

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COOK COUNTY
GRAND MARAIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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, 2006



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

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2006**

		<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
Highway Engineer	Charles Schmit	October 2007
Veteran Services Officer	Dale Tormondson	January 2009
Human Services Board		
Chair	Robert Fenwick	January 2007
Vice Chair	Janice Hall	January 2007
Member	Bev Green	January 2007
Member	Darrell Fisher	January 2007
Member	Fritz Sobanja	January 2007
Member	James Johnson	January 2007
Member	Bruce Martinson	January 2007
Director	Sue Futterer	Indefinite

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

(651) 296-2551 (Voice)
(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, 2006, 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, 2006, 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 and other schedules listed in the table of contents are presented for purposes of additional analysis and are 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 28, 2007, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 28, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(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, 2006. 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 \$59,932,003, of which \$44,314,093 is invested in capital assets, net of related debt, and \$5,146,025 is restricted to specific purposes; \$10,471,885 remains as unrestricted net assets available to help ensure fiscal strength in the face of continued cuts in state aids.
- The Cook County and Grand Marais Joint Economic Development Authority (EDA) is shown as a "Discretely Presented Component Unit." The EDA has total net assets of \$2,106,572, of which \$1,771,197 is invested in capital assets, net of related debt, and \$292,599 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 \$3,033,648 for the year ended December 31, 2006, due mainly to major road renovation. The net assets of the County's discretely presented component unit (EDA) decreased by \$299,813.
- The net cost of governmental activities was \$4,799,108 for the current fiscal year. This is 13 percent higher than the 2005 cost. The net cost was funded by general revenues and other items totaling \$7,832,756. These revenues were up 4.2 percent from 2005. Net cost is the amount by which the cost of services had to be paid by taxes or other unrestricted funds.
- Governmental funds' fund balances increased \$1,285,775 in 2006. This was a nice recovery from a \$550,431 decline in 2005. The change was due primarily to the Road and Bridge Fund "earning" significant construction funds in 2006 and the payoff of advanced crossover debt in 2005.

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 and 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 a 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 the separate Statements of Fiduciary Net Assets. We exclude these activities from the County’s other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The financial statement for fiduciary funds can be found 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	
	2006	2005	2006	2005
Current and other assets	\$ 21,208,228	\$ 20,226,413	\$ 1,052,799	\$ 633,002
Capital assets	47,979,093	47,140,212	3,091,308	3,300,119
Total Assets	\$ 69,187,321	\$ 67,366,625	\$ 4,144,107	\$ 3,933,121
Long-term debt outstanding	\$ 8,347,145	\$ 9,192,480	\$ 1,205,110	\$ 1,346,322
Other liabilities	908,173	1,275,790	832,425	180,414
Total Liabilities	\$ 9,255,318	\$ 10,468,270	\$ 2,037,535	\$ 1,526,736
Net Assets				
Invested in capital assets - net of related debt	\$ 44,314,093	\$ 43,130,212	\$ 1,771,197	\$ 1,843,797
Restricted	5,146,025	4,622,581	292,599	286,758
Unrestricted	10,471,885	9,145,562	42,776	275,830
Total Net Assets	\$ 59,932,003	\$ 56,898,355	\$ 2,106,572	\$ 2,406,385

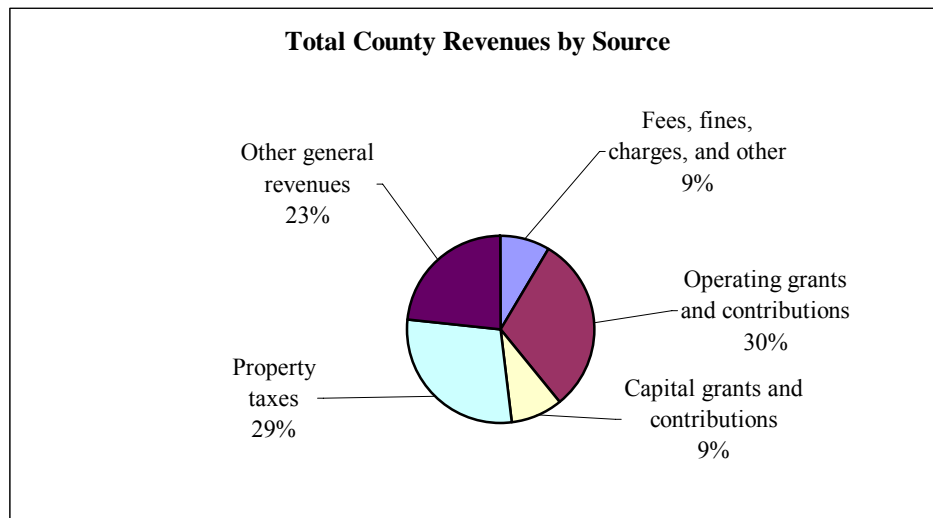
For details, please see the Statement of Net Assets, Exhibit 1.

