>\$ 2,139,266</u>	<u>\$ 51,229</u>	<u>\$ 3,041,799</u>	<u>\$ 19,610,913</u>

**PINE COUNTY
PINE CITY, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 224,539	\$ 64,696	\$ 234,329
Salaries Payable	315,680	64,448	128,627
Workers' Compensation Payable	17,088	90,203	-
Contracts Payable	-	221,192	-
Due to Other Funds	20,528	1,077	27,907
Due to Other Governments	91,078	8,652	117,372
Deferred Revenue - Unavailable	601,499	1,350,790	207,576
Customer Deposits	6,948	-	-
Total Liabilities	<u>1,277,360</u>	<u>1,801,058</u>	<u>715,811</u>
FUND BALANCES			
Nonspendable for			
Prepaid Items	181,151	-	101,415
Inventories	-	558,824	-
Restricted for			
Debt Service	-	-	-
Law Library	40,577	-	-
Missing Heirs	73,705	-	-
Recorder's Equipment Purchases	200,117	-	-
Recorder's Compliance	219,925	-	-
Election Equipment	59,858	-	-
Plat Escrow	24,940	-	-
Attorney Forfeiture	84,907	-	-
Ditches	-	-	-
Rehabilitation Program	-	-	-
Road Access	-	-	-
Assigned for			
Capital Projects	-	-	-
Petty Cash	3,210	150	-
Forestry	-	-	-
Fund Purposes	-	5,786,546	2,447,372
Unassigned	<u>801,693</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>1,690,083</u>	<u>6,345,520</u>	<u>2,548,787</u>
Total Liabilities and Fund Balances	<u>\$ 2,967,443</u>	<u>\$ 8,146,578</u>	<u>\$ 3,264,598</u>

See accompanying Notes to Financial Statements.

Land Management	Street Reconstruction Bond	Other Governmental Funds	Total Governmental Funds
\$ 6,502	\$ -	\$ 245,518	\$ 775,584
5,702	-	-	514,457
4,677	-	-	111,968
-	-	-	221,192
191,914	-	-	241,426
286,400	-	-	503,502
945,346	-	122,366	3,227,577
-	-	-	6,948
1,440,541	-	367,884	5,602,654
203	-	-	282,769
-	-	-	558,824
-	51,229	1,992,762	2,043,991
-	-	-	40,577
-	-	-	73,705
-	-	-	200,117
-	-	-	219,925
-	-	-	59,858
-	-	-	24,940
-	-	-	84,907
-	-	11,775	11,775
-	-	545,520	545,520
35,003	-	-	35,003
-	-	123,858	123,858
-	-	-	3,360
663,519	-	-	663,519
-	-	-	8,233,918
-	-	-	801,693
698,725	51,229	2,673,915	14,008,259
\$ 2,139,266	\$ 51,229	\$ 3,041,799	\$ 19,610,913

**PINE COUNTY
PINE CITY, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS		\$ 14,008,259
Total net assets reported for governmental activities in the statement of net assets is 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.		91,144,132
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		3,227,577
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Public Project Revenue Bonds	\$ (12,915,000)	
General Obligation Bonds	(16,435,000)	
Unamortized Bond Discounts	200,316	
Unamortized Bond Issuance Costs	89,635	
Loans Payable	(466,000)	
Special Assessments Payable	(580,181)	
Compensated Absences	(1,053,444)	
Other Postemployment Benefit Plan Payable	(746,608)	
Accrued Interest Payable	(553,290)	
	(32,459,572)	
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ 75,920,396

See accompanying Notes to Financial Statements.

**PINE COUNTY
PINE CITY, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge	Health and Human Services
REVENUES			
Taxes	\$ 7,541,070	\$ 1,368,474	\$ 2,278,406
Licenses and Permits	65,822	-	-
Intergovernmental	3,534,537	11,945,875	4,652,542
Charges for Services	2,059,673	283,473	87,675
Fines and Forfeits	20,657	-	-
Gifts and Contributions	86,745	-	12,208
Interest on Investments	107,014	2,312	686
Miscellaneous	1,035,283	72,235	788,486
Total Revenues	14,450,801	13,672,369	7,820,003
EXPENDITURES			
CURRENT			
General Government	4,157,368	-	-
Public Safety	8,561,693	-	-
Highways and Streets	-	8,247,140	-
Sanitation	184,094	-	-
Human Services	-	-	7,030,355
Health	-	-	1,168,049
Culture and Recreation	374,148	-	-
Conservation of Natural Resources	243,677	-	-
Economic Development	-	-	-
INTERGOVERNMENTAL			
Highways and Streets	-	356,483	-
DEBT SERVICE			
Principal	72,523	85,000	-
Interest	35,899	16,530	-
Administrative - Fiscal Charges	-	-	-
Total Expenditures	13,629,402	8,705,153	8,198,404
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	821,399	4,967,216	(378,401)
OTHER FINANCING SOURCES (USES)			
Transfers In	215,107	-	-
Transfers Out	(650,000)	(500,000)	-
Total Other Financing Sources (Uses)	(434,893)	(500,000)	-
NET CHANGE IN FUND BALANCES	386,506	4,467,216	(378,401)
Fund Balances - Beginning of Year	1,303,577	1,792,763	2,927,188
INCREASE IN INVENTORIES	-	85,541	-
FUND BALANCES - END OF YEAR	<u>\$ 1,690,083</u>	<u>\$ 6,345,520</u>	<u>\$ 2,548,787</u>

See accompanying Notes to Financial Statements.

Land Management	Street Reconstruction Bond	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 17,001	\$ 2,058,903	\$ 13,263,854
-	-	-	65,822
37,782	-	379,427	20,550,163
-	-	24	2,430,845
-	-	-	20,657
-	-	-	98,953
-	-	367	110,379
772,879	-	-	2,668,883
810,661	17,001	2,438,721	39,209,556
-	-	89,229	4,246,597
-	-	640,299	9,201,992
-	-	-	8,247,140
-	-	-	184,094
-	-	-	7,030,355
-	-	-	1,168,049
-	-	-	374,148
535,822	-	-	779,499
-	-	175,864	175,864
-	-	-	356,483
-	-	870,000	1,027,523
-	-	1,343,792	1,396,221
-	-	13,836	13,836
535,822	-	3,133,020	34,201,801
274,839	17,001	(694,299)	5,007,755
-	-	1,150,000	1,365,107
(190,352)	-	(24,755)	(1,365,107)
(190,352)	-	1,125,245	-
84,487	17,001	430,946	5,007,755
614,238	34,228	2,242,969	8,914,963
-	-	-	85,541
\$ 698,725	\$ 51,229	\$ 2,673,915	\$ 14,008,259

**PINE COUNTY
PINE CITY, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 5,007,755

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the funds, the proceeds of the sale increase financial resources. The difference is the net book value of assets sold.

