

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

COOK COUNTY
GRAND MARAIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

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

Tax Increment Financing (TIF) - promotes compliance and accountability in local governments' use of TIF through financial and compliance audits.

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

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

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

For the Year Ended December 31, 2004



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

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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GRAND MARAIS, MINNESOTA**

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2004**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Janice Hall	January 2007
District 2	Walter Mianowski	January 2005
District 3	Robert Fenwick*	January 2007
District 4	Gene Erickson	January 2005
District 5	Bruce Martinson	January 2007
Officers		
Elected		
Attorney	William Hennessy	January 2007
Auditor/Treasurer	Braidy Powers	January 2007
Recorder/Registrar of Titles	Dusty Nelms	January 2007
Sheriff	David Wirt	January 2005
Appointed		
Assessor/Land Commissioner	Ted Mershon	December 2008
Court Administrator	Larry Saur	Indefinite
Highway Engineer	Charles Schmit	May 2006
Veteran Services Officer	David Hilton**	February 2006
Human Services Board		
Chair	Janice Hall	January 2007
Vice Chair	Walter Mianowski	January 2005
Member	Bev Green	January 2005
Member	Edwina Hertzberg	January 2005
Member	Robert Fenwick	January 2007
Member	Gene Erickson	January 2005
Member	Bruce Martinson	January 2007
Director	Sue Futterer	Indefinite

*Chair

**Deceased. Dale Tormondson appointed as of January 24, 2005.

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

PATRICIA ANDERSON
STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cook County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cook County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Cook County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cook County as of December 31, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cook County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Cook County. 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 a report dated September 20, 2005, on our consideration of Cook County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

(Unaudited)

This Management's Discussion and Analysis (MD&A) provides an overview of Cook County's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$53,622,300, of which \$39,937,355 is invested in capital assets, net of related debt, and \$7,033,990 is restricted to specific purposes; \$6,650,955 remains as unrestricted net assets available to help ensure fiscal strength in the face of expected future cuts in state aids.
- The Cook County-Grand Marais Joint Economic Development Authority (EDA) is shown as a "Discretely Presented Component Unit." The EDA has total net assets of \$2,586,426, of which \$1,935,450 is invested in capital assets, net of related debt, and \$279,006 is restricted to specific purposes. The majority of these amounts are for the Superior National Golf Course in Lutsen.
- Cook County's net assets increased by \$3,468,717 for the year ended December 31, 2004. The net assets of the County's discretely presented component unit (EDA) decreased by \$95,800.
- The net cost of governmental activities was \$3,709,933 for the current fiscal year. This is nearly double the 2003 cost. Road and Bridge projects account for most of this increase. The net cost was funded by general revenues and other items totaling \$7,178,650. Net cost is the amount by which the cost of services had to be paid by taxes or other unrestricted funds.
- Governmental funds' fund balances increased by \$547,131.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the County's basic financial statements. The basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in them. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divide the County into two kinds of activities:

Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

Component unit--This is the Cook County-Grand Marais Joint Economic Development Authority (EDA) whose major activity is to oversee operation and management of the Superior National Golf Course in Lutsen. Although legally separate, this “component unit” is important because the County is financially accountable for it.

The government-wide financial statements can be found in Exhibits 1 and 2.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds--Most of the County’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in a statement following each governmental fund financial statement.

The basic financial statements for governmental funds can be found in Exhibits 4 through 6.

Fiduciary funds--The County is the trustee, or fiduciary, over assets, which can be used only for the trust beneficiaries, based on the trust arrangement. All of the County’s fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the County’s other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The financial statement for fiduciary funds can be found in Exhibit 7.

THE COUNTY AS A WHOLE

Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and component unit activities.

Table 1
Net Assets

	Governmental Activities		Component Unit Activities	
	2004	2003	2004	2003
Current and other assets	\$ 21,607,703	\$ 20,983,572	\$ 707,830	\$ 717,369
Capital assets	44,277,355	42,415,758	3,492,515	3,716,629
Total Assets	\$ 65,885,058	\$ 63,399,330	\$ 4,200,345	\$ 4,433,998
Long-term debt outstanding	\$ 11,225,246	\$ 11,974,128	\$ 1,452,065	\$ 1,575,624
Other liabilities	1,037,512	1,271,619	161,854	176,148
Total Liabilities	\$ 12,262,758	\$ 13,245,747	\$ 1,613,919	\$ 1,751,772
Net Assets				
Invested in capital assets, net of debt	\$ 39,937,355	\$ 37,800,758	\$ 1,935,450	\$ 2,041,005
Restricted	7,033,990	7,141,453	279,006	276,074
Unrestricted	6,650,955	5,211,372	371,970	365,147
Total Net Assets	\$ 53,622,300	\$ 50,153,583	\$ 2,586,426	\$ 2,682,226

For details, please see the Statement of Net Assets, Exhibit 1.

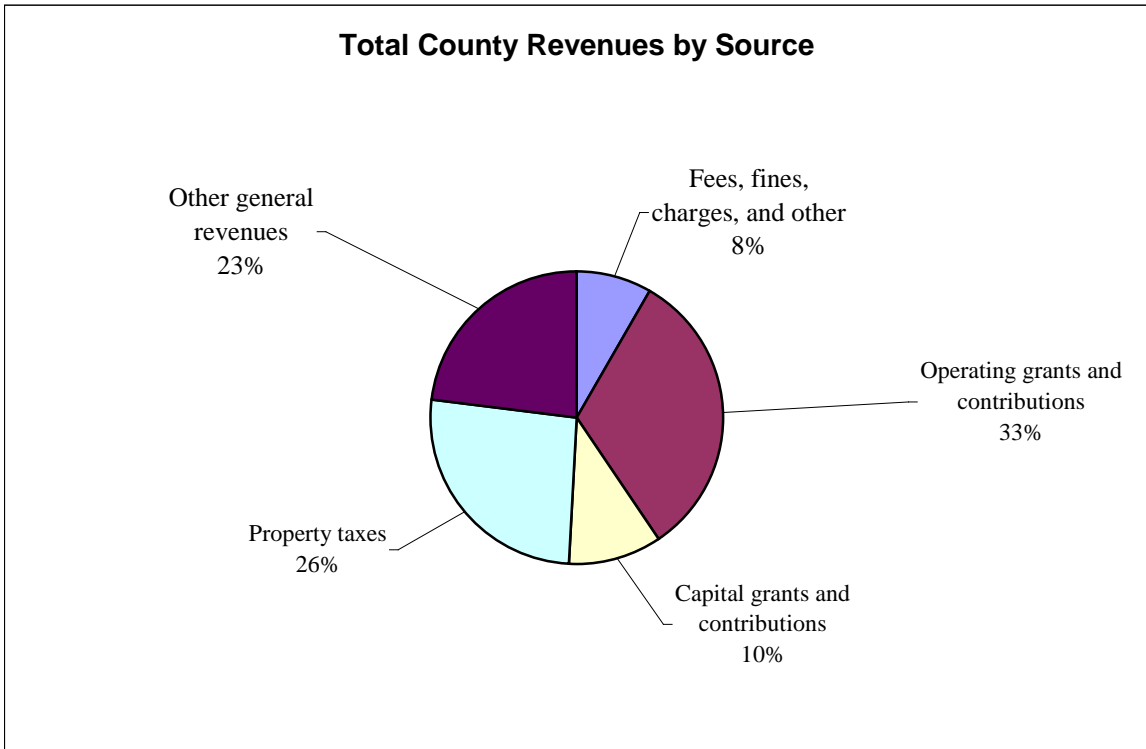
Table 2
Changes in Net Assets

	Governmental Activities		Component Unit Activities	
	2004	2003	2004	2003
Revenues				
Program revenues				
Fees, fines, charges, and other	\$ 1,229,637	\$ 1,713,312	\$ 791,972	\$ 884,423
Operating grants and contributions	4,701,232	7,647,594	9,500	21,322
Capital grants and contributions	1,527,384	1,295,775	-	-
General revenues				
Property taxes	3,815,079	3,596,147	84,046	86,594
Other taxes	1,724,683	1,811,972	71,978	139,835
Unrestricted grants and contributions	1,259,555	1,415,085	-	-
Gifts and contributions	104,096	99,790	-	-
Investment income	235,853	311,360	3,489	3,845
Contributions to permanent fund	5,414	170,850	-	-
Miscellaneous	33,970	50,907	26,685	12,500
Total Revenues	\$ 14,636,903	\$ 18,112,792	\$ 987,670	\$ 1,148,519
Expenses				
General government	2,765,357	2,700,493	\$ -	\$ -
Public safety	1,918,479	2,193,935	-	-
Highways and streets	2,555,828	3,334,397	-	-
Sanitation	458,944	606,316	-	-
Human services	1,278,014	1,250,174	-	-
Health	214,395	384,116	-	-
Culture and recreation	538,441	557,444	-	-
Golf course	-	-	980,606	1,052,963
Conservation of natural resources	611,518	266,962	-	-
Economic development	397,493	760,548	102,864	152,548
Interest	429,717	467,284	-	-
Total Expenses	\$ 11,168,186	\$ 12,521,669	\$ 1,083,470	\$ 1,205,511
Increase (Decrease) in Net Assets	\$ 3,468,717	\$ 5,591,123	\$ (95,800)	\$ (56,992)
Net Assets - January 1	50,153,583	44,562,460	2,682,226	2,739,218
Net Assets - December 31	\$ 53,622,300	\$ 50,153,583	\$ 2,586,426	\$ 2,682,226

For details, please see the Statement of Activities, Exhibit 2.

(Unaudited)

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Governmental Activities

The cost of all governmental activities this year was \$11,168,186. However, as shown in the Statement of Activities (Exhibit 2), the amount our taxpayers ultimately financed for these activities through County taxes was only \$3,815,079 (26 percent of total revenues) because some of the cost was paid by those who directly benefited from the programs (\$1,229,637) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,228,616).

Table 3 presents the cost of each of the County’s seven largest 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 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
General government	\$ 2,765,357	\$ 2,700,493	\$ 1,263,169	\$ 997,845
Highways and streets	2,555,828	3,334,397	(1,038,618)	(3,076,309)
Public safety	1,918,479	2,193,935	1,381,055	1,557,895
Human services	1,278,014	1,250,174	533,805	431,576
Conservation of natural resources	611,518	266,962	1,733	(143,944)
Culture and recreation	538,441	557,444	471,490	490,644
Sanitation	458,944	606,316	292,149	516,684
All others	1,041,605	1,611,948	805,150	1,090,597
Total (Net Expense)	\$ 11,168,186	\$ 12,521,669	\$ 3,709,933	\$ 1,864,988

The County's Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$15,957,972, which exceeds last year's total of \$15,299,120. The General Fund's fund balance increased \$793,073. Please see Exhibit 5 for details.