Table 2
Changes in Net Assets

	Governmental Activities		Component Unit Activities	
	2006	2005	2006	2005
Revenues				
Program revenues				
Fees, fines, charges, and other	\$ 1,292,851	\$ 1,885,370	\$ 852,167	\$ 800,399
Operating grants and contributions	4,617,444	4,462,391	748,407	9,500
Capital grants and contributions	1,351,183	1,528,933	-	-
General revenues				
Property taxes	4,325,273	3,975,898	83,010	82,363
Other taxes	1,948,638	1,898,860	50,000	50,000
Unrestricted grants and contributions	842,796	1,065,560	-	-
Investment income	639,090	348,825	13,717	8,273
Contributions to permanent fund	5,043	6,205	-	-
Miscellaneous	71,916	224,760	675	26,235
Total Revenues	\$ 15,094,234	\$ 15,396,802	\$ 1,747,976	\$ 976,770

	Governmental Activities		Component Unit Activities	
	2006	2005	2006	2005
Expenses				
General government	\$ 2,798,431	\$ 2,806,654	\$ -	\$ -
Public safety	2,395,738	2,050,738	-	-
Highways and streets	2,856,980	3,218,387	-	-
Sanitation	410,537	382,872	-	-
Human services	1,566,894	1,335,245	-	-
Health	245,760	241,660	-	-
Culture and recreation	674,851	665,756	-	-
Golf course	-	-	1,026,501	973,761
Conservation of natural resources	502,355	469,215	-	-
Economic development	286,805	581,364	1,021,288	183,050
Interest	322,235	368,856	-	-
Total Expenses	\$ 12,060,586	\$ 12,120,747	\$ 2,047,789	\$ 1,156,811
Increase (Decrease) in Net Assets	\$ 3,033,648	\$ 3,276,055	\$ (299,813)	\$ (180,041)
Net Assets - January 1	56,898,355	53,622,300	2,406,385	2,586,426
Net Assets - December 31	\$ 59,932,003	\$ 56,898,355	\$ 2,106,572	\$ 2,406,385

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



Governmental Activities

The cost of all governmental activities this year was \$12,060,586. However, as shown in the Statement of Activities (Exhibit 2), the amount taxpayers ultimately financed for these activities through County taxes was \$4,325,273 (29 percent of total revenues, up slightly from 26 percent in 2005), because some of the cost was paid by those who directly benefited from the programs (\$1,292,851), or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,968,627).

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	
	2006	2005	2006	2005
Highways and streets	\$ 2,856,980	\$ 3,218,387	\$ (450,439)	\$ (243,088)
General government	2,798,431	2,806,654	1,406,738	1,398,648
Public safety	2,395,738	2,050,738	1,823,120	1,554,515
Human services	1,566,894	1,335,245	684,169	563,357
Culture and recreation	674,851	665,756	605,215	605,011
Economic development	286,805	581,364	60,827	198,043
Conservation of natural resources	502,355	469,215	8,822	(579,046)
Sanitation	410,537	382,872	409,537	283,302
All others	567,995	610,516	251,119	463,311
Total Net Expense	<u>\$ 12,060,586</u>	<u>\$ 12,120,747</u>	<u>\$ 4,799,108</u>	<u>\$ 4,244,053</u>

The County's Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$16,755,337 as compared to last year's total of \$15,358,402. The Road and Bridge, Hospital Sales Tax, and the General Fund accounted for \$592,315, \$508,833, and \$314,891 of that increase, respectively. 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 \$805,203 above the final budget amounts. The most significant events that led to the higher costs were the payback of the State Septic Loan Program for \$156,509, the development of a County-wide E-911 paging system for \$149,850, and the State Grant In Aid Trail payments of \$230,653. The higher than budgeted expenditures were more than offset by revenues that exceeded budget by \$1,520,047. 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 2006, the County had a net investment of \$47,979,093 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 \$838,881, or 1.8 percent, over last year.

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

	Governmental Activities	
	2006	2005
Land and easement	\$ 745,738	\$ 745,417
Construction in progress	354,831	240,956
Buildings and improvements	8,307,133	8,230,781
Machinery, vehicles, furniture, and equipment	1,784,096	1,643,582
Infrastructure	36,787,295	36,279,476
Total	\$ 47,979,093	\$ 47,140,212

The majority of the changes in 2006 are from the completion of 2005 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 \$7,905,149 in bonds and notes outstanding, versus \$8,789,718 last year--a decrease of 10.1 percent.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	2006	2005
General obligation bonds	\$ 4,567,498	\$ 5,204,165
Certificates of participation	3,510,000	3,775,000
Less: deferred charges for refunding bonds	(172,349)	(189,447)
Total	<u>\$ 7,905,149</u>	<u>\$ 8,789,718</u>

See "Notes to the Financial Statements," Notes 3.C.2. through 3.C.5. 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 2007 budget, tax levy, and fees that will be charged for various activities:

- continuing reductions in state aids to local governments;
- increasing cost for Arrowhead Regional Corrections;
- the continued escalation of health insurance costs which are slated to increase 18 percent in 2007;
- increasing need for property taxes to fund highway maintenance costs;
- the need to maintain an unrestricted fund balance of at least 50 percent of operating expenditures; and
- to hold the levy at a 10 percent increase, given the above factors, the County budgeted a use of fund balance of \$429,206.

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, 2006**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 15,040,629	\$ 184,692
Investments	14,861	-
Receivables - net	5,525,583	521,582
Inventories	482,523	24,991
Restricted assets		
Assets held by trustee	-	321,534
Deferred charges	144,632	-
Capital assets		
Non-depreciable capital assets	1,100,569	295,658
Depreciable capital assets - net of accumulated depreciation	46,878,524	2,795,650
Total Assets	\$ 69,187,321	\$ 4,144,107
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 695,438	\$ 655,523
Accrued interest payable	115,970	-
Unearned revenue	96,765	32,967
Payable from restricted assets		
Accrued interest payable	-	28,935
Bonds payable - current	-	115,000
Long-term liabilities		
Due within one year	911,667	19,529
Due in more than one year	7,435,478	1,185,581
Total Liabilities	\$ 9,255,318	\$ 2,037,535
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 44,314,093	\$ 1,771,197
Restricted for		
General government	88,503	-
Highways and streets	2,066,936	-
Public safety	161,085	-
Culture and recreation	228,625	-
Conservation of natural resources	998,451	-
Economic development	869,963	-
Debt service	732,462	292,599
Unrestricted	10,471,885	42,776
Total Net Assets	\$ 59,932,003	\$ 2,106,572

