

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
(COMPONENT UNIT OF COOK COUNTY)
GRAND MARAIS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
(COMPONENT UNIT OF COOK COUNTY)
GRAND MARAIS, MINNESOTA**

Year Ended December 31, 2005



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

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

TABLE OF CONTENTS

| | <u>Reference</u> | <u>Page</u> |
|---|------------------|-------------|
| Introductory Section | | |
| Organization | | 1 |
| Financial Section | | |
| Independent Auditor's Report | | 2 |
| Basic Financial Statements | | |
| Government-Wide Financial Statements | | |
| Statement of Net Assets | Exhibit 1 | 4 |
| Statement of Activities | Exhibit 2 | 5 |
| Fund Financial Statements | | |
| Governmental Funds | | |
| Balance Sheet | Exhibit 3 | 6 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | Exhibit 4 | 7 |
| Proprietary Fund | | |
| Golf Course Enterprise Fund | | |
| Statement of Net Assets | Exhibit 5 | 8 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets | Exhibit 6 | 9 |
| Statement of Cash Flows | Exhibit 7 | 10 |
| Notes to the Financial Statements | | 11 |
| | | |
| Required Supplementary Information | | |
| Budgetary Comparison Schedule - General Fund | Schedule 1 | 29 |
| Notes to the Required Supplementary Information | | 30 |
| | | |
| Supplemental Information | | |
| Budgetary Comparison Schedule - Golf Course Enterprise Fund | Schedule 2 | 31 |
| | | |
| Management and Compliance Section | | |
| Schedule of Findings and Recommendations | Schedule 3 | 33 |
| | | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 37 |

This page was left blank intentionally.

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

| | | <u>Term Expires</u> |
|---------------------|-----------------|---------------------|
| Commissioners | | |
| Chair | Mary Sanders | December 2007 |
| Vice Chair | Tim Kennedy | December 2010 |
| Treasurer | James Hall | December 2005 |
| Secretary | Mike Littfin | December 2006 |
| Commissioner | Bruce Martinson | December 2009 |
| Commissioner | Russell Zenk | December 2008 |
| Commissioner | Andrea Peterson | December 2006 |
| Executive Director | | |
| Matt Geretschlaeger | | |
| Consulting Director | | |
| John Kremer | | |

This page was left blank intentionally.

This page was left blank intentionally.



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Cook County and Grand Marais Joint
Economic Development Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority, a component unit of Cook County, as of and for the year ended December 31, 2005, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Cook County and Grand Marais Joint Economic Development Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority as of and for the year ended December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Cook County and Grand Marais Joint Economic Development Authority has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2006, on our consideration of the Cook County and Grand Marais Joint Economic Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: May 18, 2006

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

EXHIBIT 1

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

| | Governmental Activities | Business-Type Activities | Total |
|---|------------------------------------|-------------------------------------|---------------------|
| <u>Assets</u> | | | |
| Cash | \$ 155,305 | \$ 122,315 | \$ 277,620 |
| Taxes receivable | 5,312 | - | 5,312 |
| Accounts receivable | 3,000 | - | 3,000 |
| Due from other governments | 2,530 | - | 2,530 |
| Internal balances | 98,685 | (98,685) | - |
| Inventories | - | 26,555 | 26,555 |
| Restricted assets | | | |
| Assets held by trustee | - | 317,985 | 317,985 |
| Capital assets | | | |
| Not depreciated - land | 81,973 | 213,685 | 295,658 |
| Depreciable, net of depreciation | - | 3,004,461 | 3,004,461 |
| | \$ 346,805 | \$ 3,586,316 | \$ 3,933,121 |
| <u>Liabilities</u> | | | |
| Accounts payable | \$ 6,205 | \$ 25,447 | \$ 31,652 |
| Accrued payroll liabilities | 7,400 | - | 7,400 |
| Due to other governments | 135 | - | 135 |
| Liabilities payable from restricted assets | | | |
| Accrued interest payable | - | 31,227 | 31,227 |
| Bonds payable - current | - | 110,000 | 110,000 |
| Long-term liabilities | | | |
| Due within one year | - | 26,212 | 26,212 |
| Due in more than one year | - | 1,320,110 | 1,320,110 |
| | \$ 13,740 | \$ 1,512,996 | \$ 1,526,736 |
| <u>Net Assets</u> | | | |
| Investment in capital assets, net of related debt | \$ 81,973 | \$ 1,761,824 | \$ 1,843,797 |
| Restricted for debt service | - | 286,758 | 286,758 |
| Unrestricted | 251,092 | 24,738 | 275,830 |
| | \$ 333,065 | \$ 2,073,320 | \$ 2,406,385 |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

