

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of 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 approximately 730 public pension funds; and

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

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

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

Year Ended December 31, 2006



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

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

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

ORGANIZATION
DECEMBER 31, 2006

		<u>Term Expires</u>
Commissioners		
Chair	Mary Sanders	December 2007
Vice Chair	Tim Kennedy	December 2010
Treasurer	James Hall	December 2011
Secretary	Mike Littfin	December 2006
Commissioner	Bruce Martinson	December 2009
Commissioner	Russell Zenk	December 2008
Commissioner	Andrea Peterson	December 2006
Executive Director		
Matt Geretschlaeger		

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority, a component unit of Cook County, as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Cook County and Grand Marais Joint Economic Development Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority as of and for the year ended December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2007, on our consideration of the Cook County and Grand Marais Joint Economic Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 2, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash	\$ 132,365	\$ 52,327	\$ 184,692
Taxes receivable	4,260	-	4,260
Accounts receivable	220	283	503
Due from other governments	516,820	-	516,820
Internal balances	69,000	(69,000)	-
Inventories	-	24,991	24,991
Restricted assets			
Assets held by trustee	-	321,534	321,534
Capital assets			
Not depreciated - land	81,973	213,685	295,658
Depreciable, net of depreciation	-	2,795,650	2,795,650
Total Assets	\$ 804,638	\$ 3,339,470	\$ 4,144,108
<u>Liabilities</u>			
Accounts payable	\$ 105,790	\$ 28,386	\$ 134,176
Accrued payroll liabilities	6,347	-	6,347
Due to other governments	391	-	391
Contracts payable	514,609	-	514,609
Deferred revenue	32,967	-	32,967
Liabilities payable from restricted assets			
Accrued interest payable	-	28,935	28,935
Bonds payable - current	-	115,000	115,000
Long-term liabilities			
Due within one year	-	19,529	19,529
Due in more than one year	-	1,185,581	1,185,581
Total Liabilities	\$ 660,104	\$ 1,377,431	\$ 2,037,535
<u>Net Assets</u>			
Investment in capital assets, net of related debt	\$ 81,973	\$ 1,689,224	\$ 1,771,197
Restricted for debt service	-	292,599	292,599
Unrestricted	62,561	(19,784)	42,777
Total Net Assets	\$ 144,534	\$ 1,962,039	\$ 2,106,573

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
<u>Functions/Programs</u>						
Governmental activities						
Urban and economic development	\$ 1,021,287	\$ -	\$ 748,407	\$ (272,880)	\$ -	\$ (272,880)
Business-type activities						
Golf course	1,026,501	852,167	-	-	(174,334)	(174,334)
Total	\$ 2,047,788	\$ 852,167	\$ 748,407	\$ (272,880)	\$ (174,334)	\$ (447,214)
General Revenues						
Property taxes				\$ 83,010	\$ -	\$ 83,010
Lodging taxes				-	50,000	50,000
Investment income				1,339	12,378	13,717
Rental income				-	675	675
Total general revenues				\$ 84,349	\$ 63,053	\$ 147,402
Change in Net Assets				\$ (188,531)	\$ (111,281)	\$ (299,812)
Net Assets - Beginning				333,065	2,073,320	2,406,385
Net Assets - Ending				\$ 144,534	\$ 1,962,039	\$ 2,106,573

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Resource Development Council	Total Governmental Funds
<u>Assets</u>			
Cash	\$ 125,642	\$ 6,723	\$ 132,365
Taxes receivable	4,260	-	4,260
Accounts receivable	220	-	220
Due from other governments	516,820	-	516,820
Due from other funds	69,000	-	69,000
Total Assets	\$ 715,942	\$ 6,723	\$ 722,665
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 105,790	\$ -	\$ 105,790
Accrued payroll liabilities	6,347	-	6,347
Due to other governments	391	-	391
Contracts payable	514,609	-	514,609
Deferred revenue - unavailable	27,252	-	27,252
Deferred revenue - unearned	32,967	-	32,967
Total Liabilities	\$ 687,356	\$ -	\$ 687,356
Fund Balance			
Unreserved - undesignated	28,586	6,723	35,309
Total Liabilities and Fund Balance	\$ 715,942	\$ 6,723	\$ 722,665
Fund balance - total governmental funds			\$ 35,309
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			81,973
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			27,252
Net assets of governmental activities (Exhibit 1)			\$ 144,534