Expenditures for General Capital Assets and Infrastructure	\$ 3,272,259	
Net book Value of Disposed Assets	(10,387)	
Current Year Depreciation	<u>(3,059,756)</u>	202,116

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 769,464

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal Repayments		
General Obligation Bonds	500,000	
General Obligation Notes	370,000	
Special Assessments Payable	72,523	
Loans Payable	<u>85,000</u>	1,027,523

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Change in Accrued Interest Payable	14,916	
Amortization of Discounts and Deferred Issuance Charges	(18,906)	
Change in Inventories	85,541	
Change in Compensated Absences	(58,502)	
Change in Other Postemployment Benefits	<u>(255,562)</u>	<u>(232,513)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 6,774,345

**PINE COUNTY
PINE CITY, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2011**

ASSETS

Cash and Pooled Investments	\$ 551,023
Accounts Receivable	<u>672</u>
	<u>\$ 551,695</u>

LIABILITIES

Due to Other Governments	<u>\$ 551,695</u>
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See accompanying Notes to Financial Statements.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pine County's (the County) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). 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 *Minnesota Statutes* ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Pine County. The County is governed by a five-member Board of County 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 joint ventures which are described in Note 8.C. The County also participates in jointly-governed organizations which are described in Note 8.D. A related organization is described in Note 8.E.

B. Basic Financial Statements

1. Government-Wide Statements

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

The government-wide statement of net assets is presented on a consolidated basis by column and 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.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

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 that are 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 the governmental fund financial statements are 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.

The Road and Bridge Special Revenue Fund is used to account for restricted intergovernmental revenues and other 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 the restricted revenues of the 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 Bond Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Level Statements (Continued)

Additionally, the County reports the following fund types:

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

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agency 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Pine County considers all revenues to be available if they are collected within 60 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.

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 Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at year end, based on market prices. Pursuant to *Minnesota Statutes* §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.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Continued)

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 *Minnesota Statutes* §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.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent maturities of interfund loans).

All receivables are shown net of an allowance for uncollectibles which is calculated on a case-by-case basis.

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. On the government-wide financial statements inventories are recorded as expenses when consumed.

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and software of \$20,000 and an estimated useful life in excess of one year. Such assets are recorded at 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 asset's lives are not capitalized.

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

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

Assets	Years
Buildings	40
Public Domain Infrastructure	50
Equipment and Vehicles	5 - 10
Software	3 - 5

5. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual leave balances. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Deferred Revenue

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on 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 other financing sources. 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 Balance

At December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This standard changed fund balance classifications within the fund level statements.

In the fund financial statements, governmental funds report nonspendable, restricted, assigned, and unassigned fund balances. Nonspendable portions of fund balance relate to prepaids, inventories, and long term receivables. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed Funds can only be established, modified, or rescinded by formal resolution of the County Board. Assigned funds are established by County Auditor/Treasurer as allowed based on the County's adopted policy. Unassigned fund balance is the residual classification for the County's general fund and includes all spendable amounts not contained in other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the County's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the County's policy to use committed first, then assigned, and finally unassigned amounts.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Fund Balance (Continued)

Net assets represent the differences between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire capital assets. Net assets are reported as restricted in government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Budget

The following is a summary of individual funds with expenditures in excess of budget for the year ended December 31, 2011.

	<u>Expenditures</u>	<u>Budgets</u>	<u>Excess</u>
Road and Bridge Fund	\$ 8,705,153	\$ 6,857,651	\$ 1,847,502
Health and Human Services Fund	8,198,404	8,050,122	148,282
Countywide Rehabilitation Program Fund	640,299	-	640,299
HRA Project Bond Fund	995,158	994,405	753
Government Building Fund	89,229	-	89,229

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Reconciliations of the County's total deposits, cash on hand, and investments to the basic financial statements follows:

TOTAL CASH AND INVESTMENTS

Government-Wide Statement of Net Assets	
Cash and Pooled Investments	\$ 13,369,076
Petty Cash and Change Funds	3,360
Cash with Escrow Agent	500,000
Restricted Cash and Investments - CDBG Grant	94,295
Statement of Fiduciary Net Assets	
Cash and Pooled Investments	551,023
Total Cash and Investments	<u>\$ 14,517,754</u>
Deposits	\$ 9,016,062
Change Funds	3,360
Investments	<u>5,498,332</u>
Total Deposits, Cash and Investments	<u>\$ 14,517,754</u>

Custodial Credit Risk - Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has a deposit policy for custodial credit risk and follows *Minnesota Statutes* regarding pledged collateral. As of December 31, 2011, the County's deposits were fully covered by FDIC insurance or collateralized.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank, at an account at a trust department of a commercial bank or other financial institution not owned, or controlled by the financial institution furnishing the collateral.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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

- (a) 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 *Minnesota Statutes* §118a.04, Subd. 6;
- (b) Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (c) 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;
- (d) Bankers' acceptances of United States banks;
- (e) 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 with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Concentration Credit Risk

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

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of failure by the counterparty to a transaction, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County has a policy for investment custodial credit risk. As of December 31, 2011, none of Pine County's investments were subject to custodial credit risk. A portion of these investments is covered by Securities Investor Protection Corporation insurance.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2011, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. Government Agency Securities					
Federal National Mortgage Association Note	Aa	Moody's	22.1 %	11/25/2022	\$ 800,488
Federal Home Loan Bank Bonds	Aa	Moody's	4.0	10/27/2021	200,014
Federal Home Loan Bank Bonds	Aa	Moody's	9.6	8/25/2021	480,377
Federal Home Loan Bank Bonds	Aa	Moody's	10.0	8/25/2021	500,075
Total Federal Home Loan Bank Bonds					<u>1,180,466</u>
Federal Farm Credit Bank	Aa	Moody's	10.0	12/28/2020	502,020
Federal Farm Credit Bank	Aa	Moody's	10.0	8/28/2018	500,025
Total Federal Farm Credit Bank					<u>1,002,045</u>
Federal Home Loan Mortgage Corporation	Aa	Moody's	8.0	11/18/2021	400,384
Federal Home Loan Mortgage Corporation	Aa	Moody's	6.0	9/30/2021	300,075
Total Federal Home Loan Mortgage Corporations					<u>700,459</u>
Investment Pools/Mutual Funds					
MAGIC Fund	N/A	N/A	N/A	N/A	854,068
Piper Jaffray	N/A	N/A	N/A	N/A	1,085
Mutual Securities - Treasury Strip	Aa	Moody's	0.1	8/15/2029	4,908
Total Investment Pools/Mutual Funds					<u>860,061</u>
Negotiable Certificates of Deposit					
First Bank of Puerto Rico					152,473
American Chartered Bank					100,780
Wachovia Mtg FSB Las Vegas					100,780
Wachovia Bank FSB Houston					100,780
Total Negotiable Certificates of Deposit					<u>454,813</u>
Total Investments					<u>4,998,332</u>
Deposits					9,016,062
Petty Cash					3,360
Cash with Escrow Agent					500,000
Total Cash and Investments					<u><u>\$ 14,517,754</u></u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, including applicable allowances for uncollectible accounts, are as follows:

	County Receivable	Amounts Not Schedule for Collection During the Subsequent Year
Taxes	\$ 1,227,305	\$ -
Accounts	1,099,904	-
Interest	14,800	-
Due from Other Governments	2,219,154	-
Total	<u>\$ 4,561,163</u>	<u>\$ -</u>

3. Lease Receivable

On June 3, 2003, Pine County entered into an Ambulance Service Lease Agreement with the Pine Medical Center to operate the ambulance service, which is owned by Pine County. The agreement called for the County to receive \$50,067 for the years ended December 31, 2003 and 2004. Thereafter the County would receive \$1 per year.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets, Not Being Depreciated					
Land	\$ 4,259,587	\$ 1,925	\$ -	\$ -	\$ 4,261,512
Construction in Progress	161,570	118,963	280,533	-	-
Total Capital Assets, No Being Depreciated	4,421,157	120,888	280,533	-	4,261,512
Capital Assets, Being Depreciated					
Buildings	28,217,856	-	-	(281,821)	27,936,035
Machinery and Equipment	7,476,174	569,604	113,220	95,701	8,028,259
Software	-	157,921	-	-	157,921
Infrastructure	81,759,971	2,704,379	-	-	84,464,350
Total Capital Assets, Being Depreciated	117,454,001	3,431,904	113,220	(186,120)	120,586,565
Less Accumulated Depreciation for					
Buildings	4,636,580	668,704	-	(106,333)	5,198,951
Machinery, Furniture, and Equipment	5,910,550	723,946	102,833	(79,787)	6,451,876
Software	-	31,584	-	-	31,584
Infrastructure	20,386,012	1,635,522	-	-	22,021,534
Total Accumulated Depreciation	30,933,142	3,059,756	102,833	(186,120)	33,703,945
Total Capital Assets, Being Depreciated, Net	86,520,859	372,148	10,387	-	86,882,620
Governmental Activities Capital Assets, Net	<u>\$ 90,942,016</u>	<u>\$ 493,036</u>	<u>\$ 290,920</u>	<u>\$ -</u>	<u>\$ 91,144,132</u>

Reclassification – This column represents changes in capital assets to correlate internal accounting records with financial reporting.

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

Governmental Activities	
General Government	\$ 412,071
Public Safety	493,104
Highways and Streets, Including Depreciation of Infrastructure Assets	2,150,286
Sanitation	4,295
Total Depreciation Expense - Governmental Activities	<u>\$ 3,059,756</u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Health and Human Services	\$ 23,916
	Road and Bridge	1,077
	Land Management	191,183
Total Due to General Fund		<u>216,176</u>
Road and Bridge	General	19,592
	Health and Human Services	3,991
	Land Management	427
Total Due to Road and Bridge		<u>24,010</u>
Health and Human Services	General	936
	Land Management	304
Total Due to Health and Human Services		<u>1,240</u>
Total Due To/From Other Funds		<u><u>\$ 241,426</u></u>

The due to and due from other funds are for interfund services not paid at year-end.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

	Amount	Description
Transfers to General Fund from		
Land Management Fund	\$ 190,352	Forfeited Tax Distribution
Other Governmental Funds	24,755	Closing Funds
Transfer to Countyside Rehabilitation		
Program from		
General Fund	550,000	Operations
Road and Bridge Fund	500,000	Operations
Transfer to Other Governmental Funds from		
General Fund	100,000	Operations
Total Interfund Transfers	<u><u>\$ 1,365,107</u></u>	

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2011. The projects include the following:

Governmental Activities	Spent-to-Date	Remaining Commitment
Roads and Bridges	\$ 7,508,778	\$ 848,502

2. Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2011
General Obligation Bonds					
2005A G.O. Jail Bonds	2031	\$ 500,000 - 1,685,000	4.000	\$ 16,935,000	\$ 16,435,000
General Obligation Public Facilities Authority (PFA) Loan					
2001 G.O. PFA Loan	2016	77,405 - 108,439	3.000	1,434,459	466,000
Public Project Revenue Bonds					
2005A Public Project Revenue Bond	2031	370,000 - 1,000,000	4.000 - 5.000	13,285,000	12,915,000
Special Assessments					580,181
Total General Obligation Bonds, Loans, and Assessments				\$ 31,654,459	30,396,181
Less: Unamortized Discount					(200,316)
Total General Obligation Bonds, Net					\$ 30,195,865

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31,	2005A G.O. Jail Bonds		2001 G.O. PFA Loan	
	Principal	Interest	Principal	Interest
2012	\$ 520,000	\$ 701,361	\$ 88,000	\$ 13,980
2013	540,000	680,161	90,000	11,340
2014	560,000	658,161	93,000	8,640
2015	580,000	635,361	96,000	5,850
2016	605,000	611,661	99,000	2,970
2017-2021	3,440,000	2,645,094	-	-
2022-2026	4,280,000	1,805,939	-	-
2027-2031	5,910,000	731,015	-	-
Total	<u>\$ 16,435,000</u>	<u>\$ 8,468,753</u>	<u>\$ 466,000</u>	<u>\$ 42,780</u>

Year Ending December 31,	2005A Public Project Revenue Bonds		Special Assessments	
	Principal	Interest	Principal	Interest
2012	\$ 385,000	\$ 606,931	\$ 72,523	\$ 31,910
2013	400,000	590,981	72,523	27,921
2014	420,000	573,806	72,523	23,933
2015	440,000	554,981	72,523	19,944
2016	465,000	534,619	72,523	15,955
2017-2021	2,705,000	2,327,634	217,566	23,642
2022-2026	3,515,000	1,600,700	-	-
2027-2031	4,585,000	595,625	-	-
Total	<u>\$ 12,915,000</u>	<u>\$ 7,385,277</u>	<u>\$ 580,181</u>	<u>\$ 143,305</u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
2005A G.O. Jail Bonds	\$ 16,935,000	\$ -	\$ 500,000	\$ 16,435,000	\$ 520,000
2005A Public Project Revenue Bond:	13,285,000	-	370,000	12,915,000	385,000
Less: Discount on Bonds	(210,767)	-	10,451	(200,316)	-
2001 G.O. PFA Loan	551,000	-	85,000	466,000	88,000
Special Assessments	652,704	-	72,523	580,181	72,523
Compensated Absences	994,942	1,026,087	967,585	1,053,444	-
Other Postemployment Benefits	491,046	426,897	171,335	746,608	-
Total Long-Term Liabilities	<u>\$32,698,925</u>	<u>\$ 1,452,984</u>	<u>\$ 2,176,894</u>	<u>\$ 31,995,917</u>	<u>\$ 1,065,523</u>

Debt is generally paid from the debt service funds. The Public Facilities Authority loans are paid from the Road and Bridge Fund. The special assessments are paid from the General Fund. Compensated absences are paid from the General Fund, Road and Bridge Fund, Health and Human Services Fund and Land Management Special Revenue Fund. Other Postemployment Benefits are paid from the General Fund.

