

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

COOK COUNTY
GRAND MARAIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

For the Year Ended December 31, 2005



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

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	13
Statement of Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	16
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	23
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	24
Notes to the Financial Statements		25
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	71
Road and Bridge Special Revenue Fund	Schedule 2	74
Public Health and Human Services Special Revenue Fund	Schedule 3	75
Notes to the Required Supplementary Information		76

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		77
Combining Balance Sheet	Statement 1	78
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 2	79
Combining Balance Sheet - Nonmajor Special Revenue Funds	Statement 3	80
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Special Revenue Funds	Statement 4	81
Budgetary Comparison Schedule		
Airport Special Revenue Fund	Schedule 4	82
Fiduciary Funds		
Agency Funds		83
Combining Statement of Changes in Assets and Liabilities	Statement 5	84
Other Schedules		
Tax Capacity, Tax Rates, Levies, and Percentage of Collections	Schedule 5	89
Schedule of Intergovernmental Revenue	Schedule 6	90
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 7	92
Other Required Reports		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		96
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		98
Schedule of Expenditures of Federal Awards	Schedule 8	100

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2005**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Janice Hall*	January 2007
District 2	Fritz Sobanja	January 2009
District 3	Robert Fenwick	January 2007
District 4	James Johnson	January 2009
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	Mark Falk	January 2007
Appointed		
Assessor/Land Commissioner	Ted Mershon	December 2008
Court Administrator	Larry Saur	Indefinite
Highway Engineer	Charles Schmit	October 2007
Veteran Services Officer	Dale Tormondson	February 2006
Human Services Board		
Chair	Robert Fenwick	January 2006
Vice Chair	Janice Hall	January 2006
Member	Bev Green	January 2006
Member	Edwina Hertzberg	January 2006
Member	Fritz Sobanja	January 2006
Member	James Johnson	January 2006
Member	Bruce Martinson	January 2006
Director	Sue Futterer	Indefinite

*Chair

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of 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, 2005, 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, 2005, 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 11, 2006, 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 11, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005
(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, 2005. 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 \$56,898,355, of which \$43,130,212 is invested in capital assets, net of related debt, and \$4,622,581 is restricted to specific purposes; \$9,145,562 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 \$2,406,385, of which \$1,843,797 is invested in capital assets, net of related debt, and \$286,758 is restricted to specific purposes. The majority of these amounts are for Superior National Golf Course in Lutsen.
- Cook County's net assets increased by \$3,276,055 for the year ended December 31, 2005, due mainly to major road renovation. The net assets of the County's discretely presented component unit (EDA) decreased by \$180,041.
- The net cost of governmental activities was \$4,244,053 for the current fiscal year. This is 14.4 percent higher than the 2004 cost. The net cost was funded by general revenues and other items totaling \$7,520,108. These revenues were up 4.8 percent from 2004. 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 decreased by \$550,433.

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 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 reconciliation in a statement following each governmental fund financial statement.

The basic financial statements for governmental funds can be found in Exhibits 3 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 separate Statements of Fiduciary Net Assets and Changes in 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 as Exhibit 7.

The County as a Whole

Our analysis 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	
	2005	2004	2005	2004
Current and other assets	\$ 20,226,413	\$ 21,607,703	\$ 633,002	\$ 707,830
Capital assets	47,140,212	44,277,355	3,300,119	3,492,515
Total Assets	\$ 67,366,625	\$ 65,885,058	\$ 3,933,121	\$ 4,200,345
Long-term debt outstanding	\$ 9,192,480	\$ 11,225,246	\$ 1,346,322	\$ 1,452,065
Other liabilities	1,275,790	1,037,512	180,414	161,854
Total Liabilities	\$ 10,468,270	\$ 12,262,758	\$ 1,526,736	\$ 1,613,919
Net Assets				
Invested in capital assets – net of debt	\$ 43,130,212	\$ 39,937,355	\$ 1,843,797	\$ 1,935,450
Restricted	4,622,581	7,033,990	286,758	279,006
Unrestricted	9,145,562	6,650,955	275,830	371,970
Total Net Assets	\$ 56,898,355	\$ 53,622,300	\$ 2,406,385	\$ 2,586,426

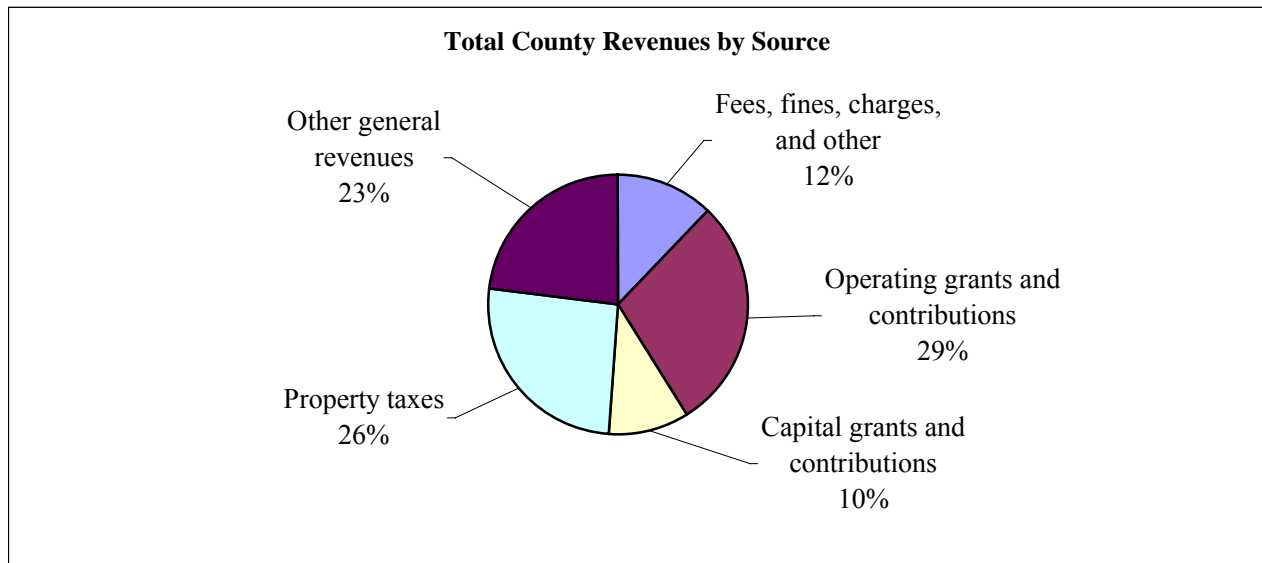
For details, please see the Statement of Net Assets, Exhibit 1.

Table 2
Changes in Net Assets

	Governmental Activities		Component Unit Activities	
	2005	2004	2005	2004
Revenues				
Program revenues				
Fees, fines, charges, and other	\$ 1,885,370	\$ 1,229,637	\$ 800,399	\$ 791,972
Operating grants and contributions	4,462,391	4,701,232	9,500	9,500
Capital grants and contributions	1,528,933	1,527,384	-	-
General revenues				
Property taxes	3,975,898	3,815,079	82,363	84,046
Other taxes	1,898,860	1,828,779	50,000	71,978
Unrestricted grants and contributions	1,065,560	1,259,555	-	-
Investment income	348,825	235,853	8,273	3,489
Contributions to permanent fund	6,205	5,414	-	-
Miscellaneous	224,760	33,970	26,235	26,685
Total Revenues	\$ 15,396,802	\$ 14,636,903	\$ 976,770	\$ 987,670

	Governmental Activities		Component Unit Activities	
	2005	2004	2005	2004
Expenses				
General government	\$ 2,806,654	\$ 2,765,357	\$ -	\$ -
Public safety	2,050,738	1,918,479	-	-
Highways and streets	3,218,387	2,555,828	-	-
Sanitation	382,872	458,944	-	-
Human services	1,335,245	1,278,014	-	-
Health	241,660	214,395	-	-
Culture and recreation	665,756	538,441	-	-
Golf course	-	-	973,761	980,606
Conservation of natural resources	469,215	611,518	-	-
Economic development	581,364	397,493	183,050	102,864
Interest	368,856	429,717	-	-
Total Expenses	\$ 12,120,747	\$ 11,168,186	\$ 1,156,811	\$ 1,083,470
Increase (Decrease) in Net Assets	\$ 3,276,055	\$ 3,468,717	\$ (180,041)	\$ (95,800)
Net Assets – January 1	53,622,300	50,153,583	2,586,426	2,682,226
Net Assets – December 31	<u>\$ 56,898,355</u>	<u>\$ 53,622,300</u>	<u>\$ 2,406,385</u>	<u>\$ 2,586,426</u>

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



Governmental Activities

The cost of all governmental activities this year was \$12,120,747. However, as shown in the Statement of Activities (Exhibit 2), the amount taxpayers ultimately financed for these activities through County taxes was only \$3,975,898 (26 percent of total revenues, the same percent as 2004), because some of the cost was paid by those who directly benefited from the programs (\$1,885,370), or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,991,324). A shift occurred in 2005 as an increasing amount was paid by those who directly benefit from programs (12 percent versus 8 percent in 2004) to offset the decrease in contributions by the state (29 percent versus 33 percent in 2004).