EXHIBIT 2

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

| | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | | <u>Total</u> |
|-----------------------------------|----------------------------|---------------------------------|---|--|-------------------------------------|----------------------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | |
| <u>Functions/Programs</u> | | | | | | |
| Governmental activities | | | | | | |
| Urban and economic development | \$ 183,050 | \$ - | \$ 9,500 | \$ (173,550) | \$ - | \$ (173,550) |
| Business-type activities | | | | | | |
| Golf course | 973,761 | 800,399 | - | - | (173,362) | (173,362) |
| Total | <u>\$ 1,156,811</u> | <u>\$ 800,399</u> | <u>\$ 9,500</u> | <u>\$ (173,550)</u> | <u>\$ (173,362)</u> | <u>\$ (346,912)</u> |
| General Revenues | | | | | | |
| Property taxes | | | | \$ 82,363 | \$ - | \$ 82,363 |
| Lodging taxes | | | | - | 50,000 | 50,000 |
| Investment income | | | | 1,871 | 6,402 | 8,273 |
| Gain on sale of capital assets | | | | - | 4,500 | 4,500 |
| Miscellaneous | | | | 21,735 | - | 21,735 |
| Total general revenues | | | | <u>\$ 105,969</u> | <u>\$ 60,902</u> | <u>\$ 166,871</u> |
| Change in Net Assets | | | | <u>\$ (67,581)</u> | <u>\$ (112,460)</u> | <u>\$ (180,041)</u> |
| Net Assets - Beginning | | | | <u>400,646</u> | <u>2,185,780</u> | <u>2,586,426</u> |
| Net Assets - Ending | | | | <u>\$ 333,065</u> | <u>\$ 2,073,320</u> | <u>\$ 2,406,385</u> |

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

EXHIBIT 3

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

| | General | Resource Development Council | Total Governmental Funds |
|--|-------------------|------------------------------------|--------------------------------|
| <u>Assets</u> | | | |
| Cash | \$ 148,661 | \$ 6,644 | \$ 155,305 |
| Taxes receivable | 5,312 | - | 5,312 |
| Accounts receivable | 3,000 | - | 3,000 |
| Due from other governments | 2,530 | - | 2,530 |
| Due from other funds | 98,685 | - | 98,685 |
| Total Assets | \$ 258,188 | \$ 6,644 | \$ 264,832 |
| <u>Liabilities and Fund Balance</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 6,205 | \$ - | \$ 6,205 |
| Accrued payroll liabilities | 7,400 | - | 7,400 |
| Due to other governments | 135 | - | 135 |
| Deferred revenue | 1,954 | - | 1,954 |
| Total Liabilities | \$ 15,694 | \$ - | \$ 15,694 |
| Fund Balance | | | |
| Unreserved - undesignated | 242,494 | 6,644 | 249,138 |
| Total Liabilities and Fund Balance | \$ 258,188 | \$ 6,644 | \$ 264,832 |
| Fund balance - total governmental funds | | | \$ 249,138 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | | 81,973 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | | 1,954 |
| Net assets of governmental activities (Exhibit 1) | | | \$ 333,065 |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

EXHIBIT 4

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

| | General | Resource Development Council | Total Governmental Funds |
|---|--------------------|------------------------------------|--------------------------------|
| Revenues | | | |
| Taxes | | | |
| Property taxes | \$ 81,950 | \$ - | \$ 81,950 |
| Intergovernmental | | | |
| Cook County | - | 9,500 | 9,500 |
| Miscellaneous | | | |
| Investment earnings | 1,823 | 48 | 1,871 |
| Administrative fees | 21,735 | - | 21,735 |
| | | | |
| Total Revenues | \$ 105,508 | \$ 9,548 | \$ 115,056 |
| Expenditures | | | |
| Current | | | |
| Urban and economic development | | | |
| Personal services | \$ 63,563 | \$ - | \$ 63,563 |
| Employee benefits | 13,862 | - | 13,862 |
| Professional services | 70,804 | - | 70,804 |
| Utilities | 1,323 | - | 1,323 |
| Other services and charges | 23,667 | 9,500 | 33,167 |
| | | | |
| Total Expenditures | \$ 173,219 | \$ 9,500 | \$ 182,719 |
| Excess of Revenues Over (Under) Expenditures | \$ (67,711) | \$ 48 | \$ (67,663) |
| Fund Balance - January 1 | 310,205 | 6,596 | 316,801 |
| Fund Balance - December 31 | \$ 242,494 | \$ 6,644 | \$ 249,138 |
| Net change in fund balances | | | \$ (67,663) |
| Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | | | (331) |
| In the funds, under the modified accrual basis, revenues not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The increase (decrease) in deferred revenue is the adjustment to revenue between the fund statements and the statement of activities. | | | 413 |
| Change in net assets of governmental activities (Exhibit 2) | | | \$ (67,581) |

