

PINE COUNTY, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2012

**PINE COUNTY
PINE CITY, MINNESOTA
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DECEMBER 31, 2012**

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INTRODUCTORY SECTION

PINE COUNTY
PINE CITY, MINNESOTA
PRINCIPAL COUNTY OFFICIALS
DECEMBER 31, 2012

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		
Administrator	Dave Minke	Indefinite
Assessor	Kelly Schroeder	Indefinite
County Recorder	Tamara Tricas	Indefinite
Registrar of Titles	Tamara Tricas	Indefinite
Highway Engineer	Mark LeBrun	Indefinite
Health and Human Services Director	Linda Cassman	Indefinite

* Chairperson

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FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

(651) 296-2551 (Voice)
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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pine County

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the operation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

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, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 Governmental Accounting Standards Board, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pine County's basic financial statements. The supplementary information and other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2013, on our consideration of Pine County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pine County's internal control over financial reporting and compliance.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 17, 2013

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REQUIRED SUPPLEMENTARY INFORMATION

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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, 2012. The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board (GASB) Statement No. 34. Certain comparative information between the current year, 2012, and the prior year, 2011, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The assets of Pine County exceed its liabilities on December 31, 2012, by \$78,994,165 (net position). The county-wide net position increased 4.0 percent in 2012 over the prior year due primarily to the increases in County assets with grants and state aid received rather than the issuance of debt.
- Overall governmental fund-level revenues totaled \$34,599,068 and were \$1,192,736 less than expenditures in 2012. Expenditures exceeded revenues primarily due to an increase in bond issuance costs related to the 2012 refunding bond.
- The General Fund's fund balance increased \$363,116 from the prior year as a result of increased tax revenue and a decrease in general government and conservation expenditures. Of the total fund balance amount, \$931,648 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.

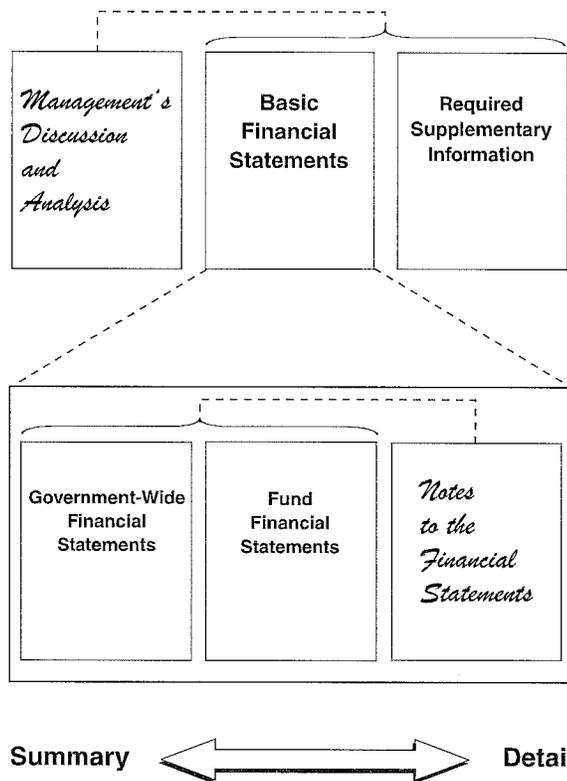
**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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, 2012**

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 position.	Balance sheet.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of changes in fiduciary net position.
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 position 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, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

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

- Over time, increases or decreases in the County's net position is 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 position. 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, 2012**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net position

Over time, net position serves as a useful indicator of the County's financial position. Pine County's total net position was \$78,994,165 on December 31, 2012, an increase of \$3,073,769 from the prior year. The main reason for this increase is the County issuing long-term debt (see Table A-1).

Table A-1
The County's Net Position

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 20,644,692	\$ 19,459,122
Capital Assets	91,903,750	91,144,132
Total Assets	<u>112,548,442</u>	<u>110,603,254</u>
Current Liabilities	3,898,659	3,752,464
Long-Term Liabilities	29,655,618	30,930,394
Total Liabilities	<u>33,554,277</u>	<u>34,682,858</u>
Net Position		
Net Investment in		
Capital Assets	63,561,313	61,528,448
Restricted	5,051,984	4,129,530
Unrestricted	10,380,868	10,262,418
Total Net Position	<u>\$ 78,994,165</u>	<u>\$ 75,920,396</u>

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

CHANGE IN NET POSITION

The government-wide total revenues were \$36,689,844 for the year ended December 31, 2012 (a decrease of \$3,278,789). This decrease is primarily attributable to decreased highway state aid capital grants and contributions. Property taxes, operating grants and contributions, and capital grants and contributions accounted for 78% of total revenue for the year (see Table A-2).

Table A-2
Change in Net Position

	Governmental Activities		Total % Change
	2012	2011	
REVENUES			
<u>Program Revenues</u>			
Charges for Services	\$ 5,314,376	\$ 4,749,350	11.9 %
Operating Grants and Contributions	10,693,313	12,970,711	(17.6)
Capital Grants and Contributions	4,003,171	5,569,378	(28.1)
<u>General Revenues</u>			
Property Taxes	14,126,942	13,432,994	5.2
Other	2,552,042	3,246,200	(21.4)
Total Revenues	<u>36,689,844</u>	<u>39,968,633</u>	(8.2)
EXPENSES			
General Government	5,031,855	4,585,405	9.7
Public Safety	8,256,820	9,774,804	(15.5)
Highways and Streets	8,915,801	7,563,460	17.9
Sanitation	193,021	189,967	1.6
Human Services	7,378,781	7,140,576	3.3
Health	1,206,381	1,194,210	1.0
Culture and Recreation	365,203	374,148	(2.4)
Conservation of Natural Resources	577,152	781,807	(26.2)
Economic Development	371,918	175,864	111.5
Interest	1,319,143	1,414,047	(6.7)
Total Expenses	<u>33,616,075</u>	<u>33,194,288</u>	1.3
CHANGE IN NET POSITION	3,073,769	6,774,345	(54.6)
Net Position - Beginning of Year	75,920,396	69,146,051	9.8
NET POSITION - END OF YEAR	<u>\$ 78,994,165</u>	<u>\$ 75,920,396</u>	4.0

Total revenues surpassed expenses, increasing net position \$3,073,769 over last year.

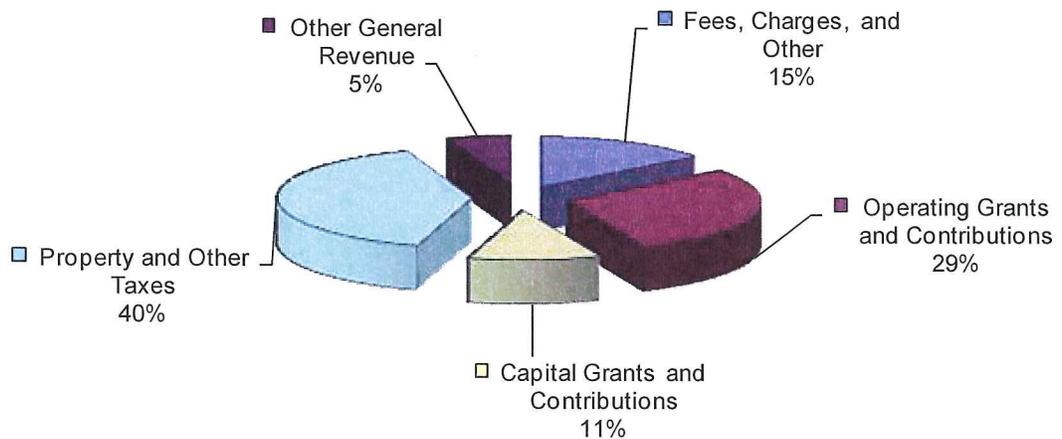
**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

CHANGE IN NET POSITION (CONTINUED)

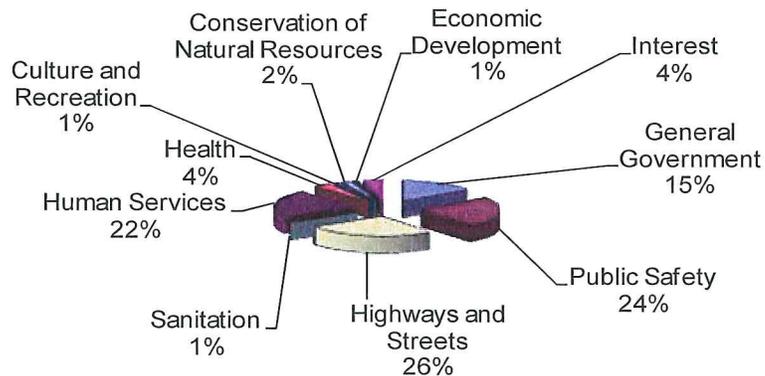
The government-wide cost of all governmental activities this year was \$33,616,075.