Table 3 presents the cost of each of the County's eight 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	
	2005	2004	2005	2004
Highways and streets	\$ 3,218,387	\$ 2,555,828	\$ (243,088)	\$ (1,038,618)
General government	2,806,654	2,765,357	1,398,648	1,263,169
Public safety	2,050,738	1,918,479	1,554,515	1,381,055
Human services	1,335,245	1,278,014	563,357	533,805
Culture and recreation	665,756	538,441	605,011	471,490
Economic development	581,364	397,493	198,043	277,427
Conservation of natural resources	469,215	611,518	(579,046)	1,733
Sanitation	382,872	458,944	283,302	292,149
All others	610,516	644,112	463,311	527,723
Total (Net Expense)	\$ 12,120,747	\$ 11,168,186	\$ 4,244,053	\$ 3,709,933

The County's Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$15,358,402, as compared to last year's total of \$15,957,972. The General Fund's fund balance increased \$392,865. 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 \$623,951 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 expenditures were more than offset by revenues that exceeded budget by \$989,346. 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 2005, the County had a net investment of \$47,140,212 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 \$2,862,857, or 6.5 percent, over last year.

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

	Governmental Activities	
	2005	2004
Land and easements	\$ 745,417	\$ 881,417
Construction in progress	240,956	413,789
Buildings and improvements	8,230,781	8,220,634
Machinery, vehicles, furniture, and equipment	1,643,582	1,633,786
Infrastructure	<u>36,279,476</u>	<u>33,127,729</u>
Total	<u>\$ 47,140,212</u>	<u>\$ 44,277,355</u>

The majority of the changes in 2005 are from the completion of 2004 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 3.A.3. for details.

DEBT

At year-end, the County had \$8,789,718 in bonds and notes outstanding, versus \$10,814,285 last year--a decrease of 18.7 percent.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	2005	2004
General obligation bonds	\$ 5,204,165	\$ 6,990,832
Certificates of participation	3,775,000	4,030,000
Less: deferred charges for refunding bonds	<u>(189,447)</u>	<u>(206,547)</u>
Total	<u>\$ 8,789,718</u>	<u>\$ 10,814,285</u>

See "Notes to the Financial Statements," Notes 3.C.3. through 3.C.6. for a 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 2006 budget, tax levy, and fees that will be charged for various activities.

- Continuing reductions in state aids to local governments.
- Increasing cost for boarding prisoners out of the County.
- The need to maintain an unrestricted fund balance of at least 50 percent of operating expenditures.
- With continued decrease of state aid, the County budgeted a use of the General Fund's fund balance of \$326,423.
- Increasing need for property taxes to fund highway maintenance costs.
- Property tax levies have increased five percent for 2006 in response to all of the above factors.

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, 2005**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 13,748,570	\$ 277,620
Investments	14,984	-
Receivables - net	5,928,048	10,842
Inventories	371,363	26,555
Restricted assets		
Assets held by trustee	-	317,985
Deferred charges	163,448	-
Capital assets		
Non-depreciable capital assets	986,373	295,658
Depreciable capital assets - net of accumulated depreciation	46,153,839	3,004,461
Total Assets	\$ 67,366,625	\$ 3,933,121
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 995,079	\$ 39,187
Accrued interest payable	125,569	-
Unearned revenue	76,583	-
Payable from restricted assets		
Accrued interest payable	-	31,227
Bonds payable - current	-	110,000
Advance from other governments	78,559	-
Long-term liabilities		
Due within one year	901,667	26,212
Due in more than one year	8,290,813	1,320,110
Total Liabilities	\$ 10,468,270	\$ 1,526,736
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 43,130,212	\$ 1,843,797
Restricted for		
General government	44,052	-
Highways and streets	1,764,554	-
Public safety	217,850	-
Culture and recreation	183,532	-
Conservation of natural resources	916,215	-
Economic development	768,664	-
Debt service	727,714	286,758
Unrestricted	9,145,562	275,830
Total Net Assets	\$ 56,898,355	\$ 2,406,385

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

Page 13

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,806,654	\$ 510,429
Public safety	2,050,738	242,099
Highways and streets	3,218,387	164,596
Sanitation	382,872	99,570
Human services	1,335,245	88,924
Health	241,660	34,909
Culture and recreation	665,756	35,387
Conservation of natural resources	469,215	643,843
Economic development	581,364	65,613
Interest	368,856	-
Total governmental activities	\$ 12,120,747	\$ 1,885,370
 Component Units		
Cook County and Grand Marais Joint Economic Development Agency	\$ 1,156,811	\$ 800,399
 General Revenues		
Property taxes		
Lodging tax		
Mortgage registry and deed tax		
Local sales tax		
Taxes - other		
Payments in lieu of tax		
Grants and contributions not restricted to specific programs		
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 Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 888,613	\$ 8,964	\$ (1,398,648)	
254,124	-	(1,554,515)	
2,114,378	1,182,501	243,088	
-	-	(283,302)	
682,964	-	(563,357)	
112,296	-	(94,455)	
-	25,358	(605,011)	
385,138	19,280	579,046	
24,878	292,830	(198,043)	
-	-	(368,856)	
\$ 4,462,391	\$ 1,528,933	\$ (4,244,053)	
\$ 9,500	\$ -		\$ (346,912)
		\$ 3,975,898	\$ 82,363
		-	50,000
		14,525	-
		1,051,063	-
		725,496	-
		107,776	-
		1,065,560	-
		348,825	8,273
		6,205	-
		65,504	21,735
		159,256	4,500
		\$ 7,520,108	\$ 166,871
		\$ 3,276,055	\$ (180,041)
		53,622,300	2,586,426
		\$ 56,898,355	\$ 2,406,385

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 7,051,388	\$ 498,116
Petty cash and change funds	1,032	-
Cash with escrow agent	-	-
Investments	-	-
Taxes receivable		
Prior	51,375	23,712
Accounts receivable	74,521	10,865
Lodging taxes receivable	-	-
Accrued interest receivable	138,106	-
Loans receivable	542,261	-
Due from other funds	78,285	5,772
Due from other governments	1,231,644	2,660,158
Inventories	-	371,363
Advance to other funds	104,968	-
MCCF deposit receivable	25,000	-
	\$ 9,298,580	\$ 3,569,986
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 99,370	\$ 52,033
Salaries payable	165,917	75,449
Contracts payable	-	262,832
Due to other funds	6,480	-
Due to other governments	33,500	22,275
Deferred revenue - unavailable	735,524	2,090,412
Deferred revenue - unearned	21,512	40,000
Advance from other funds	-	-
Advance from other governments	-	78,559
	\$ 1,062,303	\$ 2,621,560

EXHIBIT 3

Public Health and Human Services	Forfeited Tax	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 1,274,810	\$ 83,585	\$ 373,580	\$ 4,042,484	\$ 13,323,963
-	-	-	-	1,032
-	-	423,575	-	423,575
14,984	-	-	-	14,984
18,601	-	8,922	2,167	104,777
17,800	642,650	-	50,977	796,813
-	-	-	24,861	24,861
-	288	-	-	138,394
-	-	-	-	542,261
-	-	-	13,539	97,596
132,615	-	-	271,525	4,295,942
-	-	-	-	371,363
-	-	-	-	104,968
-	-	-	-	25,000
<u>\$ 1,458,810</u>	<u>\$ 726,523</u>	<u>\$ 806,077</u>	<u>\$ 4,405,553</u>	<u>\$ 20,265,529</u>
\$ 48,740	\$ -	\$ -	\$ 5,821	\$ 205,964
32,029	-	-	-	273,395
-	-	-	178,125	440,957
18,432	71,634	-	1,050	97,596
6,029	12,959	-	-	74,763
30,519	641,930	4,441	51,516	3,554,342
15,071	-	-	-	76,583
-	-	-	104,968	104,968
-	-	-	-	78,559
<u>\$ 150,820</u>	<u>\$ 726,523</u>	<u>\$ 4,441</u>	<u>\$ 341,480</u>	<u>\$ 4,907,127</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Reserved for		
Encumbrances	\$ -	\$ 29,319
Inventories	-	371,363
Economic development	768,664	-
Law library	40,643	-
Recorder's equipment	3,409	-
Sheriff's contingency	5,000	-
Debt service	-	83,075
Enhanced 911	212,850	-
MCCF deposit	25,000	-
Environmental improvements	-	-
Law enforcement	92	-
Timber development	276,402	-
Parks and recreation	183,532	-
Unreserved		
Designated for future expenditures	19,752	-
Designated for capital improvements	-	75,000
Designated for E-911 signs	8,384	-
Designated for hazardous materials team	6,276	-
Designated for search and rescue	2,996	-
Designated for emergency purposes	2,950	-
Designated for elections	24,465	-
Designated for Hovland dock	1,471	-
Designated for broadband	2,002	-
Designated for County telephone	36,368	-
Designated for 20% unorganized townships	2,611	-
Designated for data processing	315,595	-
Designated for NERCC facilities	22,118	-
Designated for Sheriff's cars	161,424	-
Designated for landfill future development	91,574	-
Designated for County cars	89,585	-
Designated for photocopies	57,705	-
Designated for County landings	37,443	-
Designated for debt service	-	-
Undesignated	5,837,966	389,669
Unreserved, reported in nonmajor Special revenue funds	-	-
Total Fund Balances	\$ 8,236,277	\$ 948,426
Total Liabilities and Fund Balances	\$ 9,298,580	\$ 3,569,986

EXHIBIT 3
(Continued)

Public Health and Human Services	Forfeited Tax	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 29,319
-	-	-	-	371,363
-	-	-	-	768,664
-	-	-	-	40,643
-	-	-	-	3,409
-	-	-	-	5,000
-	-	423,575	221,064	727,714
-	-	-	-	212,850
-	-	-	-	25,000
-	-	-	639,813	639,813
-	-	-	-	92
-	-	-	-	276,402
-	-	-	-	183,532
-	-	-	-	19,752
-	-	-	-	75,000
-	-	-	-	8,384
-	-	-	-	6,276
-	-	-	-	2,996
-	-	-	-	2,950
-	-	-	-	24,465
-	-	-	-	1,471
-	-	-	-	2,002
-	-	-	-	36,368
-	-	-	-	2,611
-	-	-	-	315,595
-	-	-	-	22,118
-	-	-	-	161,424
-	-	-	-	91,574
-	-	-	-	89,585
-	-	-	-	57,705
-	-	-	-	37,443
-	-	378,061	-	378,061
1,307,990	-	-	-	7,535,625
-	-	-	3,203,196	3,203,196
\$ 1,307,990	\$ -	\$ 801,636	\$ 4,064,073	\$ 15,358,402
\$ 1,458,810	\$ 726,523	\$ 806,077	\$ 4,405,553	\$ 20,265,529