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the County's General Fund budget several times. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts. Capital outlays paid by grants are not budgeted.

Expenditures, excluding capital, were \$551,229 above the final budget amounts. The most significant event that led to the higher costs was erosion control project expenses paid largely from federal and state grant funds. The higher than budgeted expenses were more than offset by revenues that exceeded budget by \$1,263,355. Grant revenues and related expenditures, capital, and operating costs were generally not budgeted. Please see Schedule 1 for details.

CAPITAL ASSETS

At the end of 2004, the County had a net investment of \$44,277,355 in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$1,861,597, or 4.4 percent, over last year.

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities	
	2004	2003
Land and easements	\$ 881,417	\$ 819,373
Construction in progress	413,789	4,107,466
Buildings and improvements	8,220,634	7,736,779
Machinery, vehicles, furniture, and equipment	1,633,786	1,791,818
Infrastructure	33,127,729	27,960,322
Total	\$ 44,277,355	\$ 42,415,758

The majority of the changes in 2004, are from the completion of 2003 construction in progress and the related increase of infrastructure both of which relate to various projects of the Road and Bridge Department.

Please see Note 2.A.3. for details.

DEBT

At year-end, the County had \$10,814,285 in bonds and notes outstanding, versus \$11,578,852 last year--a decrease of 6.6 percent.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	2004	2003
General obligation bonds	\$ 6,990,832	\$ 7,567,499
Certificates of participation	4,030,000	4,235,000
Less: deferred charges for refunding bonds	(206,547)	(223,647)
Total	\$ 10,814,285	\$ 11,578,852

See “Notes to the Financial Statements,” Notes 2.C.3. through 2.C.7. for more detailed explanation of the County’s debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal-year 2005 budget, tax rates, and fees that will be charged for various activities.

- The State of Minnesota has projected a significant budget deficit and it is anticipated that there will be significant reductions in state aids to local governments.
- Despite continued decrease of state aid, the County budgeted a minor use of the General Fund's fund balance of only \$52,885.
- Property tax levies have increased 1.6 percent for 2005, also in response to cuts in state aid.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, please call County Auditor/Treasurer, Braidy Powers, at (218) 387-3646, or send a letter to the Cook County Courthouse, 411 West 2nd Street, Grand Marais, Minnesota 55604-2307.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 14,943,185	\$ 359,591
Investments	14,500	-
Receivables - net	6,047,252	1,541
Due from primary government	-	6,092
Inventories	420,502	28,229
Restricted assets		
Assets held by trustee	-	312,377
Deferred charges	182,264	-
Capital assets		
Non-depreciable capital assets	1,295,206	295,658
Depreciable capital assets - net of accumulated depreciation	42,982,149	3,196,857
Total Assets	\$ 65,885,058	\$ 4,200,345
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 684,302	\$ 23,483
Accrued interest payable	145,745	-
Due to component unit	6,092	-
Unearned revenue	70,987	-
Payable from restricted assets		
Accrued interest payable	-	33,371
Bonds payable - current	-	105,000
Advance from other governments	130,386	-
Long-term liabilities		
Due within one year	851,667	19,605
Due in more than one year	10,373,579	1,432,460
Total Liabilities	\$ 12,262,758	\$ 1,613,919
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 39,937,355	\$ 1,935,450
Restricted for		
General government	49,852	-
Highways and streets	3,404,088	-
Public safety	178,177	-
Culture and recreation	213,490	-
Conservation of natural resources	761,294	-
Economic development	583,644	-
Debt service	1,843,445	279,006
Unrestricted	6,650,955	371,970
Total Net Assets	\$ 53,622,300	\$ 2,586,426

The notes to the financial statements are an integral part of this statement.

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,765,357	\$ 472,328
Public safety	1,918,479	242,401
Highways and streets	2,555,828	143,882
Sanitation	458,944	166,759
Human services	1,278,014	77,179
Health	214,395	31,980
Culture and recreation	538,441	42,182
Conservation of natural resources	611,518	17,531
Economic development	397,493	35,395
Interest	429,717	-
	\$ 11,168,186	\$ 1,229,637
Total governmental activities		
Component Unit		
Cook County and Grand Marais Joint Economic Development Authority	\$ 1,083,470	\$ 791,972
 General Revenues		
Property taxes		
Tax increments		
Lodging taxes		
Mortgage registry and deed tax		
Local sales tax		
Taxes - other		
Grants and contributions not restricted to specific programs		
Payments in lieu of taxes		
Investment income		
Contributions to permanent fund		
Miscellaneous		
Gain on sale of capital assets		
	Total general revenues	
		Change in net assets
		Net Assets - Beginning
		Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Change in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Discretely Presented Component Unit
\$ 1,019,745	\$ 10,115	\$ (1,263,169)	
295,023	-	(1,381,055)	
1,968,916	1,481,648	1,038,618	
36	-	(292,149)	
667,030	-	(533,805)	
84,409	-	(98,006)	
1,000	23,769	(471,490)	
580,402	11,852	(1,733)	
84,671	-	(277,427)	
-	-	(429,717)	
\$ 4,701,232	\$ 1,527,384	\$ (3,709,933)	
\$ 9,500	\$ -		\$ (281,998)
		\$ 3,815,079	\$ 84,046
		-	21,978
		-	50,000
		12,148	-
		978,455	-
		734,080	-
		1,259,555	-
		104,096	-
		235,853	3,489
		5,414	-
		32,166	26,685
		1,804	-
		\$ 7,178,650	\$ 186,198
		\$ 3,468,717	\$ (95,800)
		50,153,583	2,682,226
		\$ 53,622,300	\$ 2,586,426

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 3

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

	General	Road and Bridge	Public Health and Human Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	\$ 7,075,453	\$ 1,127,638	\$ 1,242,701	\$ 3,878,574	\$ 13,324,366
Petty cash and change funds	1,032	-	-	-	1,032
Cash with escrow agent	-	-	-	1,617,787	1,617,787
Investments	-	-	14,500	-	14,500
Taxes receivable			-		
Prior	48,788	23,202	17,979	10,969	100,938
Accounts receivable	19,870	23,343	15,072	100,663	158,948
Lodging taxes receivable	-	-	-	23,102	23,102
Accrued interest receivable	125,745	-	-	1,670	127,415
Loans receivable	687,182	-	-	-	687,182
Due from other funds	156,128	1,685	9,988	817	168,618
Due from other governments	835,013	3,873,928	118,976	96,750	4,924,667
Inventories	-	420,502	-	-	420,502
MCCF deposit receivable	25,000	-	-	-	25,000
Total Assets	\$ 8,974,211	\$ 5,470,298	\$ 1,419,216	\$ 5,730,332	\$ 21,594,057
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 85,063	\$ 11,298	\$ 46,105	\$ 12,187	\$ 154,653
Salaries payable	167,791	54,800	29,324	-	251,915
Contracts payable	-	213,968	-	-	213,968
Due to other funds	11,673	1,069	11,917	143,959	168,618
Due to other governments	7,043	20,618	35,212	893	63,766
Due to component unit	6,092	-	-	-	6,092
Deferred revenue - unavailable	832,666	3,629,356	23,789	89,889	4,575,700
Deferred revenue - unearned	20,471	34,858	15,658	-	70,987
Advance from other governments	-	130,386	-	-	130,386
Total Liabilities	\$ 1,130,799	\$ 4,096,353	\$ 162,005	\$ 246,928	\$ 5,636,085

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	General	Road and Bridge	Public Health and Human Services	Other Governmental Funds	Total Governmental Funds
<u>Liabilities and Fund Balances</u>					
(Continued)					
Fund Balances					
Reserved for					
Encumbrances	\$ -	\$ 624,767	\$ -	\$ -	\$ 624,767
Inventories	-	420,502	-	-	420,502
Economic development	583,644	-	-	-	583,644
Law library	45,944	-	-	-	45,944
Recorder's equipment	3,908	-	-	-	3,908
Sheriff's contingency	5,000	-	-	-	5,000
Debt service	-	-	-	1,843,445	1,843,445
Enhanced 911	173,177	-	-	-	173,177
MCCF deposit	25,000	-	-	-	25,000
Environmental improvements	-	-	-	608,344	608,344
Law enforcement	92	-	-	-	92
Timber development	152,950	-	-	-	152,950
Parks and recreation	213,490	-	-	-	213,490
Unreserved					
Designated for future expenditures	19,752	-	-	-	19,752
Designated for capital improvements	-	161,000	-	-	161,000
Designated for E-911 signs	14,468	-	-	-	14,468
Designated for hazardous materials team	8,377	-	-	-	8,377
Designated for search and rescue	4,755	-	-	-	4,755
Designated for emergency purposes	3,770	-	-	-	3,770
Designated for elections	12,475	-	-	-	12,475
Designated for County telephone	19,558	-	-	-	19,558
Designated for 20% unorganized townships	2,834	-	-	-	2,834
Designated for data processing	313,061	-	-	-	313,061
Designated for NERCC facilities	22,118	-	-	-	22,118
Designated for Sheriff's cars	179,865	-	-	-	179,865
Designated for landfill future development	91,574	-	-	-	91,574
Designated for County cars	91,756	-	-	-	91,756
Designated for photocopies	67,008	-	-	-	67,008
Designated for County landings	35,487	-	-	-	35,487
Undesignated	5,753,349	167,676	1,257,211	-	7,178,236
Unreserved, reported in nonmajor					
Debt service funds	-	-	-	430,333	430,333
Special revenue funds	-	-	-	2,601,282	2,601,282
Total Fund Balances	\$ 7,843,412	\$ 1,373,945	\$ 1,257,211	\$ 5,483,404	\$ 15,957,972
Total Liabilities and Fund Balances	\$ 8,974,211	\$ 5,470,298	\$ 1,419,216	\$ 5,730,332	\$ 21,594,057

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	15,957,972
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		44,277,355
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		4,575,700
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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	\$	(6,990,832)	
Certificates of participation		(3,823,453)	
Compensated absences		(410,961)	
Accrued interest payable		(145,745)	
Deferred debt issuance charges		182,264	
		(11,188,727)	(11,188,727)