5. Public Project Revenue Bonds issued by the Housing and Redevelopment Authority

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

6. Lease Obligations

The County is committed under various operating leases for copiers and office equipment. The following is a summary of the operating lease expense for 2011:

<u>Type of Property</u>	<u>Amount</u>
Copiers and Office Equipment	<u>\$ 26,225</u>

Future minimum payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2011:

<u>Year Ended</u>	<u>Amount</u>
2012	\$ 20,621
2013	20,621
2014	17,275
2015	15,602
2016	<u>3,096</u>
Total Future Minimum Lease Payments	<u>\$ 77,215</u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

A. Defined Benefit Plan

1. Plan Description

All full-time and certain part-time employees of Pine County are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF 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, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's 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. The annuity accrual rate for a Coordinated Plan member 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 PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

1. Plan Description (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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 receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF, PEPFF, and PECF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

2. Funding Policy

Minnesota Statutes Chapter 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.60 percent of their annual covered salary in 2011. PECF members are required to contribute 5.83 percent of their annual covered salary. Pine County is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members, 7.25 percent for Coordinated Plan PERF members, 14.40 percent for PEPFF members, and 8.75 percent for PECF members.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

A. Defined Benefit Plan (Continued)

2. Funding Policy (Continued)

The County's contributions to the General Employees Retirement Fund, Public Employees Police and Fire Fund, and Public Employees Correctional Fund, for the years ending December 31, 2011, 2010, and 2009 were:

	General Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund	Defined Contribution Plan
2011	\$ 520,934	\$ 269,819	\$ 146,911	\$ 4,117
2010	521,207	269,421	148,715	6,713
2009	492,567	266,471	146,682	6,674

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

B. Defined Contribution Plan

Four elected officials of Pine County are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes* Chapter 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 5 percent of salary, which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees, employer contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and four-tenths of one percent of assets in each member's account annually.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

The County provides benefits for retirees as required by *Minnesota Statutes* §471.61 subdivision 2b. Active employees who retire from the County when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Pursuant to the provisions of the plan, retirees are required to 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2011, approximately 47 retirees were receiving health benefits from the County's health plan.

A. Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost of 2011, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual Required Contribution (ARC):	\$ 435,652
Interest on Net OPEB Obligation	19,642
Adjustment to ARC	<u>(28,397)</u>
Annual OPEB Cost	426,897
Contributions during the year	<u>(171,335)</u>
Increase in Net OPEB Obligation	255,562
Net OPEB - Beginning of the Year	491,046
Net OPEB - End of the Year	<u><u>\$ 746,608</u></u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

A. Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011, 2010, and 2009 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2011	\$ 426,897	\$ 171,335	40.1 %	\$ 746,608
December 31, 2010	416,809	164,610	39.5	491,046
December 31, 2009	265,299	144,806	54.6	238,847

B. Funding Status

The County currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$ -	\$ 2,717,794	\$ 2,717,794	- %	\$ 9,712,033	27.98 %
1/1/2010	-	3,722,718	3,722,718	-	11,151,733	33.38

C. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the January 1, 2010 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the County. The annual healthcare cost trend rate is 10.0 percent initially, reduced incrementally to an ultimate rate of 5.00 percent after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open thirty year period.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 6 POSTEMPLOYMENT HEALTH CARE PLANS

A. MSRS Health Care Savings Plan

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

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

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

B. Minnesota Service Cooperative VEBA Plan

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

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 6 POSTEMPLOYMENT HEALTH CARE PLANS (CONTINUED)

B. Minnesota Service Cooperative VEBA Plan (Continued)

Eligibility requirements include:

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

NOTE 7 RISK MANAGEMENT

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011 and \$460,000 in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

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

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

B. Conduit Debt

Camp Heartland Project

In 2000, the County issued \$1,175,000 of Industrial Development Revenue Notes to provide financial assistance to Camp Heartland Project, Inc., a nonprofit corporation, for refinancing the corporation's debt incurred for acquiring, constructing, and equipping facilities located in Willow River. The corporation is primarily engaged in providing programs for children infected with or affected by HIV/AIDS. The notes are secured by the property financed and are payable solely from revenues of the corporation. Neither the County, the state, nor any political subdivision thereof, is obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the accompanying financial statements. As of December 31, 2011, the outstanding principal amount payable was \$800,182.

C. Joint Ventures

Kanabec/Pine Community Health Services

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

Kanabec/Pine Community Health Services (Continued)

Complete financial information can be obtained from:

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

East Central Solid Waste Commission

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

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

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

During 2007, the Commission repaid the outstanding balance of its long-term bonds. Pine County was not required to contribute toward debt service. During 2011, the County made no further contribution to the Commission, but continues to collect delinquent taxes.

Complete financial information can be obtained from:

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

Snake River Watershed Management Board

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

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

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

Pine County provided \$9,968 to this organization during 2011. 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
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

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

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

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

Central Minnesota Emergency Medical Services Region

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

Complete financial information can be obtained from:

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

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 noncustodial parents under the Welfare to Work Program. It comprises Chisago, Isanti, Kanabec, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, and Wright Counties. Funding is to be provided through block grants from the U.S. Department of Labor. One County Commissioner from each participating county is appointed to the Joint Powers Board.

Rush Line Corridor Joint Powers Agreement

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

As part of the agreement, a joint powers board called the Rush Line Corridor Task Force was created to make the decisions needed to carry out the terms of the joint powers agreement. This Task Force consists of one member and one alternate appointed from each party, with their membership terms beginning on January 15 and ending on January 14 of the next succeeding year, or until a successor is appointed.

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

Funding, if needed for administrative costs, is provided to the Task Force based on corridor county population for the most recent census year or state demographer data available. During 2011, Pine County did not make any contributions or payments.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

Minneapolis-Duluth/Superior Passenger Rail Alliance Joint Powers Agreement

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

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

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

The parties shall contribute the funds necessary to carry out the purposes and powers of the Board, consistent with an annual budget and cost-sharing formula adopted by the Board and approved annually by each party’s governing body. The St. Louis-Lake Regional Railroad Authority shall initially serve as the fiscal agent for the Board and shall provide contract management and the necessary legal services for said contract management until such time the Board otherwise designates a fiscal agent. During 2011, Pine County did not expended any funds on transportation feasibility studies or other administrative costs.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Councilor from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Pine County made no contribution in 2011.