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**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, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$	15,358,402
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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.		47,140,212
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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.		3,554,342
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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	\$	(5,204,165)	
Certificates of participation		(3,585,553)	
Compensated absences		(402,762)	
Accrued interest payable		(125,569)	
Deferred debt issuance charges		163,448	
		(9,154,601)	(9,154,601)

Net assets of governmental activities (Exhibit 1)	\$	<u>56,898,355</u>
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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 2,233,600	\$ 956,751
Special assessments	19,280	-
Licenses and permits	62,974	-
Intergovernmental	2,647,374	4,889,746
Charges for services	433,373	162,879
Fines and forfeits	26,084	-
Gifts and contributions	2,095	-
Interest on investments	300,456	-
Miscellaneous	577,757	1,717
	\$ 6,302,993	\$ 6,011,093
Expenditures		
Current		
General government	\$ 2,550,518	\$ -
Public safety	1,940,742	-
Highways and streets	-	6,305,255
Sanitation	362,432	-
Human services	-	-
Health	-	-
Culture and recreation	651,014	-
Conservation of natural resources	449,499	-
Economic development	36,278	-
Capital outlay	163,693	-
Debt service		
Principal	-	75,000
Interest	-	6,844
Administrative charges	-	374
	\$ 6,154,176	\$ 6,387,473
Excess of Revenues Over (Under) Expenditures	\$ 148,817	\$ (376,380)
Other Financing Sources (Uses)		
Transfers in	\$ 49,375	\$ -
Transfers out	(120,000)	-
Proceeds from sale of capital assets	314,673	-
	\$ 244,048	\$ -
Net Change in Fund Balances	\$ 392,865	\$ (376,380)
Fund Balances - January 1	7,843,412	1,373,945
Increase (decrease) in reserved for inventories	-	(49,139)
	\$ 8,236,277	\$ 948,426
Fund Balances - December 31	\$ 8,236,277	\$ 948,426

EXHIBIT 5

Public Health and Human Services	Forfeited Tax	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 732,609	\$ 81,193	\$ 351,590	\$ 1,445,791	\$ 5,801,534
-	-	-	-	19,280
11,844	-	-	-	74,818
788,027	-	21,553	322,946	8,669,646
44,726	-	-	-	640,978
-	-	-	-	26,084
-	-	-	-	2,095
-	-	16,638	38,674	355,768
47,338	-	-	41,887	668,699
\$ 1,624,544	\$ 81,193	\$ 389,781	\$ 1,849,298	\$ 16,258,902
\$ -	\$ 11,951	\$ -	\$ 970	\$ 2,563,439
-	-	-	11,606	1,952,348
-	-	-	581	6,305,836
-	-	-	-	362,432
1,332,105	-	-	-	1,332,105
241,660	-	-	-	241,660
-	-	-	-	651,014
-	24,989	-	-	474,488
-	-	-	200,759	237,037
-	-	-	447,880	611,573
-	-	1,966,667	-	2,041,667
-	-	337,745	-	344,589
-	-	8,151	-	8,525
\$ 1,573,765	\$ 36,940	\$ 2,312,563	\$ 661,796	\$ 17,126,713
\$ 50,779	\$ 44,253	\$ (1,922,782)	\$ 1,187,502	\$ (867,811)
\$ -	\$ -	\$ 676,298	\$ 131,781	\$ 857,454
-	(46,956)	-	(690,498)	(857,454)
-	-	-	2,707	317,380
\$ -	\$ (46,956)	\$ 676,298	\$ (556,010)	\$ 317,380
\$ 50,779	\$ (2,703)	\$ (1,246,484)	\$ 631,492	\$ (550,431)
1,257,211	2,703	2,048,120	3,432,581	15,957,972
-	-	-	-	(49,139)
\$ 1,307,990	\$ -	\$ 801,636	\$ 4,064,073	\$ 15,358,402

**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, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (550,431)

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	\$ 3,554,342	
Deferred revenue - January 1	(4,575,700)	(1,021,358)

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.

(156,753)

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	\$ 4,580,619	
Current year depreciation	(1,561,009)	3,019,610

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	\$ 1,786,667	
Certificates of participation payable	255,000	2,041,667

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	\$ 20,176	
Amortization of discounts and deferred issuance charges	(35,916)	
Change in compensated absences	8,199	
Change in inventories	(49,139)	(56,680)

Change in net assets of governmental activities (Exhibit 2) \$ 3,276,055

FIDUCIARY FUNDS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 7

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

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 353,771
Accounts receivable	45,081
Due from other governments	<u>137,771</u>
Total Assets	<u>\$ 536,623</u>
<u>Liabilities</u>	
Accounts payable	\$ 38,624
Due to other governments	<u>497,999</u>
Total Liabilities	<u>\$ 536,623</u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board 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 and Grand Marais Joint Economic Development Authority (EDA)	County appoints a majority of the Cook County and Grand Marais Joint EDA Board.	Cook County and Grand Marais Joint EDA Box 597 Grand Marais, Minnesota 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 5.C. The County also participates in jointly-governed organizations described in Note 5.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 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 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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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 as available if collected within 60 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, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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 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 Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, 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 2005 were \$325,477.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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.

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 noncurrent 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 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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Inventories and Prepaid Items (Continued)

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.

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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, 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 an other 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following nonmajor fund had a deficit fund balance or net as of December 31, 2005:

Airport Special Revenue Fund	\$	97,784
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The Airport's deficit will be eliminated with future revenues and/or contributions from the County.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the following funds:

General Fund	\$ 787,644	Mostly funded by greater than anticipated revenues. Trail grant revenues and expenditures and water planning revenues and expenditures exceeded budgets.
Road and Bridge Special Revenue Fund	\$ 2,273,513	Construction revenues and expenditures were both higher than budgeted.
Public Health and Human Services Special Revenue Fund	\$ 1,012	Nursing services provided were slightly more than budgeted.
Airport Fund	\$ 127,275	Capital outlay expenditures were higher than budgeted due to work on a taxi lane and seaplane base project.

3. 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	\$	13,748,570
Investments		14,984
EDA component unit		
Cash and pooled investments		277,620
Restricted assets held by trustee		317,985
Fiduciary funds		
Cash and pooled investments		
Agency funds		353,771
Total Cash and Investments	\$	14,712,930

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County 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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, the primary government's bank balances of \$1,181,024 were not exposed to custodial credit risk.

The Cook County and Grand Marais Joint EDA component unit had bank balances of \$294,968 at December 31, 2005, and these were not exposed to custodial credit risk.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (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;
- (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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

Credit Risk

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

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. All of Cook County's investments in negotiable certificates of deposit and government securities are held by the counterparty to the transactions and are therefore subject to custodial credit risk. A portion of these investments are insured by SIPC insurance or Excess SIPC insurance and are not subject to custodial credit risk.

Negotiable certificates of deposit		
Insured	\$	2,006,835
Uninsured, held by counterparty		2,461,425
Government securities		
Insured		2,746,347
Uninsured, held by counterparty		2,310,484

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment to a single issuer. It is the policy of the County to diversify investments to avoid risk.

The following table presents the County's investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. Government Agency Securities					
Federal National Mortgage Association Note	N/A	N/A		1/30/09	\$ 98,375
Federal National Mortgage Association Note	N/A	N/A		8/27/09	97,750
Federal National Mortgage Association Note	N/A	N/A		3/17/14	98,000
Federal National Mortgage Association Note	N/A	N/A		2/10/11	99,094
Federal National Mortgage Association Note	N/A	N/A		5/18/19	50,375
Federal National Mortgage Association Note	N/A	N/A		9/13/19	16,973
Federal National Mortgage Association Note	N/A	N/A		1/13/20	37,660
Total Federal National Mortgage Association Notes			N/A		\$ 498,227
Federal Home Loan Mortgage Corporation Discount Note	N/A	N/A	N/A	9/15/19	\$ 12,748

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Federal Home Loan Bank Note	Aaa	Moody's		6/28/06	\$ 99,796
Federal Home Loan Bank Note	Aaa	Moody's		8/9/06	124,808
Federal Home Loan Bank Note	Aaa	Moody's		10/12/06	99,814
Federal Home Loan Bank Note	Aaa	Moody's		12/21/06	99,951
Federal Home Loan Bank Note	Aaa	Moody's		7/30/07	98,865
Federal Home Loan Bank Note	AAA	S&P		9/17/07	99,299
Federal Home Loan Bank Note	Aaa	Moody's		11/9/07	98,846
Federal Home Loan Bank Note	Aaa	Moody's		12/30/08	146,226
Federal Home Loan Bank Note	Aaa	Moody's		8/26/09	98,509
Federal Home Loan Bank Note	AAA	S&P		10/15/09	97,381
Federal Home Loan Bank Note	Aaa	Moody's		6/19/13	146,312
Federal Home Loan Bank Note	Aaa	Moody's		12/5/08	293,916
Federal Home Loan Bank Note	Aaa	Moody's		6/29/10	98,340
Federal Home Loan Bank Note	Aaa	Moody's		4/15/19	96,438
Federal Home Loan Bank Note	Aaa	Moody's		4/16/07	98,188
Federal Home Loan Bank Note	Aaa	Moody's		12/15/09	197,376
Federal Home Loan Bank Note	Aaa	Moody's		12/17/09	99,406
Federal Home Loan Bank Note	Aaa	Moody's		12/30/09	198,500
Federal Home Loan Bank Note	Aaa	Moody's		5/22/13	99,250
Federal Home Loan Bank Note	Aaa	Moody's		1/21/10	198,562
Federal Home Loan Bank Note	Aaa	Moody's		8/8/08	98,906
Federal Home Loan Bank Note	Aaa	Moody's		3/30/10	98,656
Federal Home Loan Bank Note	Aaa	Moody's		8/15/06	64,309
Total Federal Home Loan Bank Notes			22.39%		\$ 2,851,654