Net assets of governmental activities (Exhibit 1)	\$	<u>53,622,300</u>
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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Road and Bridge	Public Health and Human Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,152,505	\$ 940,609	\$ 719,730	\$ 1,758,061	\$ 5,570,905
Special assessments	11,852	-	-	-	11,852
Licenses and permits	50,585	-	12,235	-	62,820
Intergovernmental	3,141,692	2,938,112	805,368	244,994	7,130,166
Charges for services	432,393	143,882	35,759	6,027	618,061
Fines and forfeits	64,520	-	-	-	64,520
Gifts and contributions	24,723	-	-	-	24,723
Interest on investments	198,637	-	-	33,092	231,729
Miscellaneous	542,578	-	56,564	105,762	704,904
Total Revenues	\$ 6,619,485	\$ 4,022,603	\$ 1,629,656	\$ 2,147,936	\$ 14,419,680
Expenditures					
Current					
General government	\$ 2,557,217	\$ -	\$ -	\$ 7,420	\$ 2,564,637
Public safety	1,760,915	-	-	2,066	1,762,981
Highways and streets	-	4,257,173	-	-	4,257,173
Sanitation	366,546	-	-	73,156	439,702
Human services	-	-	1,268,662	-	1,268,662
Health	-	-	214,395	-	214,395
Culture and recreation	498,546	-	-	16,748	515,294
Conservation of natural resources	573,419	-	-	33,864	607,283
Economic development	9,890	-	-	239,564	249,454
Capital outlay	83,675	-	-	745,673	829,348
Debt service					
Principal retirement	-	70,000	-	711,667	781,667
Interest	-	8,115	-	380,497	388,612
Administrative charges	-	523	-	7,449	7,972
Total Expenditures	\$ 5,850,208	\$ 4,335,811	\$ 1,483,057	\$ 2,218,104	\$ 13,887,180
Excess of Revenues Over (Under) Expenditures	\$ 769,277	\$ (313,208)	\$ 146,599	\$ (70,168)	\$ 532,500
Other Financing Sources (Uses)					
Transfers in	\$ 16,575	\$ -	\$ -	\$ 703,817	\$ 720,392
Transfers out	-	-	-	(720,392)	(720,392)
Proceeds from sale of capital assets	7,221	-	-	7,410	14,631
Total Other Financing Sources (Uses)	\$ 23,796	\$ -	\$ -	\$ (9,165)	\$ 14,631
Net Change in Fund Balances	\$ 793,073	\$ (313,208)	\$ 146,599	\$ (79,333)	\$ 547,131
Fund Balance - January 1	7,050,339	1,575,432	1,110,612	5,562,737	15,299,120
Increase (decrease) in reserved for inventories	-	111,721	-	-	111,721
Fund Balance - December 31	\$ 7,843,412	\$ 1,373,945	\$ 1,257,211	\$ 5,483,404	\$ 15,957,972

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 547,131

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

In the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 4,575,700	
Deferred revenue - January 1	(4,360,283)	215,417

In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the book value of the capital assets disposed of.

(12,827)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 3,328,720	
Current year depreciation	(1,454,296)	1,874,424

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

Principal repayments		
General obligation bonds	\$ 576,667	
Certificates of participation payable	205,000	781,667

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

Change in accrued interest payable	\$ 2,785	
Amortization of discounts and deferred issuance charges	(35,916)	
Change in compensated absences	(15,685)	
Change in inventories	111,721	62,905

Change in net assets of governmental activities (Exhibit 2) \$ 3,468,717

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FIDUCIARY FUNDS

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COOK COUNTY
GRAND MARAIS, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 375,924
Accounts receivable	27,903
Due from other governments	<u>536</u>
Total Assets	<u>\$ 404,363</u>
<u>Liabilities</u>	
Accounts payable	\$ 9,748
Due to other governments	<u>394,615</u>
Total Liabilities	<u>\$ 404,363</u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Cook County was established March 9, 1874, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Cook County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor, elected on a County-wide basis, serves as the clerk of the Board of Commissioners but has no vote.

Blended Component Unit

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

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Cook County Building Authority	County Board is the governing body.	Separate financial statements are not prepared.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Unit (Continued)

The Cook County Building Authority is a nonprofit corporation organized under the provisions of Minn. Stat. ch. 317A. The Authority is operated, supervised, and controlled by the County. The County Board is the governing body of the Cook County Building Authority. Although the Authority is legally separate from the County, it is reported as part of the primary government since its sole purpose is to finance the construction of a new jail and courthouse addition. The activity of the Authority is reported in the Debt Service Fund.

Discretely Presented Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component unit of Cook County is discretely presented:

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Cook County - Grand Marais Joint Economic Development Authority (EDA)	County appoints a majority of the Cook County - Grand Marais Joint Economic Development Authority Board.	Cook County - Grand Marais Joint Economic Development Authority Box 597 Grand Marais, MN 55604

The EDA is governed by a board of seven members, four of whom are appointed by the Cook County Board and three of whom are appointed by the Grand Marais City Council. The EDA has all of the powers, rights, duties, and obligations conferred on economic development authorities by Minn. Stat. §§ 469.090-.1081 to promote and provide incentives for economic development. The EDA has included the Resource Development Council of Cook County, Inc., as a blended component unit of the EDA.

Joint Ventures

The County participates in several joint ventures described in Note 4.C. The County also participates in a jointly-governed organization described in Note 4.D.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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 primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities normally are supported by taxes and intergovernmental revenues.

In the government-wide statement of net assets, the governmental activities column: (a) is presented on a consolidated basis by column; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues 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 and blended component unit. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

B Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. 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. Cook 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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$204,605.

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

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

- (1) securities that 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;

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the non-current portion of interfund loans).

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

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Loans receivable consist of the outstanding balances of economic development loans to private enterprises. The funds used for these loans are from the State of Minnesota Small Cities Grant Program.

3. Inventories and Prepaid Items

The Road and Bridge Special Revenue Fund inventory is valued at cost using the average cost method and consists of expendable supplies and parts held for consumption. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

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

4. Capital Assets

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

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 50
Improvements other than buildings	20
Public domain infrastructure	20 - 75
Furniture, equipment, and vehicles	4 - 15

5. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual, personal time off, and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. 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

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

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 column of the statement of net assets. Bond premiums and discounts, as well as issuance costs,

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

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

8. Fund Equity

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

9. Use of Estimates

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 14,943,185
Investments	14,500
EDA component unit	
Cash and pooled investments	359,591
Restricted assets held by trustee	312,377
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>375,924</u>
 Total Cash and Investments	 <u>\$ 16,005,577</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$894,804. The bank balance deposit amount was \$1,069,142. The bank deposits for the Cook County-Grand Marais Joint Economic Development Authority (discrete component unit) were \$368,024, and the carrying value was \$359,591. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	
Primary government	\$ 388,118
Component unit	143,620
Collateralized with securities held by the pledging financial institution's agent in the County's name	
Primary government	681,024
Component unit	224,404
Total covered deposits	\$ 1,437,166
Uncollateralized	-
Total	\$ 1,437,166

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

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 1,775,817	\$ -	\$ 2,634,646	\$ 4,410,463
Negotiable certificates of deposit	1,183,357	-	2,240,678	3,424,035
Corporate bonds	-	-	-	-
Cash with escrow agent - U.S. government securities	-	-	1,617,787	1,617,787
Total Investments	<u>\$ 2,959,174</u>	<u>\$ -</u>	<u>\$ 6,493,111</u>	<u>\$ 9,452,285</u>
Add				
Petty cash and change funds				1,032
Money market mutual funds				
Primary government Component unit				28,220
MAGIC Fund				
Primary government Component unit				183,810
Deposits				
Primary government Component unit				894,804
				<u>359,591</u>
Total Cash and Investments				<u>\$ 16,005,577</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 124,040	\$ -
Loans	687,182	644,447
Due from other governments	4,924,667	285,071
Accounts	158,948	-
Interest	127,415	-
MCCF deposit	25,000	-
Total Governmental Activities	\$ 6,047,252	\$ 929,518

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and easements	\$ 819,373	\$ 62,044	\$ -	\$ 881,417
Construction in progress	4,107,466	290,677	3,984,354	413,789
Total capital assets not depreciated	\$ 4,926,839	\$ 352,721	\$ 3,984,354	\$ 1,295,206
Capital assets depreciated				
Buildings	\$ 9,243,988	\$ 591,980	\$ -	\$ 9,835,968
Improvements other than buildings	250,611	125,212	-	375,823
Machinery, furniture, and equipment	5,071,027	300,689	352,308	5,019,408
Infrastructure	35,214,031	5,942,472	-	41,156,503
Total capital assets depreciated	\$ 49,779,657	\$ 6,960,353	\$ 352,308	\$ 56,387,702

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 1,689,592	\$ 219,242	\$ -	\$ 1,908,834
Improvements other than buildings	68,228	14,095	-	82,323
Machinery, furniture, and equipment	3,279,209	445,894	339,481	3,385,622
Infrastructure	<u>7,253,709</u>	<u>775,065</u>	<u>-</u>	<u>8,028,774</u>
 Total accumulated depreciation	 <u>\$ 12,290,738</u>	 <u>\$ 1,454,296</u>	 <u>\$ 339,481</u>	 <u>\$ 13,405,553</u>
 Total capital assets depreciated, net	 <u>\$ 37,488,919</u>	 <u>\$ 5,506,057</u>	 <u>\$ 12,827</u>	 <u>\$ 42,982,149</u>
 Capital Assets, Net	 <u><u>\$ 42,415,758</u></u>	 <u><u>\$ 5,858,778</u></u>	 <u><u>\$ 3,997,181</u></u>	 <u><u>\$ 44,277,355</u></u>

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

Governmental Activities	
General government	\$ 193,234
Public safety	154,164
Highways and streets, including depreciation of infrastructure assets	915,804
Sanitation	17,406
Culture and recreation	24,244
Conservation of natural resources	1,405
Economic development	<u>148,039</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 1,454,296</u></u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Special Revenue Funds		
	Road and Bridge	\$ 1,069	Reimburse for supplies and services
	Public Health and Human Services	11,917	Reimburse for supplies and services
	Airport	116,973	Cash deficit covered by General Fund
	Forfeited Tax	<u>26,169</u>	Forfeited tax distribution
Total Due to General Fund		\$ 156,128	
Road and Bridge Public Health and Human Services	General	1,685	Reimburse for supplies and services
	General	9,988	Reimburse for prisoner screenings, transfer family preservation aid
Building Special Revenue	Forfeited Tax Special Revenue	<u>817</u>	Forfeited tax distribution
Total Due To/From Other Funds		<u>\$ 168,618</u>	

2. Due To/From Primary Government and Component Units

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>	<u>Purpose</u>
Component Unit EDA	Primary Government General Fund	<u>\$ 6,092</u>	PERA, market value credit and tax distributions
Total Due to EDA		<u>\$ 6,092</u>	