PROPRIETARY FUND

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF NET ASSETS
GOLF COURSE ENTERPRISE FUND
DECEMBER 31, 2005**

Assets

Current assets

| | |
|-----------|------------|
| Cash | \$ 122,315 |
| Inventory | 26,555 |

| | |
|-----------------------------|-------------------|
| Total current assets | \$ 148,870 |
|-----------------------------|-------------------|

Restricted assets

| | |
|------------------------|------------|
| Assets held by trustee | \$ 317,985 |
|------------------------|------------|

Noncurrent assets

| | |
|----------------------------------|------------|
| Capital assets | |
| Not depreciated - land | \$ 213,685 |
| Depreciable, net of depreciation | 3,004,461 |

| | |
|--------------------------------|---------------------|
| Total noncurrent assets | \$ 3,218,146 |
|--------------------------------|---------------------|

| | |
|---------------------|---------------------|
| Total Assets | \$ 3,685,001 |
|---------------------|---------------------|

Liabilities

Current liabilities

| | |
|----------------------------------|-----------|
| Accounts payable | \$ 25,447 |
| Due to other funds | 98,685 |
| Capital leases payable - current | 26,212 |

| | |
|----------------------------------|-------------------|
| Total current liabilities | \$ 150,344 |
|----------------------------------|-------------------|

Current liabilities payable from restricted assets

| | |
|--------------------------|-----------|
| Accrued interest payable | \$ 31,227 |
| Bonds payable - current | 110,000 |

| | |
|---|-------------------|
| Total current liabilities payable from restricted assets | \$ 141,227 |
|---|-------------------|

Noncurrent liabilities

| | |
|------------------------------------|-----------|
| Capital leases payable - long-term | \$ 35,110 |
| Bonds payable - long-term | 1,285,000 |

| | |
|-------------------------------------|---------------------|
| Total noncurrent liabilities | \$ 1,320,110 |
|-------------------------------------|---------------------|

| | |
|--------------------------|---------------------|
| Total Liabilities | \$ 1,611,681 |
|--------------------------|---------------------|

Net Assets

| | |
|---|--------------|
| Invested in capital assets, net of related debt | \$ 1,761,824 |
| Restricted for debt service | 286,758 |
| Unrestricted | 24,738 |

| | |
|-------------------------|---------------------|
| Total Net Assets | \$ 2,073,320 |
|-------------------------|---------------------|

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

EXHIBIT 6

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOLF COURSE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | |
|---|----------------------------|
| Operating Revenues | |
| Sales | |
| Food and beverage | \$ 78,435 |
| Merchandise | 132,668 |
| Less: cost of goods sold | <u>(143,483)</u> |
| Net sales | \$ 67,620 |
| Charges for services | |
| Green fees | 657,469 |
| Other | <u>75,310</u> |
| Total Revenues | \$ 800,399 |
| Operating Expenses | |
| Personal services | \$ 317,036 |
| Employee benefits | 46,715 |
| Professional services | 40,744 |
| Grounds maintenance and supplies | 117,052 |
| Clubhouse maintenance and supplies | 15,553 |
| Utilities | 29,758 |
| Other services and charges | 90,429 |
| Depreciation expense | <u>232,482</u> |
| Total Expenses | \$ 889,769 |
| Operating Income (Loss) | \$ (89,370) |
| Nonoperating Revenues (Expenses) | |
| Investment earnings | \$ 6,402 |
| Lodging tax | 50,000 |
| Gain on sale of capital assets | 4,500 |
| Interest expense | <u>(83,992)</u> |
| Total Nonoperating Revenues (Expenses) | \$ (23,090) |
| Income (Loss) | \$ (112,460) |
| Net Assets - January 1 | <u>2,185,780</u> |
| Net Assets - December 31 | <u>\$ 2,073,320</u> |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF CASH FLOWS
GOLF COURSE ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2005**