D. Jointly-Governed Organizations

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

Pine County Children, Families, and Learning Services Collaborative

The Pine County Children, Families, and Learning Services Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Pine County has no operational or financial control over the Collaborative. The County is the fiscal agent for the Collaborative and accounts for it in an agency fund.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During 2011, Pine County expended \$80,395 to the Cooperative.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

E. Related Organization

Pine County Housing and Redevelopment Authority

The Pine County Housing and Redevelopment Authority (HRA) is a legally separate organization having numerous rights and powers. The Pine County Board appoints all of the HRA Board members, but financial accountability necessary to include this organization as a component unit of the County is not present. Related party transactions comprise payment of \$4,200 by the County to the HRA Board members for per diem expenses.

F. Tax-Forfeited Land

The County manages approximately 47,494 acres of state-owned, tax-forfeited land with a taxable market value for 2011 of \$45,830,600. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

**PINE COUNTY
PINE CITY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 7,858,148	\$ 7,858,148	\$ 7,541,070	\$ (317,078)
Licenses and Permits	83,000	83,000	65,822	(17,178)
Intergovernmental	2,057,827	2,061,358	3,534,537	1,473,179
Charges for Services	2,079,014	2,079,015	2,059,673	(19,342)
Fines and Forfeits	67,050	67,050	20,657	(46,393)
Gifts and Contributions	90,000	90,000	86,745	(3,255)
Investment Earnings	200,000	200,000	107,014	(92,986)
Miscellaneous	654,100	654,100	1,035,283	381,183
Total Revenues	13,089,139	13,092,671	14,450,801	1,358,130
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	210,294	210,294	210,726	(432)
Courts	40,000	72,000	72,647	(647)
Law Library	20,000	21,700	21,699	1
County Auditor	451,353	451,353	438,419	12,934
County Treasurer	113,703	113,703	113,347	356
County Assessor	421,455	409,955	406,161	3,794
Elections	1,500	1,500	3,687	(2,187)
Data Processing	366,798	437,798	438,201	(403)
Central Services	95,000	95,000	101,983	(6,983)
Personnel	309,786	225,786	183,347	42,439
Attorney	735,123	735,123	722,969	12,154
Contracted Legal Services	20,000	5,000	3,730	1,270
Recorder	299,253	418,253	419,114	(861)
Planning and Zoning	110,417	110,417	113,632	(3,215)
Buildings and Plant	641,936	787,436	787,509	(73)
Veterans Service Officer	57,642	63,042	65,561	(2,519)
Other General Government	52,400	52,400	54,636	(2,236)
Total General Government	3,946,660	4,210,760	4,157,368	53,392
PUBLIC SAFETY				
Sheriff	3,910,040	4,144,250	4,259,253	(115,003)
Boat and Water Safety	7,000	7,000	9,809	(2,809)
Coroner	50,000	48,000	48,049	(49)
E-911 System	105,859	105,859	100,155	5,704
County Jail	3,132,686	3,298,686	3,299,430	(744)
Sentence to Serve	67,975	92,975	93,413	(438)
Probation and Parole	626,179	628,679	628,808	(129)
Civil Defense	12,000	99,900	99,903	(3)
Other Public Safety	17,655	19,655	22,873	(3,218)
Total Public Safety	7,929,394	8,445,004	8,561,693	(116,689)

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**PINE COUNTY
PINE CITY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (CONTINUED)				
CURRENT (CONTINUED)				
SANITATION				
Solid Waste	78,159	78,159	70,274	7,885
Recycling	124,600	124,600	113,820	10,780
Total Sanitation	202,759	202,759	184,094	18,665
CULTURE AND RECREATION				
Historical Society	10,000	10,000	10,000	-
Public Transit	65,000	65,000	61,206	3,794
Regional Library	302,792	302,792	302,942	(150)
Total Culture and Recreation	377,792	377,792	374,148	3,644
CONSERVATION OF NATURAL RESOURCES				
County Extension	91,200	91,200	87,929	3,271
Soil and Water Conservation	30,198	30,198	29,836	362
Agricultural Society/County Fair	10,000	10,000	10,000	-
Water Planning	27,888	27,888	27,888	-
Wetland Challenge	68,088	68,088	68,088	-
Other	11,268	11,268	19,936	(8,668)
Total Conservation of Natural Resources	238,642	238,642	243,677	(5,035)
UNALLOCATED				
Insurance	143,350	143,350	-	143,350
DEBT SERVICE				
Principal	72,523	72,523	72,523	-
Interest	35,899	35,899	35,899	-
Total Debt Service	108,422	108,422	108,422	-
Total Expenditures	12,947,019	13,726,729	13,629,402	97,327
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	142,120	(634,058)	821,399	1,455,457
OTHER FINANCING SOURCES (USES)				
Transfers In	60,000	60,000	215,107	155,107
Transfers Out	-	(650,000)	(650,000)	-
Total Other Financing Sources (Uses)	60,000	(590,000)	(434,893)	155,107
NET CHANGE IN FUND BALANCE				
	\$ 202,120	\$ (1,224,058)	386,506	\$ 1,610,564
Fund Balance - Beginning of Year			1,303,577	
FUND BALANCE - END OF YEAR			<u>\$ 1,690,083</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**PINE COUNTY
PINE CITY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,399,077	\$ 1,399,077	\$ 1,368,474	\$ (30,603)
Intergovernmental	5,068,501	5,068,501	11,945,875	6,877,374
Charges for Services	275,000	275,000	283,473	8,473
Investment Earnings	-	-	2,312	2,312
Miscellaneous	119,000	119,000	72,235	(46,765)
Total Revenues	6,861,578	6,861,578	13,672,369	6,810,791
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Administration	445,362	445,362	365,700	79,662
Maintenance	1,584,069	1,584,069	2,064,894	(480,825)
Construction	3,000,400	3,000,400	4,190,535	(1,190,135)
Equipment and Maintenance Shops	1,685,424	1,685,424	1,584,108	101,316
Unallocated - Highways and Streets	45,396	45,396	41,903	3,493
Total Highways and Streets	6,760,651	6,760,651	8,247,140	(1,486,489)
INTERGOVERNMENTAL				
Highways and Streets	-	-	356,483	(356,483)
DEBT SERVICE				
Principal	97,000	97,000	85,000	12,000
Interest	-	-	16,530	(16,530)
Total Debt Service	97,000	97,000	101,530	(4,530)
Total Expenditures	6,857,651	6,857,651	8,705,153	(1,847,502)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,927	3,927	4,967,216	4,963,289
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(500,000)	(500,000)
NET CHANGE IN FUND BALANCE	<u>\$ 3,927</u>	<u>\$ 3,927</u>	4,467,216	<u>\$ 4,463,289</u>
Fund Balance - Beginning of Year			1,792,763	
Increase in Inventory			85,541	
FUND BALANCE - END OF YEAR			<u>\$ 6,345,520</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**PINE COUNTY
PINE CITY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,465,129	\$ 2,365,130	\$ 2,278,406	\$ (86,724)
Intergovernmental	4,595,583	4,614,582	4,652,542	37,960
Charges for Services	64,950	64,950	87,675	22,725
Gifts and Contributions	-	-	12,208	12,208
Investment Earnings	-	-	686	686
Miscellaneous	905,400	905,400	788,486	(116,914)
Total Revenues	8,031,062	7,950,062	7,820,003	(130,059)
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Income Maintenance	2,142,782	2,135,782	2,163,207	(27,425)
Social Services	4,739,303	4,765,303	4,867,148	(101,845)
Total Human Services	6,882,085	6,901,085	7,030,355	(129,270)
HEALTH				
Nursing Services	812,305	812,305	827,236	(14,931)
Women, Infants, and Children	196,956	196,956	134,771	62,185
Maternal and Child Health	83,725	83,725	110,728	(27,003)
Environmental Health	22,781	22,781	56,479	(33,698)
Health Education	33,270	33,270	38,835	(5,565)
Total Health	1,149,037	1,149,037	1,168,049	(19,012)
Total Expenditures	8,031,122	8,050,122	8,198,404	(148,282)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (60)</u>	<u>\$ (100,060)</u>	(378,401)	<u>\$ (278,341)</u>
Fund Balance - Beginning of Year			2,927,188	
FUND BALANCE - END OF YEAR			<u>\$ 2,548,787</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**PINE COUNTY
PINE CITY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
LAND MANagementsPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 38,100	\$ 38,100	\$ 37,782	\$ (318)
Miscellaneous	860,777	860,777	772,879	(87,898)
Total Revenues	898,877	898,877	810,661	(88,216)
EXPENDITURES				
CURRENT				
CONSERVATION OF NATURAL RESOURCES				
Land Use	711,023	711,023	500,518	210,505
Other Conservation	17,000	17,000	35,304	(18,304)
Total Expenditures	728,023	728,023	535,822	192,201
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	170,854	170,854	274,839	103,985
OTHER FINANCING SOURCES (USES)				
Transfers Out	(60,000)	(60,000)	(190,352)	(130,352)
NET CHANGE IN FUND BALANCE	\$ 110,854	\$ 110,854	84,487	\$ (26,367)
Fund Balance - Beginning of Year			614,238	
FUND BALANCE - END OF YEAR			\$ 698,725	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2011**