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Government National Mortgage Association Note	N/A	N/A		4/20/24	\$ 5,366
Government National Mortgage Association Note	N/A	N/A		5/15/24	6,894
Government National Mortgage Association Note	N/A	N/A		7/15/24	4,631
Government National Mortgage Association Note	N/A	N/A		4/15/26	6,480
Government National Mortgage Association Note	N/A	N/A		10/20/26	1,424
Government National Mortgage Association Note	N/A	N/A		3/20/28	11,898
Government National Mortgage Association Note	N/A	N/A		4/15/28	24,478
Government National Mortgage Association Note	N/A	N/A		4/20/28	6,722
Government National Mortgage Association Note	N/A	N/A		5/15/28	2,547
Government National Mortgage Association Note	N/A	N/A		6/20/28	4,379
Government National Mortgage Association Note	N/A	N/A		9/15/28	6,659
Government National Mortgage Association Note	N/A	N/A		10/15/28	10,543
Government National Mortgage Association Note	N/A	N/A		10/20/28	5,170
Government National Mortgage Association Note	N/A	N/A		11/15/28	5,658
Government National Mortgage Association Note	N/A	N/A		11/15/28	9,589
Government National Mortgage Association Note	N/A	N/A		11/15/28	8,321
Government National Mortgage Association Note	N/A	N/A		11/20/28	22,608
Government National Mortgage Association Note	N/A	N/A		12/15/28	5,835
Government National Mortgage Association Note	N/A	N/A		12/15/28	2,562
Government National Mortgage Association Note	N/A	N/A		12/15/28	5,860
Government National Mortgage Association Note	N/A	N/A		12/15/28	5,378
Government National Mortgage Association Note	N/A	N/A		12/20/28	15,174
Government National Mortgage Association Note	N/A	N/A		12/20/28	5,177
Government National Mortgage Association Note	N/A	N/A		1/15/29	15,078
Government National Mortgage Association Note	N/A	N/A		1/15/29	3,049
Government National Mortgage Association Note	N/A	N/A		1/15/29	10,068
Government National Mortgage Association Note	N/A	N/A		1/20/29	10,041
Government National Mortgage Association Note	N/A	N/A		2/15/29	11,334
Government National Mortgage Association Note	N/A	N/A		2/15/29	6,129
Government National Mortgage Association Note	N/A	N/A		2/15/29	3,744
Government National Mortgage Association Note	N/A	N/A		2/15/29	5,558
Government National Mortgage Association Note	N/A	N/A		2/15/29	18,110
Government National Mortgage Association Note	N/A	N/A		2/20/29	24,175
Government National Mortgage Association Note	N/A	N/A		3/15/29	9,722
Government National Mortgage Association Note	N/A	N/A		3/15/29	4,560
Government National Mortgage Association Note	N/A	N/A		3/20/29	22,006
Government National Mortgage Association Note	N/A	N/A		4/15/29	4,713
Government National Mortgage Association Note	N/A	N/A		4/15/29	7,955
Government National Mortgage Association Note	N/A	N/A		4/15/29	13,827
Government National Mortgage Association Note	N/A	N/A		4/15/29	4,913
Government National Mortgage Association Note	N/A	N/A		4/20/29	26,426

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Government National Mortgage Association Note	N/A	N/A		5/15/29	17,538
Government National Mortgage Association Note	N/A	N/A		6/15/29	6,232
Government National Mortgage Association Note	N/A	N/A		6/15/29	3,422
Government National Mortgage Association Note	N/A	N/A		6/15/29	16,016
Government National Mortgage Association Note	N/A	N/A		7/15/29	4,495
Government National Mortgage Association Note	N/A	N/A		7/15/29	6,808
Government National Mortgage Association Note	N/A	N/A		7/15/29	16,485
Government National Mortgage Association Note	N/A	N/A		8/20/29	3,601
Government National Mortgage Association Note	N/A	N/A		9/15/29	3,692
Government National Mortgage Association Note	N/A	N/A		9/15/29	9,302
Government National Mortgage Association Note	N/A	N/A		11/15/29	5,691
Government National Mortgage Association Note	N/A	N/A		3/15/31	7,395
Government National Mortgage Association Note	N/A	N/A		4/15/31	3,707
Government National Mortgage Association Note	N/A	N/A		5/15/31	10,110
Government National Mortgage Association Note	N/A	N/A		7/15/31	5,109
Government National Mortgage Association Note	N/A	N/A		10/15/31	14,237
Government National Mortgage Association Note	N/A	N/A		11/20/31	4,740
Government National Mortgage Association Note	N/A	N/A		12/15/31	4,875
Government National Mortgage Association Note	N/A	N/A		1/15/32	5,946
Government National Mortgage Association Note	N/A	N/A		3/20/32	5,273
Government National Mortgage Association Note	N/A	N/A		12/15/32	9,507
Government National Mortgage Association Note	N/A	N/A		1/15/33	13,304
Government National Mortgage Association Note	N/A	N/A		2/15/33	11,618
Government National Mortgage Association Note	N/A	N/A		2/15/33	12,070
Government National Mortgage Association Note	N/A	N/A		11/20/33	17,748
Government National Mortgage Association Note	N/A	N/A		12/15/33	15,664
Total Government National Mortgage Association Notes			N/A		\$ 619,346

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. Treasury Note	N/A	N/A		12/31/05	\$ 150,000
U.S. Treasury Note	N/A	N/A		2/2/06	163,474
U.S. Treasury Note	N/A	N/A		2/15/06	60,113
U.S. Treasury Note	N/A	N/A		2/15/06	58,109
U.S. Treasury Note	N/A	N/A		2/15/06	10,019
U.S. Treasury Note	N/A	N/A		4/30/06	86,433
U.S. Treasury Note	N/A	N/A		4/30/06	84,446
U.S. Treasury Note	N/A	N/A		5/15/06	22,806
U.S. Treasury Note	N/A	N/A		11/15/06	59,529
U.S. Treasury Note	N/A	N/A		3/31/07	23,796
U.S. Treasury Note	N/A	N/A		3/31/07	85,267
U.S. Treasury Note	N/A	N/A		2/15/08	41,135
U.S. Treasury Note	N/A	N/A		2/15/08	43,094
U.S. Treasury Note	N/A	N/A		3/15/10	23,656
U.S. Treasury Note	N/A	N/A		3/15/10	22,670
U.S. Treasury Note	N/A	N/A		3/15/10	27,598
U.S. Treasury Note	N/A	N/A		3/15/10	87,724
U.S. Treasury Note	N/A	N/A		4/15/10	24,987
Total U.S. Treasury Notes			8.44%		\$ 1,074,856
Investment Pools/Mutual Funds					
Merrill Lynch	N/R	N/A		N/A	\$ 4,635
Independence Community	N/R	N/A		N/A	3,662
MAGIC Fund	N/R	N/A		N/A	3,200,305
Tamarack U.S. Government Money Market	Aaa	Moody's		N/A	928
Total Investment Pools/Mutual Funds			25.20%		\$ 3,209,530
Negotiable Certificates of Deposit					
Prime Alliance	N/A	N/A		2/27/06	\$ 99,388
Baltimore	N/A	N/A		3/8/06	99,144
England	N/A	N/A		3/20/06	99,162
Unibank Miami	N/A	N/A		3/20/06	99,026
First Western	N/A	N/A		3/31/06	98,889
Lasalle Bank	N/A	N/A		12/27/15	85,141
Lehman Bros. Bank	N/A	N/A		12/19/12	87,334
Standard Federal Bank	N/A	N/A		12/27/15	95,000
Capital One Bank	N/A	N/A		9/27/06	100,097
First USA Bank	N/A	N/A		9/12/06	96,092
Indymac	N/A	N/A		2/28/06	98,000
Merrick Bank	N/A	N/A		9/28/06	96,094
CD MBNA	N/A	N/A		9/19/06	96,093
Advantage	N/A	N/A		2/24/06	99,420
Bank of Hydro	N/A	N/A		1/3/06	99,980

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Bank USA	N/A	N/A		3/28/06	99,064
Colorado	N/A	N/A		6/5/06	98,192
Community Federal Savings	N/A	N/A		1/13/06	99,879
Cosmopolitan	N/A	N/A		5/8/06	98,552
Miami	N/A	N/A		4/19/06	98,797
First Financial	N/A	N/A		6/6/06	98,180
First Regional	N/A	N/A		6/8/06	98,094
First Trade	N/A	N/A		5/17/06	98,449
Gwinnett	N/A	N/A		4/27/06	98,738
Independence	N/A	N/A		2/22/06	99,441
Metropolitan	N/A	N/A		6/8/06	98,136
Park National	N/A	N/A		5/3/06	98,624
Pullman Bank and Trust	N/A	N/A		4/27/06	98,707
Security Pacific Bank	N/A	N/A		1/20/06	99,780
TCM Bank	N/A	N/A		4/24/06	98,756
Yardville	N/A	N/A		6/13/06	98,011
Americana	N/A	N/A		2/7/06	96,000
American West Bank	N/A	N/A		2/7/06	96,000
Bank of Kremlin	N/A	N/A		4/5/06	96,000
Business Bank of Fox	N/A	N/A		4/5/06	96,000
Business Bank of St. Louis	N/A	N/A		6/12/06	96,000
Chevy Chase	N/A	N/A		6/12/06	96,000
Citizens Bank	N/A	N/A		4/5/06	96,000
First Independence	N/A	N/A		1/10/06	96,000
First Bank Puerto Rico	N/A	N/A		6/12/06	96,000
Flagstar Bank	N/A	N/A		2/7/06	96,000
First National Bank Damariscotta	N/A	N/A		2/7/06	96,000
Hemisphere	N/A	N/A		4/5/06	96,000
National Republic Bank	N/A	N/A		4/5/06	96,000
Parkway Bank	N/A	N/A		6/12/06	96,000
Total Bank	N/A	N/A		6/12/06	96,000
Total Negotiable Certificates of Deposit			N/A		\$ 4,468,260
Total Investments					\$ 12,734,621
Deposits					958,097
Petty cash					1,032
Cash with escrow agent					423,575
Deposits - component unit					595,605
Total Cash and Investments					\$ 14,712,930