| | |
|--|--------------------------|
| Cash Flows from Operating Activities | |
| Cash received from customers | \$ 943,882 |
| Cash paid to suppliers | (417,096) |
| Cash paid to employees | <u>(317,036)</u> |
| Net cash provided by (used for) operating activities | \$ 209,750 |
| Cash Flows from Noncapital Financing Activities | |
| Lodging taxes received | <u>\$ 50,000</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Principal paid on lease purchases | \$ (25,161) |
| Interest paid on lease purchases | (4,612) |
| Payments to trustee for debt service | (180,976) |
| Proceeds from sale of capital assets | 4,500 |
| Acquisition of capital assets | <u>(16,547)</u> |
| Net cash provided by (used for) capital and related financing activities | \$ (222,796) |
| Cash Flows from Investing Activities | |
| Interest on investments | <u>\$ 794</u> |
| Net Increase (Decrease) in Cash | \$ 37,748 |
| Cash - January 1 | <u>84,567</u> |
| Cash - December 31 | <u><u>\$ 122,315</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities | |
| Net operating income (loss) | \$ (89,370) |
| Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities | |
| Depreciation expense | 232,482 |
| Decrease (increase) in inventories | 1,674 |
| Increase (decrease) in accounts payable | 5,487 |
| Increase (decrease) in due to State of Minnesota | (23) |
| Increase (decrease) in due to other funds | <u>59,500</u> |
| Net Cash Provided by (Used for) Operating Activities | \$ 209,750 |
| Noncash Investing, Capital, and Financing Activities | |
| Assets held by trustee debt payments | \$ 182,518 |

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The Cook County and Grand Marais Joint Economic Development Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

The Cook County and Grand Marais Joint Economic Development Authority was established June 14, 1988, pursuant to Minn. Laws 1988, Stat. ch. 516, having all the powers and duties of an economic development authority under Minn. Stat. §§ 469.090 to 469.1081. As required by accounting principles generally accepted in the United States of America, these financial statements present the Cook County and Grand Marais Joint Economic Development Authority (primary government) and its component unit for which the Authority is financially accountable. The Authority is governed by a seven-member Board, four members appointed by the Cook County Board and three members appointed by the Grand Marais City Council. The Board is organized with a chair, vice chair, treasurer, and secretary, elected annually.

Blended Component Unit

Blended component units are legally separate organizations that are so intertwined with the Authority that they are, in substance, the same as the Authority and, therefore, are reported as if they were part of the Authority. The Cook County and Grand Marais Joint Economic Development Authority has one blended component unit.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Unit (Continued)

| Component Unit | Component Unit is Included in the Reporting Entity Because | Separate Financial Statements |
|---|---|--|
| Resource Development Council of Cook County, Inc. (RDC) | The Authority Commissioners are the governing board of the RDC. | Separate financial statements are not prepared. |

The Authority is considered to be a component unit of Cook County and is included in Cook County's annual financial report.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the Authority and its component unit. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis that recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of each function of the Authority's governmental activities and business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include:

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

(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 restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Authority's funds, including its blended component unit. Separate statements for each fund category--governmental and proprietary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government not accounted for in other funds.

The Resource Development Council Special Revenue Fund is used to account for the activities of the Resource Development Council of Cook County, Inc., as a blended component unit of the Authority.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Authority reports the following major enterprise fund:

The Golf Course Fund is used to account for the operations of the Superior National at Lutsen Golf Course.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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. The Cook County and Grand Marais Joint Economic Development Authority considers all revenues as available if collected within 90 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Budget

The Authority is required to annually send its nonappropriated budget to the Cook County Board of Commissioners and the Grand Marais City Council.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash

The Authority's cash consists of petty cash, checking accounts, and savings accounts.

2. Investments

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

3. Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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. The Authority approved an annual levy for operating purposes. Property taxes are collected by Cook County and distributed to the Authority three times each year.

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

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories

Inventory comprises golf course merchandise for resale. All inventories are valued at lower of cost or market, using the first in/first out (FIFO) method.

5. Restricted Assets

Certain funds of the Authority are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

6. Capital Assets

Capital assets, which include land and improvements, buildings and structures, and furniture and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000. Such assets are recorded at historical cost, except for land, which was donated. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Land improvements, buildings and structures, and furniture and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------|--------------|
| Land improvements | 30 |
| Buildings and structures | 20 |
| Furniture and equipment | 1 - 20 |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

Certain full-time employees of the Authority and the golf course are entitled to vacation and sick leave. The Executive Director may accumulate and carry over vacation and sick leave into the next year. Vacation and sick leave for golf course employees must be used in the year it is earned. Unused vacation at year-end is not significant, and unused sick leave is not compensated.