BUDGETARY INFORMATION

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

Based on a process established by the Board of County Commissioners, all departments of the County submit requests for appropriations to the County Coordinator each year. A draft of the proposed budget is presented to a Budget Committee. The Budget Committee consists of two County Commissioners, the County Coordinator, the County Auditor, and the Fiscal Supervisor. The Budget committee reviews and amends the departmental requests in order to develop a proposed budget and preliminary tax levy. Before September 30, a final draft of the proposed budget and preliminary tax levy is presented to the County Board for review. A final budget and tax levy is adopted by the Board and certified to the Auditor no later than December 31.

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

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2011**

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2011, the following departments of the General Fund had expenditures that exceeded appropriations:

<u>General Fund by Department Level</u>	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Current			
General Government			
Commissioners	\$ 210,294	\$ 210,726	\$ 432
Courts	72,000	72,647	647
Elections	1,500	3,687	2,187
Data Processing	437,798	438,201	403
Central Services	95,000	101,983	6,983
Recorder	418,253	419,114	861
Planning and Zoning	110,417	113,632	3,215
Buildings and Plant	787,436	787,509	73
Veterans Service Officer	63,042	65,561	2,519
Other General Government	52,400	54,636	2,236
Public Safety			
Sheriff	4,144,250	4,259,253	115,003
Boat and Water Safety	7,000	9,809	2,809
Coroner	48,000	48,049	49
County Jail	3,298,686	3,299,430	744
Sentence to Serve	92,975	93,413	438
Probation and Parole	628,679	628,808	129
Civil Defense	99,900	99,903	3
Other Public Safety	19,655	22,873	3,218
Culture and Recreation			
Regional Library	302,792	302,942	150
Conservation of Natural Resources			
Other	11,268	19,936	8,668
Total	<u>\$ 10,901,345</u>	<u>\$ 11,052,112</u>	<u>\$ 150,767</u>

**PINE COUNTY
PINE CITY, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFIT PLAN
YEAR ENDED DECEMBER 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$ -	\$ 2,717,794	\$ 2,717,794	- %	\$ 9,712,033	27.98 %
1/1/2010	-	3,722,718	3,722,718	-	11,151,733	33.38

SUPPLEMENTARY INFORMATION

**PINE COUNTY
PINE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011**

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

The Countywide Rehabilitation & 800 MHZ Program Special Revenue Fund is used to provide funds to support housing and economic development within Pine County.

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

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

The East Central Solid Waste Commission Debt Service Fund consists of the resources used to make payments on the related debt.

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

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

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

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Funds</u>
ASSETS				
Cash and Pooled Investments	\$ 685,515	\$ 1,415,961	\$ 146,861	\$ 2,248,337
Restricted Cash and Investments - CDBG Grant	94,295	-	-	94,295
Undistributed Cash in Agency Funds	-	50,305	-	50,305
Cash with Escrow Agent	-	500,000	-	500,000
Taxes Receivable - Delinquent	-	148,862	-	148,862
Total Assets	<u>\$ 779,810</u>	<u>\$ 2,115,128</u>	<u>\$ 146,861</u>	<u>\$ 3,041,799</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 222,515	\$ -	\$ 23,003	\$ 245,518
Deferred Revenue - Unavailable	-	122,366	-	122,366
Total Liabilities	222,515	122,366	23,003	367,884
FUND BALANCES				
Restricted for				
Debt Service	-	1,992,762	-	1,992,762
Ditches	11,775	-	-	11,775
Rehabilitation Program	545,520	-	-	545,520
Assigned for				
Capital Projects	-	-	123,858	123,858
Total Fund Balances	<u>557,295</u>	<u>1,992,762</u>	<u>123,858</u>	<u>2,673,915</u>
Total Liabilities and Fund Balances	<u>\$ 779,810</u>	<u>\$ 2,115,128</u>	<u>\$ 146,861</u>	<u>\$ 3,041,799</u>

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011**

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Funds
REVENUES				
Taxes	\$ -	\$2,058,903	\$ -	\$2,058,903
Intergovernmental	209,472	169,955	-	379,427
Charges for Services	24	-	-	24
Investment Earnings	367	-	-	367
Total Revenues	209,863	2,228,858	-	2,438,721
EXPENDITURES				
CURRENT				
General Government	-	-	89,229	89,229
Public Safety	640,299	-	-	640,299
Economic Development	175,864	-	-	175,864
DEBT SERVICE				
Principal	-	870,000	-	870,000
Interest	-	1,343,792	-	1,343,792
Administrative Fiscal Charges	-	13,836	-	13,836
Total Expenditures	816,163	2,227,628	89,229	3,133,020
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(606,300)	1,230	(89,229)	(694,299)
OTHER FINANCING SOURCES (USES)				
Transfers In	1,050,000	-	100,000	1,150,000
Transfers Out	(18,295)	(6,460)	-	(24,755)
Total Other Financing Sources (Uses)	1,031,705	(6,460)	100,000	1,125,245
NET CHANGE IN FUND BALANCES	425,405	(5,230)	10,771	430,946
Fund Balance (Deficit) - Beginning of Year	131,890	1,997,992	113,087	2,242,969
FUND BALANCE - END OF YEAR	\$ 557,295	\$1,992,762	\$ 123,858	\$2,673,915