- Some of the cost was paid by the users of the County's programs (\$5,314,376).
- The federal and state governments subsidized certain programs with grants and contributions (\$14,696,484).
- The remainder of the County's governmental activities costs (\$13,605,215) was paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities and the increase in net position was covered by \$14,126,942 in property taxes, \$1,611,267 of state aid, \$107,777 of investment earnings and \$832,998 of other general revenues.

Governmental Activities Revenues by Source 2012



Governmental Activities Expenses by Type 2012



**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

CHANGE IN NET POSITION (CONTINUED)

Table A-3 presents the cost of each of the County's program functions, 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
	2012	2011		2012	2011	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 5,031,855	\$ 4,585,405	9.7 %	\$ 2,624,161	\$ 2,846,544	(7.8)%
Public Safety	8,256,820	9,774,804	(15.5)	6,413,896	7,493,831	(14.4)
Highways and Streets	8,915,801	7,563,460	17.9	113,061	(5,426,728)	(102.1)
Sanitation	193,021	189,967	1.6	118,611	116,828	1.5
Human Services	7,378,781	7,140,576	3.3	2,508,617	2,396,851	4.7
Health	1,206,381	1,194,210	1.0	442,057	445,812	(0.8)
Culture and Recreation	365,203	374,148	(2.4)	365,203	374,148	(2.4)
Conservation of Natural Resources	577,152	781,807	(26.2)	(671,452)	67,652	(1092.5)
Economic Development	371,918	175,864	111.5	371,918	175,864	111.5
Interest	1,319,143	1,414,047	(6.7)	1,319,143	1,414,047	(6.7)
Total	<u>\$ 33,616,075</u>	<u>\$33,194,288</u>	1.3	<u>\$13,605,215</u>	<u>\$ 9,904,849</u>	37.4

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 \$12,990,329. Revenues for the County's governmental funds were \$34,599,068, while total expenditures were \$35,791,804.

The General Fund includes the primary operations of the County in providing services to citizens. The fund balance increased by \$363,116 during 2012. This increase is primarily due to a decrease in transfers out, a decrease in conservation-type expenditures, and the completion of the transfers to the 800 MHz project.

The Road and Bridge Fund has a total fund balance of \$5,798,840. The fund balance decreased in 2012 primarily due to a decrease in intergovernmental revenues.

The Health and Human Services Fund has a total fund balance of \$2,162,748. It decreased \$386,039 from 2011 due to increases in income maintenance expenditures.

The Land Management Fund has a total fund balance of \$1,230,695. It increased \$531,970 from 2011 due to an increase in forfeited property sales and a decrease in land use expenditures.

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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

The following schedule presents a summary of General Fund Revenues:

Total General Fund revenues decreased by \$448,821, or 3.1%, from the previous year due primarily to decreases in prisoner board fee revenues.

Table A-4
General Fund Revenues

	Year Ended		Change	
	December 31, 2012	December 31, 2011	Increase (Decrease)	Percent
Taxes	\$ 7,941,789	\$ 7,541,070	\$ 400,719	5.3 %
Licenses and Permits	78,715	65,822	12,893	19.6
Intergovernmental	2,856,866	3,534,537	(677,671)	(19.2)
Charges for Services	1,540,206	2,059,673	(519,467)	(25.2)
Fines and Forfeits	28,752	20,657	8,095	39.2
Gifts and Contributions	104,800	86,745	18,055	20.8
Interest	107,099	107,014	85	0.1
Miscellaneous and Other	1,343,753	1,035,283	308,470	29.8
Total General Fund Revenues	<u>\$ 14,001,980</u>	<u>\$ 14,450,801</u>	<u>\$ (448,821)</u>	<u>(3.1)</u>

The following schedule presents a summary of General Fund expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change	
	December 31, 2012	December 31, 2011	Increase (Decrease)	Percent
General Government	\$ 4,312,508	\$ 4,157,368	\$ 155,140	3.7 %
Public Safety	8,341,623	8,561,693	(220,070)	(2.6)
Sanitation	188,701	184,094	4,607	2.5
Culture and Recreation	365,203	374,148	(8,945)	(2.4)
Conservation	185,397	243,677	(58,280)	(23.9)
Debt Service	104,433	108,422	(3,989)	(3.7)
Total Expenditures	<u>\$ 13,497,865</u>	<u>\$ 13,629,402</u>	<u>\$ (131,537)</u>	<u>(1.0)</u>

The increase in General Fund expenditures was less than 1% from the prior year.

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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 additional building and plant repairs and Sheriff expenditures. The intergovernmental revenue budget was revised for an increase in Public Safety grants. The miscellaneous revenue budget was revised for return of contributed capital. 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 \$703,497 more than budgeted; this is due primarily to the receipt of County Program Aid and other miscellaneous revenues.
- The actual expenditures were \$266,889 more than budget. The majority of expenditures exceeding budget was in the public safety function.

CAPITAL ASSETS

By the end of 2012, the County had invested approximately \$128,600,000 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.3 to the financial statements). Total depreciation expense for the year was \$3,208,751.

Table A-6
The County's Capital Assets

	Governmental Activities		Percent Change
	2012	2011	
Land	\$ 4,300,523	\$ 4,261,512	0.9 %
Buildings	27,936,035	27,936,035	-
Machinery, Furniture, and Equipment	9,888,449	8,028,259	23.2
Software	157,921	157,921	-
Infrastructure	86,359,353	84,464,350	2.2
Less: Accumulated Depreciation	(36,738,531)	(33,703,945)	9.0
Total	\$ 91,903,750	\$ 91,144,132	0.8

**PINE COUNTY
PINE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

LONG-TERM LIABILITIES

At year-end, the County had \$32,371,643 in long-term liabilities outstanding, including the current portion of long-term debt.

- The County's governmental activities total debt increased \$175,410 during the fiscal year, due primarily to increases in compensated absences and other postemployment benefit liabilities.
- *Minnesota Statutes* limit the amount of debt a county may levy to three percent of its total market value of taxable property. At the end of 2012, Pine County's debt was 0.99 percent of its total market value of taxable property.

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

	2012	2011	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Public Facilities			
Authority Loans	\$ 378,000	\$ 466,000	(18.9)%
General Obligation Jail Bonds	15,915,000	16,435,000	(3.2)
General Obligation Capital Improvement Bonds	13,410,000	-	100.0
Public Project Revenue Bonds	-	12,915,000	(100.0)
Special Assessments	507,658	580,181	(12.5)
Compensated Absences	1,216,775	1,053,444	15.5
Other Postemployment Benefit Plan	944,210	746,608	26.5
Total	<u>\$ 32,371,643</u>	<u>\$ 32,196,233</u>	0.5

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The 800 MHz project will be completed at the beginning of 2013 with the County funding the entire project with local dollars. By the end of 2012, Pine County approved its balanced 2013 revenue and expenditure budgets. The County has been able to maintain the levy and budget at the same levels as in the prior year.

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 POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

ASSETS		
Cash and Pooled Investments	\$	12,762,412
Petty Cash and Change Funds		3,360
Restricted Cash and Investments - CDBG Grant		31,645
Taxes Receivable - Delinquent		1,207,360
Accounts Receivable - Net		1,279,440
Accrued Interest Receivable		15,041
Due from Other Governments		4,142,641
Inventory		535,117
Deferred Charges		281,753
Prepaid Items		385,923
Non-Depreciable Capital Assets		
Land		4,300,523
Depreciable Capital Assets - Net of Accumulated Depreciation		
Buildings		22,070,306
Machinery, Furniture, and Equipment		2,769,257
Software		94,753
Infrastructure		62,668,911
Total Assets		112,548,442
LIABILITIES		
Accounts Payable		733,067
Salaries Payable		612,023
Workers Compensation Payable		108,990
Contracts Payable		251,791
Customer Deposits		8,558
Due to Other Governments		342,028
Accrued Interest Payable		609,679
General Obligation Bonds Payable - Due Within One Year		1,070,000
Special Assessments - Due Within One Year		72,523
Loans Payable - Due Within One Year		90,000
General Obligation Bonds Payable - Due in More Than One Year		26,771,498
Special Assessments - Due in More Than One Year		435,135
Loans Payable - Due in More Than One Year		288,000
Other Postemployment Benefits Payable - Due in More Than One Year		944,210
Compensated Absences Payable - Due in More Than One Year		1,216,775
Total Liabilities		33,554,277
NET POSITION		
Net Investment in Capital Assets		63,561,313
Restricted For:		
General Government		693,172
Public Safety		117,504
Highways and Streets		2,978,307
Economic Development		78,987
Conservation of Natural Resources		45,198
Debt Service		1,138,816
Unrestricted		10,380,868
Total Net Position	\$	78,994,165

See accompanying Notes to Financial Statements.