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary Government		
Governmental activities		
General government	\$ 2,798,431	\$ 398,164
Public safety	2,395,738	242,289
Highways and streets	2,856,980	304,076
Sanitation	410,537	1,000
Human services	1,566,894	163,825
Health	245,760	33,903
Culture and recreation	674,851	36,156
Conservation of natural resources	502,355	49,427
Economic development	286,805	64,011
Interest	322,235	-
Total governmental activities	\$ 12,060,586	\$ 1,292,851
Component Unit		
Cook County and Grand Marais Joint Economic Development Agency	\$ 2,047,789	\$ 852,167

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

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
\$ 985,065	\$ 8,464	\$ (1,406,738)	
330,329	-	(1,823,120)	
1,817,912	1,185,431	450,439	
-	-	(409,537)	
718,900	-	(684,169)	
282,973	-	71,116	
33,480	-	(605,215)	
424,132	19,974	(8,822)	
24,653	137,314	(60,827)	
-	-	(322,235)	
\$ 4,617,444	\$ 1,351,183	\$ (4,799,108)	
\$ 748,407	\$ -		\$ (447,215)
		\$ 4,325,273	\$ 83,010
		-	50,000
		14,020	-
		1,020,993	-
		742,258	-
		171,367	-
		842,796	-
		639,090	13,717
		5,043	-
		71,916	675
		\$ 7,832,756	\$ 147,402
		\$ 3,033,648	\$ (299,813)
		56,898,355	2,406,385
		\$ 59,932,003	\$ 2,106,572

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 7,216,770	\$ 1,095,341
Petty cash and change funds	1,032	-
Cash with escrow agent	-	-
Investments	-	-
Taxes receivable		
Prior	41,158	19,256
Accounts receivable	9,474	5,849
Lodging taxes receivable	-	-
Accrued interest receivable	79,354	-
Loans receivable	473,828	-
Due from other funds	124,129	1,446
Due from other governments	1,364,127	2,349,381
Inventories	-	482,523
Advance to other funds	94,636	-
MCCF deposit receivable	25,000	-
	\$ 9,429,508	\$ 3,953,796
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 113,311	\$ 72,618
Salaries payable	180,441	61,733
Contracts payable	-	39,300
Due to other funds	1,158	-
Due to other governments	17,043	1,006
Deferred revenue - unavailable	543,842	2,238,398
Deferred revenue - unearned	22,545	-
Advance from other funds	-	-
	\$ 878,340	\$ 2,413,055
Fund Balances		
Reserved for		
Encumbrances	\$ -	\$ 29,319
Inventories	-	482,523
Economic development	869,963	-
Law library	45,182	-
Recorder's equipment	12,906	-
Recorder's compliance	18,345	-
Sheriff's contingency	5,000	-

EXHIBIT 3

Public Health and Human Services	Forfeited Tax	Hospital Sales Tax	Other Governmental Funds	Total Governmental Funds
\$ 1,325,378	\$ 20,346	\$ 2,433,916	\$ 2,518,710	\$ 14,610,461
-	-	-	-	1,032
-	-	-	429,136	429,136
14,861	-	-	-	14,861
14,737	-	-	8,782	83,933
24,645	699,073	-	39,811	778,852
-	-	-	27,439	27,439
-	73,842	-	-	153,196
-	-	-	-	473,828
-	-	-	26,863	152,438
134,039	-	82,207	53,581	3,983,335
-	-	-	-	482,523
-	-	-	-	94,636
-	-	-	-	25,000
\$ 1,513,660	\$ 793,261	\$ 2,516,123	\$ 3,104,322	\$ 21,310,670
\$ 80,329	\$ -	\$ -	\$ 4,270	\$ 270,528
34,399	-	-	-	276,573
-	-	-	50,144	89,444
20,182	130,810	-	288	152,438
13,566	27,202	-	76	58,893
18,173	635,249	-	80,394	3,516,056
74,220	-	-	-	96,765
-	-	-	94,636	94,636
\$ 240,869	\$ 793,261	\$ -	\$ 229,808	\$ 4,555,333
\$ -	\$ -	\$ -	\$ -	\$ 29,319
-	-	-	-	482,523
-	-	-	-	869,963
-	-	-	-	45,182
-	-	-	-	12,906
-	-	-	-	18,345
-	-	-	-	5,000

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Fund Balances (Continued)		
Reserved for		
Debt service	-	77,175
Enhanced 911	137,683	-
MCCF deposit	25,000	-
Environmental improvements	-	-
Law enforcement	92	-
Timber development	266,397	-
Parks and recreation	228,625	-
Election equipment	12,070	-
Extension services	49,305	-
Conceal and carry	8,420	-
Snowmobile safety enforcement	9,982	-
Unreserved		
Designated for future expenditures	19,752	-
Designated for capital improvements	-	25,000
Designated for E-911 signs	9,143	-
Designated for hazardous materials team	2,683	-
Designated for search and rescue	28,006	-
Designated for emergency purposes	3,318	-
Designated for drug forfeitures	1,291	-
Designated for elections	3,731	-
Designated for software	9,000	-
Designated for skateboard park	10,000	-
Designated for DWI forfeitures	12,611	-
Designated for Hovland dock	1,471	-
Designated for broadband	2,002	-
Designated for County telephone	26,900	-
Designated for 20% unorganized townships	8,332	-
Designated for data processing	295,433	-
Designated for NERCC facilities	22,118	-
Designated for Sheriff's cars	226,728	-
Designated for landfill future development	91,574	-
Designated for County cars	97,144	-
Designated for photocopies	84,259	-
Designated for County landings	38,230	-
Undesignated	5,868,472	926,724
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service fund	-	-
	\$ 8,551,168	\$ 1,540,741
Total Fund Balances		
	\$ 9,429,508	\$ 3,953,796
Total Liabilities and Fund Balances		