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to General Fund from other governmental funds		
Airport Special Revenue	\$ 14,200	Repay prior year overpayments
Forfeited Tax Special Revenue	<u>2,375</u>	Distribute net proceeds
Transfers to General Fund	<u>\$ 16,575</u>	
Transfers to Building Fund from other governmental funds		
Forfeited Tax Special Revenue	<u>\$ 817</u>	Distribute net proceeds
Transfers to Debt Service Fund from other governmental funds		
Hospital Sales Tax Fund	\$ 485,000	Providing funds for debt service
Golf Course Lodging Tax Fund	<u>218,000</u>	Providing funds for debt service
Transfers to Debt Service Fund	<u>\$ 703,000</u>	
Total Interfund Transfers	<u><u>\$ 720,392</u></u>	

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 154,653
Salaries	251,915
Contracts	213,968
Due to other governments	<u>63,766</u>
Total Payables	<u><u>\$ 684,302</u></u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

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

	Spent-to-Date	Remaining Commitment
Governmental Activities Roads and bridges	\$ 3,041,354	\$ 225,708

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General Obligation Bonds					
G.O. Care Center Bonds of 1997	2014	\$75,000 - \$195,000	4.00 - 5.25	\$ 1,800,000	\$ 1,290,000
G.O. Care Center Bonds of 1999	2009	\$3,056/month	0.00	330,000	155,832
G.O. Hospital Refunding Bonds of 2001	2014	\$200,000 - \$265,000	4.00 - 4.55	3,110,000	2,520,000
G.O. State Aid Road Refunding Bonds of 2003	2008	\$70,000 - \$80,000	1.65 - 3.00	380,000	310,000
G.O. Care Center Crossover Refunding Bonds of 2003	2014	\$125,000 - \$190,000	2.20 - 3.35	1,260,000	1,260,000
G.O. Tax Increment Improvement Refunding Bonds of 2003	2013	\$175,000 - \$235,000	1.75 - 3.20	1,630,000	1,455,000
Refunding Certificates of Participation of 2003	2017	\$205,000 - \$385,000	2.50 - 4.00	4,235,000	4,030,000
Total general obligation bonds				\$ 12,745,000	\$ 11,020,832
Less: unamortized charge - refunding bonds					(206,547)
Total General Obligation Bonds, Net					\$ 10,814,285

The G.O. State Aid Road Refunding Bonds are paid out of the Road and Bridge Special Revenue Fund. All other long-term debt is paid by the Debt Service Fund.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest
2005	\$ 596,667	\$ 223,025	\$ 255,000	\$ 133,863
2006	741,667	221,134	265,000	127,362
2007	756,666	199,520	265,000	120,738
2008	791,666	176,120	275,000	113,300
2009	714,166	152,064	285,000	104,900
2010 - 2014	3,390,000	352,160	1,575,000	371,048
2015 - 2017	-	-	1,110,000	67,800
Total	<u>\$ 6,990,832</u>	<u>\$ 1,324,023</u>	<u>\$ 4,030,000</u>	<u>\$ 1,039,011</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 7,567,499	\$ -	\$ 576,667	\$ 6,990,832	\$ 596,667
Certificates of participation	4,235,000	-	205,000	4,030,000	255,000
Less: deferred charges - refunding bonds	(223,647)	-	(17,100)	(206,547)	-
Total bonds payable	\$ 11,578,852	\$ -	\$ 764,567	\$ 10,814,285	\$ 851,667
Compensated absences	395,276	350,115	334,430	410,961	-
Long-Term Liabilities	<u>\$ 11,974,128</u>	<u>\$ 350,115</u>	<u>\$ 1,098,997</u>	<u>\$ 11,225,246</u>	<u>\$ 851,667</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

The County has covenanted to provide ongoing disclosure of certain annual financial information and operating data with respect to the County, including audited financial statements of the County. The County's ongoing disclosures are with respect to the following issues:

- General Obligation Care Center Bonds, Series 1997, September 1, 1997
- General Obligation Hospital Refunding Bonds, Series 2001, March 8, 2001
- General Obligation Care Center Crossover Refunding Bonds, Series 2003, August 6, 2003
- General Obligation Tax Increment Improvement Refunding Bonds, Series 2003, August 1, 2003
- General Obligation Refunding Certificates of Participation, Series 2003, August 20, 2003

6. Prior Year Defeasance of Debt

In 2003, Cook County issued Certificates of Participation, Series 2003, in the amount of \$4,235,000, to advance refund \$3,870,000 Certificates of Participation, Series 1996. The net proceeds from the issuance of the Certificates of Participation, Series 2003, were used to purchase U.S. Government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the Certificates of Participation, Series 1996, until the certificates are called on February 1, 2005. For financial reporting purposes, the Certificates of Participation, Series 1996, debt has been considered defeased and has been removed as a liability from the County's government-wide financial statements.

As of December 31, 2004, the amount of defeased debt outstanding but removed from the County's government-wide financial statements amounted to \$3,690,000.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Advance Crossover Refunding of Debt

On August 6, 2003, Cook County issued General Obligation Care Center Crossover Refunding Bonds, Series 2003, in the amount of \$1,260,000 with interest rates of 2.20 percent to 3.35 percent to advance crossover refund the following issue:

General Obligation Care Center Bonds, Series 1997, maturing on and after February 1, 2006. The balance of the outstanding maturities is \$1,190,000, and interest rates are 4.65 percent to 5.25 percent.

The proceeds from the bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury securities were purchased. The County is responsible for the principal and interest on the original issue through February 1, 2005. The refunded bonds will be called and paid by the escrow agent on February 1, 2005. The escrow agent will pay the interest due on the Series 2003 bonds through February 1, 2005; thereafter, the County will be responsible for the payment of debt service. The principal balance of both the original issue and the refunding issue will be shown on the balance sheet until the call date of the refunded bonds, at which time the 1997 Series bonds will be paid, and the liability for those bonds will be removed.

3. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Cook County and its component units 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 and the Public Employees Police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

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 year thereafter. 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 successive year. Using 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 the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

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

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

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 and the Public Employees Police and Fire Fund. That report may be obtained on the web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2004	\$ 171,578	\$ 54,993
2003	162,151	56,056
2002	149,423	50,354

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. The EDA component unit's contributions for the years ended December 31, 2004, 2003, and 2002, were \$10,297, \$1,562, and \$1,468, respectively; all equal to the contractually required contributions.

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$6,140, \$8,211, and \$10,087, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Summary of Significant Contingencies and Other Items

A. 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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group health insurance, the County belongs to the North East Service Cooperative (NESC). For other risks, 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 the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

The NESC is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the NESC and are based partially on the experience of the County and partially on the experience of the group. The NESC solicits proposals from carriers and negotiates the contracts.

B. Contingent Liabilities

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

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.

C. Joint Ventures

Arrowhead Regional Corrections

The County, in a joint powers agreement pursuant to Minn. Stat. § 471.59, participates with Carlton, Koochiching, Lake, and St. Louis Counties in the Arrowhead Regional Corrections Board, which was established pursuant to the Community Corrections Act, Minn. Stat. §§ 401.01-.16.

The Arrowhead Regional Corrections Board comprises three major divisions: juvenile institutional services, adult institutional services, and court and field services. These divisions are composed of the five participating counties' probation departments, the Arrowhead Juvenile Detention Center, and the Northeast Regional Corrections Center.

Arrowhead Regional Corrections is governed by an eight-member Board composed of one member appointed from each of the participating counties' Boards of Commissioners, except for St. Louis County, which has three members from its Board. In addition, the right to have an additional member is annually rotated among Carlton, Cook, Koochiching, and Lake Counties.

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. During 2004, County contributions were in the following proportion:

	<u>Percent</u>
Carlton County	8.91
Cook County	1.38
Koochiching County	1.76
Lake County	2.05
St. Louis County	<u>85.90</u>
Total	<u><u>100.00</u></u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Arrowhead Regional Corrections (Continued)

Below is a summary of the financial information from Arrowhead Regional Corrections' government-wide financial statements:

Total Assets	\$ 10,654,026
Total Liabilities	3,962,002
Total Net Assets	6,692,024
Total Revenues	17,221,508
Total Expenses	16,931,713
Change in Net Assets	289,795

The total assets balance included \$6,620,757 of capital assets--net of accumulated depreciation. The total liabilities balance included \$3,480,235 in long-term liabilities.

Cook County provided \$138,921 in funding during 2004. Separate financial information can be obtained from:

Arrowhead Regional Corrections
St. Louis County Courthouse
100 North 5th Avenue West
Room 319
Duluth, Minnesota 55802

Community Health Board

Carlton, Cook, Lake, and St. Louis Counties entered into a joint powers agreement, creating and operating the Carlton, Cook, Lake, and St. Louis Community Health Board. This agreement was entered into January 1, 1977, and is established pursuant to Minn. Stat. § 471.59.

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Cook County provided no funding to this organization in 2004.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Community Health Board (Continued)

At December 31, 2004, the Community Health Board's summary of financial information was:

Total Assets	\$	587,760
Total Liabilities		498,765
Total Net Assets		88,995
Total Revenues		3,997,895
Total Expenses		3,983,962
Change in Net Assets		13,933

Separate financial information can be obtained from:

Carlton, Cook, Lake, and St. Louis
Community Health Board
325 South Lake Avenue
Duluth, Minnesota 55802

Northeast Minnesota Office of Job Training

Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of developing and implementing a private and public job training program. The United States Congress, through the Job Training Partnership Act of 1982, authorized states to establish "service delivery areas" to provide programs to achieve full employment through the use of grants. The counties identified above are defined as such a service delivery area, and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for such service delivery area. Cook County is not a funding mechanism for this organization.

The governing body is composed of seven members, one from the Board of Commissioners of each of the participating counties.

At fiscal year-end June 30, 2004, the Northeast Minnesota Office of Job Training had assets of \$1,382,550 and long-term debt of \$758,370. The change in net assets was \$394,478 for the year ended June 30, 2004.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North Ninth Street
Suite 200
Virginia, Minnesota 55792

Minnesota Counties Information Systems

The County entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, creating and operating the Minnesota Counties Information Systems (MCIS). The MCIS operates and maintains data processing facilities and management information systems for the benefit of members of this agreement.

The MCIS is governed by an 11-member Board. Each participating county appoints a member. Financing is obtained through user charges to the members. Cass County is the fiscal agent for the MCIS.

Each county's share of the assets and liabilities cannot be accurately determined since it will depend on the number of counties that are members when the agreement is dissolved.