8. Deferred Revenue

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

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

11. 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.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

| | | |
|------------------------|----|-----------------------|
| Cash | \$ | 277,620 |
| Restricted assets | | |
| Assets held by trustee | | <u>317,985</u> |
| Total Cash | \$ | <u><u>595,605</u></u> |

Deposits

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

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

At December 31, 2005, the carrying amount of the Authority's deposits totaled \$277,620. The bank balance deposit amount was \$294,968. Minnesota statutes require that all the Authority's deposits be covered by insurance, surety bond, or collateral. At various times during the year, Authority deposits exceeded the amount of available insurance and collateral.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Deposits (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2005.

| | <u>Bank Balance</u> |
|---|---------------------|
| Covered Deposits | |
| Insured, or collateralized with securities held by the Authority or its agent in the Authority's name | \$ 215,893 |
| Collateralized with securities held by the pledging financial institution's agent in the Authority's name | 79,075 |
| Total covered deposits | \$ 294,968 |
| Uncollateralized | - |
| Total | \$ 294,968 |

Investments

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

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

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

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.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Authority's investment in a single issuer.

Following is a summary of the fair values of the Authority's investments held by a trustee at December 31, 2005:

| | | |
|--|----|---------|
| Assets Held by Trustee | | |
| Mutual funds | \$ | 128,624 |
| Minnesota Association of Governments Investing for Counties (MAGIC) | | 189,361 |
| Total Assets Held by Trustee | \$ | 317,985 |

As of, and during the year ended December 31, 2005, the Authority did not own any investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk.

2. Receivables

Receivables as of December 31, 2005, for the Authority's governmental activities and business-type activities are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|-------------------------------|----------------------|--|
| Governmental Activities | | |
| Taxes receivable | \$ 5,312 | \$ - |
| Accounts receivable | 3,000 | - |
| Due from other governments | 2,530 | - |
| Total Governmental Activities | \$ 10,842 | \$ - |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

Governmental Activities

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|----------------------|----------|----------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 81,973 | \$ - | \$ - | \$ 81,973 |
| Capital assets depreciated | | | | |
| Furniture and equipment | \$ 3,538 | \$ - | \$ 1,552 | \$ 1,986 |
| Less: accumulated depreciation for Furniture and equipment | 3,207 | 331 | (1,552) | 1,986 |
| Total capital assets, depreciated, net | \$ 331 | \$ (331) | \$ - | \$ - |
| Governmental Activities Capital Assets, Net | \$ 82,304 | \$ (331) | \$ - | \$ 81,973 |

Business-Type Activities

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|----------------------|--------------|-----------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 213,685 | \$ - | \$ - | \$ 213,685 |
| Capital assets depreciated | | | | |
| Land improvements | \$ 4,212,872 | \$ - | \$ - | \$ 4,212,872 |
| Buildings and structures | 369,961 | 2,410 | - | 372,371 |
| Furniture and equipment | 891,787 | 38,007 | 14,381 | 915,413 |
| Total capital assets depreciated | \$ 5,474,620 | \$ 40,417 | \$ 14,381 | \$ 5,500,656 |
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 1,425,510 | \$ 140,429 | \$ - | \$ 1,565,939 |
| Buildings and structures | 221,929 | 18,980 | - | 240,909 |
| Furniture and equipment | 630,655 | 73,073 | 14,381 | 689,347 |
| Total accumulated depreciation | \$ 2,278,094 | \$ 232,482 | \$ 14,381 | \$ 2,496,195 |
| Total capital assets, depreciated, net | \$ 3,196,526 | \$ (192,065) | \$ - | \$ 3,004,461 |
| Business-Type Activities Capital Assets, Net | \$ 3,410,211 | \$ (192,065) | \$ - | \$ 3,218,146 |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

| | |
|--------------------------------|------------|
| Governmental Activities | \$ 331 |
| Urban and economic development | \$ 331 |
| Business-Type Activities | |
| Golf course | \$ 232,482 |

B. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|-----------|
| General | Golf Course | \$ 98,685 |

C. Liabilities

1. Leases

Operating Leases

The Authority leases golf carts under non-cancelable operating leases. Total costs for such leases were \$34,988 for the year ended December 31, 2005. These operating leases are expected to continue indefinitely or be replaced by similar leases. The future minimum lease payments for these leases are as follows:

| Year Ending December 31 | Amount |
|----------------------------|-----------|
| 2006 | \$ 16,020 |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