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**PINE COUNTY
PINE CITY, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
General Government	\$ 5,031,855	\$ 1,557,203	\$ 850,491	\$ -	\$ (2,624,161)
Public Safety	8,256,820	1,205,731	637,193	-	(6,413,896)
Highways and Streets	8,915,801	419,495	4,380,074	4,003,171	(113,061)
Sanitation	193,021	285	74,125	-	(118,611)
Human Services	7,378,781	671,011	4,199,153	-	(2,508,617)
Health	1,206,381	212,047	552,277	-	(442,057)
Culture and Recreation	365,203	-	-	-	(365,203)
Conservation of Natural Resources	577,152	1,248,604	-	-	671,452
Economic Development	371,918	-	-	-	(371,918)
Interest	1,319,143	-	-	-	(1,319,143)
Total Governmental Activities	\$ 33,616,075	\$ 5,314,376	\$ 10,693,313	\$ 4,003,171	(13,605,215)
GENERAL REVENUES					
Property Taxes					14,126,942
Mortgage Registry and Deed Tax					16,213
Payments in Lieu of Tax					561,314
Grants and Contributions not Restricted for a Particular Purpose					1,611,267
Investment Earnings					107,777
Miscellaneous					253,271
Gifts and Contributions					2,200
Total General Revenues					16,678,984
CHANGE IN NET POSITION					3,073,769
Net Position - Beginning of Year					75,920,396
NET POSITION - END OF YEAR					\$ 78,994,165

See accompanying Notes to Financial Statements.

**PINE COUNTY
PINE CITY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

ASSETS	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
Cash and Pooled Investments	\$ 1,979,947	\$ 5,324,159	\$ 1,819,290
Undistributed Cash in Agency Funds (Taxes and Other)	256,040	38,946	65,879
Petty Cash and Change Funds	3,210	150	-
Restricted Cash and Investments - CDBG Grant	-	-	-
Taxes Receivable			
Delinquent	676,277	140,471	229,133
Accounts Receivable	30,757	3,073	77,628
Accrued Interest Receivable	15,041	-	-
Due from Other Funds	150,230	62,240	1,512
Due from Other Governments	152,837	3,255,998	730,238
Prepaid Items	300,165	-	85,758
Inventories	-	535,117	-
Total Assets	<u>\$ 3,564,504</u>	<u>\$ 9,360,154</u>	<u>\$ 3,009,438</u>

See accompanying Notes to Financial Statements.

<u>Land Management</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,474,269	\$ 1,747,053	\$ 12,344,718
-	56,829	417,694
-	-	3,360
-	31,645	31,645
-	161,479	1,207,360
1,167,982	-	1,279,440
-	-	15,041
-	-	213,982
3,568	-	4,142,641
-	-	385,923
-	-	535,117
<u>\$ 2,645,819</u>	<u>\$ 1,997,006</u>	<u>\$ 20,576,921</u>

**PINE COUNTY
PINE CITY, MINNESOTA
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Road and Bridge	Health and Human Services
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 317,331	\$ 52,613	\$ 287,248
Salaries Payable	362,133	73,711	167,097
Workers' Compensation Payable	37,509	67,637	-
Contracts Payable	30	251,761	-
Due to Other Funds	59,160	330	25,573
Due to Other Governments	123,450	10,332	66,707
Deferred Revenue - Unavailable	603,134	3,104,930	300,065
Customer Deposits	8,558	-	-
Total Liabilities	1,511,305	3,561,314	846,690
FUND BALANCES			
Nonspendable for			
Prepaid Items	300,165	-	85,758
Inventories	-	535,117	-
Restricted for			
Debt Service	-	-	-
Law Library	47,014	-	-
Missing Heirs	73,705	-	-
Recorder's Equipment Purchases	246,340	-	-
Recorder's Compliance	256,124	-	-
Election Equipment	45,049	-	-
Plat Escrow	24,940	-	-
Attorney Forfeiture	60,753	-	-
Sheriff's Contingency	5,000	-	-
Posse, Horse	360	-	-
Economic Development	7,500	-	-
Gun Permits	51,391	-	-
Ditches	-	-	-
Rehabilitation Program	-	-	-
Road Access	-	-	-
Assigned for			
Capital Projects	-	-	-
Petty Cash	3,210	150	-
Forestry	-	-	-
Fund Purposes	-	5,263,573	2,076,990
Unassigned	931,648	-	-
Total Fund Balances	2,053,199	5,798,840	2,162,748
Total Liabilities and Fund Balances	\$ 3,564,504	\$ 9,360,154	\$ 3,009,438

See accompanying Notes to Financial Statements.

Land Management	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 75,875	\$ 733,067
9,082	-	612,023
3,844	-	108,990
-	-	251,791
92,677	36,242	213,982
141,539	-	342,028
1,167,982	140,042	5,316,153
-	-	8,558
1,415,124	252,159	7,586,592
-	-	385,923
-	-	535,117
-	1,608,453	1,608,453
-	-	47,014
-	-	73,705
-	-	246,340
-	-	256,124
-	-	45,049
-	-	24,940
-	-	60,753
-	-	5,000
-	-	360
-	-	7,500
-	-	51,391
-	11,846	11,846
-	71,487	71,487
33,352	-	33,352
-	165,178	165,178
-	-	3,360
1,197,343	-	1,197,343
-	-	7,340,563
-	(112,117)	819,531
1,230,695	1,744,847	12,990,329
\$ 2,645,819	\$ 1,997,006	\$ 20,576,921

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**PINE COUNTY
PINE CITY, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 12,990,329
Total net position reported for governmental activities in the statement of net position 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.	91,903,750
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 position as due to other governments.	
Deferred Revenue - Unavailable	5,316,153
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
General Obligation Bonds	\$ (29,325,000)
Unamortized Bond Discounts	189,866
Unamortized Bond Premium	(658,587)
Unamortized Bond Issuance Costs	281,753
Unamortized Deferred Charges on Refunding Bond	1,952,223
Loans Payable	(378,000)
Special Assessments Payable	(507,658)
Compensated Absences	(1,216,775)
Other Postemployment Benefit Plan Payable	(944,210)
Accrued Interest Payable	(609,679)
	(31,216,067)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 78,994,165

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, 2012**

	General	Road and Bridge	Health and Human Services
REVENUES			
Taxes	\$ 7,941,789	\$ 1,457,773	\$ 2,492,134
Licenses and Permits	78,715	-	-
Intergovernmental	2,856,866	6,660,707	4,733,629
Charges for Services	1,540,206	250,309	94,295
Fines and Forfeits	28,752	-	-
Gifts and Contributions	104,800	-	2,201
Interest on Investments	107,099	-	403
Miscellaneous	1,343,753	169,186	745,123
Total Revenues	14,001,980	8,537,975	8,067,785
EXPENDITURES			
CURRENT			
General Government	4,312,508	-	-
Public Safety	8,341,623	-	-
Highways and Streets	-	8,581,744	-
Sanitation	188,701	-	-
Human Services	-	-	7,261,856
Health	-	-	1,191,968
Culture and Recreation	365,203	-	-
Conservation of Natural Resources	185,397	-	-
Economic Development	-	-	-
INTERGOVERNMENTAL			
Highways and Streets	-	377,224	-
UNALLOCATED			
Insurance	147,470	-	-
DEBT SERVICE			
Principal	72,523	88,000	-
Interest	31,910	13,980	-
Administrative - Fiscal Charges	-	-	-
Advance Refunding Escrow	-	-	-
Bond Issuance Costs	-	-	-
Total Expenditures	13,645,335	9,060,948	8,453,824
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	356,645	(522,973)	(386,039)
OTHER FINANCING SOURCES (USES)			
Transfers In	156,471	-	-
Transfers Out	(150,000)	-	-
Refunding Bonds Issued	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Premium on Refunding Bonds Issued	-	-	-
Total Other Financing Sources (Uses)	6,471	-	-
NET CHANGE IN FUND BALANCES	363,116	(522,973)	(386,039)
Fund Balances - Beginning of Year	1,690,083	6,345,520	2,548,787
DECREASE IN INVENTORIES	-	(23,707)	-
FUND BALANCES - END OF YEAR	<u>\$ 2,053,199</u>	<u>\$ 5,798,840</u>	<u>\$ 2,162,748</u>

See accompanying Notes to Financial Statements.