EXHIBIT 3
(Continued)

Public Health and Human Services	Forfeited Tax	Hospital Sales Tax	Other Governmental Funds	Total Governmental Funds
-	-	-	655,287	732,462
-	-	-	-	137,683
-	-	-	-	25,000
-	-	-	682,749	682,749
-	-	-	-	92
-	-	-	-	266,397
-	-	-	-	228,625
-	-	-	-	12,070
-	-	-	-	49,305
-	-	-	-	8,420
-	-	-	-	9,982
-	-	-	-	19,752
-	-	-	-	25,000
-	-	-	-	9,143
-	-	-	-	2,683
-	-	-	-	28,006
-	-	-	-	3,318
-	-	-	-	1,291
-	-	-	-	3,731
-	-	-	-	9,000
-	-	-	-	10,000
-	-	-	-	12,611
-	-	-	-	1,471
-	-	-	-	2,002
-	-	-	-	26,900
-	-	-	-	8,332
-	-	-	-	295,433
-	-	-	-	22,118
-	-	-	-	226,728
-	-	-	-	91,574
-	-	-	-	97,144
-	-	-	-	84,259
-	-	-	-	38,230
1,272,791	-	2,516,123	-	10,584,110
-	-	-	1,145,695	1,145,695
-	-	-	390,783	390,783
\$ 1,272,791	\$ -	\$ 2,516,123	\$ 2,874,514	\$ 16,755,337
\$ 1,513,660	\$ 793,261	\$ 2,516,123	\$ 3,104,322	\$ 21,310,670

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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, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	16,755,337
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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.		47,979,093
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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.		3,516,056
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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	\$	(4,567,498)	
Certificates of participation		(3,337,651)	
Compensated absences		(441,996)	
Accrued interest payable		(115,970)	
Deferred debt issuance charges		144,632	
		(8,318,483)	(8,318,483)

Net assets of governmental activities (Exhibit 1)	\$	<u>59,932,003</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, 2006**

	General	Road and Bridge
Revenues		
Taxes	\$ 2,337,716	\$ 1,058,712
Special assessments	19,974	-
Licenses and permits	70,916	-
Intergovernmental	2,871,597	2,906,085
Charges for services	550,561	203,303
Fines and forfeits	17,346	-
Gifts and contributions	22,762	-
Investment earnings	592,642	-
Miscellaneous	445,427	-
	\$ 6,928,941	\$ 4,168,100
Expenditures		
Current		
General government	\$ 2,745,446	\$ -
Public safety	2,218,332	-
Highways and streets	-	3,601,264
Sanitation	389,082	-
Human services	-	-
Health	-	-
Culture and recreation	650,773	-
Conservation of natural resources	470,545	-
Economic development	57,806	-
Capital outlay	176,516	-
Debt service		
Principal	-	80,000
Interest	-	5,250
Administrative charges	-	431
	\$ 6,708,500	\$ 3,686,945
Excess of Revenues Over (Under) Expenditures	\$ 220,441	\$ 481,155
Other Financing Sources (Uses)		
Transfers in	\$ 94,450	\$ -
Transfers out	-	-
	\$ 94,450	\$ -
Net Change in Fund Balances	\$ 314,891	\$ 481,155
Fund Balances - January 1	8,236,277	948,426
Increase (decrease) in reserved for inventories	-	111,160
Fund Balances - December 31	\$ 8,551,168	\$ 1,540,741

EXHIBIT 5

Public Health and Human Services	Forfeited Tax	Hospital Sales Tax	Other Governmental Funds	Total Governmental Funds
\$ 762,552	\$ 157,652	\$ 1,020,993	\$ 777,273	\$ 6,114,898
-	-	-	-	19,974
12,383	-	-	-	83,299
838,825	-	-	146,656	6,763,163
111,171	-	-	-	865,035
-	-	-	-	17,346
-	-	-	-	22,762
-	-	-	99,933	692,575
52,654	-	-	55,387	553,468
\$ 1,777,585	\$ 157,652	\$ 1,020,993	\$ 1,079,249	\$ 15,132,520
\$ -	\$ 27,202	\$ -	\$ 6,684	\$ 2,779,332
-	-	-	4,635	2,222,967
-	-	-	-	3,601,264
-	-	-	-	389,082
1,567,024	-	-	-	1,567,024
245,760	-	-	-	245,760
-	-	-	1,548	652,321
-	23,337	-	-	493,882
-	-	-	227,899	285,705
-	-	-	235,307	411,823
-	-	-	821,667	901,667
-	-	-	286,128	291,378
-	-	-	4,109	4,540
\$ 1,812,784	\$ 50,539	\$ -	\$ 1,587,977	\$ 13,846,745
\$ (35,199)	\$ 107,113	\$ 1,020,993	\$ (508,728)	\$ 1,285,775
\$ -	\$ -	\$ -	\$ 746,184	\$ 840,634
-	(107,113)	(512,160)	(221,361)	(840,634)
\$ -	\$ (107,113)	\$ (512,160)	\$ 524,823	\$ -
\$ (35,199)	\$ -	\$ 508,833	\$ 16,095	\$ 1,285,775
1,307,990	-	2,007,290	2,858,419	15,358,402
-	-	-	-	111,160
\$ 1,272,791	\$ -	\$ 2,516,123	\$ 2,874,514	\$ 16,755,337

**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, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,285,775

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	\$ 3,516,056	
Deferred revenue - January 1	<u>(3,554,342)</u>	(38,286)

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	\$ 2,421,760	
Current year depreciation	<u>(1,582,879)</u>	838,881

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	\$ 636,667	
Certificates of participation	<u>265,000</u>	901,667

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	\$ 9,599	
Amortization of discounts and deferred issuance charges	(35,914)	
Change in compensated absences	(39,234)	
Change in inventories	<u>111,160</u>	<u>45,611</u>

Change in net assets of governmental activities (Exhibit 2) \$ 3,033,648

FIDUCIARY FUNDS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 7

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

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 277,263
Accounts receivable	62,822
Due from other governments	<u>105,916</u>
Total Assets	<u>\$ 446,001</u>
<u>Liabilities</u>	
Accounts payable	\$ 44,353
Due to other governments	<u>401,648</u>
Total Liabilities	<u>\$ 446,001</u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board 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 fund 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 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.