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2011**

ASSETS	<u>Ditch</u>	<u>Countywide Rehabilitation & 800 MHZ Program</u>	<u>Ambulance</u>	<u>Total</u>
Cash and Pooled Investments	\$ 11,775	\$ 673,740	\$ -	\$ 685,515
Restricted Cash and Investments - CDBG Grant	-	94,295	-	94,295
Total Assets	<u>\$ 11,775</u>	<u>\$ 768,035</u>	<u>\$ -</u>	<u>\$ 779,810</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ 222,515	\$ -	\$ 222,515
FUND BALANCES				
Restricted for				
Ditches	11,775	-	-	11,775
Rehabilitation Program	-	545,520	-	545,520
Total Fund Balances	<u>11,775</u>	<u>545,520</u>	<u>-</u>	<u>557,295</u>
Total Liabilities and Fund Balances	<u>\$ 11,775</u>	<u>\$ 768,035</u>	<u>\$ -</u>	<u>\$ 779,810</u>

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
YEAR ENDED DECEMBER 31, 2011**

	Ditch	Countywide Rehabilitation & 800 MHZ Program	Ambulance	Total
REVENUES				
Intergovernmental	\$ -	\$ 209,472	\$ -	\$ 209,472
Charges for Services	24	-	-	24
Investment Earnings	-	367	-	367
Total Revenues	24	209,839	-	209,863
EXPENDITURES				
CURRENT				
Public Safety	-	640,299	-	640,299
Economic Development	-	175,864	-	175,864
Total Expenditures	-	816,163	-	816,163
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	24	(606,324)	-	(606,300)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	1,050,000	-	1,050,000
Transfers Out	-	-	(18,295)	(18,295)
Total Other Financing Sources (Uses)	-	1,050,000	(18,295)	1,031,705
NET CHANGE IN FUND BALANCES	24	443,676	(18,295)	425,405
Fund Balance (Deficit) - Beginning of Year	11,751	101,844	18,295	131,890
FUND BALANCE - END OF YEAR	\$ 11,775	\$ 545,520	\$ -	\$ 557,295

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
DECEMBER 31, 2011**

ASSETS	<u>Equipment Bond</u>	<u>East Central Solid Waste Commission</u>	<u>General Obligation Jail Bond</u>	<u>HRA Project Bonds</u>	<u>Total</u>
Cash and Pooled Investments	\$ -	\$ -	\$ 791,171	\$ 624,790	\$ 1,415,961
Undistributed Cash in Agency Funds	-	-	28,281	22,024	50,305
Cash with Escrow Agent	-	-	-	500,000	500,000
Taxes Receivable - Delinquent	-	-	82,778	66,084	148,862
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 902,230</u>	<u>\$ 1,212,898</u>	<u>\$ 2,115,128</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Deferred Revenue - Unavailable	\$ -	\$ -	\$ 67,839	\$ 54,527	\$ 122,366
FUND BALANCES					
Restricted for Debt Service	-	-	834,391	1,158,371	1,992,762
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 902,230</u>	<u>\$ 1,212,898</u>	<u>\$ 2,115,128</u>

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2011**

	Equipment Bond	East Central Solid Waste Commission	General Obligation Jail Bond	HRA Project Bonds	Total
REVENUES					
Taxes	\$ 186	\$ 212	\$ 1,160,617	\$ 897,888	\$ 2,058,903
Intergovernmental	-	-	95,891	74,064	169,955
Total Revenues	186	212	1,256,508	971,952	2,228,858
EXPENDITURES					
DEBT SERVICE					
Principal	-	-	500,000	370,000	870,000
Interest	-	-	721,761	622,031	1,343,792
Administrative Fiscal Charges	-	-	10,709	3,127	13,836
Total Expenditures	-	-	1,232,470	995,158	2,227,628
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	186	212	24,038	(23,206)	1,230
OTHER FINANCING SOURCES (USES)					
Transfers Out	(4,953)	(1,507)	-	-	(6,460)
NET CHANGE IN FUND BALANCES	(4,767)	(1,295)	24,038	(23,206)	(5,230)
Fund Balance (Deficit) - Beginning of Year	4,767	1,295	810,353	1,181,577	1,997,992
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 834,391</u>	<u>\$ 1,158,371</u>	<u>\$ 1,992,762</u>

**PINE COUNTY
PINE COUNTY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
COUNTWIDE REHABILITATION & 800 MHZ PROGRAM SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 209,472	\$ 209,472
Investment Earnings	-	-	367	367
Total Revenues	-	-	209,839	209,839
EXPENDITURES				
CURRENT				
Public Safety	-	-	464,435	(464,435)
Economic Development	-	-	175,864	(175,864)
Total Expenditures	-	-	640,299	(640,299)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(430,460)	(430,460)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	1,050,000	1,050,000	-
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 1,050,000</u>	619,540	<u>\$ (430,460)</u>
Fund Balance - Beginning of Year			101,844	
FUND BALANCE - END OF YEAR			<u>\$ 721,384</u>	

**PINE COUNTY
PINE COUNTY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL OBLIGATION JAIL BOND DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,197,795	\$ 1,197,795	\$ 1,160,617	\$ (37,178)
Intergovernmental	95,605	95,605	95,891	286
Miscellaneous	-	-	-	-
Total Revenues	1,293,400	1,293,400	1,256,508	(36,892)
EXPENDITURES				
DEBT SERVICE				
Principal	500,000	500,000	500,000	-
Interest	731,762	731,762	721,761	10,001
Administrative Fiscal Charges	61,088	1,875	10,709	(8,834)
Total Expenditures	1,292,850	1,233,637	1,232,470	1,167
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 550</u>	<u>\$ 59,763</u>	24,038	<u>\$ (35,725)</u>
Fund Balance - Beginning of Year			810,353	
FUND BALANCE - END OF YEAR			<u>\$ 834,391</u>	