Land Management	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,238,109	\$ 14,129,805
-	-	78,715
43,787	692,298	14,987,287
-	71	1,884,881
-	-	28,752
-	-	107,001
-	280	107,782
<u>1,016,783</u>	<u>-</u>	<u>3,274,845</u>
1,060,570	2,930,758	34,599,068
-	108,680	4,421,188
-	863,290	9,204,913
-	-	8,581,744
-	-	188,701
-	-	7,261,856
-	-	1,191,968
-	-	365,203
372,129	-	557,526
-	371,918	371,918
-	-	377,224
-	-	147,470
-	905,000	1,065,523
-	1,308,292	1,354,182
-	3,875	3,875
-	500,000	500,000
-	198,513	198,513
<u>372,129</u>	<u>4,259,568</u>	<u>35,791,804</u>
688,441	(1,328,810)	(1,192,736)
-	600,689	757,160
(156,471)	(450,689)	(757,160)
-	13,410,000	13,410,000
-	(13,876,144)	(13,876,144)
-	664,657	664,657
<u>(156,471)</u>	<u>348,513</u>	<u>198,513</u>
531,970	(980,297)	(994,223)
698,725	2,725,144	14,008,259
-	-	(23,707)
<u>\$ 1,230,695</u>	<u>\$ 1,744,847</u>	<u>\$ 12,990,329</u>

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**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, 2012**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (994,223)

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	\$ 3,968,369	
Current Year Depreciation	<u>(3,208,751)</u>	759,618

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 2,088,577

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability.

Bond Proceeds	(13,410,000)	
Bond Premium	(664,657)	
Deferred Charges on Refunding Bond	1,970,216	
Bond Issuance Costs	<u>198,513</u>	(11,905,928)

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

Principal Repayments		
General Obligation Bonds	520,000	
General Obligation Notes	12,915,000	
Special Assessments Payable	72,523	
Loans Payable	<u>88,000</u>	13,595,523

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	(56,389)	
Amortization of Premiums/Discounts and Deferred Issuance Charges	(28,769)	
Change in Inventories	(23,707)	
Change in Compensated Absences	(163,331)	
Change in Other Postemployment Benefits	<u>(197,602)</u>	<u>(469,798)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 3,073,769

**PINE COUNTY
PINE CITY, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012**

ASSETS

Cash and Pooled Investments	\$ 632,150
Accounts Receivable	<u>353</u>
Total Assets	<u><u>\$ 632,503</u></u>

LIABILITIES

Due to Other Governments	<u><u>\$ 632,503</u></u>
--------------------------	--------------------------

See accompanying Notes to Financial Statements.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 position 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 position 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 a separate column 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.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund 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.

Debt Service Funds account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position 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 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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position 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 assets' lives are not capitalized.

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

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

Assets	Years
Buildings	40
Public Domain Infrastructure	50
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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position 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 position. 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/Net Position

In the fund financial statements, governmental funds report nonspendable, restricted, committed, 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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Fund Balance/Net Position (Continued)

Net position represents the differences between assets and liabilities in the government-wide financial statements. The net investment of capital assets 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 position is reported as restricted in government-wide financial statements when there are limitations on its 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

A. Deficit Fund Equity

At December 31, 2012, the 800 MHz capital projects fund, a nonmajor fund, has a deficit fund balance of \$112,117. This deficit will be eliminated as resources are obtained and/or with a transfer from the General Fund.

B. 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, 2012.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 13,645,335	\$ 13,378,446	\$ 266,889
Health and Human Services Fund	8,453,824	8,008,413	445,411
HRA Project Bond Fund	1,692,444	1,000,631	691,813

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 Position	
Cash and Pooled Investments	\$ 12,762,412
Petty Cash and Change Funds	3,360
Restricted Cash and Investments - CDBG Grant	31,645
Statement of Fiduciary Net Position	
Cash and Pooled Investments	<u>632,150</u>
Total Cash and Investments	<u><u>\$ 13,429,567</u></u>
Deposits	\$ 6,243,811
Change Funds	3,360
Investments	<u>7,182,396</u>
Total Deposits, Cash and Investments	<u><u>\$ 13,429,567</u></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, 2012, 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 pledged 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 issued 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 or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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
- (f) 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, 2012**

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, 2012, 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, 2012**

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, 2012, 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 Home Loan Bank Bonds	AAA	Moody's	7.0	8/15/2022	\$ 500,215
Federal Home Loan Bank Bonds	AAA	Moody's	12.4	12/5/2022	893,097
Federal Home Loan Bank Bonds	AAA	Moody's	4.2	12/7/2023	299,019
Federal Home Loan Bank Bonds	AAA	Moody's	6.6	8/8/2022	476,990
Total Federal Home Loan Bank Bonds					<u>2,169,321</u>
Federal Farm Credit Bank	AAA	Moody's	7.0	5/1/2018	500,035
Total Federal Farm Credit Bank					<u>500,035</u>
Federal Home Loan Mortgage Corporation	AAA	Moody's	1.4	11/17/2019	100,035
Federal Home Loan Mortgage Corporation	AAA	Moody's	2.1	3/14/2022	150,407
Federal Home Loan Mortgage Corporation	AAA	Moody's	6.7	3/21/2022	481,368
Total Federal Home Loan Mortgage Corporations					<u>731,810</u>
Investment Pools/Mutual Funds					
MAGIC Fund	N/A	N/A	N/A	N/A	2,003,065
Mutual Securities - Treasury Strip	Aa	Moody's	5.4	11/15/2042	387,110
Total Investment Pools/Mutual Funds					<u>2,390,175</u>
Negotiable Certificates of Deposit					
CITI Bank UT					247,403
BMW Bank of North America					247,462
Goldman Sachs					247,802
GE Capital Retail Bank UT					149,886
GE Capital Retail Bank UT					205,384
American Chartered Bank					97,706
Wachovia Mtg FSB Las Vegas					97,706
Wachovia Bank FSB Houston					97,706
Total Negotiable Certificates of Deposit					<u>1,391,055</u>
Total Investments					<u>7,182,396</u>
Deposits					6,243,811
Petty Cash					3,360
Total Cash and Investments					<u>\$ 13,429,567</u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, including applicable allowances for uncollectible accounts, are as follows:

	<u>County Receivable</u>
Taxes	\$ 1,207,360
Accounts	1,279,440
Interest	15,041
Due from Other Governments	<u>4,142,641</u>
Total	<u><u>\$ 6,644,482</u></u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 4,261,512	\$ 39,011	\$ -	\$ 4,300,523
Capital Assets, Being Depreciated				
Buildings	27,936,035	-	-	27,936,035
Machinery and Equipment	8,028,259	2,034,355	174,165	9,888,449
Software	157,921	-	-	157,921
Infrastructure	84,464,350	1,895,003	-	86,359,353
Total Capital Assets, Being Depreciated	120,586,565	3,929,358	174,165	124,341,758
Less Accumulated Depreciation for				
Buildings	5,198,951	666,778	-	5,865,729
Machinery, Furniture, and Equipment	6,451,876	841,481	174,165	7,119,192
Software	31,584	31,584	-	63,168
Infrastructure	22,021,534	1,668,908	-	23,690,442
Total Accumulated Depreciation	33,703,945	3,208,751	174,165	36,738,531
Total Capital Assets, Being Depreciated, Net	86,882,620	720,607	-	87,603,227
Governmental Activities Capital Assets, Net	\$ 91,144,132	\$ 759,618	\$ -	\$ 91,903,750

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

Governmental Activities	
General Government	\$ 396,482
Public Safety	650,765
Highways and Streets, Including Depreciation of Infrastructure Assets	2,157,209
Sanitation	4,295
Total Depreciation Expense - Governmental Activities	<u>\$ 3,208,751</u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Health and Human Services	\$ 21,717
	Road and Bridge	318
	Land Management	91,953
	800 MHz Nonmajor Fund	36,242
	Total Due to General Fund	
Road and Bridge	General	58,190
	Health and Human Services	3,856
	Land Management	194
Total Due to Road and Bridge		62,240
Health and Human Services	General	970
	Road and Bridge	12
	Land Management	530
Total Due to Health and Human Services		1,512
Total Due To/From Other Funds		\$ 213,982

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, 2012, consisted of the following:

	Amount	Description
Transfers to General Fund from Land Management Fund	\$ 156,471	Forfeited Tax Distribution and Salary Reimbursement
Transfer to 800 MHz Capital Projects Fund from County-wide Rehab Program Fund	450,689	Set-Up Separate Fund
Transfer to Other Governmental Funds from General Fund	150,000	Building Maintenance
Total Interfund Transfers	\$ 757,160	

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2012. The projects include the following:

Governmental Activities	Spent-to-Date	Remaining Commitment
Roads and Bridges	\$ 6,181,430	\$ 652,977

2. Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2012
General Obligation Bonds					
2005A G.O. Jail Bonds	2031	\$ 500,000 - 1,685,000	4.000	\$ 16,935,000	\$ 15,915,000
2012A G.O. Capital Improvement Bond	2031	480,000 - 965,000	3.000 - 4.000	13,410,000	13,410,000
General Obligation Public Facilities Authority (PFA) Loan					
2001 G.O. PFA Loan	2016	77,405 - 108,439	3.000	1,434,459	378,000
Special Assessments					507,658
Total General Obligation Bonds, Loans, and Assessments				\$ 31,779,459	\$30,210,658
Add: Unamortized Premium					658,587
Less: Unamortized Discount					(189,866)
Less: Deferred Charges on Refunding Bond					(1,952,223)
Total General Obligation Bonds, Net					\$ 28,727,156

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31,	2005A G.O. Jail Bonds		2001 G.O. PFA Loan	
	Principal	Interest	Principal	Interest
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	630,000	586,961	-	-
2018-2022	3,590,000	2,492,494	-	-
2023-2027	4,480,000	1,613,958	-	-
2028-2031	4,930,000	488,635	-	-
Total	<u>\$ 15,915,000</u>	<u>\$ 7,767,392</u>	<u>\$ 378,000</u>	<u>\$ 28,800</u>

Year Ending December 31,	Special Assessments		2012A G.O. Capital Improvement Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 72,523	\$ 27,921	\$ 530,000	\$ 317,700
2014	72,523	23,933	525,000	410,425
2015	72,523	19,944	540,000	394,450
2016	72,523	15,955	565,000	377,875
2017	72,523	11,966	580,000	357,800
2018-2022	145,043	11,676	3,340,000	1,412,850
2023-2027	-	-	4,055,000	804,075
2028-2031	-	-	3,275,000	178,125
Total	<u>\$ 507,658</u>	<u>\$ 111,395</u>	<u>\$ 13,410,000</u>	<u>\$ 4,253,300</u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
2005A G.O. Jail Bonds	\$16,435,000	\$ -	\$ 520,000	\$ 15,915,000	\$ 540,000
2005A Public Project Revenue Bonds	12,915,000	-	12,915,000	-	-
2012A G.O. Capital Bonds	-	13,410,000	-	13,410,000	530,000
Add: Premium on Bonds	-	664,657	6,070	658,587	-
Less: Discount on Bonds	(200,316)	-	(10,450)	(189,866)	-
Less: Deferred Charges on Refunding Bond	-	(1,970,216)	(17,993)	(1,952,223)	-
2001 G.O. PFA Loan	466,000	-	88,000	378,000	90,000
Special Assessments	580,181	-	72,523	507,658	72,523
Compensated Absences	1,053,444	1,148,392	985,061	1,216,775	-
Other Postemployment Benefits	746,608	335,298	137,696	944,210	-
Total Long-Term Liabilities	<u>\$31,995,917</u>	<u>\$ 13,588,131</u>	<u>\$ 14,695,907</u>	<u>\$ 30,888,141</u>	<u>\$ 1,232,523</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.

The County issued \$13,410,000 in General Obligation Capital Improvement Plan Bonds (Series 2012A) for an advance refunding of the Series 2005A Public Project Revenue Bonds maturing in 2017 through 2031. Refunding bond proceeds were placed in an escrow account to be used to make the principal and interest payments due through February 1, 2016. The total cash flow savings to the County attributable to the refunding of these bonds is \$1,216,457 with a net present value of approximately \$912,789.

PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

5. Lease Obligations

The County is committed under various operating leases for copiers and office equipment. The following is a summary of the operating lease expense for 2012:

Type of Property	Amount
Copiers and Office Equipment	\$ 46,118

Future minimum payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2012:

Year Ended	Amount
2013	\$ 36,073
2014	26,881
2015	22,831
2016	7,842
2017	3,164
Total Future Minimum Lease Payments	\$ 96,791

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012**

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 2012. PEPFF members were required to contribute 9.60 percent of their annual covered salary in 2012. 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, 2012**

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, 2012, 2011, and 2010 were:

	General Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund	Defined Contribution Plan
2012	\$ 544,149	\$ 285,849	\$ 142,584	\$ 4,209
2011	520,934	269,819	146,911	4,117
2010	521,207	269,421	148,715	6,713

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. 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 .25 percent of assets in each member's account annually.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2012, approximately 41 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 2012, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual Required Contribution (ARC):	\$ 348,611
Interest on Net OPEB Obligation	29,864
Adjustment to ARC	(43,177)
Annual OPEB Cost	<u>335,298</u>
Contributions during the year	<u>(137,696)</u>
Increase in Net OPEB Obligation	197,602
Net OPEB - Beginning of the Year	746,608
Net OPEB - End of the Year	<u><u>\$ 944,210</u></u>

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 2012, 2011, and 2010 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2012	\$ 335,298	\$ 137,696	41.1 %	\$ 944,210
December 31, 2011	426,897	171,335	40.1	746,608
December 31, 2010	416,809	164,610	39.5	491,046

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)
1/1/2012	\$ -	\$ 3,264,717	\$ 3,264,717	- %	\$ 10,986,726	29.72 %

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, 2012 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 6.5 percent initially, reduced incrementally to an ultimate rate of 5.00 percent after three 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, 2012**

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 *Minnesota Statutes* §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, 2012**

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 \$460,000 per claim 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, 2012**

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, 2012, the outstanding principal amount payable was \$778,590.

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, 2012**

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 *Minnesota Statutes* §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 audit 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 2012, 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, 2012**

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 *Minnesota Statutes* §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 2012. 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, 2012**

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 *Minnesota Statutes* §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 (the Region) was established in 2001, under *Minnesota Statutes* §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, 2012**

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 *Minnesota Statutes* 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 *Minnesota Statutes* 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 2012, Pine County did not make any contributions or payments.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 *Minnesota Statutes* §471.59 and *Minnesota Statutes* §§ 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 2012, Pine County did not expend any funds on transportation feasibility studies or other administrative costs.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 *Minnesota Statutes* §§ 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 2012.

East Central Drug and Violent Offender Task Force

The East Central Drug and Violent Offender Task Force (Task Force) was established through a joint powers agreement, pursuant to *Minnesota Statutes* §§ 471.59, for the enforcement of controlled substance laws, deterrence of violent crimes and investigation of other associated unlawful activity in the respective jurisdictions.

The joint powers are Chisago County, Istanti County, and Pine County. Control of the Task Force is vested in an Administrative Board composed of the sheriff of each of the members, or his or her designee, and one associate member from one of the participating counties' county attorney's office as appointed by the Board.

Pine County is the fiscal agent for the Task Force and accounts for it as an agency fund. Funding is provided by grants and matching contributions from participating members. Pine County made no contributions in 2012.

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

D. Jointly-Governed Organizations

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

Pine County Children, Families, and Learning Services Collaborative

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

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative (the Cooperative) was established to provide computer programming to member counties. During 2012, Pine County expended \$77,915 to the Cooperative.

E. Related Organization

Pine County Housing and Redevelopment Authority

The Pine County Housing and Redevelopment Authority (HRA) is a legally separate organization having numerous rights and powers. The Pine County Board appoints all of the HRA Board members, but financial accountability necessary to include this organization as a component unit of the County is not present. Related party transactions comprise payment of \$2,450 by the County to the HRA Board members for per diem expenses.

F. Tax-Forfeited Land

The County manages approximately 47,941 acres of state-owned, tax-forfeited land with a taxable market value for 2012 of \$41,860,700. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