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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 and 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, 2006, 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 2006 were \$650,402.

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 (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). 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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the governmental activities 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 are depreciated using the straight-line method over the following estimated useful lives:

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

5. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual, personal time off, and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 as of December 31, 2006:

Airport Special Revenue Fund	\$	39,558
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The Airport's deficit will be eliminated with future revenues and/or contributions from the County.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the following funds:

General Fund	\$ 981,719	Mostly funded by greater than anticipated revenues, much of which corresponds to the excess expenditures.
Public Health and Human Services Special Revenue Fund	\$ 151,204	Outpatient care and case management services were both up during the year, resulting in increases in both revenues and expenditures.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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	\$ 15,040,629
Investments	14,861
EDA component unit	
Cash and pooled investments	184,692
Restricted assets held by trustee	321,534
Fiduciary funds	
Cash and pooled investments	<u>277,263</u>
 Total Cash and Investments	 <u>\$ 15,838,979</u>

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to 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 standby 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2006, the primary government's bank balances of \$1,369,106 were not exposed to custodial credit risk.

The Cook County and Grand Marais Joint EDA component unit had bank balances of \$244,528 at December 31, 2006, and these were not exposed to custodial credit risk.

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;

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

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	\$	848,120
Uninsured, held by counterparty		1,878,662
Government securities		
Insured		4,422,023
Uninsured, held by counterparty		1,926,028

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 cash and pooled investment balances at December 31, 2006, 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		9/13/07	\$ 14,707
Federal National Mortgage Association Note	N/A	N/A		1/30/09	98,375
Federal National Mortgage Association Note	N/A	N/A		2/27/09	37,976
Federal National Mortgage Association Note	N/A	N/A		5/18/09	41,576
Federal National Mortgage Association Note	N/A	N/A		8/27/09	97,844
Federal National Mortgage Association Note	N/A	N/A		6/14/10	199,500
Federal National Mortgage Association Note	N/A	N/A		2/10/11	98,875
Federal National Mortgage Association Note	N/A	N/A		10/15/11	15,033
Federal National Mortgage Association Note	N/A	N/A		3/17/14	98,719

**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 National Mortgage Association Note	N/A	N/A		1/13/20	32,554
Federal National Mortgage Association Note	N/A	N/A		9/21/20	33,901
Federal National Mortgage Association Note	N/A	N/A		11/17/21	19,997
Total Federal National Mortgage Association Notes			5.71%		\$ 789,057
Federal Home Loan Mortgage Corporation Discount Note	N/A	N/A	N/A	9/8/11	\$ 200,968
Federal Home Loan Bank Note	AAA	Moody's		4/16/07	\$ 99,531
Federal Home Loan Bank Note	AAA	S&P		6/20/07	64,533
Federal Home Loan Bank Note	AAA	Moody's		7/30/07	98,893
Federal Home Loan Bank Note	AAA	S&P		9/17/07	98,705
Federal Home Loan Bank Note	AAA	Moody's		11/9/07	98,794
Federal Home Loan Bank Note	AAA	Moody's		11/14/07	100,031
Federal Home Loan Bank Note	AAA	Moody's		8/8/08	99,563
Federal Home Loan Bank Note	AAA	Moody's		9/12/08	100,000
Federal Home Loan Bank Note	AAA	S&P		11/3/08	99,906
Federal Home Loan Bank Note	AAA	Moody's		12/5/08	295,401
Federal Home Loan Bank Note	AAA	Moody's		12/29/08	100,000
Federal Home Loan Bank Note	AAA	Moody's		12/30/08	146,529
Federal Home Loan Bank Note	AAA	Moody's		8/26/09	98,748
Federal Home Loan Bank Note	AAA	Moody's		9/19/09	99,707
Federal Home Loan Bank Note	AAA	Moody's		9/24/09	200,312
Federal Home Loan Bank Note	AAA	S&P		10/15/09	97,530
Federal Home Loan Bank Note	AAA	Moody's		10/16/09	198,984
Federal Home Loan Bank Note	AAA	Moody's		11/20/09	299,531
Federal Home Loan Bank Note	AAA	Moody's		12/15/09	199,000
Federal Home Loan Bank Note	AAA	Moody's		12/17/09	99,813
Federal Home Loan Bank Note	AAA	Moody's		12/29/09	100,000
Federal Home Loan Bank Note	AAA	Moody's		12/30/09	199,438
Federal Home Loan Bank Note	AAA	Moody's		1/21/10	199,500
Federal Home Loan Bank Note	AAA	Moody's		3/30/10	99,344
Federal Home Loan Bank Note	AAA	Moody's		9/28/11	199,038
Federal Home Loan Bank Note	AAA	Moody's		12/19/11	125,000
Federal Home Loan Bank Note	AAA	Moody's		12/29/11	100,000
Federal Home Loan Bank Note	AAA	Moody's		5/22/13	99,125
Federal Home Loan Bank Note	AAA	Moody's		6/19/13	145,314
Federal Home Loan Bank Note	AAA	Moody's		4/15/19	97,281
Federal Home Loan Bank Note	AAA	Moody's		6/10/29	98,438
Total Federal Home Loan Bank Notes			30.07%		\$ 4,157,989
Government National Mortgage Association Note	N/A	N/A		4/20/24	\$ 4,717
Government National Mortgage Association Note	N/A	N/A		5/15/24	5,616
Government National Mortgage Association Note	N/A	N/A		7/15/24	3,741
Government National Mortgage Association Note	N/A	N/A		4/15/26	5,287