A summary of the financial information of the MCIS at December 31, 2002 (the most recent information available) was:

Total Assets	\$ 555,861
Total Liabilities	244,987
Total Fund Equity	310,874
Total Revenues	1,728,440
Total Expenditures	1,771,971
Increase (Decrease) in Fund Balance	(43,531)

Separate financial information can be obtained from:

Minnesota Counties Information Systems
413 Southeast 7th Avenue
Grand Rapids, Minnesota 55744

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Northern Counties Land Use Board

The Northern Counties Land Use Board was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of helping to formulate land use plans for the protection, sustainable use, and development of lands and natural resources.

The joint powers are Cook, Itasca, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, Roseau, and St. Louis Counties. Three elected County Commissioners from St. Louis County and two from each of the other counties make up the membership of the Board. St. Louis County handles all of the financial transactions for this organization through its Northern Counties Land Use Board Agency Fund.

A summary of the unaudited financial statements at December 31, 2004, is shown below:

Total Assets	\$	27,283
Total Liabilities		5,060
Total Net Assets		22,223
Total Revenues		51,250
Total Expenses		42,773
Change in Net Assets		8,477

The County contributed \$2,500 during 2004 to the Northern Counties Land Use Board.

Separate financial information can be obtained from:

Northern Counties Land Use Board
Room 607
Government Services Center
320 West Second Street
Duluth, Minnesota 55802

North Shore Collaborative

The North Shore Collaborative was established in 1995 pursuant to Minn. Stat. § 124D.23. The Collaborative includes Lake County, Cook County, Independent School District #381, Independent School District #166, and the Grand Portage

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

North Shore Collaborative (Continued)

Reservation. The purpose of the Collaborative is to form a coalition of agencies, schools, and communities along the North Shore that will systematically address the mental health and other needs of the whole person for all children and youth; ensure their graduation from high school; and assist them in becoming healthy, happy, productive citizens.

Control of the North Shore Collaborative is vested in a Board of Directors. Cook County has two members on the Board. Financing is provided by state and federal grants, appropriations from Collaborative members, and miscellaneous revenues. Lake County is the fiscal agent for the Collaborative and handles all of the financial transactions for the organization. Financial information for the Collaborative for the fiscal year ended December 31, 2004, is as follows:

Assets	\$ <u>466,424</u>
Liabilities	\$ <u>466,424</u>

Minnesota Community Capital Fund

The County is a Class C member of the Minnesota Community Capital Fund (MCCF). The MCCF was established to address unmet development financing needs of communities and economic development organizations throughout greater Minnesota by pooling local revolving loan fund resources and providing professional management services to support local efforts. The MCCF is designed to provide its members with greater lending flexibility and the capacity to originate multiple loans that are much larger than would be possible with limited local resources.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

D. Jointly-Governed Organizations

North Shore Management Board

The North Shore Management Board provides Lake Superior shoreline planning for Cook, Lake, and St. Louis Counties; the Cities of Beaver Bay, Grand Marais, Silver Bay, and Two Harbors; and the Towns of Duluth and Lakewood. The County made no payments to the North Shore Management Board in 2004.

E. Agriculture Best Management Loan Program (AgBest) and County-Wide Individual Sewage Treatment Systems (ISTS) Program

The County has entered into agreements with the Minnesota Department of Agriculture and a local lending institution to jointly administer loan programs to individuals to implement projects that prevent or mitigate nonpoint source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2004.

F. Tax-Forfeited Land

The County manages approximately 4,500 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component unit has the following significant accounting policies.

Reporting Entity

The Cook County-Grand Marais Joint Economic Development Authority (EDA) is governed by a seven-member Board. Four members are appointed by the Cook County Board and three members are appointed by the Grand Marais City Council. The EDA is considered to be a component unit of Cook County. The Resource Development Council of Cook County, Inc., (RDC) is a blended component unit of the EDA because the RDA's governing board is the same as the EDA's Board.

Basis of Presentation

The EDA prepares separate financial statements.

The EDA reports the following major governmental funds:

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

The Resource Development Council Special Revenue Fund is used to account for the activities of the RDC as a blended component unit of the EDA.

The EDA reports the following major enterprise fund:

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

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Cook County-Grand Marais Joint Economic Development Authority considers all revenues to be available if they are collected within 90 days after the end of the current period.

Cash and Investments

The EDA's cash consists of petty cash, checking, and savings accounts. The EDA's assets held by trustee are invested in a mutual fund and an external investment pool, the MAGIC Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the EDA's position in the pool is the same as the value of the pool shares.

Inventories

Inventory is comprised of golf course merchandise for resale. All inventories are valued at lower of cost or market, using the first in/first out (FIFO) method. Inventories are recorded as expenses when consumed.

Restricted Assets

Certain funds of the EDA 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are defined by the EDA 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 assets' lives are not capitalized.

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

Assets	Years
Land improvements	30
Buildings and structures	20
Furniture and equipment	1 - 20

B. Detailed Notes on All Funds

1. Assets

Receivables

The EDA's receivables as of December 31, 2004, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Next Year
Taxes	\$ 1,541	\$ -
Due from primary government	6,092	-
Total Component Unit	\$ 7,633	\$ -

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets (Continued)

Capital Assets

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 81,973	\$ -	\$ -	\$ 81,973
Capital assets depreciated				
Furniture and equipment	\$ 3,538	\$ -	\$ -	\$ 3,538
Less: accumulated depreciation for				
Furniture and equipment	2,545	662	-	3,207
Total capital assets depreciated, net	\$ 993	\$ (662)	\$ -	\$ 331
Governmental Activities Capital Assets, Net	<u>\$ 82,966</u>	<u>\$ (662)</u>	<u>\$ -</u>	<u>\$ 82,304</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
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	-	-	369,961
Furniture and equipment	878,341	13,446	-	891,787
Total capital assets depreciated	\$ 5,461,174	\$ 13,446	\$ -	\$ 5,474,620

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Capital Assets

Business-Type Activities (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Land improvements	\$ 1,285,081	\$ 140,429	\$ -	\$ 1,425,510
Buildings and structures	203,431	18,498	-	221,929
Furniture and equipment	<u>552,684</u>	<u>77,971</u>	<u>-</u>	<u>630,655</u>
 Total accumulated depreciation	 <u>\$ 2,041,196</u>	 <u>\$ 236,898</u>	 <u>\$ -</u>	 <u>\$ 2,278,094</u>
 Total capital assets depreciated, net	 <u>\$ 3,419,978</u>	 <u>\$ (223,452)</u>	 <u>\$ -</u>	 <u>\$ 3,196,526</u>
 Business-Type Activities Capital Assets, Net	 <u>\$ 3,633,663</u>	 <u>\$ (223,452)</u>	 <u>\$ -</u>	 <u>\$ 3,410,211</u>

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

Governmental Activities	
Urban and economic development	<u>\$ 662</u>
 Business-Type Activities	
Golf course	<u>\$ 236,898</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Leases

Operating Leases

The EDA leases golf carts under non-cancelable operating leases. Total costs for such leases were \$40,205 for the year ended December 31, 2004. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2005	\$ 36,045
2006	16,020

Capital Leases

The EDA 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, 2004:

Lease	Maturity	Installment	Payment Amount	Original Amount	Balance
Business-Type Activities					
2003 tractor	2008	Monthly	\$ 511	\$ 26,900	\$ 19,500
2003 irrigation system upgrade	2007	Monthly	1,343	58,016	37,565
Total Business-Type Activities Capital Leases					\$ 57,065

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities

Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

Year Ending December 31	Governmental Activities
2005	\$ 22,255
2006	22,255
2007	14,195
2008	3,068
Total minimum lease payments	\$ 61,773
Less: amount representing interest	(4,708)
Present Value of Minimum Lease Payments	\$ 57,065

Long-Term Debt

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
1998 Golf Course Revenue Bonds	2015	\$35,000 - \$175,000	4.40 to 5.60	\$ 1,820,000	\$ 1,500,000

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities

Long-Term Debt (Continued)

Debt Service Requirements

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

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 105,000	\$ 77,518
2006	110,000	72,195
2007	115,000	66,512
2008	120,000	60,460
2009	125,000	54,028
2010 - 2014	750,000	156,398
2015	175,000	4,900
Total	<u>\$ 1,500,000</u>	<u>\$ 492,011</u>

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	\$ 1,600,000	\$ -	\$ 100,000	\$ 1,500,000	\$ 105,000
Capital leases	75,624	-	18,559	57,065	19,605
Total	<u>\$ 1,675,624</u>	<u>\$ -</u>	<u>\$ 118,559</u>	<u>\$ 1,557,065</u>	<u>\$ 124,605</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

Conduit Debt - Tax Increment Financing Commitments

The EDA has issued a \$425,130 taxable limited revenue tax increment note with interest at the annual rate of seven percent, pursuant to the development agreement for Tax Increment Financing District No. 1-3. Payments totaling \$357,476 have been made to the developer as of December 31, 2004. The note is not considered a liability of the EDA and is payable solely from captured available tax increment from the District. Tax Increment District No. 1-3 expired in June 2004.

REQUIRED SUPPLEMENTARY INFORMATION

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,159,812	\$ 2,159,812	\$ 2,152,505	\$ (7,307)
Special assessments	-	-	11,852	11,852
Licenses and permits	52,000	52,000	50,585	(1,415)
Intergovernmental	2,158,711	2,158,711	3,141,692	982,981
Charges for services	455,746	455,746	432,393	(23,353)
Fines and forfeits	72,800	72,800	64,520	(8,280)
Gifts and contributions	-	-	24,723	24,723
Investments earnings	150,025	150,025	198,637	48,612
Miscellaneous	307,036	307,036	542,578	235,542
Total Revenues	\$ 5,356,130	\$ 5,356,130	\$ 6,619,485	\$ 1,263,355
Expenditures				
Current				
General government				
Commissioners	\$ 301,297	\$ 301,297	\$ 386,355	\$ (85,058)
Courts	172,406	172,406	150,896	21,510
Law library	27,700	27,700	25,748	1,952
County auditor	448,165	448,165	417,937	30,228
County assessor	188,811	188,811	158,228	30,583
Elections	18,250	18,250	22,588	(4,338)
Data processing	355,087	355,087	384,567	(29,480)
Personnel	110,935	110,935	111,607	(672)
Attorney	215,392	215,392	228,018	(12,626)
Crime victim/witness	-	-	2,353	(2,353)
Recorder	135,671	135,671	133,964	1,707
Planning and zoning	195,248	195,248	191,192	4,056
Buildings and plant	334,826	334,826	330,360	4,466
Veterans service officer	14,874	14,874	13,404	1,470
Total general government	\$ 2,518,662	\$ 2,518,662	\$ 2,557,217	\$ (38,555)
Public safety				
Sheriff	\$ 1,340,842	\$ 1,340,842	\$ 1,206,168	\$ 134,674
Boat and water safety	-	-	7,689	(7,689)
Emergency services	98,196	98,196	115,000	(16,804)
Coroner	7,000	7,000	7,237	(237)
E-911 system	12,200	12,200	23,550	(11,350)
County jail	156,731	156,731	162,263	(5,532)
Community corrections	171,021	171,021	160,245	10,776
Victim assistance	-	-	322	(322)
Probation and parole	20,136	20,136	20,163	(27)
DARE program	-	-	2,211	(2,211)
Civil defense	-	-	383	(383)
Other public safety	12,600	12,600	55,684	(43,084)
Total public safety	\$ 1,818,726	\$ 1,818,726	\$ 1,760,915	\$ 57,811