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

**PINE COUNTY
PINE CITY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 8,461,653	\$ 8,461,653	\$ 7,941,789	\$ (519,864)
Licenses and Permits	66,000	66,000	78,715	12,715
Intergovernmental	1,457,868	1,471,297	2,856,866	1,385,569
Charges for Services	2,073,018	2,073,018	1,540,206	(532,812)
Fines and Forfeits	71,050	71,050	28,752	(42,298)
Gifts and Contributions	90,000	90,000	104,800	14,800
Investment Earnings	100,000	100,000	107,099	7,099
Miscellaneous	751,800	965,465	1,343,753	378,288
Total Revenues	13,071,389	13,298,483	14,001,980	703,497
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	210,211	210,211	220,473	(10,262)
Courts	60,000	60,000	42,327	17,673
Law Library	20,000	20,000	19,621	379
County Auditor	554,359	554,359	553,455	904
County Assessor	411,742	411,742	392,285	19,457
Elections	66,700	66,700	76,722	(10,022)
Data Processing	400,900	400,900	369,280	31,620
Central Services	87,000	87,000	90,296	(3,296)
Administrator	303,872	303,872	251,037	52,835
Attorney	730,079	730,079	749,746	(19,667)
Contracted Legal Services	20,000	20,000	61,007	(41,007)
Recorder	311,482	311,482	352,928	(41,446)
Planning and Zoning	110,440	110,440	122,953	(12,513)
Buildings and Plant	691,464	841,464	885,075	(43,611)
Veterans Service Officer	77,860	77,860	69,415	8,445
Other General Government	48,300	48,300	55,888	(7,588)
Total General Government	4,104,409	4,254,409	4,312,508	(58,099)
PUBLIC SAFETY				
Sheriff	3,876,871	3,953,965	4,232,165	(278,200)
Boat and Water Safety	7,000	7,000	13,108	(6,108)
Coroner	50,000	50,000	95,441	(45,441)
E-911 System	105,164	105,164	99,506	5,658
County Jail	3,216,274	3,216,274	3,155,079	61,195
Sentence to Serve	70,300	70,300	63,670	6,630
Probation and Parole	639,454	639,454	647,813	(8,359)
Civil Defense	-	-	15,238	(15,238)
Other Public Safety	11,840	11,840	19,603	(7,763)
Total Public Safety	7,976,903	8,053,997	8,341,623	(287,626)

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (CONTINUED)				
CURRENT (CONTINUED)				
SANITATION				
Solid Waste	\$ 77,772	\$ 77,772	\$ 71,821	\$ 5,951
Recycling	123,500	123,500	116,880	6,620
Total Sanitation	201,272	201,272	188,701	12,571
CULTURE AND RECREATION				
Historical Society	20,000	20,000	20,000	-
Public Transit	58,000	58,000	50,000	8,000
Regional Library	295,103	295,103	295,203	(100)
Total Culture and Recreation	373,103	373,103	365,203	7,900
CONSERVATION OF NATURAL RESOURCES				
County Extension	91,200	91,200	86,301	4,899
Soil and Water Conservation	34,000	34,000	30,579	3,421
Agricultural Society/County Fair	10,000	10,000	10,000	-
Water Planning	26,868	26,868	13,855	13,013
Wetland Challenge	69,252	69,252	34,626	34,626
Other	11,118	11,118	10,036	1,082
Total Conservation of Natural Resources	242,438	242,438	185,397	57,041
UNALLOCATED				
Insurance	148,784	148,784	147,470	1,314
DEBT SERVICE				
Principal	72,533	72,533	72,523	10
Interest	31,910	31,910	31,910	-
Total Debt Service	104,443	104,443	104,433	10
Total Expenditures	13,151,352	13,378,446	13,645,335	(266,889)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(79,963)	(79,963)	356,645	436,608
OTHER FINANCING SOURCES (USES)				
Transfers In	70,000	70,000	156,471	86,471
Transfers Out	-	(150,000)	(150,000)	-
Total Other Financing Sources (Uses)	70,000	(80,000)	6,471	86,471
NET CHANGE IN FUND BALANCE	\$ (9,963)	\$ (159,963)	363,116	\$ 523,079
Fund Balance - Beginning of Year			1,690,083	
FUND BALANCE - END OF YEAR			<u>\$ 2,053,199</u>	

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

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**PINE COUNTY
PINE CITY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,501,500	\$ 1,501,500	\$ 1,457,773	\$ (43,727)
Intergovernmental	6,980,170	6,980,170	6,660,707	(319,463)
Charges for Services	180,000	180,000	250,309	70,309
Miscellaneous	112,000	112,000	169,186	57,186
Total Revenues	8,773,670	8,773,670	8,537,975	(235,695)
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Administration	309,971	309,971	315,040	(5,069)
Maintenance	1,897,267	1,897,267	2,748,225	(850,958)
Construction	4,863,511	4,863,511	3,859,031	1,004,480
Equipment and Maintenance Shops	1,922,204	1,922,204	1,625,574	296,630
Unallocated - Highways and Streets	33,708	33,708	33,874	(166)
Total Highways and Streets	9,026,661	9,026,661	8,581,744	444,917
INTERGOVERNMENTAL				
Highways and Streets	-	-	377,224	(377,224)
DEBT SERVICE				
Principal	97,000	97,000	88,000	9,000
Interest	-	-	13,980	(13,980)
Total Debt Service	97,000	97,000	101,980	(4,980)
Total Expenditures	9,123,661	9,123,661	9,060,948	62,713
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(349,991)	(349,991)	(522,973)	(172,982)
OTHER FINANCING SOURCES (USES)				
Transfers In	350,000	350,000	-	(350,000)
NET CHANGE IN FUND BALANCE	<u>\$ 9</u>	<u>\$ 9</u>	(522,973)	<u>\$ (522,982)</u>
Fund Balance - Beginning of Year			6,345,520	
Decrease in Inventory			(23,707)	
FUND BALANCE - END OF YEAR			<u>\$ 5,798,840</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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,525,000	\$ 2,525,000	\$ 2,492,134	\$ (32,866)
Intergovernmental	4,605,754	4,605,718	4,733,629	127,911
Charges for Services	56,400	56,400	94,295	37,895
Gifts and Contributions	-	-	2,201	2,201
Investment Earnings	-	-	403	403
Miscellaneous	818,100	818,100	745,123	(72,977)
Total Revenues	8,005,254	8,005,218	8,067,785	62,567
EXPENDITURES				
CURRENT				
HUMAN SERVICES				
Income Maintenance	2,256,823	2,256,823	2,348,452	(91,629)
Social Services	4,637,193	4,637,193	4,913,404	(276,211)
Total Human Services	6,894,016	6,894,016	7,261,856	(367,840)
HEALTH				
Nursing Services	818,156	818,156	913,475	(95,319)
Women, Infants, and Children	145,225	145,225	137,971	7,254
Maternal and Child Health	101,986	101,986	59,925	42,061
Environmental Health	20,630	20,630	28,021	(7,391)
Health Education	28,400	28,400	52,576	(24,176)
Total Health	1,114,397	1,114,397	1,191,968	(77,571)
Total Expenditures	8,008,413	8,008,413	8,453,824	(445,411)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (3,159)</u>	<u>\$ (3,195)</u>	(386,039)	<u>\$ (382,844)</u>
Fund Balance - Beginning of Year			2,548,787	
FUND BALANCE - END OF YEAR			<u>\$ 2,162,748</u>	

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

**PINE COUNTY
PINE CITY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 38,100	\$ 38,100	\$ 43,787	\$ 5,687
Miscellaneous	836,310	836,310	1,016,783	180,473
Total Revenues	874,410	874,410	1,060,570	186,160
EXPENDITURES				
CURRENT				
CONSERVATION OF NATURAL RESOURCES				
Land Use	745,100	745,100	350,127	394,973
Other Conservation	32,500	32,500	22,002	10,498
Total Expenditures	777,600	777,600	372,129	405,471
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	96,810	96,810	688,441	591,631
OTHER FINANCING SOURCES (USES)				
Transfers Out	(65,000)	(65,000)	(156,471)	(91,471)
NET CHANGE IN FUND BALANCE	<u>\$ 31,810</u>	<u>\$ 31,810</u>	531,970	<u>\$ 500,160</u>
Fund Balance - Beginning of Year			698,725	
FUND BALANCE - END OF YEAR			<u>\$ 1,230,695</u>	

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

**PINE COUNTY
PINE CITY, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2012**

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 Administrator each year. A draft of the proposed budget is presented to a Budget Committee. The Budget Committee consists of two County Commissioners, the County Administrator, the County Auditor-Treasurer, 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
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2012, 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	\$ 210,211	\$ 220,473	\$ 10,262
Elections	66,700	76,722	10,022
Central Services	87,000	90,296	3,296
Attorney	730,079	749,746	19,667
Contracted Legal Services	20,000	61,007	41,007
Recorder	311,482	352,928	41,446
Planning and Zoning	110,440	122,953	12,513
Buildings and Plant	841,464	885,075	43,611
Other General Government	48,300	55,888	7,588
Public Safety			
Sheriff	3,953,965	4,232,165	278,200
Boat and Water Safety	7,000	13,108	6,108
Coroner	50,000	95,441	45,441
Probation and Parole	639,454	647,813	8,359
Civil Defense	-	15,238	15,238
Other Public Safety	11,840	19,603	7,763
Culture and Recreation			
Regional Library	295,103	295,203	100
Total	<u>\$ 7,383,038</u>	<u>\$ 7,933,659</u>	<u>\$ 550,621</u>

PINE COUNTY
PINE CITY, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFIT PLAN
YEAR ENDED DECEMBER 31, 2012

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)
1/1/2012	\$ -	\$ 3,264,717	\$ 3,264,717	- %	\$ 10,986,726	29.72 %
1/1/2010	-	3,722,718	3,722,718	-	11,151,733	33.38
1/1/2008	-	2,717,794	2,717,794	-	9,712,033	27.98

SUPPLEMENTARY INFORMATION

**PINE COUNTY
PINE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012**

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

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

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

The HRA Project Bond 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.