**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		10/20/26	1,027
Government National Mortgage Association Note	N/A	N/A		3/20/28	9,039
Government National Mortgage Association Note	N/A	N/A		4/15/28	19,536
Government National Mortgage Association Note	N/A	N/A		4/20/28	5,154
Government National Mortgage Association Note	N/A	N/A		5/15/28	2,200
Government National Mortgage Association Note	N/A	N/A		6/20/28	3,523
Government National Mortgage Association Note	N/A	N/A		7/20/28	4,030
Government National Mortgage Association Note	N/A	N/A		9/15/28	5,150
Government National Mortgage Association Note	N/A	N/A		10/15/28	7,445
Government National Mortgage Association Note	N/A	N/A		10/20/28	3,850
Government National Mortgage Association Note	N/A	N/A		11/15/28	4,664
Government National Mortgage Association Note	N/A	N/A		11/15/28	7,513
Government National Mortgage Association Note	N/A	N/A		11/15/28	6,622
Government National Mortgage Association Note	N/A	N/A		11/20/28	17,886
Government National Mortgage Association Note	N/A	N/A		12/15/28	5,130
Government National Mortgage Association Note	N/A	N/A		12/15/28	2,015
Government National Mortgage Association Note	N/A	N/A		12/15/28	4,403
Government National Mortgage Association Note	N/A	N/A		12/15/28	4,059
Government National Mortgage Association Note	N/A	N/A		12/20/28	11,809
Government National Mortgage Association Note	N/A	N/A		12/20/28	3,866
Government National Mortgage Association Note	N/A	N/A		1/15/29	12,627
Government National Mortgage Association Note	N/A	N/A		1/15/29	2,787
Government National Mortgage Association Note	N/A	N/A		1/15/29	8,896
Government National Mortgage Association Note	N/A	N/A		1/20/29	7,841
Government National Mortgage Association Note	N/A	N/A		2/15/29	8,360
Government National Mortgage Association Note	N/A	N/A		2/15/29	5,167
Government National Mortgage Association Note	N/A	N/A		2/15/29	3,070
Government National Mortgage Association Note	N/A	N/A		2/15/29	5,042
Government National Mortgage Association Note	N/A	N/A		2/15/29	12,462
Government National Mortgage Association Note	N/A	N/A		2/20/29	57,898
Government National Mortgage Association Note	N/A	N/A		3/15/29	9,368
Government National Mortgage Association Note	N/A	N/A		3/15/29	3,569
Government National Mortgage Association Note	N/A	N/A		3/20/29	17,225
Government National Mortgage Association Note	N/A	N/A		4/15/29	3,775
Government National Mortgage Association Note	N/A	N/A		4/15/29	6,235
Government National Mortgage Association Note	N/A	N/A		4/15/29	13,372
Government National Mortgage Association Note	N/A	N/A		4/15/29	3,888
Government National Mortgage Association Note	N/A	N/A		4/20/29	19,708
Government National Mortgage Association Note	N/A	N/A		5/15/29	13,965
Government National Mortgage Association Note	N/A	N/A		6/15/29	6,014
Government National Mortgage Association Note	N/A	N/A		6/15/29	3,325
Government National Mortgage Association Note	N/A	N/A		6/15/29	13,007
Government National Mortgage Association Note	N/A	N/A		7/15/29	2,766
Government National Mortgage Association Note	N/A	N/A		7/15/29	5,283
Government National Mortgage Association Note	N/A	N/A		7/15/29	13,241
Government National Mortgage Association Note	N/A	N/A		8/20/29	2,769

**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		9/15/29	2,781
Government National Mortgage Association Note	N/A	N/A		9/15/29	7,442
Government National Mortgage Association Note	N/A	N/A		9/20/29	12,008
Government National Mortgage Association Note	N/A	N/A		11/15/29	5,498
Government National Mortgage Association Note	N/A	N/A		3/15/31	5,351
Government National Mortgage Association Note	N/A	N/A		3/20/31	10,460
Government National Mortgage Association Note	N/A	N/A		4/15/31	3,588
Government National Mortgage Association Note	N/A	N/A		5/15/31	7,554
Government National Mortgage Association Note	N/A	N/A		6/20/31	9,811
Government National Mortgage Association Note	N/A	N/A		7/15/31	3,785
Government National Mortgage Association Note	N/A	N/A		8/15/31	11,640
Government National Mortgage Association Note	N/A	N/A		10/15/31	11,316
Government National Mortgage Association Note	N/A	N/A		11/20/31	16,890
Government National Mortgage Association Note	N/A	N/A		12/15/31	3,343
Government National Mortgage Association Note	N/A	N/A		12/20/31	11,570
Government National Mortgage Association Note	N/A	N/A		1/15/32	4,405
Government National Mortgage Association Note	N/A	N/A		3/20/32	4,106
Government National Mortgage Association Note	N/A	N/A		3/20/32	12,067
Government National Mortgage Association Note	N/A	N/A		11/15/32	3,504
Government National Mortgage Association Note	N/A	N/A		12/15/32	7,619
Government National Mortgage Association Note	N/A	N/A		1/15/33	10,578
Government National Mortgage Association Note	N/A	N/A		2/15/33	9,191
Government National Mortgage Association Note	N/A	N/A		2/15/33	9,220
Government National Mortgage Association Note	N/A	N/A		6/15/33	12,002
Government National Mortgage Association Note	N/A	N/A		11/20/33	14,823
Government National Mortgage Association Note	N/A	N/A		11/20/33	10,716
Government National Mortgage Association Note	N/A	N/A		12/15/33	12,411
Total Government National Mortgage Association Notes			N/A		\$ 643,621
U.S. Treasury Note	N/A	N/A		3/31/07	\$ 50,833
U.S. Treasury Note	N/A	N/A		2/15/08	41,267
U.S. Treasury Note	N/A	N/A		2/15/08	43,232
U.S. Treasury Note	N/A	N/A		5/15/09	88,193
U.S. Treasury Note	N/A	N/A		8/15/09	1,003
U.S. Treasury Note	N/A	N/A		3/15/10	23,496
U.S. Treasury Note	N/A	N/A		3/15/10	22,517
U.S. Treasury Note	N/A	N/A		3/15/10	27,413
U.S. Treasury Note	N/A	N/A		3/15/10	87,133
U.S. Treasury Note	N/A	N/A		3/15/10	24,476
U.S. Treasury Note	N/A	N/A		3/15/10	107,692
U.S. Treasury Note	N/A	N/A		3/15/10	39,161
Total U.S. Treasury Notes			N/A		\$ 556,416