N/R – No rating
N/A – Not available or not applicable

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 129,638	\$ -
Loans	542,261	501,735
Due from other governments	4,295,942	285,754
Accounts	796,813	-
Interest	138,394	-
MCCF deposit	25,000	-
Total Governmental Activities	\$ 5,928,048	\$ 787,489

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and easements	\$ 881,417	\$ -	\$ 136,000	\$ 745,417
Construction in progress	413,789	116,776	289,609	240,956
Total capital assets not depreciated	\$ 1,295,206	\$ 116,776	\$ 425,609	\$ 986,373
Capital assets depreciated				
Buildings	\$ 9,835,968	\$ 41,447	\$ -	\$ 9,877,415
Improvements other than buildings	375,823	231,377	-	607,200
Machinery, vehicles, furniture, and equipment	5,019,408	471,043	361,907	5,128,544
Infrastructure	41,156,503	4,009,585	288,962	44,877,126
Total capital assets depreciated	\$ 56,387,702	\$ 4,753,452	\$ 650,869	\$ 60,490,285

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. 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	\$ 1,908,834	\$ 233,804	\$ 29	\$ 2,142,609
Improvements other than buildings	82,323	28,902	-	111,225
Machinery, vehicles, furniture, and equipment	3,385,622	443,401	344,061	3,484,962
Infrastructure	<u>8,028,774</u>	<u>854,902</u>	<u>286,026</u>	<u>8,597,650</u>
 Total accumulated depreciation	 <u>\$ 13,405,553</u>	 <u>\$ 1,561,009</u>	 <u>\$ 630,116</u>	 <u>\$ 14,336,446</u>
 Total capital assets depreciated, net	 <u>\$ 42,982,149</u>	 <u>\$ 3,192,443</u>	 <u>\$ 20,753</u>	 <u>\$ 46,153,839</u>
 Capital Assets, Net	 <u>\$ 44,277,355</u>	 <u>\$ 3,309,219</u>	 <u>\$ 446,362</u>	 <u>\$ 47,140,212</u>

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

Governmental Activities	
General government	\$ 199,006
Public safety	152,638
Highways and streets, including depreciation of infrastructure assets	995,498
Sanitation	18,600
Culture and recreation	22,967
Conservation of natural resources	1,405
Economic development	<u>170,895</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 1,561,009</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, 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 Public Health and Human Services	\$ 18,432	Reimburse for supplies and services
	Forfeited Tax	<u>59,853</u>	Forfeited tax distribution
Total Due to General Fund		<u>\$ 78,285</u>	
Road and Bridge	General	\$ 4,722	Reimburse for supplies and services
	Airport	<u>1,050</u>	Reimburse for supplies and services
Total Due to Road and Bridge Fund		<u>\$ 5,772</u>	
Building Special Revenue	Forfeited Tax Special Revenue	<u>\$ 11,781</u>	Forfeited tax distribution
Airport Special Revenue	General	<u>\$ 1,758</u>	Reimburse General Fund for overpayment
Total Due To/From Other Funds		<u>\$ 97,596</u>	

Due to/from other funds are expected to be repaid within the year.

2. Interfund Advances

The General Fund has advanced \$104,968 to the Airport Special Revenue Fund to finance a new T-hangar. It will be repaid over 10 years, from 2005 through 2014, with interest at three percent..

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, 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>35,175</u>	Distribute net proceeds
Transfers to General Fund	<u>\$ 49,375</u>	
Transfers to Building Fund from other governmental funds		
Forfeited Tax Special Revenue	<u>\$ 11,781</u>	Distribute net proceeds
Transfers to Airport Special Revenue from the General Fund	<u>\$ 120,000</u>	Permanent transfer to fund deficit
Transfers to Debt Service Fund from nonmajor governmental funds		
Hospital Sales Tax Fund	\$ 477,924	To fund debt payments
Golf Course Lodging Tax Fund	<u>198,374</u>	To fund debt payments
Transfers to Debt Service Fund	<u>\$ 676,298</u>	
Total Interfund Transfers	<u>\$ 857,454</u>	

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities
Accounts	\$ 205,964
Salaries	273,395
Contracts	440,957
Due to other governments	<u>74,763</u>
Total Payables	<u>\$ 995,079</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities Roads and bridges	\$ 3,344,057	\$ 268,410

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General obligation bonds					
G.O. Care Center Bonds of 1999	2009	\$3,056/month	0.00	\$ 330,000	\$ 119,165
G.O. Hospital Refunding Bonds of 2001	2014	\$200,000 - \$265,000	4.00 - 4.55	3,110,000	2,310,000
G.O. State Aid Road Refunding Bonds of 2003	2008	\$70,000 - \$80,000	1.65 - 3.00	380,000	235,000
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	1,280,000
Refunding Certificates of Participation of 2003	2017	\$205,000 - \$385,000	2.50 - 4.00	4,235,000	3,775,000
Total general obligation bonds				\$ 10,945,000	\$ 8,979,165
Less: unamortized charge - refunding bonds					(189,447)
Total General Obligation Bonds, Net					\$ 8,789,718

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**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest
2006	\$ 636,667	\$ 164,015	\$ 265,000	\$ 127,362
2007	646,666	147,427	265,000	120,738
2008	671,666	129,493	275,000	113,300
2009	594,166	111,256	285,000	104,900
2010	600,000	91,966	295,000	95,905
2011 - 2015	2,055,000	156,640	1,635,000	312,443
2016 - 2017	-	-	755,000	30,500
Total	<u>\$ 5,204,165</u>	<u>\$ 800,797</u>	<u>\$ 3,775,000</u>	<u>\$ 905,148</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 6,990,832	\$ -	\$ 1,786,667	\$ 5,204,165	\$ 636,667
Certificates of participation	4,030,000	-	255,000	3,775,000	265,000
Less: deferred charges - refunding bonds	(206,547)	-	(17,100)	(189,447)	-
Total bonds payable	\$ 10,814,285	\$ -	\$ 2,024,567	\$ 8,789,718	\$ 901,667
Compensated absences	410,961	312,888	321,087	402,762	-
Long-Term Liabilities	<u>\$ 11,225,246</u>	<u>\$ 312,888</u>	<u>\$ 2,345,654</u>	<u>\$ 9,192,480</u>	<u>\$ 901,667</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Ongoing Disclosure of Long-Term Liabilities

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 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

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Cook County 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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans (Continued)

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 were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006.

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	2005	2006
Public Employees Retirement Fund		
Basic Plan Members	11.78%	11.78%
Coordinated Plan Members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50

The County's contributions for the years ending December 31, 2005, 2004, and 2003, 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
2005	\$ 178,090	\$ 56,440
2004	171,578	54,993
2003	162,151	56,056

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans (Continued)

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, 2005, 2004, and 2003, were \$6,585, \$6,140, and \$8,211, respectively, equal to the contractually required contributions for each year as set by state statute.

5. 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 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The 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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

C. Joint Ventures

Arrowhead Regional Corrections

The County, in a joint powers agreement pursuant to Minn. Stat. § 471.59, participates with Carlton, Cook, Koochiching, 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 (the most recent information available), 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**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Arrowhead Regional Corrections (Continued)

Following is a summary of the financial information from Arrowhead Regional Corrections' government-wide statements for December 31, 2004:

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 \$158,806 in funding during 2005. 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 2005.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Community Health Board (Continued)

At December 31, 2005, the Community Health Board's summary of financial information was:

Total Assets	\$	566,542
Total Liabilities		453,372
Total Net Assets		113,170
Total Revenues		3,286,432
Total Expenses		3,294,114
Change in Net Assets		(7,682)

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. Lake 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

A summary of the financial information of Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2005, was:

Total Assets	\$	2,716,308
Total Liabilities		1,173,716
Total Net Assets		1,542,592
Total Revenues		5,152,590
Total Expenses		4,992,548
Change in Net Assets		160,042

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North Ninth Street
Suite 210
Virginia, Minnesota 55792

Minnesota Counties Information Systems

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

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 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota Counties Information Systems (Continued)

A summary of the financial information of MCIS at December 31, 2004 (the most recent information available), was:

Total Assets	\$	630,562
Total Liabilities		240,172
Total Net Assets		390,390
Total Revenues		2,193,747
Total Expenses		2,114,231
Change in Net Assets		79,516

Separate financial information can be obtained from:

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

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northern Counties Land Use Board (Continued)

A summary of the financial statements at December 31, 2004 (the most recent information available), 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 2005 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 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

North Shore Collaborative (Continued)

Control of the North Shore Collaborative is vested in a Board of Directors. Lake County has three 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, 2005, is as follows:

Assets	\$ 436,402
Liabilities	\$ 436,402

D. Jointly-Governed Organizations

Cook County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services. The County appoints at least one member to the following 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 2005.