The 800 MHz Capital Projects Fund is used to account for capital acquisitions and future expenditures of the County's 800 megahertz radio project.

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

ASSETS	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Funds
Cash and Pooled Investments	\$ 51,688	\$ 1,530,187	\$ 165,178	\$ 1,747,053
Restricted Cash and Investments - CDBG Grant	31,645	-	-	31,645
Undistributed Cash in Agency Funds	-	56,829	-	56,829
Cash with Escrow Agent	-	-	-	-
Taxes Receivable - Delinquent	-	161,479	-	161,479
Total Assets	<u>\$ 83,333</u>	<u>\$ 1,748,495</u>	<u>\$ 165,178</u>	<u>\$ 1,997,006</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ 75,875	\$ 75,875
Due to Other Funds	-	-	36,242	36,242
Deferred Revenue - Unavailable	-	140,042	-	140,042
Total Liabilities	-	140,042	112,117	252,159
FUND BALANCES (DEFICITS)				
Restricted for				
Debt Service	-	1,608,453	-	1,608,453
Ditches	11,846	-	-	11,846
Rehabilitation Program	71,487	-	-	71,487
Assigned for				
Capital Projects	-	-	165,178	165,178
Unassigned	-	-	(112,117)	(112,117)
Total Fund Balances	<u>83,333</u>	<u>1,608,453</u>	<u>53,061</u>	<u>1,744,847</u>
Total Liabilities and Fund Balances	<u>\$ 83,333</u>	<u>\$ 1,748,495</u>	<u>\$ 165,178</u>	<u>\$ 1,997,006</u>

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012**

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Funds
REVENUES				
Taxes	\$ -	\$ 2,238,109	\$ -	\$ 2,238,109
Intergovernmental	348,294	43,520	300,484	692,298
Charges for Services	71	-	-	71
Investment Earnings	280	-	-	280
Total Revenues	348,645	2,281,629	300,484	2,930,758
EXPENDITURES				
CURRENT				
General Government	-	-	108,680	108,680
Public Safety	-	-	863,290	863,290
Economic Development	371,918	-	-	371,918
DEBT SERVICE				
Principal	-	905,000	-	905,000
Interest	-	1,308,292	-	1,308,292
Administrative Fiscal Charges	-	3,875	-	3,875
Advance Refunding Escrow	-	500,000	-	500,000
Bond Issuance Costs	-	198,513	-	198,513
Total Expenditures	371,918	2,915,680	971,970	4,259,568
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(23,273)	(634,051)	(671,486)	(1,328,810)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	600,689	600,689
Transfers Out	(450,689)	-	-	(450,689)
Refunding Bonds Issued	-	13,410,000	-	13,410,000
Premium on Refunding Bonds Issued	-	664,657	-	664,657
Payment to Refunded Bond Escrow Agent	-	(13,876,144)	-	(13,876,144)
Total Other Financing Sources (Uses)	(450,689)	198,513	600,689	348,513
NET CHANGE IN FUND BALANCES	(473,962)	(435,538)	(70,797)	(980,297)
Fund Balance - Beginning of Year	557,295	2,043,991	123,858	2,725,144
FUND BALANCE - END OF YEAR	<u>\$ 83,333</u>	<u>\$ 1,608,453</u>	<u>\$ 53,061</u>	<u>\$ 1,744,847</u>

PINE COUNTY
PINE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2012

	Ditch	Countywide Rehabilitation Program	Total
ASSETS			
Cash and Pooled Investments	\$ 11,846	\$ 39,842	\$ 51,688
Restricted Cash and Investments - CDBG Grant	-	31,645	31,645
Total Assets	\$ 11,846	\$ 71,487	\$ 83,333
LIABILITIES AND FUND BALANCES			
FUND BALANCES			
Restricted for			
Ditches	\$ 11,846	\$ -	\$ 11,846
Rehabilitation Program	-	71,487	71,487
Total Fund Balances	11,846	71,487	83,333
Total Liabilities and Fund Balances	\$ 11,846	\$ 71,487	\$ 83,333

**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, 2012**

	Ditch	County-Wide Rehabilitation Program	Total
REVENUES			
Intergovernmental	\$ -	\$ 348,294	\$ 348,294
Charges for Services	71	-	71
Investment Earnings	-	280	280
Total Revenues	71	348,574	348,645
EXPENDITURES			
CURRENT			
Economic Development	-	371,918	371,918
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	71	(23,344)	(23,273)
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	(450,689)	(450,689)
NET CHANGE IN FUND BALANCES	71	(474,033)	(473,962)
Fund Balance - Beginning of Year	11,775	545,520	557,295
FUND BALANCE - END OF YEAR	\$ 11,846	\$ 71,487	\$ 83,333

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
DECEMBER 31, 2012**

	General Obligation Jail Bond	Street Reconstruction Bond	HRA Project Bond	Total
ASSETS				
Cash and Pooled Investments	\$ 840,613	\$ 61,885	\$ 627,689	\$ 1,530,187
Undistributed Cash in Agency Funds	31,887	-	24,942	56,829
Taxes Receivable - Delinquent	90,107	-	71,372	161,479
Total Assets	<u>\$ 962,607</u>	<u>\$ 61,885</u>	<u>\$ 724,003</u>	<u>\$ 1,748,495</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred Revenue - Unavailable	\$ 78,065	\$ -	\$ 61,977	\$ 140,042
FUND BALANCES				
Restricted for Debt Service	884,542	61,885	662,026	1,608,453
Total Liabilities and Fund Balances	<u>\$ 962,607</u>	<u>\$ 61,885</u>	<u>\$ 724,003</u>	<u>\$ 1,748,495</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, 2012**

	Nonmajor Debt Service Funds			
	General Obligation Jail Bond	Street Reconstruction Bond	HRA Project Bond	Total
REVENUES				
Taxes	\$ 1,251,824	\$ 10,656	\$ 975,629	\$ 2,238,109
Intergovernmental	21,563	-	21,957	43,520
Total Revenues	1,273,387	10,656	997,586	2,281,629
EXPENDITURES				
DEBT SERVICE				
Principal	520,000	-	385,000	905,000
Interest	701,361	-	606,931	1,308,292
Administrative Fiscal Charges	1,875	-	2,000	3,875
Advance Refunding Escrow	-	-	500,000	500,000
Bond Issuance Costs	-	-	198,513	198,513
Total Expenditures	1,223,236	-	1,692,444	2,915,680
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	50,151	10,656	(694,858)	(634,051)
OTHER FINANCING SOURCES (USES)				
Refunding Bonds Issued	-	-	13,410,000	13,410,000
Premium on Refunding Bonds Issued	-	-	664,657	664,657
Payment to Refunded Bond Escrow Agent	-	-	(13,876,144)	(13,876,144)
Total Other Financing Sources (Uses)	-	-	198,513	198,513
NET CHANGE IN FUND BALANCES	50,151	10,656	(496,345)	(435,538)
Fund Balance - Beginning of Year	834,391	51,229	1,158,371	2,043,991
FUND BALANCE - END OF YEAR	<u>\$ 884,542</u>	<u>\$ 61,885</u>	<u>\$ 662,026</u>	<u>\$ 1,608,453</u>

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECT FUNDS
YEAR ENDED DECEMBER 31, 2012**

	<u>Governmental Buildings</u>	<u>800 MHz Project</u>	<u>Total</u>
ASSETS			
Cash and Pooled Investments	<u>\$ 165,178</u>	<u>\$ -</u>	<u>\$ 165,178</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ -	\$ 75,875	\$ 75,875
Due to Other Funds	-	<u>36,242</u>	<u>36,242</u>
Total Liabilities	-	112,117	112,117
FUND BALANCES (DEFICITS)			
Assigned			
Capital Projects	165,178	-	165,178
Unassigned	<u>-</u>	<u>(112,117)</u>	<u>(112,117)</u>
Total Fund Balances (Deficits)	<u>165,178</u>	<u>(112,117)</u>	<u>53,061</u>
Total Liabilities and Fund Balances	<u>\$ 165,178</u>	<u>\$ -</u>	<u>\$ 165,178</u>

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECT FUNDS
YEAR ENDED DECEMBER 31, 2012**