**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	
Investment pools/mutual funds					
Merrill Lynch	N/A	N/A		N/A	\$ 98,420
Wachovia	N/A	N/A		N/A	98,400
Washington	N/A	N/A		N/A	98,400
Manufacturers and Traders	N/A	N/A		N/A	4,549
North Fork	N/A	N/A		N/A	98,400
Wilmington	N/A	N/A		N/A	98,400
Tamarack US Government Money Market	N/A	N/A		N/A	276
MAGIC Fund	N/A	N/A		N/A	4,256,012
Total investment pools/mutual funds			34.37%		\$ 4,752,857
Negotiable certificates of deposit					
Home Federal Bank	N/A	N/A		1/16/07	\$ 99,784
First State Bank of Red Bud	N/A	N/A		1/18/07	99,755
First Midwest Bank	N/A	N/A		1/26/07	99,633
Security Pacific Bank	N/A	N/A		2/1/07	99,545
First National Bank USA	N/A	N/A		2/15/07	99,352
Utah Community Bank	N/A	N/A		2/21/07	99,279
Tennessee Commerce Bank	N/A	N/A		3/15/07	98,976
West Pointe Bank	N/A	N/A		3/15/07	98,967
First Federal Bank of California	N/A	N/A		3/19/07	98,920
California Oaks State Bank	N/A	N/A		3/26/07	98,811
Horizon Bank	N/A	N/A		4/17/07	98,542
Imperial Capital Bank	N/A	N/A		4/24/07	98,431
TCM	N/A	N/A		5/17/07	98,128
Park National Bank	N/A	N/A		5/29/07	97,944
Interstate Net Bank	N/A	N/A		6/1/07	97,911
Piedmont Community Bank	N/A	N/A		6/1/07	97,921
Tidelands Bank	N/A	N/A		6/6/07	97,810
United Citizens Bank of Southern Kentucky	N/A	N/A		6/7/07	97,796
Colorado Federal Savings Bank	N/A	N/A		6/13/07	97,756
Gwinnet Banking Company	N/A	N/A		6/27/07	97,427
Silver State Bank	N/A	N/A		7/19/07	97,059
Metro United Bank	N/A	N/A		9/13/07	96,451
National Republic of Chicago	N/A	N/A		10/11/07	96,097
First Piedmont Bank	N/A	N/A		12/4/07	95,435
LaSalle Bank	N/A	N/A		3/7/08	96,109
Lehman Bros. Bank	N/A	N/A		12/19/12	89,297
LaSalle Bank	N/A	N/A		12/27/15	88,646
Standard Federal Bank	N/A	N/A		12/27/15	95,000
Total negotiable certificates of deposit			19.72%		\$ 2,726,782

**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	
Total pooled investments					\$ 13,827,690
Deposits					1,060,034
Petty cash					1,032
Fund investments					14,861
Cash with escrow agent					429,136
Deposits - component unit					506,226
Total Cash and Investments					<u>\$ 15,838,979</u>

N/R - No rating

N/A - Not available or not applicable

2. Receivables

Receivables as of December 31, 2006, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 111,372	\$ -
Loans	473,828	431,654
Due from other governments	3,983,335	262,317
Accounts	778,852	-
Interest	153,196	-
MCCF deposit	25,000	-
Total Governmental Activities	<u>\$ 5,525,583</u>	<u>\$ 693,971</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and easements	\$ 745,417	\$ 321	\$ -	\$ 745,738
Construction in progress	240,956	204,127	90,252	354,831
Total capital assets not depreciated	\$ 986,373	\$ 204,448	\$ 90,252	\$ 1,100,569
Capital assets depreciated				
Buildings	\$ 9,877,415	\$ 171,312	\$ 5,195	\$ 10,043,532
Improvements other than buildings	607,200	179,093	-	786,293
Machinery, vehicles, furniture, and equipment	5,128,544	570,332	417,352	5,281,524
Infrastructure	44,877,126	1,386,827	-	46,263,953
Total capital assets depreciated	\$ 60,490,285	\$ 2,307,564	\$ 422,547	\$ 62,375,302
Less: accumulated depreciation for				
Buildings	\$ 2,142,609	\$ 234,976	\$ 5,195	\$ 2,372,390
Improvements other than buildings	111,225	39,077	-	150,302
Machinery, vehicles, furniture, and equipment	3,484,962	429,818	417,352	3,497,428
Infrastructure	8,597,650	879,008	-	9,476,658
Total accumulated depreciation	\$ 14,336,446	\$ 1,582,879	\$ 422,547	\$ 15,496,778
Total capital assets depreciated, net	\$ 46,153,839	\$ 724,685	\$ -	\$ 46,878,524
Capital Assets, Net	\$ 47,140,212	\$ 929,133	\$ 90,252	\$ 47,979,093