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**

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

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 2005.

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.

6. 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 and Grand Marais Joint Economic Development Authority (EDA) is governed by a seven-member Board. Four members are appointed by the Cook County Board of Commissioners 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 RDC's governing board is the same as the EDA's Board.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

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.

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 to be available if they are collected within 90 days after the end of the current period.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Capital Assets (Continued)

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, 2005, are as follows:

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets (Continued)

Capital Assets

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

Governmental Activities

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

Business-Type Activities

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Capital Assets (Continued)

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

Governmental Activities	
Urban and economic development	<u>\$ 331</u>
Business-Type Activities	
Golf course	<u>\$ 232,482</u>

Operating Leases

The EDA leases golf carts under non-cancelable operating leases. Total costs for such leases were \$34,988 for the year ended December 31, 2005. The future minimum lease payments for these leases are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2006	<u>\$ 16,020</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets (Continued)

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, 2005:

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

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

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

2. Long-Term Debt

Business-Type Activities

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

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

Business-Type Activities

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

Changes in Long-Term Liabilities

Business-Type Activities

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures (Continued)

C. Risk Management

The EDA 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.

D. Subsequent Event

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

REQUIRED SUPPLEMENTARY INFORMATION

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,213,504	\$ 2,213,504	\$ 2,233,600	\$ 20,096
Special assessments	12,000	12,000	19,280	7,280
Licenses and permits	52,000	52,000	62,974	10,974
Intergovernmental	2,060,683	2,060,683	2,647,374	586,691
Charges for services	305,433	305,433	433,373	127,940
Fines and forfeits	24,750	24,750	26,084	1,334
Gifts and contributions	2,800	2,800	2,095	(705)
Investment earnings	230,000	230,000	300,456	70,456
Miscellaneous	412,477	412,477	577,757	165,280
Total Revenues	\$ 5,313,647	\$ 5,313,647	\$ 6,302,993	\$ 989,346
Expenditures				
Current				
General government				
Commissioners	\$ 281,515	\$ 281,515	\$ 321,020	\$ (39,505)
Unorganized	-	-	556	(556)
Courts	93,010	93,010	96,492	(3,482)
Law library	28,300	28,300	24,850	3,450
County auditor	454,102	454,102	440,507	13,595
County assessor	185,059	185,059	185,989	(930)
Elections	22,050	22,050	-	22,050
Data processing	393,412	393,412	348,472	44,940
Personnel	113,483	113,483	113,980	(497)
Attorney	226,483	226,483	250,735	(24,252)
Recorder	141,794	141,794	152,904	(11,110)
Planning and zoning	199,877	199,877	236,617	(36,740)
Buildings and plant	356,187	356,187	363,223	(7,036)
Veterans service officer	16,975	16,975	15,173	1,802
Total general government	\$ 2,512,247	\$ 2,512,247	\$ 2,550,518	\$ (38,271)
Public safety				
Sheriff	\$ 1,424,763	\$ 1,424,763	\$ 1,374,969	\$ 49,794
Boat and water safety	-	-	7,618	(7,618)
Emergency services	76,857	76,857	62,709	14,148
Coroner	7,000	7,000	13,041	(6,041)
E-911 system	13,600	13,600	29,273	(15,673)
County jail	157,535	157,535	201,327	(43,792)
Community corrections	190,906	190,906	192,701	(1,795)
Probation and parole	10,333	10,333	14,071	(3,738)
DARE program	-	-	180	(180)
Civil defense	-	-	10	(10)
Other public safety	42,600	42,600	44,843	(2,243)
Total public safety	\$ 1,923,594	\$ 1,923,594	\$ 1,940,742	\$ (17,148)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 93,944	\$ 93,944	\$ 88,599	\$ 5,345
Recycling	255,406	255,406	273,833	(18,427)
Total sanitation	\$ 349,350	\$ 349,350	\$ 362,432	\$ (13,082)
Culture and recreation				
Historical society	\$ 14,832	\$ 14,832	\$ 14,857	\$ (25)
Parks	-	-	87,962	(87,962)
Senior citizens	99,570	99,570	98,595	975
Regional library	103,618	103,618	103,618	-
Other	133,408	133,408	345,982	(212,574)
Total culture and recreation	\$ 351,428	\$ 351,428	\$ 651,014	\$ (299,586)
Conservation of natural resources				
Cooperative extension	\$ 52,349	\$ 52,349	\$ 47,890	\$ 4,459
Soil and water conservation	14,732	14,732	26,736	(12,004)
Agricultural inspections	4,325	4,325	3,392	933
Agricultural society/County fair	14,003	14,003	6,072	7,931
Water planning	37,069	37,069	253,907	(216,838)
Timber development	1,200	1,200	13,782	(12,582)
Environmental services	96,735	96,735	97,720	(985)
Total conservation of natural resources	\$ 220,413	\$ 220,413	\$ 449,499	\$ (229,086)
Economic development				
Community development	\$ 9,500	\$ 9,500	\$ 36,278	\$ (26,778)
Capital outlay				
General government	\$ -	\$ -	\$ 55,173	\$ (55,173)
Public safety	-	-	99,035	(99,035)
Sanitation	-	-	9,485	(9,485)
Total capital outlay	\$ -	\$ -	\$ 163,693	\$ (163,693)
Total Expenditures	\$ 5,366,532	\$ 5,366,532	\$ 6,154,176	\$ (787,644)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ (52,885)	\$ (52,885)	\$ 148,817	\$ 201,702
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 49,375	\$ 49,375
Transfers out	-	-	(120,000)	(120,000)
Proceeds from sale of assets	-	-	314,673	314,673
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 244,048	\$ 244,048
Net Change in Fund Balance	\$ (52,885)	\$ (52,885)	\$ 392,865	\$ 445,750
Fund Balance - January 1	<u>7,843,412</u>	<u>7,843,412</u>	<u>7,843,412</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 7,790,527</u>	<u>\$ 7,790,527</u>	<u>\$ 8,236,277</u>	<u>\$ 445,750</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 986,448	\$ 986,448	\$ 956,751	\$ (29,697)
Intergovernmental	2,600,000	2,600,000	4,889,746	2,289,746
Charges for services	190,000	190,000	162,879	(27,121)
Miscellaneous	-	-	1,717	1,717
Total Revenues	\$ 3,776,448	\$ 3,776,448	\$ 6,011,093	\$ 2,234,645
Expenditures				
Current				
Highways and streets				
Administration	\$ 231,455	\$ 231,455	\$ 238,701	\$ (7,246)
Maintenance	1,642,880	1,642,880	1,504,823	138,057
Construction	1,752,693	1,752,693	4,110,312	(2,357,619)
Equipment maintenance and shop	404,395	404,395	451,419	(47,024)
Total highways and streets	\$ 4,031,423	\$ 4,031,423	\$ 6,305,255	\$ (2,273,832)
Debt service				
Principal	\$ 75,000	\$ 75,000	\$ 75,000	\$ -
Interest	7,537	7,537	6,844	693
Administrative (fiscal) charges	-	-	374	(374)
Total debt service	\$ 82,537	\$ 82,537	\$ 82,218	\$ 319
Total Expenditures	\$ 4,113,960	\$ 4,113,960	\$ 6,387,473	\$ (2,273,513)
Excess of Revenues Over (Under) Expenditures	\$ (337,512)	\$ (337,512)	\$ (376,380)	\$ (38,868)
Fund Balance - January 1	1,373,945	1,373,945	1,373,945	-
Increase (decrease) in reserved for inventories	-	-	(49,139)	(49,139)
Fund Balance - December 31	\$ 1,036,433	\$ 1,036,433	\$ 948,426	\$ (88,007)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 771,391	\$ 771,391	\$ 732,609	\$ (38,782)
Licenses and permits	10,000	10,000	11,844	1,844
Intergovernmental	727,546	727,546	788,027	60,481
Charges for services	-	-	44,726	44,726
Miscellaneous	60,650	60,650	47,338	(13,312)
Total Revenues	\$ 1,569,587	\$ 1,569,587	\$ 1,624,544	\$ 54,957
Expenditures				
Current				
Human services				
Income maintenance	\$ 286,123	\$ 286,123	\$ 280,628	\$ 5,495
Social services	1,051,072	1,051,072	1,051,477	(405)
Total human services	\$ 1,337,195	\$ 1,337,195	\$ 1,332,105	\$ 5,090
Health				
Nursing service	235,558	235,558	241,660	(6,102)
Total Expenditures	\$ 1,572,753	\$ 1,572,753	\$ 1,573,765	\$ (1,012)
Excess of Revenues Over (Under) Expenditures	\$ (3,166)	\$ (3,166)	\$ 50,779	\$ 53,945
Fund Balance - January 1	1,257,211	1,257,211	1,257,211	-
Fund Balance - December 31	\$ 1,254,045	\$ 1,254,045	\$ 1,307,990	\$ 53,945

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

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, 2005, expenditures exceeded appropriations in the following funds:

General Fund	\$ 787,644	Mostly funded by greater than anticipated revenues. Trail grant revenues and expenditures and water planning revenues and expenditures exceeded budgets.
Road and Bridge	\$ 2,273,513	Construction revenues and expenditures were both higher than budgeted.
Public Health and Human Services	\$ 1,012	Nursing services provided were slightly more 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 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, 2005**