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

EXHIBIT 4

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	Resource Development Council	Total Governmental Funds
Revenues			
Taxes			
Property taxes	\$ 83,442	\$ -	\$ 83,442
Intergovernmental			
Cook County	-	9,500	9,500
City of Grand Marais	713,177	-	713,177
Miscellaneous			
Investment earnings	1,260	79	1,339
Total Revenues	\$ 797,879	\$ 9,579	\$ 807,458
Expenditures			
Current			
Urban and economic development			
Personal services	\$ 70,946	\$ -	\$ 70,946
Employee benefits	25,127	-	25,127
Professional services	29,296	-	29,296
Utilities	1,245	-	1,245
Cedar Grove Business Park	870,393	-	870,393
Other services and charges	14,780	9,500	24,280
Total Expenditures	\$ 1,011,787	\$ 9,500	\$ 1,021,287
Excess of Revenues Over (Under) Expenditures	\$ (213,908)	\$ 79	\$ (213,829)
Fund Balance - January 1	242,494	6,644	249,138
Fund Balance - December 31	\$ 28,586	\$ 6,723	\$ 35,309
Net change in fund balance			\$ (213,829)
<p>In governmental funds, under the modified accrual basis, revenues not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The increase (decrease) in deferred revenue is the adjustment to revenue between the fund statements and the statement of activities.</p>			
Deferred revenue - December 31			27,252
Deferred revenue - January 1			(1,954)
Change in net assets of governmental activities (Exhibit 2)			\$ (188,531)

PROPRIETARY FUND

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

EXHIBIT 5

**STATEMENT OF NET ASSETS
GOLF COURSE ENTERPRISE FUND
DECEMBER 31, 2006**

Assets

Current assets

Cash	\$	52,327
Accounts receivable		283
Inventory		24,991
		24,991

Total current assets **\$ 77,601**

Restricted assets

Assets held by trustee	\$	321,534
------------------------	----	---------

Noncurrent assets

Capital assets		
Not depreciated - land	\$	213,685
Depreciable, net of depreciation		2,795,650
		2,795,650

Total noncurrent assets **\$ 3,009,335**

Total Assets **\$ 3,408,470**

Liabilities

Current liabilities

Accounts payable	\$	28,386
Due to other funds		69,000
Capital leases payable - current		19,529
		19,529

Total current liabilities **\$ 116,915**

Current liabilities payable from restricted assets

Accrued interest payable	\$	28,935
Bonds payable - current		115,000
		115,000

Total current liabilities payable from restricted assets **\$ 143,935**

Noncurrent liabilities

Capital leases payable - long-term	\$	15,581
Bonds payable - long-term		1,170,000
		1,170,000

Total noncurrent liabilities **\$ 1,185,581**

Total Liabilities **\$ 1,446,431**

Net Assets

Invested in capital assets, net of related debt	\$	1,689,224
Restricted for debt service		292,599
Unrestricted		(19,784)
		(19,784)

Total Net Assets **\$ 1,962,039**

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

EXHIBIT 6

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOLF COURSE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

Operating Revenues	
Sales	
Food and beverage	\$ 91,044
Merchandise	132,384
Less: cost of goods sold	<u>(146,004)</u>
Net sales	\$ 77,424
Charges for services	
Green fees	683,807
Other	<u>90,936</u>
Total Revenues	\$ 852,167
Operating Expenses	
Personal services	\$ 345,101
Employee benefits	54,874
Professional services	49,011
Grounds maintenance and supplies	140,687
Clubhouse maintenance and supplies	15,196
Utilities	32,094
Other services and charges	98,260
Depreciation expense	<u>214,311</u>
Total Expenses	\$ 949,534
Operating Income (Loss)	\$ (97,367)
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 12,378
Lodging tax	50,000
Rental income	675
Interest expense	<u>(76,967)</u>
Total Nonoperating Revenues (Expenses)	\$ (13,914)
Income (Loss)	\$ (111,281)
Net Assets - January 1	<u>2,073,320</u>
Net Assets - December 31	<u>\$ 1,962,039</u>