1. Leases (Continued)

Capital Leases

The Authority has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2005:

| <u>Lease</u> | <u>Maturity</u> | <u>Installment</u> | <u>Payment Amount</u> | <u>Original</u> | <u>Balance</u> |
|--|-----------------|--------------------|---------------------------|-----------------|------------------|
| Business-Type Activities | | | | | |
| 2003 tractor | 2008 | Monthly | \$ 511 | \$ 26,900 | \$ 14,305 |
| 2003 irrigation system upgrade | 2007 | Monthly | 1,343 | 58,016 | 23,154 |
| 2005 mower | 2009 | Annual | 4,807 | 19,908 | 16,595 |
| 2005 top-dresser | 2009 | Annual | 2,302 | 9,510 | <u>7,268</u> |
| Total Business-Type Activities Capital Leases | | | | | <u>\$ 61,322</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

| <u>Year Ending December 31</u> | <u>Business-Type Activities</u> |
|---|-------------------------------------|
| 2006 | \$ 29,365 |
| 2007 | 21,305 |
| 2008 | 10,177 |
| 2009 | <u>7,108</u> |
| Total minimum lease payments | \$ 67,955 |
| Less: amount representing interest | <u>(6,633)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 61,322</u> |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Business-Type Activities

| <u>Type of Indebtedness</u> | <u>Final Maturity</u> | <u>Installment Amounts</u> | <u>Interest Rate (%)</u> | <u>Original Issue Amount</u> | <u>Outstanding Balance December 31, 2005</u> |
|--------------------------------|-----------------------|----------------------------|--------------------------|------------------------------|--|
| 1998 Golf Course Revenue Bonds | 2015 | \$35,000 - \$175,000 | 4.40 to 5.60 | \$ 1,820,000 | \$ 1,395,000 |

3. Debt Service Requirements

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

Business-Type Activities

| <u>Year Ending December 31</u> | <u>Revenue Bonds</u> | |
|--------------------------------|----------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2006 | \$ 110,000 | \$ 72,195 |
| 2007 | 115,000 | 66,512 |
| 2008 | 120,000 | 60,460 |
| 2009 | 125,000 | 54,028 |
| 2010 | 135,000 | 47,104 |
| 2011 - 2015 | 790,000 | 114,194 |
| Total | \$ 1,395,000 | \$ 414,493 |

4. Changes in Long-Term Liabilities

Business-Type Activities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------------------|--------------------------|------------------|-------------------|-----------------------|----------------------------|
| Bonds payable | | | | | |
| Golf course revenue bonds | \$ 1,500,000 | \$ - | \$ 105,000 | \$ 1,395,000 | \$ 110,000 |
| Capital leases | 57,065 | 29,418 | 25,161 | 61,322 | 26,211 |
| Total | \$ 1,557,065 | \$ 29,418 | \$ 130,161 | \$ 1,456,322 | \$ 136,211 |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Cook County and Grand Marais Joint Economic Development Authority are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

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

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

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5 percent. The Authority is required to contribute the following percentages of annual covered payroll:

In 2005

| | |
|----------------------------------|--------|
| Public Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 5.53 |

In 2006

| | |
|----------------------------------|--------|
| Public Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 6.00 |

The Authority's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund were:

| | | |
|------|----|--------|
| 2005 | \$ | 12,746 |
| 2004 | | 10,297 |
| 2003 | | 1,562 |

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

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

4. Risk Management

The Authority 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. The Authority purchases commercial insurance for all risks of loss. 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.

5. Subsequent Event

During 2006, the Authority began a project within the City of Grand Marais to provide land sites for new or existing businesses. The Authority estimates the project to cost \$2.3 million, which will consist mostly of road, utility, and infrastructure construction costs. The project will be funded by the sale of 34 lots, plus Minnesota Department of Employment and Economic Development and Iron Range Resources grants. The estimated completion of the project is early 2007.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

Schedule 1

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

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance With Final Budget</u> |
|--|-------------------------|-------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ 81,000 | \$ 81,000 | \$ 81,950 | \$ 950 |
| Miscellaneous | | | | |
| Investment earnings | 1,500 | 1,500 | 1,823 | 323 |
| Administrative fees | 40,000 | 40,000 | 21,735 | (18,265) |
| Total Revenues | \$ 122,500 | \$ 122,500 | \$ 105,508 | \$ (16,992) |
| Expenditures | | | | |
| Current | | | | |
| Urban and economic development | | | | |
| Salaries | \$ 50,000 | \$ 50,000 | \$ 63,563 | \$ (13,563) |
| Payroll taxes | 6,800 | 6,800 | 11,912 | (5,112) |
| Board per diems | 3,600 | 3,600 | 1,950 | 1,650 |
| Legal | 2,000 | 2,000 | 16,347 | (14,347) |
| Professional services | 28,600 | 28,600 | 54,457 | (25,857) |
| Consultant | - | - | 3,000 | (3,000) |
| Rent | 3,000 | 3,000 | 3,000 | - |
| Office | 5,200 | 5,200 | 5,328 | (128) |
| Insurance | 3,000 | 3,000 | 9,062 | (6,062) |
| Telephone and internet | 1,100 | 1,100 | 1,323 | (223) |
| Travel and training | 1,200 | 1,200 | 379 | 821 |
| Special projects | 17,000 | 17,000 | - | 17,000 |
| Other | 1,000 | 1,000 | 2,898 | (1,898) |
| Total Expenditures | \$ 122,500 | \$ 122,500 | \$ 173,219 | \$ (50,719) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ - | \$ - | \$ (67,711) | \$ (67,711) |
| Fund Balance - January 1 | 310,205 | 310,205 | 310,205 | - |
| Fund Balance - December 31 | \$ 310,205 | \$ 310,205 | \$ 242,494 | \$ (67,711) |