**PINE COUNTY
PINE COUNTY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
HRA PROJECT BONDS DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 925,588	\$ 925,588	\$ 897,888	\$ (27,700)
Intergovernmental	73,843	73,843	74,064	221
Miscellaneous	-	-	-	-
Total Revenues	<u>999,431</u>	<u>999,431</u>	<u>971,952</u>	<u>(27,479)</u>
EXPENDITURES				
DEBT SERVICE				
Principal	370,000	370,000	370,000	-
Interest	622,030	622,030	622,031	(1)
Administrative Fiscal Charges	-	2,375	3,127	(752)
Total Expenditures	<u>992,030</u>	<u>994,405</u>	<u>995,158</u>	<u>(753)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 7,401</u>	<u>\$ 5,026</u>	(23,206)	<u>\$ (28,232)</u>
Fund Balance - Beginning of Year			<u>1,181,577</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,158,371</u>	

**PINE COUNTY
PINE COUNTY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL BUILDINGS CAPITAL PROJECTS FUND
YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	-	-	-	-
EXPENDITURES				
CURRENT				
General Government	-	-	89,229	(89,229)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(89,229)	89,229
OTHER FINANCING SOURCES (USES)				
Transfers In	-	100,000	100,000	-
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 100,000</u>	10,771	<u>\$ (89,229)</u>
Fund Balance - Beginning of Year			113,087	
FUND BALANCE - END OF YEAR			<u>\$ 123,858</u>	

**PINE COUNTY
PINE CITY, MINNESOTA
AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2011**

Agency funds account for assets held in a custodial capacity for others.

Pine County Children, Families, and Learning Services Collaborative Fund is used to account for the collection and payment of funds of the Children, Family, and Learning Services Collaborative.

State Revenue Fund is used to account for the collection and distribution of funds for the State of Minnesota.

Taxes and Penalties Fund is used to account for the collection of taxes and penalties and their payment to the various taxing districts.

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
PINE COUNTY CHILDREN, FAMILIES AND LEARNING SERVICES COLLABORATIVE				
ASSETS				
Cash and Pooled Investments	\$ 133,125	\$ 161,857	\$ 184,152	\$ 110,830
LIABILITIES				
Due to Other Governments	\$ 133,125	\$ 161,857	\$ 184,152	\$ 110,830
STATE REVENUE				
ASSETS				
Cash and Pooled Investments	\$ 16,977	\$ 733,838	\$ 731,128	\$ 19,687
Accounts Receivable	495	672	495	672
Total Assets	\$ 17,472	\$ 734,510	\$ 731,623	\$ 20,359
LIABILITIES				
Due to Other Governments	\$ 17,472	\$ 734,510	\$ 731,623	\$ 20,359
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 459,243	\$ 45,946,665	\$ 45,985,402	\$ 420,506
LIABILITIES				
Due to Other Governments	\$ 459,243	\$ 45,946,665	\$ 45,985,402	\$ 420,506
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 609,345	\$ 46,842,360	\$ 46,900,682	\$ 551,023
Accounts Receivable	495	672	495	672
Total Assets	\$ 609,840	\$ 46,843,032	\$ 46,901,177	\$ 551,695
LIABILITIES				
Due to Other Governments	\$ 609,840	\$ 46,843,032	\$ 46,901,177	\$ 551,695

OTHER SUPPLEMENTARY INFORMATION

**PINE COUNTY
PINE CITY, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2011**

SHARED REVENUE

STATE

Highway Users Tax	\$	11,513,784
Road Gas Tax		4,508
Homestead Credit		1,201,690
PERA Rate Reimbursement		36,544
Disparity Reduction Aid		1,026
Police Aid		154,598
Enhanced 911		105,164
Market Value Credit		1,056,409
Casino Aid/Tribal Tax Agreement		<u>54,437</u>
Total Shared Revenue		14,128,160

REIMBURSEMENT FOR SERVICES

STATE

Minnesota Department of Human Services		705,430
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PAYMENTS IN LIEU OF TAX

566,042

GRANTS

STATE

Minnesota Department of		
Corrections		228,425
Public Safety		30,544
Natural Resources		17,637
Human Services		1,470,841
Veteran Affairs		2,800
Water and Soil Resources Board		73,321
Pollution Control Agency		72,739
Peace Officer Standards and Training Board		<u>10,604</u>
Total State		1,906,911

FEDERAL

Department of		
Agriculture		298,252
Commerce		66,862
Housing and Urban Development		168,484
Justice		97,824
Transportation		326,792
Health and Human Services		2,274,604
Homeland Security		<u>10,802</u>

Total Federal		<u>3,243,620</u>
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Total State and Federal Grants		<u>5,150,531</u>
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Total Intergovernmental Revenue		<u><u>\$ 20,550,163</u></u>
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**PINE COUNTY
PINE CITY, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Kanabec Pine Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 97,226
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	<u>201,026</u>
Total Department of Agriculture		298,252
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Applied Meteorological Research	11.468	34,072
Public Safety Interoperable Communications Grant Program	11.555	<u>32,790</u>
Total Department of Commerce		66,862
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Commerce Community Development Block Grants	14.228	168,484
U.S. Department of Justice		
Direct		
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804	25,702
ARRA - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	16.810	<u>72,122</u>
Total Department of Justice		97,824
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	313,539
Passed Through Kanabec County, Minnesota Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	3,251
Passed Through Minnesota Department of Public Safety Safety Belt Performance Grants	20.609	<u>10,002</u>
Total Department of Transportation		326,792
U.S. Department of Health and Human Services		
Passed Through Kanabec Pine Community Health Services Public Health Emergency Preparedness Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.069	14,026
Maternal and Child Health Services Block Grant	93.283	31,498
	93.994	36,698
Passed Through Minnesota Department of Health Temporary Assistance for Needy Families (TANF Cluster)	93.558	10,086

**PINE COUNTY
PINE CITY, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families - Title IV-B	93.556	\$ 16,569
Temporary Assistance for Needy Families (TANF Cluster)	93.558	430,088
Child Support Enforcement	93.563	598,360
Child Care and Development Block Grant (CCDF Cluster)	93.575	5,400
Child Care Mandatory and Matching Funds (CCDF Cluster)	93.596	12,306
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,236
Foster Care Title IV-E	93.658	51,984
Social Services Block Grant Title XX	93.667	195,649
Chafee Foster Care Independent Living	93.674	5,900
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (TANF Cluster)	93.714	26,994
Children's Health Insurance Program	93.767	116
Medical Assistance Program	93.778	835,389
Block Grant for Community Mental Health Service	93.958	<u>2,305</u>
Total Department of Health and Human Services		2,274,604
U.S. Department of Homeland Security		
Pass Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	<u>10,802</u>
Total Cash Type Federal Awards		<u>\$ 3,243,620</u>

Notes to the Schedule of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the federal award programs expended by Pine County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pine County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.
3. Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.
4. During 2011, Pine County did not pass any federal money to subrecipients.
5. ARRA denotes the program has received funding provided by the American Recovery and Reinvestment Act of 2009.
6. Clusters of programs are groupings of closely related programs that share common compliance requirements. Clusters for the year ended December 31, 2011 were as follows:

TANF Cluster	\$ 467,168
CCDF Cluster	17,706