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

EXHIBIT 7

**STATEMENT OF CASH FLOWS
GOLF COURSE ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2006**

Cash Flows from Operating Activities	
Cash received from customers	\$ 997,888
Cash paid to suppliers	(561,308)
Cash paid to employees	<u>(345,101)</u>
Net cash provided by (used for) operating activities	\$ 91,479
Cash Flows from Noncapital Financing Activities	
Lodging taxes received	\$ 50,000
Rental income	<u>675</u>
Net cash provided by (used for) noncapital financing activities	\$ 50,675
Cash Flows from Capital and Related Financing Activities	
Principal paid on lease purchases	\$ (26,211)
Interest paid on lease purchases	(3,152)
Payments to trustee for debt service	(178,306)
Acquisition of capital assets	<u>(5,500)</u>
Net cash provided by (used for) capital and related financing activities	\$ (213,169)
Cash Flows from Investing Activities	
Interest on investments	<u>\$ 1,027</u>
Net Increase (Decrease) in Cash	\$ (69,988)
Cash - January 1	<u>122,315</u>
Cash - December 31	<u><u>\$ 52,327</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Net operating income (loss)	\$ (97,367)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities	
Depreciation expense	214,311
Decrease (increase) in accounts receivable	(283)
Decrease (increase) in inventories	1,564
Increase (decrease) in accounts payable	2,939
Increase (decrease) in due to other funds	<u>(29,685)</u>
Net Cash Provided by (Used for) Operating Activities	\$ 91,479
Noncash Investing, Capital, and Financing Activities	
Amount paid by trustee for debt payments	\$ 182,195

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Summary of Significant Accounting Policies

The Cook County and Grand Marais Joint Economic Development Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Unit (Continued)

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

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the Authority’s governmental activities and business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

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

The Authority reports the following major governmental funds:

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

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

The Authority reports the following major enterprise fund:

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

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

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budget

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

E. Assets, Liabilities, and Net Assets or Equity

1. Cash

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

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

1. Summary of Significant Accounting Policies

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

2. Investments

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

3. Receivables and Payables

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. The Authority approved an annual levy for operating purposes. Property taxes are collected by Cook County and distributed to the Authority three times each year.

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

4. Inventories

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

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

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Deferred Revenue

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

9. Long-Term Obligations

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

10. Fund Equity

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

11. Use of Estimates

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

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Cash	\$	184,692
Restricted assets		
Assets held by trustee		<u>321,534</u>
Total Cash	\$	<u>506,226</u>

Deposits

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

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

At December 31, 2006, the carrying amount of the Authority's deposits totaled \$184,692. The bank balance deposit amount was \$244,528. Minnesota statutes require that all the Authority's deposits be covered by insurance, surety bond, or collateral.

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Deposits (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2006.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the Authority or its agent in the Authority's name	\$ 186,028
Collateralized with securities held by the pledging financial institution's agent in the Authority's name	58,500
Total covered deposits	\$ 244,528
Uncollateralized	-
Total	\$ 244,528

Investments

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

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

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk

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

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

Concentration of Credit Risk

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

Following is a summary of the fair values of the Authority's investments held by a trustee at December 31, 2006:

Assets Held by Trustee		
Mutual funds	\$	111,163
MAGIC Fund		<u>210,371</u>
Total Assets Held by Trustee	\$	<u>321,534</u>

As of, and during the year ended December 31, 2006, the Authority did not own any investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk.

2. Receivables

Receivables as of December 31, 2006, for the Authority's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes receivable	\$ 4,260	\$ -
Accounts receivable	220	-
Due from other governments	<u>516,820</u>	<u>-</u>
Total Governmental Activities	<u>\$ 521,300</u>	<u>\$ -</u>

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

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts receivable	\$ 283	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 81,973	\$ -	\$ -	\$ 81,973
Capital assets depreciated				
Furniture and equipment	\$ 1,986	\$ -	\$ -	\$ 1,986
Less: accumulated depreciation for				
Furniture and equipment	1,986	-	-	1,986
Total capital assets depreciated, net	\$ -	\$ -	\$ -	\$ -
Governmental Activities Capital Assets, Net	\$ 81,973	\$ -	\$ -	\$ 81,973