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

Budgetary Information

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year-end.

On or before July of each year, the Cook County and Grand Marais Joint Economic Development Authority sends its budget to the Cook County Board and the Grand Marais City Council. The proposed budget is presented to the County Board and City Council for review. The Board and Council hold public hearings, and a final budget must be prepared and adopted no later than December 31.

The budget is prepared by function, and includes a written estimate of the amount of money needed by the Authority from the County and City in order for the Authority to conduct business during the upcoming fiscal year.

This page was left blank intentionally.

SUPPLEMENTAL INFORMATION

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
GOLF COURSE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|--------------------|--------------------|---------------------|
| Operating Revenues | | | |
| Sales | | | |
| Food, beverage, and merchandise | \$ 233,280 | \$ 211,103 | \$ (22,177) |
| Less: cost of goods sold | (135,000) | (143,483) | (8,483) |
| Net sales | \$ 98,280 | \$ 67,620 | \$ (30,660) |
| Charges for services | | | |
| Green fees and other charges | 798,480 | 732,779 | (65,701) |
| Total Revenues | \$ 896,760 | \$ 800,399 | \$ (96,361) |
| Operating Expenses | | | |
| Current | | | |
| Culture and recreation | | | |
| Salaries and wages | \$ 329,000 | \$ 317,036 | \$ 11,964 |
| Payroll taxes | 50,000 | 38,403 | 11,597 |
| Retirement contribution | 7,600 | 8,312 | (712) |
| Grounds maintenance and supplies | 110,000 | 117,052 | (7,052) |
| Clubhouse maintenance and supplies | 12,000 | 15,553 | (3,553) |
| Golf cart leases and maintenance | 33,500 | 34,988 | (1,488) |
| Insurance | 27,000 | 24,364 | 2,636 |
| Utilities | 28,000 | 26,320 | 1,680 |
| Telephone | 4,000 | 3,438 | 562 |
| Office | 1,500 | 1,922 | (422) |
| Administrative fee | 20,000 | 6,500 | 13,500 |
| Accounting and audit | 15,000 | 12,300 | 2,700 |
| Professional services | 3,000 | - | 3,000 |
| Dues and licenses | 2,000 | 3,194 | (1,194) |
| Travel | 3,000 | 3,152 | (152) |
| Marketing | 30,000 | 28,444 | 1,556 |
| Bank charges and fees | 20,000 | 16,309 | 3,691 |
| Capital outlay | 67,255 | - | 67,255 |
| Depreciation expense | - | 232,482 | (232,482) |
| Total Expenses | \$ 762,855 | \$ 889,769 | \$ (126,914) |
| Operating Income (Loss) | \$ 133,905 | \$ (89,370) | \$ (223,275) |
| Nonoperating Revenues (Expenses) | | | |
| Investment earnings | \$ - | \$ 6,402 | \$ 6,402 |
| Lodging tax | 50,000 | 50,000 | - |
| Gain on sale of capital assets | - | 4,500 | 4,500 |
| Interest expense | (77,200) | (83,992) | (6,792) |
| Total Nonoperating Revenues (Expenses) | \$ (27,200) | \$ (23,090) | \$ 4,110 |

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

Schedule 2
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GOLF COURSE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Budget | Actual | Variance |
|--------------------------|--------------|--------------|--------------|
| Income (Loss) | \$ 106,705 | \$ (112,460) | \$ (219,165) |
| Net Assets - January 1 | 2,185,780 | 2,185,780 | - |
| Net Assets - December 31 | \$ 2,292,485 | \$ 2,073,320 | \$ (219,165) |

This page was left blank intentionally.