	Governmental Buildings	800 MHz Project	Total
REVENUES			
Intergovernmental	\$ -	\$ 300,484	\$ 300,484
EXPENDITURES			
CURRENT			
General Government	108,680	-	108,680
Public Safety	-	863,290	863,290
Total Expenditures	<u>108,680</u>	<u>863,290</u>	<u>971,970</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(108,680)	(562,806)	(671,486)
OTHER FINANCING SOURCES			
Transfers In	<u>150,000</u>	<u>450,689</u>	<u>600,689</u>
NET CHANGE IN FUND BALANCES	41,320	(112,117)	(70,797)
Fund Balance - Beginning of Year	<u>123,858</u>	<u>-</u>	<u>123,858</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 165,178</u>	<u>\$ (112,117)</u>	<u>\$ 53,061</u>

**PINE COUNTY
PINE COUNTY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL OBLIGATION JAIL BOND DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,284,305	\$ 1,284,305	\$ 1,251,824	\$ (32,481)
Intergovernmental	-	-	21,563	21,563
Total Revenues	1,284,305	1,284,305	1,273,387	(10,918)
EXPENDITURES				
DEBT SERVICE				
Principal	520,000	520,000	520,000	-
Interest	701,361	701,361	701,361	-
Administrative Fiscal Charges	1,875	1,875	1,875	-
Total Expenditures	1,223,236	1,223,236	1,223,236	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 61,069</u>	<u>\$ 61,069</u>	50,151	<u>\$ (10,918)</u>
Fund Balance - Beginning of Year			834,391	
FUND BALANCE - END OF YEAR			<u>\$ 884,542</u>	

**PINE COUNTY
PINE COUNTY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
HRA PROJECT BONDS DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,000,631	\$ 1,000,631	\$ 975,629	\$ (25,002)
Intergovernmental	-	-	21,957	21,957
Total Revenues	1,000,631	1,000,631	997,586	(3,045)
EXPENDITURES				
DEBT SERVICE				
Principal	385,000	385,000	385,000	-
Interest	614,631	614,631	606,931	7,700
Administrative Fiscal Charges	1,000	1,000	502,000	(501,000)
Bond Issuance Costs	-	-	198,513	(198,513)
Total Expenditures	1,000,631	1,000,631	1,692,444	(691,813)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(694,858)	(694,858)
OTHER FINANCING SOURCES (USES)				
Refunding Bonds Issued	-	-	13,410,000	13,410,000
Premium on Refunding Bonds Issued	-	-	664,657	664,657
Payment to Refunded Bond Escrow Agent	-	-	(13,876,144)	(13,876,144)
Total Other Financing Sources (Uses)	-	-	198,513	198,513
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	(496,345)	<u>\$ (496,345)</u>
Fund Balance - Beginning of Year			1,158,371	
FUND BALANCE - END OF YEAR			<u>\$ 662,026</u>	

**PINE COUNTY
PINE CITY, MINNESOTA
AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2012**

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.

East Central Drug and Violent Offenders Task Force Fund is used for the collection and distribution of grant funds, agency deposited funds, and pending/settled forfeiture funds.

**PINE COUNTY
PINE CITY, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
PINE COUNTY CHILDREN, FAMILIES AND LEARNING SERVICES COLLABORATIVE				
ASSETS				
Cash and Pooled Investments	\$ 110,830	\$ 101,328	\$ 178,233	\$ 33,925
LIABILITIES				
Due to Other Governments	\$ 110,830	\$ 101,328	\$ 178,233	\$ 33,925
STATE REVENUE				
ASSETS				
Cash and Pooled Investments	\$ 19,687	\$ 629,591	\$ 625,368	\$ 23,910
Accounts Receivable	672	353	672	353
Total Assets	\$ 20,359	\$ 629,944	\$ 626,040	\$ 24,263
LIABILITIES				
Due to Other Governments	\$ 20,359	\$ 629,944	\$ 626,040	\$ 24,263
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 420,506	\$ 34,367,931	\$ 34,246,409	\$ 542,028
LIABILITIES				
Due to Other Governments	\$ 420,506	\$ 34,367,931	\$ 34,246,409	\$ 542,028
EAST CENTRAL DRUG TASK FORCE				
ASSETS				
Cash and Pooled Investments	\$ -	\$ 102,696	\$ 70,409	\$ 32,287
LIABILITIES				
Due to Other Governments	\$ -	\$ 102,696	\$ 70,409	\$ 32,287
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 551,023	\$ 35,201,546	\$ 35,120,419	\$ 632,150
Accounts Receivable	672	353	672	353
Total Assets	\$ 551,695	\$ 35,201,899	\$ 35,121,091	\$ 632,503
LIABILITIES				
Due to Other Governments	\$ 551,695	\$ 35,201,899	\$ 35,121,091	\$ 632,503

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OTHER SUPPLEMENTARY INFORMATION

**PINE COUNTY
PINE CITY, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2012**

SHARED REVENUE

STATE

Highway Users Tax	\$ 6,364,912
Road Gas Tax	10,395
County Program Aid	1,199,083
PERA Rate Reimbursement	36,545
Disparity Reduction Aid	1,057
Police Aid	186,078
Enhanced 911	106,641
Market Value Credit	248,364
Local Option Disaster Abatement Reimbursement	19,838
Casino Aid/Tribal Tax Agreement	92,607
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Total Shared Revenue	8,265,520

REIMBURSEMENT FOR SERVICES

STATE

Minnesota Department of Human Services	614,631
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PAYMENTS

Local

PAYMENTS IN LIEU OF TAX

561,314

GRANTS

STATE

Minnesota Department of Corrections	199,304
Public Safety	298,064
Natural Resources	14,338
Human Services	1,510,241
Veteran Affairs	2,298
Water and Soil Resources Board	94,223
Pollution Control Agency	74,125
Peace Officer Standards and Training Board	10,627
	<hr/>
Total State	2,203,220

GRANTS (CONTINUED)

FEDERAL

Department of Agriculture	305,145
Housing and Urban Development	348,294
Interior	11,223
Justice	7,440
Transportation	159,215
Health and Human Services	2,390,232
Homeland Security	121,053
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Total Federal	3,342,602
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Total State and Federal Grants	<hr/> 5,545,822 <hr/>
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Total Intergovernmental Revenue	<hr/> \$ 14,987,287 <hr/>
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**PINE COUNTY
PINE CITY, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012**

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	\$ 130,322
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	<u>174,823</u>
Total Department of Agriculture		305,145
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Commerce		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	348,294
U.S. Department of Interior		
Direct		
Payments in Lieu of Taxes	15.226	5,068
Wildlife Restoration and Basic Hunter Education	15.611	<u>6,155</u>
Total Department of Interior		11,223
U.S. Department of Justice		
Direct		
ARRA - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	16.810	7,440
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	152,578
Passed Through Kanabec County, Minnesota		
Occupant Protection Incentive Grants (Highway Safety Cluster)	20.602	1,180
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	303
Passed Through Minnesota Department of Public Safety		
Safety Belt Performance Grants (Highway Safety Cluster)	20.609	<u>5,154</u>
Total Department of Transportation		159,215
U.S. Department of Health and Human Services		
Passed Through Kanabec Pine Community Health Services		
Public Health Emergency Preparedness	93.069	14,112
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	46,165
Maternal and Child Health Services Block Grants to the States	93.994	36,012
Temporary Assistance for Needy Families (TANF Cluster)	93.558	61,314
(Total Temporary Assistance for Needy Families 93.558 \$502,279)		
Passed Through Minnesota Department of Human Services/Central Minnesota Council on Aging		
Title III-B Aging Grant for Supportive Services and Senior Centers	93.004	
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families - Title IV-B	93.556	16,259
Temporary Assistance for Needy Families (TANF Cluster)	93.558	440,965
(Total Temporary Assistance for Needy Families 93.558 \$502,279)		
Child Support Enforcement	93.563	647,417
Refugee and Entrant Assistance State Administered Programs	93.566	287
Child Care and Development Block Grant	93.575	13,533
Community-Based Child Abuse Prevention Grants	93.590	32,000
Stephanie Tubbs Jones Child Welfare Services Program	93.645	8,756
Foster Care Title IV-E	93.658	39,172
Social Services Block Grant Title XX	93.667	188,378
Chafee Foster Care Independent Living	93.674	3,768

**PINE COUNTY
PINE CITY, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services (Continued)		
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (TANF Cluster)	93.714	\$ 24,047
Children's Health Insurance Program	93.767	47
Medical Assistance Program	93.778	<u>818,000</u>
Total Department of Health and Human Services		2,390,232
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 115,053
Emergency Management Performance Grant	97.042	<u>6,000</u>
Total Department of Homeland Security		<u>121,053</u>
Total Cash Type Federal Awards		<u>\$ 3,342,602</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, 2012. 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 2012, 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, 2012 were as follows:

TANF Cluster	\$ 526,326
Highway Safety Cluster	6,334

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