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 213,685	\$ -	\$ -	\$ 213,685
Capital assets depreciated				
Land improvements	\$ 4,212,872	\$ -	\$ -	\$ 4,212,872
Buildings and structures	372,371	-	-	372,371
Furniture and equipment	915,413	5,500	-	920,913
Total capital assets depreciated	\$ 5,500,656	\$ 5,500	\$ -	\$ 5,506,156

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

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	\$ 1,565,939	\$ 140,429	\$ -	\$ 1,706,368
Buildings and structures	240,909	18,980	-	259,889
Furniture and equipment	689,347	54,902	-	744,249
Total accumulated depreciation	\$ 2,496,195	\$ 214,311	\$ -	\$ 2,710,506
Total capital assets, depreciated, net	\$ 3,004,461	\$ (208,811)	\$ -	\$ 2,795,650
Business-Type Activities				
Capital Assets, Net	\$ 3,218,146	\$ (208,811)	\$ -	\$ 3,009,335

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities	
Golf course	\$ 214,311

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Golf Course	\$ 69,000

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

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Leases

Operating Leases

The Authority leases golf carts under non-cancelable operating leases. Total costs for such leases were \$40,050 for the year ended December 31, 2006. These operating leases are expected to continue indefinitely or be replaced by similar leases. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2007	\$ 24,030
2008	24,030
2009	24,030
Total	\$ 72,090

Capital Leases

The Authority has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2006:

Lease	Maturity	Installment	Payment Amount	Original	Balance
Business-Type Activities					
2003 tractor	2008	Monthly	\$ 511	\$ 26,900	\$ 8,815
2003 irrigation system upgrade	2007	Monthly	1,343	58,016	7,933
2005 mower	2009	Annual	4,807	19,908	12,809
2005 top-dresser	2009	Annual	2,302	9,510	5,553
Total Business-Type Activities Capital Leases					\$ 35,110

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

2. Detailed Notes on All Funds

C. Liabilities

1. Leases

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

Year Ending December 31	Business-Type Activities
2007	\$ 21,305
2008	10,177
2009	7,108
Total minimum lease payments	\$ 38,590
Less: amount representing interest	(3,480)
Present Value of Minimum Lease Payments	\$ 35,110

2. Long-Term Debt

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
1998 Golf Course Revenue Bonds	2015	\$35,000 - \$175,000	4.40 to 5.60	\$ 1,820,000	\$ 1,285,000

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

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 115,000	\$ 66,512
2008	120,000	60,460
2009	125,000	54,028
2010	135,000	47,104
2011	140,000	39,712
2012 - 2015	650,000	74,482
Total	<u>\$ 1,285,000</u>	<u>\$ 342,298</u>

4. Changes in Long-Term Liabilities

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Golf course revenue bonds	\$ 1,395,000	\$ -	\$ 110,000	\$ 1,285,000	\$ 115,000
Capital leases	61,322	-	26,212	35,110	19,529
Total	<u>\$ 1,456,322</u>	<u>\$ -</u>	<u>\$ 136,212</u>	<u>\$ 1,320,110</u>	<u>\$ 134,529</u>

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

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

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

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

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

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. The Authority is required to contribute the following percentages of annual covered payroll:

In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00
In 2007	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.25

The Authority's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund were:

2006	\$	14,917
2005		12,746
2004		10,297

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

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

4. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Authority purchases commercial insurance for all risks of loss. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

5. Construction Commitment

In 2006, the Authority began work on the Cedar Grove Business Park. This is a project within the City of Grand Marais to provide land sites for new or existing businesses. The Authority has hired a contractor to perform the work, consisting primarily of road, utility, and infrastructure construction. The project is being funded by the sale of lots within the Business Park, plus Minnesota Department of Employment and Economic Development and Iron Range Resources grants obtained by the City of Grand Marais and passed on to the Authority. The estimated completion of the project is fall of 2007. At December 31, 2006, the Authority had the following commitment with respect to the unfinished construction project:

Total contract award	\$ 1,737,456
Work completed through December 31, 2006	<u>514,609</u>
Remaining Construction Commitment	<u>\$ 1,222,847</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 82,620	\$ 82,620	\$ 83,442	\$ 822
Miscellaneous				
Investment earnings	2,000	2,000	1,260	(740)
Sale of lots	1,300,000	1,300,000	-	(1,300,000)
Contributions	499,000	499,000	713,177	214,177
Administrative fees	30,000	30,000	-	(30,000)
Total Revenues	\$ 1,913,620	\$ 1,913,620	\$ 797,879	\$ (1,115,741)
Expenditures				
Current				
Urban and economic development				
Salaries	\$ 125,000	\$ 125,000	\$ 70,946	\$ 54,054
Payroll benefits	16,875	16,875	23,417	(6,542)
Board per diems	3,600	3,600	1,710	1,890
Legal	20,000	20,000	16,541	3,459
Professional services	19,100	19,100	12,755	6,345
Rent	3,000	3,000	2,750	250
Office	5,000	5,000	6,475	(1,475)
Insurance	7,000	7,000	3,890	3,110
Telephone and internet	1,800	1,800	1,245	555
Travel and training	500	500	-	500
Cedar Grove Business Park	1,689,639	1,689,639	870,393	819,246
Other	1,550	1,550	1,665	(115)
Total Expenditures	\$ 1,893,064	\$ 1,893,064	\$ 1,011,787	\$ 881,277
Excess of Revenues Over (Under)				
Expenditures	\$ 20,556	\$ 20,556	\$ (213,908)	\$ (234,464)
Fund Balance - January 1	242,494	242,494	242,494	-
Fund Balance - December 31	\$ 263,050	\$ 263,050	\$ 28,586	\$ (234,464)

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

NOTES TO THE REQUIRED FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006

Budgetary Information

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

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

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

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SUPPLEMENTARY INFORMATION

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

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
GOLF COURSE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues			
Sales			
Food, beverage, and merchandise	\$ 210,875	\$ 223,428	\$ 12,553
Less: cost of goods sold	(140,000)	(146,004)	(6,004)
Net sales	\$ 70,875	\$ 77,424	\$ 6,549
Charges for services			
Green fees and other charges	831,250	774,743	(56,507)
Total Operating Revenues	\$ 902,125	\$ 852,167	\$ (49,958)
Operating Expenses			
Current			
Culture and recreation			
Salaries and wages	\$ 329,400	\$ 345,101	\$ (15,701)
Payroll taxes	35,000	43,469	(8,469)
Retirement contribution	9,300	11,405	(2,105)
Grounds maintenance and supplies	110,500	140,687	(30,187)
Clubhouse maintenance and supplies	12,000	15,196	(3,196)
Golf cart leases and maintenance	42,453	42,900	(447)
Insurance	21,000	23,513	(2,513)
Utilities	25,000	28,322	(3,322)
Telephone	3,000	3,773	(773)
Office	2,000	1,980	20
Administrative fee	24,000	-	24,000
Accounting and audit	11,000	13,392	(2,392)
Legal fees	2,000	10,251	(8,251)
Dues and licenses	3,000	3,648	(648)
Travel	2,500	2,955	(455)
Marketing	30,000	25,368	4,632
Bank charges and fees	19,000	20,051	(1,051)
Other	-	3,212	(3,212)
Capital outlay	37,755	-	37,755
Depreciation expense	-	214,311	(214,311)
Total Expenses	\$ 718,908	\$ 949,534	\$ (230,626)
Operating Income (Loss)	\$ 183,217	\$ (97,367)	\$ (280,584)
Nonoperating Revenues (Expenses)			
Investment earnings	\$ 700	\$ 12,378	\$ 11,678
Lodging tax	50,000	50,000	-
Rental income	2,000	675	(1,325)
Interest expense	(73,000)	(76,967)	(3,967)
Total Nonoperating Revenues (Expenses)	\$ (20,300)	\$ (13,914)	\$ 6,386

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

Schedule 2
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GOLF COURSE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budget	Actual	Variance
Income (Loss)	\$ 162,917	\$ (111,281)	\$ (274,198)
Net Assets - January 1	<u>2,073,320</u>	<u>2,073,320</u>	<u>-</u>
Net Assets - December 31	<u>\$ 2,236,237</u>	<u>\$ 1,962,039</u>	<u>\$ (274,198)</u>

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

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Segregation of Duties

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

We recommend that the Authority continue to be constantly aware of the lack of segregation of the accounting functions.