	Special Revenue (Statement 3)	Leased Lakeshore Permanent	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 3,402,671	\$ 639,813	\$ 4,042,484
Taxes receivable			
Prior	2,167	-	2,167
Accounts receivable	540	50,437	50,977
Lodging taxes receivable	24,861	-	24,861
Due from other funds	13,539	-	13,539
Due from other governments	271,525	-	271,525
	\$ 3,715,303	\$ 690,250	\$ 4,405,553
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 5,821	\$ -	\$ 5,821
Contracts payable	178,125	-	178,125
Due to other funds	1,050	-	1,050
Deferred revenue - unavailable	1,079	50,437	51,516
Advance from other funds	104,968	-	104,968
	\$ 291,043	\$ 50,437	\$ 341,480
Fund Balances			
Reserved for debt service	\$ 221,064	\$ -	\$ 221,064
Reserved for environmental improvements	-	639,813	639,813
Unreserved			
Designated for capital improvements	537,201	-	537,201
Undesignated	2,665,995	-	2,665,995
	\$ 3,424,260	\$ 639,813	\$ 4,064,073
Total Liabilities and Fund Balances	\$ 3,715,303	\$ 690,250	\$ 4,405,553

**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, 2005**

	Special Revenue (Statement 4)	Leased Lakeshore Permanent	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues			
Taxes	\$ 1,445,791	\$ -	\$ 1,445,791
Intergovernmental	322,946	-	322,946
Investment earnings	25,021	13,653	38,674
Miscellaneous	24,071	17,816	41,887
Total Revenues	\$ 1,817,829	\$ 31,469	\$ 1,849,298
Expenditures			
Current			
General government	\$ 970	\$ -	\$ 970
Public safety	11,606	-	11,606
Highways and streets	581	-	581
Economic development	200,759	-	200,759
Capital outlay	447,880	-	447,880
Total Expenditures	\$ 661,796	\$ -	\$ 661,796
Excess of Revenues Over (Under) Expenditures	\$ 1,156,033	\$ 31,469	\$ 1,187,502
Other Financing Sources (Uses)			
Transfers in	\$ 131,781	\$ -	\$ 131,781
Transfers out	(690,498)	-	(690,498)
Proceeds from sale of assets	2,707	-	2,707
Total Other Financing Sources (Uses)	\$ (556,010)	\$ -	\$ (556,010)
Net Change in Fund Balances	\$ 600,023	\$ 31,469	\$ 631,492
Fund Balance - January 1	2,824,237	608,344	3,432,581
Fund Balance - December 31	\$ 3,424,260	\$ 639,813	\$ 4,064,073

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2005**

	Building	Airport	Hospital Sales Tax	Golf Course Lodging Tax	Total (Statement 1)
<u>Assets</u>					
Cash and pooled investments	\$ 1,145,229	\$ 19,574	\$ 1,904,985	\$ 332,883	\$ 3,402,671
Taxes receivable					
Prior	-	2,167	-	-	2,167
Accounts receivable	-	540	-	-	540
Lodging taxes receivable	-	-	-	24,861	24,861
Due from other funds	11,781	1,758	-	-	13,539
Due from other governments	-	169,220	102,305	-	271,525
	\$ 1,157,010	\$ 193,259	\$ 2,007,290	\$ 357,744	\$ 3,715,303
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ -	\$ 5,821	\$ -	\$ -	\$ 5,821
Contracts payable	-	178,125	-	-	178,125
Due to other funds	-	1,050	-	-	1,050
Deferred revenue - unavailable	-	1,079	-	-	1,079
Advance from other funds	-	104,968	-	-	104,968
	\$ -	\$ 291,043	\$ -	\$ -	\$ 291,043
Fund Balances					
Reserved for debt service	\$ -	\$ -	\$ -	\$ 221,064	\$ 221,064
Unreserved					
Designated for capital improvements	537,201	-	-	-	537,201
Undesignated	619,809	(97,784)	2,007,290	136,680	2,665,995
	\$ 1,157,010	\$ (97,784)	\$ 2,007,290	\$ 357,744	\$ 3,424,260
Total Liabilities and Fund Balances	\$ 1,157,010	\$ 193,259	\$ 2,007,290	\$ 357,744	\$ 3,715,303

**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, 2005**

	<u>Building</u>	<u>Airport</u>	<u>Hospital Sales Tax</u>	<u>Golf Course Lodging Tax</u>	<u>Total (Statement 2)</u>
Revenues					
Taxes	\$ 660	\$ 85,523	\$ 1,051,063	\$ 308,545	\$ 1,445,791
Intergovernmental	-	322,946	-	-	322,946
Investment earnings	-	-	-	25,021	25,021
Miscellaneous	1,009	23,062	-	-	24,071
Total Revenues	\$ 1,669	\$ 431,531	\$ 1,051,063	\$ 333,566	\$ 1,817,829
Expenditures					
Current					
General government	\$ 970	\$ -	\$ -	\$ -	\$ 970
Public safety	11,606	-	-	-	11,606
Highways and streets	581	-	-	-	581
Economic development	-	105,766	-	94,993	200,759
Capital outlay	36,365	411,515	-	-	447,880
Total Expenditures	\$ 49,522	\$ 517,281	\$ -	\$ 94,993	\$ 661,796
Excess of Revenues Over (Under) Expenditures	\$ (47,853)	\$ (85,750)	\$ 1,051,063	\$ 238,573	\$ 1,156,033
Other Financing Sources (Uses)					
Transfers in	\$ 11,781	\$ 120,000	\$ -	\$ -	\$ 131,781
Transfers out	-	(14,200)	(477,924)	(198,374)	(690,498)
Proceeds from sale of assets	-	2,707	-	-	2,707
Total Other Financing Sources (Uses)	\$ 11,781	\$ 108,507	\$ (477,924)	\$ (198,374)	\$ (556,010)
Net Change in Fund Balance	\$ (36,072)	\$ 22,757	\$ 573,139	\$ 40,199	\$ 600,023
Fund Balance - January 1	1,193,082	(120,541)	1,434,151	317,545	2,824,237
Fund Balance - December 31	\$ 1,157,010	\$ (97,784)	\$ 2,007,290	\$ 357,744	\$ 3,424,260

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
AIRPORT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 89,900	\$ 89,900	\$ 85,523	\$ (4,377)
Intergovernmental	285,250	285,250	322,946	37,696
Miscellaneous	29,056	29,056	23,062	(5,994)
Total Revenues	\$ 404,206	\$ 404,206	\$ 431,531	\$ 27,325
Expenditures				
Current				
Economic development	\$ 82,306	\$ 82,306	\$ 105,766	\$ (23,460)
Capital outlay	307,700	307,700	411,515	(103,815)
Total Expenditures	\$ 390,006	\$ 390,006	\$ 517,281	\$ (127,275)
Excess of Revenues Over (Under) Expenditures	\$ 14,200	\$ 14,200	\$ (85,750)	\$ (99,950)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 120,000	\$ 120,000
Transfers out	(14,200)	(14,200)	(14,200)	-
Proceeds from sales of assets	-	-	2,707	2,707
Total Other Financing Sources (Uses)	\$ (14,200)	\$ (14,200)	\$ 108,507	\$ 122,707
Net Change in Fund Balance	\$ -	\$ -	\$ 22,757	\$ 22,757
Fund Balance - January 1	(120,541)	(120,541)	(120,541)	-
Fund Balance - December 31	\$ (120,541)	\$ (120,541)	\$ (97,784)	\$ 22,757

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FIDUCIARY FUNDS

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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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEDICAL AND DEPENDENT CARE FLEX PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,495	\$ 82,995	\$ 82,234	\$ 8,256
Accounts receivable	1,476	242	1,476	242
Total Assets	\$ 8,971	\$ 83,237	\$ 83,710	\$ 8,498
<u>Liabilities</u>				
Accounts payable	\$ 8,971	\$ 83,237	\$ 83,710	\$ 8,498
 <u>SOIL AND WATER CONSERVATION DISTRICT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 82,270	\$ 81,095	\$ 81,911	\$ 81,454
Accounts receivable	-	2,768	-	2,768
Total Assets	\$ 82,270	\$ 83,863	\$ 81,911	\$ 84,222
<u>Liabilities</u>				
Due to other governments	\$ 81,493	\$ 83,767	\$ 81,134	\$ 84,126
Accounts payable	777	96	777	96
Total Liabilities	\$ 82,270	\$ 83,863	\$ 81,911	\$ 84,222
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 18,135	\$ 253,307	\$ 249,378	\$ 22,064
<u>Liabilities</u>				
Due to other governments	\$ 18,135	\$ 253,307	\$ 249,378	\$ 22,064

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ARROWHEAD REGIONAL DEVELOPMENT COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 892	\$ 17,750	\$ 18,642	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 892	\$ 17,750	\$ 18,642	\$ -
 <u>FIRE DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 34,520	\$ 196,044	\$ 224,446	\$ 6,118
<u>Liabilities</u>				
Due to other governments	\$ 34,520	\$ 196,044	\$ 224,446	\$ 6,118
 <u>CITIES AND TOWNS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 46,043	\$ 997,927	\$ 981,743	\$ 62,227
Accounts receivable	-	170	-	170
Total Assets	\$ 46,043	\$ 998,097	\$ 981,743	\$ 62,397
<u>Liabilities</u>				
Due to other governments	\$ 46,043	\$ 998,097	\$ 981,743	\$ 62,397

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 133,927	\$ 2,857,250	\$ 2,842,198	\$ 148,979
Accounts receivable	-	468	-	468
Due from other governments	-	32	-	32
Total Assets	\$ 133,927	\$ 2,857,750	\$ 2,842,198	\$ 149,479
<u>Liabilities</u>				
Due to other governments	\$ 133,927	\$ 2,857,220	\$ 2,842,198	\$ 148,949
Accounts payable	-	530	-	530
Total Liabilities	\$ 133,927	\$ 2,857,750	\$ 2,842,198	\$ 149,479
 <u>LODGING TAX</u>				
<u>Assets</u>				
Accounts receivable	\$ 26,427	\$ 705,373	\$ 702,300	\$ 29,500
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 29,500	\$ -	\$ 29,500
Due to other governments	26,427	675,873	702,300	-
Total Liabilities	\$ 26,427	\$ 705,373	\$ 702,300	\$ 29,500