**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Segregation of Duties

Due to the limited number of office personnel within the Cook County and Grand Marais Joint Economic Development Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Authority; however, the Authority should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Currently, bills are approved by the Authority; and checks issued for payment require dual signatures. We recommend that the Authority continue to monitor and oversee these procedures and constantly be aware of the lack of segregation of the accounting functions.

Client's Response:

When invoices are received, the Director and/or the Assistant director review them. The invoices are then forwarded to Accounting for review and the drafting of checks. Two Board Members then review the invoice and accompanying check. Upon the final approval of the two Board Members, both parties sign the check and accompanying invoice; and the check is then issued to the vendor. Lastly, the seven (7) EDA Board Members continually monitor this situation through monthly profit and loss statements, check register, and balance sheet reports. To further segregate duties, the Director and Assistant Director are no longer signatory to any bank accounts.

96-2 Golf Course Segregation of Duties

The Cook County and Grand Marais Joint Economic Development Authority manages the operations of the Superior National at Lutsen Golf Course. Our review of golf course operations disclosed a lack of segregation of duties. Currently, the golf pro is responsible for clubhouse operations and, in that capacity, performs the following functions: collects receipts, operates the cash register, closes the cash register at the end of the day, counts the day's receipts, prepares the daily deposit, and takes the deposit to the bank. Some of these duties have been assigned to the assistant golf pro. However, the golf pro remains involved in these functions. This situation is not unusual in operations with a limited number of office personnel. Management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of personnel is not desirable from an accounting point of view.

We recommend the Authority continue to monitor and oversee procedures and constantly be aware of the lack of segregation of duties.

Client's Response:

The Authority is aware of this situation and is taking strides to rectify any potential weakness in the system. One such action is the "Daily Cash Drawer Summary" is sent from the Golf Course to the EDA office. This report is faxed to the EDA office every morning depicting the previous day's business. This report is reviewed on an ongoing basis with Accounting.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

04-1 Collateral Requirements

During July and August 2005, the Authority's deposits with the North Shore Federal Credit Union exceeded the amount of insurance available to the Authority. Deposits at the North Shore Federal Credit Union on August 31, 2005, were \$124,742, which exceeded available insurance by \$24,742. No additional insurance or collateral was obtained to secure these excess deposits.

Minn. Stat. § 118A.03 requires a governmental entity to obtain collateral or a surety bond from a financial institution for deposits in excess of available federal deposit insurance. The amount of pledged collateral, based on its market value, must be at least ten percent more than the uninsured amount on deposit. Unsecured deposits expose the Authority to risk of loss due to financial institution default.

We recommend the Authority's Board monitor deposits and the amount of available insurance and pledged collateral. Additional collateral should be requested from the financial institution as needed.

Client's Response:

The Authority shall closely monitor banking accounts to ensure deposits do not exceed the federally insured amount of \$100,000. In the event EDA deposits do exceed the insured amount, the EDA has directed that additional insurance or collateral must be obtained to secure the excess deposits with the financial institution.

04-2 Rate Covenant Compliance

Net revenues for the golf course for the year ended December 31, 2005, did not meet the threshold specified in the golf course revenue bond resolution.

Part 6(a) of the Board resolution providing for the issuance and sale of the golf course revenue bonds contains a covenant regarding the adequacy of the net revenues of the golf course. The covenant states, in part, that commencing with fiscal year 2000, if the net revenues of the golf course are less than 115 percent of the maximum annual debt service on the bonds, as determined by the annual audit of the golf course, the Authority is required to hire a nationally-recognized golf course consultant to evaluate the performance of the golf course.

Golf course net revenues of \$197,540 for 2005 are less than the maximum annual debt service on the bonds of \$209,524. The maximum annual debt service calculation is equal to 115 percent of 2006 scheduled debt service payments of \$182,195. Golf course net revenues are equal to the excess of revenues over/under expenses, excluding bond interest and depreciation expense $((\$112,460) + \$77,518 + \$232,482 = \$197,540)$ as reported in the 2005 audited golf course financial statements.

We recommend the Board review the net revenue requirement specified in the golf course revenue bond resolution and hire a nationally recognized golf course consultant to evaluate the performance of the golf course.

Client's Response:

The Board of Commissioners will review the net revenue requirement and review the appropriate options.



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

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

Board of Commissioners
Cook County and Grand Marais Joint
Economic Development Authority

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority as of and for the year ended December 31, 2005, and have issued our report thereon dated May 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cook County and Grand Marais Joint Economic Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 96-1 and 96-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, the Cook County and Grand Marais Joint Economic Development Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 04-1 and 04-2.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: May 18, 2006