Client's Response:

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

96-2 Golf Course Segregation of Duties

The Cook County and Grand Marais Joint Economic Development Authority manages the operations of the Superior National at Lutsen Golf Course. Our review of golf course operations disclosed a lack of segregation of duties. Currently, the golf pro is responsible

for clubhouse operations and, in that capacity, performs the following functions: collects receipts, operates the cash register, closes the cash register at the end of the day, counts the day's receipts, prepares the daily deposit, and takes the deposit to the bank. Some of these duties have been assigned to the assistant golf pro. However, the golf pro remains involved in these functions. This situation is not unusual in operations with a limited number of office personnel. Management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of personnel is not desirable from an accounting point of view.

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

Client's Response:

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

ITEMS ARISING THIS YEAR

06-1 Preparation of Financial Statements

The Cook County and Grand Marais Joint Economic Development Authority is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the Authority's management. Financial statement preparation in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the Cook County and Grand Marais Joint Economic Development Authority has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the

Authority's decision that it is more cost-effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend the Cook County and Grand Marais Joint Economic Development Authority obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the Authority intends to have State Auditor's Office staff assist in preparation, then at a minimum, it must identify and train individuals to obtain expertise so that they can sufficiently review, understand, and approve the Authority's financial statements, including notes. As an alternative, the Cook County and Grand Marais Joint Economic Development Authority could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

The EDA appreciates the assistance of the State Auditor's Office and the contracted services of others in the preparation of the yearly audit. I will request of the Board to provide training to the Director to obtain the expertise that can sufficiently review, understand, and approve the Authority's financial statements, including notes.

06-2 Payroll Procedures

Review of the Authority's payroll system and records disclosed a number of deficiencies including: signed copies of employment contracts could not all be located for the current year; an employee was being paid in excess of the amount approved in the Authority Board minutes; and time records were not adequately maintained, making it difficult to determine outstanding liabilities at year-end.

Governmental entities should establish and follow payroll control procedures that ensure accurate information and safeguarding of assets. The Office of the State Auditor has developed a Statement of Position for employee timekeeping procedures. Among the items recommended in the Statement of Position is a positive reporting system where employees affirmatively attest to the hours or days they have actually worked, dual attestation of the hours worked both by the employee and supervisor or other appropriate person, and affirmation of carry-forward amounts of vacation or sick leave accrued.

We recommend the Authority Board establish and document payroll policies and procedures. Included should be controls to ensure that all payroll contracts, time records, and amounts paid are properly documented, authorized, and available.

Client's Response:

Presently there are two employees of the EDA, an office assistant and the Director. The office assistant keeps a daily time sheet that requires the stipulation of work she is doing and the number of hours worked per day. The Director will now review the weekly record, and sign off that it is correct.

The Director is a salaried position. Overtime and/or comp time has been disallowed in the past, and will continue in that manner. As there is no contract agreement between the EDA and the Director, I will request the Board stipulate in the August 2007 meeting minutes, that the Director is a salaried position, overtime and/or comp time is disallowed, and any part of a day worked is considered a full day.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-2 Rate Covenant Compliance

Net revenues for the golf course for the year ended December 31, 2006, did not meet the threshold specified in the golf course revenue bond resolution.

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

Golf course net revenues of \$172,933 for 2006 are less than the maximum annual debt service on the bonds of \$208,739. The maximum annual debt service calculation is equal to 115 percent of 2007 scheduled debt service payments of \$181,512. Golf course net revenues are equal to the excess of revenues over (under) expenses, excluding bond interest and depreciation expense ($(\$111,281) + \$69,903 + \$214,311 = \$172,933$) as reported in the 2006 audited golf course financial statements.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Collateral Requirements (04-1)

In the prior year, the Authority had deposits in a financial institution in excess of insurance for those deposits. Minn. Stat. § 118A.03 requires a governmental entity to obtain collateral or a surety bond for deposits in excess of available insurance. No collateral or surety bond had been obtained.

Resolution

In the current year, all deposits tested were insured or collateralized in accordance with state statutes.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority, a component unit of Cook County, as of and for the year ended December 31, 2006, and have issued our report thereon dated August 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cook County and Grand Marais Joint Economic Development Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 96-1, 96-2, 06-1, and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cook County and Grand Marais Joint Economic Development Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

The Authority's written response to the significant deficiencies and legal compliance finding identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 2, 2007