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 93,289	\$ 93,289	\$ 116,704	\$ (23,415)
Recycling	232,660	232,660	249,842	(17,182)
Total sanitation	\$ 325,949	\$ 325,949	\$ 366,546	\$ (40,597)
Culture and recreation				
Historical society	\$ 14,082	\$ 14,082	\$ 14,332	\$ (250)
Parks	-	-	18,485	(18,485)
Senior citizens	97,711	97,711	98,066	(355)
Regional library	95,888	96,888	96,888	-
Other	113,519	113,519	270,775	(157,256)
Total culture and recreation	\$ 321,200	\$ 322,200	\$ 498,546	\$ (176,346)
Conservation of natural resources				
Cooperative extension	\$ 52,396	\$ 52,396	\$ 43,052	\$ 9,344
Soil and water conservation	19,732	19,732	32,132	(12,400)
Agricultural inspections	4,425	4,425	3,333	1,092
Agricultural society/County fair	11,300	11,300	12,466	(1,166)
Water planning	36,815	36,815	388,969	(352,154)
Environmental services	95,599	95,599	93,467	2,132
Total conservation of natural resources	\$ 220,267	\$ 220,267	\$ 573,419	\$ (353,152)
Economic development				
Community development	\$ 9,500	\$ 9,500	\$ 9,890	\$ (390)
Capital outlay				
General government	\$ -	\$ -	\$ 9,325	\$ (9,325)
Public safety	-	-	68,269	(68,269)
Conservation	-	-	6,081	(6,081)
Total capital outlay	\$ -	\$ -	\$ 83,675	\$ (83,675)
Total Expenditures	\$ 5,214,304	\$ 5,215,304	\$ 5,850,208	\$ (634,904)
Excess of Revenues Over (Under) Expenditures	\$ 141,826	\$ 140,826	\$ 769,277	\$ 628,451

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**Schedule 1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 16,575	\$ 16,575
Proceeds from sale of assets	-	-	7,221	7,221
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 23,796	\$ 23,796
Net Change in Fund Balance	\$ 141,826	\$ 140,826	\$ 793,073	\$ 652,247
Fund Balance - January 1	7,050,339	7,050,339	7,050,339	-
Fund Balance - December 31	\$ 7,192,165	\$ 7,191,165	\$ 7,843,412	\$ 652,247

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 986,448	\$ 986,448	\$ 940,609	\$ (45,839)
Intergovernmental	2,203,735	2,203,735	2,938,112	734,377
Charges for services	190,000	190,000	143,882	(46,118)
Total Revenues	\$ 3,380,183	\$ 3,380,183	\$ 4,022,603	\$ 642,420
Expenditures				
Current				
Highways and streets				
Administration	\$ 226,161	\$ 226,161	\$ 225,190	\$ 971
Maintenance	1,449,117	1,449,117	1,444,042	5,075
Construction	1,264,316	1,264,316	2,153,049	(888,733)
Equipment maintenance and shop	392,853	392,853	434,892	(42,039)
Total highways and streets	\$ 3,332,447	\$ 3,332,447	\$ 4,257,173	\$ (924,726)
Debt service				
Principal	\$ 70,000	\$ 70,000	\$ 70,000	\$ -
Interest	8,115	8,115	8,115	-
Administrative (fiscal) charges	-	-	523	(523)
Total debt service	\$ 78,115	\$ 78,115	\$ 78,638	\$ (523)
Total Expenditures	\$ 3,410,562	\$ 3,410,562	\$ 4,335,811	\$ (925,249)
Excess of Revenues Over (Under) Expenditures	\$ (30,379)	\$ (30,379)	\$ (313,208)	\$ (282,829)
Fund Balance - January 1	1,575,432	1,575,432	1,575,432	-
Increase (decrease) in reserved for inventories	-	-	111,721	111,721
Fund Balance - December 31	\$ 1,545,053	\$ 1,545,053	\$ 1,373,945	\$ (171,108)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 762,144	\$ 772,924	\$ 719,730	\$ (53,194)
Licenses and permits	10,300	10,300	12,235	1,935
Intergovernmental	709,751	724,123	805,368	81,245
Charges for services	-	-	35,759	35,759
Miscellaneous	58,055	58,055	56,564	(1,491)
Total Revenues	\$ 1,540,250	\$ 1,565,402	\$ 1,629,656	\$ 64,254
Expenditures				
Current				
Human services				
Income maintenance	\$ 260,068	\$ 260,068	\$ 267,239	\$ (7,171)
Social services	1,051,315	1,076,467	1,001,423	75,044
Total human services	\$ 1,311,383	\$ 1,336,535	\$ 1,268,662	\$ 67,873
Health				
Nursing service	228,867	228,867	214,395	14,472
Total Expenditures	\$ 1,540,250	\$ 1,565,402	\$ 1,483,057	\$ 82,345
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 146,599	\$ 146,599
Fund Balance - January 1	1,110,612	1,110,612	1,110,612	-
Fund Balance - December 31	\$ 1,110,612	\$ 1,110,612	\$ 1,257,211	\$ 146,599

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and for the Road and Bridge, Public Health and Human Services, and Airport Special Revenue Funds. Budgets are not adopted for the Hospital Sales Tax, Building, Golf Course Lodging Tax, and Forfeited Tax Special Revenue Funds. All annual appropriations lapse at fiscal year-end. Cook County carries reserves over from year to year. The County Board may designate a specific use for some of the fund balances.

In July of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before September 15, the proposed budget is presented to the County Board for review. A final budget is adopted by the Board and certified to the Auditor/Treasurer by December 28.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department with County Auditor approval. Transfers of appropriations between departments and/or funds require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the following funds:

General Fund	\$ 634,904	Mostly funded by greater than anticipated revenues. Trail grant revenues and expenditures and coastal zone management grant revenues and expenditures were higher than budgeted.
Road and Bridge	\$ 925,249	Construction revenues and expenditures were both higher than budgeted.
Airport Fund	\$ 88,375	Capital outlay expenditures were higher than budgeted.

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SUPPLEMENTARY INFORMATION

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

The Building Special Revenue Fund is used to account for funds used for general government grounds and buildings.

The Airport Special Revenue Fund is used to account for funds used for the operation and maintenance of the County airport.

The Hospital Sales Tax Special Revenue Fund is used to account for proceeds collected from a one percent sales tax on taxable sales transactions to be used to pay for costs of expanding and improving the North Shore Hospital and Nursing Home.

The Golf Course Lodging Tax Special Revenue Fund is used to account for the collection of a County-levied two percent lodging tax to be used for marketing and promotion of tourism and for debt service payments on the golf course bonds.

The Forfeited Tax Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282. The distribution of the net proceeds, after deducting the expenses of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08. Title to the tax-forfeited lands remains with the state until sold by the County.

The Debt Service Fund is used to account for the accumulation of resources for and the payment of principal, interest, and related costs of general long-term debt.

The Leased Lakeshore Permanent Fund is used to account for funds collected from the sale of County-owned lakeshore leased lots. In accordance with 1998 Minn. Laws ch. 398, art. 16, § 31, the principal on these sales must remain in an environmental trust fund, and only the interest may be spent on improvement of natural resources.

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 1

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

	Special Revenue (Statement 3)	Debt Service	Leased Lakeshore Permanent	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 2,838,365	\$ 431,865	\$ 608,344	\$ 3,878,574
Cash with escrow agent	-	1,617,787	-	1,617,787
Taxes receivable				
Prior	2,241	8,728	-	10,969
Accounts receivable	38,615	-	62,048	100,663
Lodging taxes receivable	23,102	-	-	23,102
Accrued interest receivable	1,670	-	-	1,670
Due from other funds	817	-	-	817
Due from other governments	96,750	-	-	96,750
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 3,001,560</u>	<u>\$ 2,058,380</u>	<u>\$ 670,392</u>	<u>\$ 5,730,332</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 7,632	\$ 4,555	\$ -	\$ 12,187
Due to other funds	143,959	-	-	143,959
Due to other governments	893	-	-	893
Deferred revenue - unavailable	22,136	5,705	62,048	89,889
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>\$ 174,620</u>	<u>\$ 10,260</u>	<u>\$ 62,048</u>	<u>\$ 246,928</u>
Fund Balances				
Reserved for debt service	\$ 225,658	\$ 1,617,787	\$ -	\$ 1,843,445
Reserved for environmental improvements	-	-	608,344	608,344
Unreserved				
Designated for debt service	-	430,333	-	430,333
Designated for capital improvements	537,201	-	-	537,201
Undesignated	2,064,081	-	-	2,064,081
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>\$ 2,826,940</u>	<u>\$ 2,048,120</u>	<u>\$ 608,344</u>	<u>\$ 5,483,404</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$ 3,001,560</u>	<u>\$ 2,058,380</u>	<u>\$ 670,392</u>	<u>\$ 5,730,332</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 2

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

	Special Revenue (Statement 4)	Debt Service	Leased Lakeshore Permanent	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues				
Taxes	\$ 1,408,783	\$ 349,278	\$ -	\$ 1,758,061
Intergovernmental	221,575	23,419	-	244,994
Charges for services	6,027	-	-	6,027
Investment earnings	5,968	15,884	11,240	33,092
Miscellaneous	90,440	-	15,322	105,762
Total Revenues	\$ 1,732,793	\$ 388,581	\$ 26,562	\$ 2,147,936
Expenditures				
Current				
General government	\$ 7,420	\$ -	\$ -	\$ 7,420
Public safety	2,066	-	-	2,066
Sanitation	73,156	-	-	73,156
Culture and recreation	16,748	-	-	16,748
Conservation of natural resources	33,864	-	-	33,864
Economic development	239,564	-	-	239,564
Capital outlay	745,673	-	-	745,673
Debt service				
Principal retirement	-	711,667	-	711,667
Interest	-	380,497	-	380,497
Administrative charges	-	7,449	-	7,449
Total Expenditures	\$ 1,118,491	\$ 1,099,613	\$ -	\$ 2,218,104
Excess of Revenues Over (Under) Expenditures	\$ 614,302	\$ (711,032)	\$ 26,562	\$ (70,168)
Other Financing Sources (Uses)				
Transfers in	\$ 817	\$ 703,000	\$ -	\$ 703,817
Transfers out	(720,392)	-	-	(720,392)
Proceeds from sale of assets	7,410	-	-	7,410
Total Other Financing Sources (Uses)	\$ (712,165)	\$ 703,000	\$ -	\$ (9,165)
Net Change in Fund Balances	\$ (97,863)	\$ (8,032)	\$ 26,562	\$ (79,333)
Fund Balance - January 1	2,924,803	2,056,152	581,782	5,562,737
Fund Balance - December 31	\$ 2,826,940	\$ 2,048,120	\$ 608,344	\$ 5,483,404