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (536)	\$ 9,081,465	\$ 9,081,994	\$ (1,065)
Accounts receivable	-	152	-	152
Due from other governments	536	487	-	1,023
Total Assets	\$ -	\$ 9,082,104	\$ 9,081,994	\$ 110
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 9,082,104	\$ 9,081,994	\$ 110
 <u>TOFTE-SCHROEDER SANITARY DISTRICT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,564	\$ 56,740	\$ 58,304	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 1,564	\$ 56,740	\$ 58,304	\$ -
 <u>HOSPITAL/NURSING HOME</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 22,605	\$ 309,125	\$ 331,730	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 22,605	\$ 309,125	\$ 331,730	\$ -

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 29,009	\$ 1,228,031	\$ 1,231,302	\$ 25,738
Accounts receivable	-	11,781	-	11,781
Due from other governments	-	136,716	-	136,716
Total Assets	\$ 29,009	\$ 1,376,528	\$ 1,231,302	\$ 174,235
<u>Liabilities</u>				
Due to other governments	\$ 29,009	\$ 1,376,528	\$ 1,231,302	\$ 174,235
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 375,924	\$ 15,161,729	\$ 15,183,882	\$ 353,771
Accounts receivable	27,903	720,954	703,776	45,081
Due from other governments	536	137,235	-	137,771
Total Assets	\$ 404,363	\$ 16,019,918	\$ 15,887,658	\$ 536,623
<u>Liabilities</u>				
Accounts payable	\$ 9,748	\$ 113,363	\$ 84,487	\$ 38,624
Due to other governments	394,615	15,906,555	15,803,171	497,999
Total Liabilities	\$ 404,363	\$ 16,019,918	\$ 15,887,658	\$ 536,623

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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

	2004		2005		2006	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 8,529,081		\$ 9,994,575		\$ 11,603,494	
Personal property	128,358		137,926		132,758	
Tax increment	(59,669)		-		-	
Fiscal disparity contribution	(102,555)		(147,380)		(184,193)	
Net Tax Capacity	\$ 8,495,215		\$ 9,985,121		\$ 11,552,059	
Taxes Levied for County Purposes						
General	\$ 2,861,513	24.39	\$ 2,729,877	21.42	\$ 2,673,538	19.45
Road and Bridge	983,448	11.54	983,448	9.82	1,046,034	9.05
Social Services	762,144	8.95	771,391	7.70	800,570	6.91
Airport	95,000	1.12	89,900	0.90	85,100	0.74
Government Center	370,000	4.34	370,000	3.70	392,000	3.38
Economic Development	85,500	1.21	81,000	0.81	82,620	0.07
Total Levy for County Purposes	\$ 5,157,605	51.55	\$ 5,025,616	44.35	\$ 5,079,862	39.60
Less Credits Payable by State						
Taconite homestead credit	\$ 336,377		\$ 315,998		\$ 328,952	
Disparity reduction aid	3,220		3,220		3,179	
HACA and agricultural credit	795,026		599,628		435,005	
Total Credits Payable by State	\$ 1,134,623		\$ 918,846		\$ 767,136	
Net Levy for County Purposes	\$ 4,022,982		\$ 4,106,770		\$ 4,312,726	
Tax Capacity - Light and Power						
Assessed at 43%	\$ 43,343		\$ 42,803		\$ 43,065	
Light and Power Tax Levy (distributed pursuant to Minn. Stat. § 273.42, as amended)						
Assessed at 43%	\$ 23,452	54.11	\$ 21,881	51.12	\$ 21,889	50.83
Percentage of Tax Collections for All Purposes	98.34%		98.24%			

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Primary Government	Component Unit
Shared Revenue		
State		
Highway users tax	\$ 3,877,662	\$ -
County program aid	599,628	-
PERA rate reimbursement	18,057	-
Disparity reduction aid	3,220	-
Police aid	54,993	-
Taconite credit	152,306	-
Mobile home taconite credit	241	-
Enhanced 911	56,765	-
Market value credit aid	255,166	-
Temporary court administration aid	14,781	-
Casino revenue aid	22,161	-
	\$ 5,054,980	\$ -
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 392,350	\$ -
	\$ 392,350	\$ -
Payments		
State		
Payments in lieu of taxes	\$ 107,776	\$ -
Local		
Local contributions	-	9,500
Other contributions	935	-
	\$ 108,711	\$ 9,500
Grants		
State		
Minnesota Department of		
Agriculture	\$ 10,000	\$ -
Public Safety	36,178	-
Transportation	3,392	-
Aeronautics	24,878	-
Health	40,861	-
Natural Resources	193,234	-
Veterans Affairs	1,400	-
Human Services	282,273	-
Office of Environmental Assistance	49,079	-
Pollution Control Agency	16,796	-
Miscellaneous boards	5,757	-
	\$ 663,848	\$ -

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 6
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Primary Government	Component Unit
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 892,083	\$ -
Commerce	141,325	-
Interior	116,520	-
Justice	19,517	-
Transportation	1,132,880	-
Environmental Protection	1,500	-
Health and Human Services	88,274	-
Homeland Security	57,658	-
Total Federal	\$ 2,449,757	\$ -
Total State and Federal Grants	\$ 3,113,605	\$ -
Total Intergovernmental Revenue	\$ 8,669,646	\$ 9,500

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 7

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Cook County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Cook County and are 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*." None were material weaknesses.
- 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 program 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 program 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 program is:
 - Highway Planning and Construction Grant CFDA #20.205
- 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 where possible.

ITEM ARISING THIS YEAR

05-1 Duplicate Check Numbers

During our disbursement testing, we noted that the County Auditor/Treasurer's Office personnel had issued checks using the same check numbers as had been previously used. This occurred due to an incorrect range of check numbers being keyed into the system, causing an overlap in ranges, resulting in multiple checks being issued with duplicate check numbers.

Duplicate check numbers make reconciling the bank account very difficult. Bank reconciliation is a key internal control in environments where segregation of duties is weak.

We recommend the County Auditor/Treasurer develop procedures for staff to follow when issuing checks that will ensure that duplicate check numbers are not issued. The computer system should produce a warning when checks are about to be run that have previously been issued. The warning should be evaluated before overriding that control.

Client's Response:

Auditor's Office staff will maintain a daily ledger of check numbers used. The ledger will show the date, range of check numbers and a description of the batch type. The Auditor's Office has submitted a request to the Joint IFS Committee to create a warning system for duplicate checks in the IFS computer program.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Performance and Payment Bond (04-1)

During our prior audit, we noted a contract where a performance and payment bond was not obtained from the contractor as required by Minn. Stat. § 574.26. This resulted in the County being at risk for non-performance by the contractor.

Resolution

During the current audit, performance and payment bonds were present when required for all contracts reviewed.

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, similar to 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.

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 the 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 are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

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

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, 2005, and have issued our report thereon dated September 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 96-3 and 05-1.

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

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

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 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.

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 11, 2006



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 its major federal program for the year ended December 31, 2005. Cook County's major federal program is 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 its major federal program 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 its major federal program for the year ended December 31, 2005.

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 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, 2005, and have issued our report thereon dated September 11, 2006. 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 11, 2006

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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 Cooperative Forestry Assistance		R9-9-95-36C 10.664	\$ 23,000 11,947
Passed Through Carlton, Cook, Lake and St. Louis Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)		10.557	16,170
Passed Through Minnesota Department of Finance Federal Forests - 25% Payments to States Federal Forests - 3/4 of 1%		10.665 10.668	136,716 704,250
Total U.S. Department of Agriculture			\$ 892,083
U.S. Department of Commerce			
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Grant	A53960, A53959, A49097, A71955, A39259	11.419	\$ 141,325
U.S. Department of the Interior			
Direct			
Payments in lieu of taxes		15.226	\$ 116,520
U.S. Department of the Justice			
Passed Through Minnesota Department of Public Safety Crime Victim Assistance		16.575	\$ 19,517
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program Highway Planning and Construction Grant	1609-29, 1609-31 SP-410, SP-411, SP-808, SP-9001, SP-501N, SP-502	20.106 20.205	\$ 292,830 774,062
Passed Through Minnesota Department of Natural Resources National Recreational Trails Funding Program	0020-01-2C, 003-03-2C	20.219	25,358
Total U.S. Department of Transportation			\$ 1,092,250
U.S. Environmental Protection Agency			
Direct			
Beach Monitoring and Notification Program		66.472	\$ 1,500

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Temporary Assistance for Needy Families		93.558	\$ 12,800
Family Preservation Investment Project		93.645	5,823
Social Services Block Grant Title XX		93.667	40,653
Support for Emancipation and Living Functionally (SELF)		93.674	912
Passed Through Minnesota Department of Education			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund		93.596	6,697
Passed Through Carlton, Cook, Lake and St. Louis Community Health Board			
Health Alert Network (HAN) Grant		93.283	17,060
Maternal and Child Health Services Block Grant		93.994	4,329
Total U.S. Department of Health and Human Services			\$ 88,274
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Domestic Preparedness Equipment Grant	2000-9196, 2000-8767, 2000-9699	97.004	\$ 48,694
Emergency Management Performance Grants		97.042	8,964
Total U.S. Department of Homeland Security			\$ 57,658
Total Federal Awards			\$ 2,409,127

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 2005, there were \$7,457 of receivables not recognized as revenue because period of availability criteria had not been met and \$48,087 of prior year deferred revenue which became available.
4. Cook County did not pass any federal awards to subrecipients in 2005.