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 3

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

	Building	Airport	Hospital Sales Tax	Golf Course Lodging Tax	Forfeited Tax	Total (Statement 1)
<u>Assets</u>						
Cash and pooled investments	\$ 1,192,265	\$ -	\$ 1,337,401	\$ 294,443	\$ 14,256	\$ 2,838,365
Taxes receivable						
Prior	-	2,241	-	-	-	2,241
Accounts receivable	-	3,287	-	-	35,328	38,615
Lodging taxes receivable	-	-	-	23,102	-	23,102
Accrued interest receivable	-	-	-	-	1,670	1,670
Due from other funds	817	-	-	-	-	817
Due from other governments	-	-	96,750	-	-	96,750
	\$ 1,193,082	\$ 5,528	\$ 1,434,151	\$ 317,545	\$ 51,254	\$ 3,001,560
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ -	\$ 7,632	\$ -	\$ -	\$ -	\$ 7,632
Due to other funds	-	116,973	-	-	26,986	143,959
Due to other governments	-	-	-	-	893	893
Deferred revenue - unavailable	-	1,464	-	-	20,672	22,136
	\$ -	\$ 126,069	\$ -	\$ -	\$ 48,551	\$ 174,620
Fund Balances						
Reserved for debt service	\$ -	\$ -	\$ -	\$ 225,658	\$ -	\$ 225,658
Unreserved						
Designated for capital improvements	537,201	-	-	-	-	537,201
Undesignated	655,881	(120,541)	1,434,151	91,887	2,703	2,064,081
	\$ 1,193,082	\$ (120,541)	\$ 1,434,151	\$ 317,545	\$ 2,703	\$ 2,826,940
Total Liabilities and Fund Balances	\$ 1,193,082	\$ 5,528	\$ 1,434,151	\$ 317,545	\$ 51,254	\$ 3,001,560

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 4

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

	<u>Building</u>	<u>Airport</u>	<u>Hospital Sales Tax</u>	<u>Golf Course Lodging Tax</u>	<u>Forfeited Tax</u>	<u>Total (Statement 2)</u>
Revenues						
Taxes	\$ 724	\$ 89,745	\$ 978,455	\$ 302,742	\$ 37,117	\$ 1,408,783
Intergovernmental	-	221,575	-	-	-	221,575
Charges for services	-	6,027	-	-	-	6,027
Investment earnings	-	-	-	5,968	-	5,968
Miscellaneous	73,274	17,166	-	-	-	90,440
Total Revenues	\$ 73,998	\$ 334,513	\$ 978,455	\$ 308,710	\$ 37,117	\$ 1,732,793
Expenditures						
Current						
General government	\$ 6,527	\$ -	\$ -	\$ -	\$ 893	\$ 7,420
Public safety	2,066	-	-	-	-	2,066
Sanitation	73,156	-	-	-	-	73,156
Culture and recreation	16,748	-	-	-	-	16,748
Conservation of natural resources	3,535	-	-	-	30,329	33,864
Economic development	-	129,802	-	109,762	-	239,564
Capital outlay	367,850	377,823	-	-	-	745,673
Total Expenditures	\$ 469,882	\$ 507,625	\$ -	\$ 109,762	\$ 31,222	\$ 1,118,491
Excess of Revenues Over (Under) Expenditures	\$ (395,884)	\$ (173,112)	\$ 978,455	\$ 198,948	\$ 5,895	\$ 614,302
Other Financing Sources (Uses)						
Transfers in	\$ 817	\$ -	\$ -	\$ -	\$ -	\$ 817
Transfers out	-	(14,200)	(485,000)	(218,000)	(3,192)	(720,392)
Proceeds from sale of assets	-	7,410	-	-	-	7,410
Total Other Financing Sources (Uses)	\$ 817	\$ (6,790)	\$ (485,000)	\$ (218,000)	\$ (3,192)	\$ (712,165)
Net Change in Fund Balance	\$ (395,067)	\$ (179,902)	\$ 493,455	\$ (19,052)	\$ 2,703	\$ (97,863)
Fund Balance - January 1	1,588,149	59,361	940,696	336,597	-	2,924,803
Fund Balance - December 31	\$ 1,193,082	\$ (120,541)	\$ 1,434,151	\$ 317,545	\$ 2,703	\$ 2,826,940

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 95,000	\$ 95,000	\$ 89,745	\$ (5,255)
Intergovernmental	304,650	304,650	221,575	(83,075)
Charges for services	20,600	20,600	6,027	(14,573)
Miscellaneous	-	-	17,166	17,166
Total Revenues	\$ 420,250	\$ 420,250	\$ 334,513	\$ (85,737)
Expenditures				
Current				
Economic development	\$ 99,250	\$ 99,250	\$ 129,802	\$ (30,552)
Capital outlay	320,000	320,000	377,823	(57,823)
Total Expenditures	\$ 419,250	\$ 419,250	\$ 507,625	\$ (88,375)
Excess of Revenues Over (Under) Expenditures	\$ 1,000	\$ 1,000	\$ (173,112)	\$ (174,112)
Other Financing Sources (Uses)				
Transfers out	\$ (14,200)	\$ (14,200)	\$ (14,200)	\$ -
Proceeds from sales of assets	-	-	7,410	7,410
Total Other Financing Sources (Uses)	\$ (14,200)	\$ (14,200)	\$ (6,790)	\$ 7,410
Net Change in Fund Balance	\$ (13,200)	\$ (13,200)	\$ (179,902)	\$ (166,702)
Fund Balance - January 1	59,361	59,361	59,361	-
Fund Balance - December 31	\$ 46,161	\$ 46,161	\$ (120,541)	\$ (166,702)

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

AGENCY FUNDS

The County reports the following fund type:

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

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 5

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEDICAL AND DEPENDENT CARE FLEX PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,216	\$ 73,650	\$ 73,371	\$ 7,495
Accounts receivable	667	1,476	667	1,476
Total Assets	\$ 7,883	\$ 75,126	\$ 74,038	\$ 8,971
<u>Liabilities</u>				
Accounts payable	\$ 7,883	\$ 75,126	\$ 74,038	\$ 8,971
 <u>SOIL AND WATER CONSERVATION DISTRICT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 104,080	\$ 21,810	\$ 82,270
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 103,303	\$ 21,810	\$ 81,493
Accounts payable	-	777	-	777
Total Liabilities	\$ -	\$ 104,080	\$ 21,810	\$ 82,270
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 16,167	\$ 193,876	\$ 191,908	\$ 18,135
<u>Liabilities</u>				
Due to other governments	\$ 16,167	\$ 193,876	\$ 191,908	\$ 18,135

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

*Statement 5
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>ARROWHEAD REGIONAL DEVELOPMENT COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 638	\$ 17,623	\$ 17,369	\$ 892
<u>Liabilities</u>				
Due to other governments	\$ 638	\$ 17,623	\$ 17,369	\$ 892
 <u>FIRE DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 14,871	\$ 199,701	\$ 180,052	\$ 34,520
<u>Liabilities</u>				
Due to other governments	\$ 14,871	\$ 199,701	\$ 180,052	\$ 34,520
 <u>CITIES AND TOWNS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 29,109	\$ 930,095	\$ 913,161	\$ 46,043
Accounts receivable	2,213		2,213	-
Total Assets	\$ 31,322	\$ 930,095	\$ 915,374	\$ 46,043
<u>Liabilities</u>				
Due to other governments	\$ 31,322	\$ 930,095	\$ 915,374	\$ 46,043

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 5
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 221,366	\$ 2,605,798	\$ 2,693,237	\$ 133,927
Due from other governments	1,674	-	1,674	-
Total Assets	\$ 223,040	\$ 2,605,798	\$ 2,694,911	\$ 133,927
<u>Liabilities</u>				
Due to other governments	\$ 223,040	\$ 2,605,798	\$ 2,694,911	\$ 133,927
 <u>LODGING TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 18,265	\$ 650,824	\$ 669,089	\$ -
Accounts receivable	6	26,427	6	26,427
Total Assets	\$ 18,271	\$ 677,251	\$ 669,095	\$ 26,427
<u>Liabilities</u>				
Accounts payable	\$ 2,213	\$	\$ 2,213	\$ -
Due to other governments	16,058	677,251	666,882	26,427
Total Liabilities	\$ 18,271	\$ 677,251	\$ 669,095	\$ 26,427
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,382	\$ 8,680,871	\$ 8,682,789	\$ (536)
Due from other governments	-	536	-	536
Total Assets	\$ 1,382	\$ 8,681,407	\$ 8,682,789	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 1,382	\$ 8,681,407	\$ 8,682,789	\$ -

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

*Statement 5
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOFTE-SCHROEDER SANITARY DISTRICT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,001	\$ 57,385	\$ 57,822	\$ 1,564
<u>Liabilities</u>				
Due to other governments	\$ 2,001	\$ 57,385	\$ 57,822	\$ 1,564
 <u>HOSPITAL/NURSING HOME</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 27,186	\$ 345,913	\$ 350,494	\$ 22,605
<u>Liabilities</u>				
Due to other governments	\$ 27,186	\$ 345,913	\$ 350,494	\$ 22,605
 <u>SCHOOL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 40,934	\$ 1,409,373	\$ 1,421,298	\$ 29,009
Accounts receivable	511		511	-
Total Assets	\$ 41,445	\$ 1,409,373	\$ 1,421,809	\$ 29,009
<u>Liabilities</u>				
Due to other governments	\$ 41,445	\$ 1,409,373	\$ 1,421,809	\$ 29,009

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 5
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 379,135	\$ 15,269,189	\$ 15,272,400	\$ 375,924
Accounts receivable	3,397	27,903	3,397	27,903
Due from other governments	1,674	536	1,674	536
	\$ 384,206	\$ 15,297,628	\$ 15,277,471	\$ 404,363
<u>Liabilities</u>				
Accounts payable	\$ 10,096	\$ 75,903	\$ 76,251	\$ 9,748
Due to other governments	374,110	15,221,725	15,201,220	394,615
	\$ 384,206	\$ 15,297,628	\$ 15,277,471	\$ 404,363

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OTHER SCHEDULES

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 5

TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS

	2003		2004		2005	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 7,303,982		\$ 8,529,081		\$ 9,994,575	
Personal property	231,900		128,358		137,926	
Tax increment	(71,183)		(59,669)		-	
Fiscal disparity contribution	(60,679)		(102,555)		(147,380)	
Net Tax Capacity	\$ 7,404,020		\$ 8,495,215		\$ 9,985,121	
Taxes Levied for County Purposes						
General	\$ 2,918,370	25.34	\$ 2,861,513	24.39	\$ 2,729,877	21.42
Road and Bridge	983,448	13.24	983,448	11.54	983,448	9.82
Social Services	736,610	9.92	762,144	8.95	771,391	7.70
Airport	100,000	1.35	95,000	1.12	89,900	0.90
Government Center	390,000	5.25	370,000	4.34	370,000	3.70
Economic Development	90,000	1.21	85,500	1.21	81,000	0.81
Hospital District	300,000	4.04	-	-	-	-
Total Levy for County Purposes	\$ 5,518,428	60.35	\$ 5,157,605	51.55	\$ 5,025,616	44.35
Less Credits Payable by State						
Taconite homestead credit	\$ 329,712		\$ 336,377		\$ 315,998	
Disparity reduction aid	3,210		3,220		3,220	
HACA and agricultural credit	1,047,707		795,026		599,628	
Total Credits Payable by State	\$ 1,380,629		\$ 1,134,623		\$ 918,846	
Net Levy for County Purposes	\$ 4,137,799		\$ 4,022,982		\$ 4,106,770	
Tax Capacity - Light and Power						
Assessed at 43%	\$ 41,708		\$ 43,343		\$ 42,803	
Light and Power Tax Levy (distributed pursuant to Minn. Stat. § 273.42, as amended)						
Assessed at 43%	\$ 31,693	75.99	\$ 23,452	54.11	\$ 21,881	51.12
Percentage of Tax Collections for All Purposes	98.38%		98.34%			

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 6

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

	Primary Government	Component Unit
Shared Revenue		
State		
Highway users tax	\$ 2,020,780	\$ -
County program aid	742,736	-
PERA rate reimbursement	17,805	-
Disparity reduction aid	3,220	-
Family preservation aid	9,958	-
Police aid	56,056	-
Taconite credit	148,685	-
Mobile home taconite credit	316	-
Enhanced 911	39,720	-
Market value credit aid	272,298	-
Temporary court administration aid	29,562	-
Casino revenue aid	39,818	-
	\$ 3,380,954	\$ -
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 397,709	\$ -
Payments		
State		
Payments in lieu of taxes	\$ 104,096	\$ -
Local		
Local contributions	14,443	9,500
Other contributions	791	-
	\$ 119,330	\$ 9,500
Grants		
State		
Minnesota Department/Board of		
Agriculture	\$ 10,000	\$ -
Public Safety	24,839	-
Transportation	39,032	-
Aeronautics	84,671	-
Health	41,006	-
Natural Resources	280,777	-
Human Services	299,082	-
Office of Environmental Assistance	49,099	-
Pollution Control Agency	2,400	-
Iron Range Resources	35,000	-
Miscellaneous boards	40,256	-
	\$ 906,162	\$ -

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 6
(Continued)

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

	Primary Government	Component Unit
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 968,730	\$ -
Commerce	245,676	6,195
Interior	111,676	-
Justice	481	-
Transportation	819,334	-
Environmental Protection	4,500	-
Health and Human Services	99,640	-
Homeland Security	75,974	-
	\$ 2,326,011	\$ 6,195
Total Federal	\$ 2,326,011	\$ 6,195
Total State and Federal Grants	\$ 3,232,173	\$ 6,195
Total Intergovernmental Revenue	\$ 7,130,166	\$ 15,695

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 7

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Cook County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Cook County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Cook County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Cook County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

National Forest Lands - 3/4 of 1%	CFDA #10.668
Coastal Zone Management	CFDA #11.419
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Cook County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-3 Segregation of Duties

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

The County Auditor/Treasurer has taken steps to make department heads aware of the problems with segregation of duties and possible oversight procedures to be implemented. We recommend that the County continue this monitoring and oversight process and constantly be aware of the lack of segregation of the accounting functions.

Client's Response:

The County is aware of the lack of segregation of accounting functions and will continue to monitor the situation and implement oversight procedures when possible.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-1 Performance and Payment Bond

Minn. Stat. § 574.26 requires contractors doing public work to provide a performance and payment bond in an amount not less than the amount of the contract, for any contracts exceeding \$75,000. The County Board contracted for the construction of a search and rescue building in the amount of \$151,388. The contractor did not provide performance and payment bonds as required by this statute. The County is at risk for the contractor's non-performance on a contract whenever a performance and payment bond is not obtained.

We recommend the County Board obtain performance and payment bonds on all construction contracts exceeding \$75,000, in accordance with Minn. Stat. § 574.26.

Client's Response:

Construction projects with contracts exceeding \$75,000 will not be signed nor work begun until performance and payment bonds are in place.

PREVIOUSLY REPORTED ITEMS RESOLVED

Bidding (03-1)

During our prior audit, we noted that the County Sheriff purchased three vehicles for a total of \$62,443 without going through the bidding process. Minn. Stat. § 471.345 requires all contracts expected to exceed \$50,000 to be formally bid.

Resolution

During our current audit, we noted no instances where items were not formally bid when required by the statutes.

Investments (03-2)

Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of legal investments for a county. At December 31, 2003, the County Auditor/Treasurer had \$187,632 invested in corporate bonds which are not an allowable investment instrument under these statutes. Also, Minn. Stat. § 118A.05 authorizes a county to invest in

money market funds rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization. The County held funds in two money market funds that did not provide documentation of being rated in one of the two highest rating categories for money market funds. Therefore, we are unable to determine whether these funds were legal investments for the County.

Resolution

In July 2004, the County sold the corporate bonds and replaced them with government securities which are legal investments for the County. One of the money market funds that the County invested in provided a rating, which was in one of the two highest rating categories. The County moved its funds out of the other money market fund and have invested these funds in an insured savings account.

Publication of Summary Budget (03-3)

Minn. Stat. § 375.169 requires counties to publish a summary budget statement in the County's official newspaper in a form prescribed by the State Auditor. The 2003 summary budget was not published by the County Auditor/Treasurer.

Resolution

The 2004 summary budget was published according to Minn. Stat. § 375.169.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

Schedule 7
(Continued)

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

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

- Determine if employees are provided OPEB.
- If OPEB are being provided, the County Board will have to decide whether it will advance fund the benefits or pay for them on a pay-as-you-go basis.
- If OPEB and being provided, the County Board will have to decide whether to establish a trust to fund the OPEB.
- In order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to have an actuary.

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

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OTHER REQUIRED REPORTS

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Cook County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cook County as of and for the year ended December 31, 2004, and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cook County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-3.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six main 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, Cook County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-1.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 20, 2005



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Cook County

Compliance

We have audited the compliance of Cook County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. Cook County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cook County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Cook County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Cook County as of and for the year ended December 31, 2004, and have issued our report thereon dated September 20, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 20, 2005

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 8

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

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Agriculture			
Direct			
U.S. Forest Service Cooperative Agreement		R9-9-95-36C	\$ 23,000
Cooperative Forestry Assistance		10.664	96,923
Passed Through Carlton, Cook, Lake and St. Louis Community Health Board			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)		10.557	12,070
Passed Through Minnesota Department of Finance			
Federal Forests - 25% Payments to States		10.665	132,487
Federal Forests - 3/4 of 1%		10.668	704,250
Total U.S. Department of Agriculture			\$ 968,730
U.S. Department of Commerce			
Passed Through Minnesota Department of Natural Resources			
Coastal Zone Management Administration Grant	A53960, A53959, A49097, A71955, A39259	11.419	\$ 245,676
U.S. Department of the Interior			
Direct			
Payments in lieu of taxes		15.226	\$ 111,676
U.S. Department of the Justice			
Passed Through Minnesota Department of Public Safety			
Crime Victim Assistance		16.575	\$ 481
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	1609-29, 1609-31	20.106	\$ 130,888
Highway Planning and Construction Grant	SP-410, SP-411, SP-808, SP-9001, SP-501N, SP-502	20.205	698,005
Passed Through Minnesota Department of Natural Resources			
National Recreational Trails Funding Program	0020-01-2C, 003-03-2C	20.219	23,769
Total U.S. Department of Transportation			\$ 852,662

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 8
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Environmental Protection Agency			
Direct			
Beach Monitoring and Notification Program		66.472	\$ <u>4,500</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Temporary Assistance for Needy Families		93.558	\$ 13,518
Family Preservation Investment Project		93.645	2,957
Social Services Block Grant Title XX		93.667	44,600
Support for Emancipation and Living Functionally (SELF)		93.674	1,000
Passed Through Minnesota Department of Education			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund		93.596	16,841
Passed Through Carlton, Cook, Lake and St. Louis Community Health Board			
Health Alert Network (HAN) Grant		93.283	14,921
Maternal and Child Health Services Block Grant		93.994	<u>5,803</u>
Total U.S. Department of Health and Human Services			\$ <u>99,640</u>
U.S. Department of Homeland Security			
Direct			
State and Local Homeland Security	2000-9196	97.006	\$ 1,525
Passed Through Minnesota Department of Public Safety			
Domestic Preparedness Equipment Grant	2000-9196, 2000-8767, 2000-9699	97.004	39,128
Hazard Mitigation Grant	2000-7725	97.039	21,283
Emergency Management Performance Grants		97.042	10,115
State and Local All Hazards Emergency Operations Planning	2000-8475	97.051	<u>3,923</u>
Total U.S. Department of Homeland Security			\$ <u>75,974</u>
Total Federal Awards			\$ <u>2,359,339</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**Schedule 8
(Continued)**

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

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Cook County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Expenditures on this schedule differ from federal revenues reported in the financial statements because of modified accrual revenue recognition. In 2004, there were \$80,498 of receivables not recognized as revenue because period of availability criteria had not been met and \$47,170 of prior year deferred revenue which became available.
4. Cook County did not pass any federal awards to subrecipients in 2004.