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

Governmental Activities	
General government	\$ 176,843
Public safety	160,812
Highways and streets, including depreciation of infrastructure assets	1,019,787
Sanitation	20,872
Culture and recreation	22,967
Conservation of natural resources	1,405
Economic development	180,193
Total Depreciation Expense - Governmental Activities	\$ 1,582,879

**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, 2006, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Public Health and Human Services	\$ 20,182	Reimburse for supplies and services
	Forfeited Tax	<u>103,947</u>	Forfeited tax distribution
	Total Due to General Fund	<u>\$ 124,129</u>	
Road and Bridge Fund	General Fund	\$ 1,158	Reimburse for supplies and services
	Other governmental funds	<u>288</u>	Reimburse for supplies and services
	Total Due to Road and Bridge Fund	<u>\$ 1,446</u>	
Other governmental funds	Forfeited Tax Fund	<u>\$ 26,863</u>	Forfeited tax distribution
Total Due To/From Other Funds		<u>\$ 152,438</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 ten years, from 2005 through 2014, with interest at three percent. The balance outstanding as of December 31, 2006, is \$94,636.

**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, 2006, 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>80,250</u>	Distribute net proceeds
Transfers to General Fund	<u>\$ 94,450</u>	
Transfers to Building Fund from other governmental funds		
Forfeited Tax Special Revenue	<u>\$ 26,863</u>	Distribute net proceeds
Transfers to Debt Service Fund from other governmental funds		
Hospital Sales Tax Fund	\$ 512,160	To fund debt payments
Golf Course Lodging Tax Fund	<u>207,161</u>	To fund debt payments
Transfers to Debt Service Fund	<u>\$ 719,321</u>	
Total Interfund Transfers	<u>\$ 840,634</u>	

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 270,528
Salaries	276,573
Contracts	89,444
Due to other governments	<u>58,893</u>
Total Payables	<u>\$ 695,438</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation bonds					
G.O. Care Center Bonds of 1999	2009	\$3,056/month	0.00	\$ 330,000	\$ 82,498
G.O. Hospital Refunding Bonds of 2001	2014	\$200,000 - \$265,000	4.00 - 4.55	3,110,000	2,090,000
G.O. State Aid Road Refunding Bonds of 2003	2008	\$70,000 - \$80,000	1.65 - 3.00	380,000	155,000
G.O. Care Center Crossover Refunding Bonds of 2003	2014	\$125,000 - \$190,000	2.20 - 3.35	1,260,000	1,135,000
G.O. Tax Increment Improvement Refunding Bonds of 2003	2013	\$175,000 - \$235,000	1.75 - 3.20	1,630,000	1,105,000
Refunding Certificates of Participation of 2003	2017	\$205,000 - \$385,000	2.50 - 4.00	4,235,000	3,510,000
Total general obligation bonds				<u>\$ 10,945,000</u>	\$ 8,077,498
Less: unamortized charge - refunding bonds					<u>(172,349)</u>
Total General Obligation Bonds, Net					<u>\$ 7,905,149</u>

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.

3. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest
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	640,000	70,910	300,000	85,935
2012 - 2016	1,415,000	85,730	1,705,000	249,307
2017	-	-	385,000	7,700
Total	<u>\$ 4,567,498</u>	<u>\$ 636,782</u>	<u>\$ 3,510,000</u>	<u>\$ 777,785</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 5,204,165	\$ -	\$ 636,667	\$ 4,567,498	\$ 646,667
Certificates of participation	3,775,000	-	265,000	3,510,000	265,000
Less: deferred charges - refunding bonds	(189,447)	-	(17,098)	(172,349)	-
Total bonds payable	\$ 8,789,718	\$ -	\$ 884,569	\$ 7,905,149	\$ 911,667
Compensated absences	402,762	357,143	317,909	441,996	-
Long-Term Liabilities	<u>\$ 9,192,480</u>	<u>\$ 357,143</u>	<u>\$ 1,202,478</u>	<u>\$ 8,347,145</u>	<u>\$ 911,667</u>

5. 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; and
- General Obligation Refunding Certificates of Participation, Series 2003, August 20, 2003.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007.

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2006, 2005, and 2004, 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
2006	\$	201,022	\$	66,278
2005		178,090		56,440
2004		171,578		54,993

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

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were \$6,693, \$6,585, and \$6,140, 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.

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 \$390,000 per claim in 2006 and \$400,000 per claim in 2007. 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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Arrowhead Regional Corrections (Continued)

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. During 2005 (the most recent information available), County contributions were in the following proportion:

	<u>Percent (%)</u>
Carlton County	9.38
Cook County	1.44
Koochiching County	1.96
Lake County	2.19
St. Louis County	<u>85.03</u>
Total	<u>100.00</u>

Following is a summary of the financial information from Arrowhead Regional Corrections' government-wide statements for December 31, 2005:

Total Assets	\$ 11,657,200
Total Liabilities	5,384,127
Total Net Assets	6,273,073
Total Revenues	18,420,835
Total Expenses	17,920,160
Change in Net Assets	500,675

The total assets balance included \$6,434,017 of capital assets, net of accumulated depreciation. The total liabilities balance included \$4,589,552 in long-term liabilities.

Cook County provided \$116,806 in funding during 2006. Separate financial information can be obtained from:

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 2006.

At December 31, 2005 (the most recent information available), 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
404 West Superior Street
Suite 220
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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

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.

A summary of the financial information of the Northeast Minnesota Office of Job Training’s government-wide statements for June 30, 2006, was:

Total Assets	\$	2,749,976
Total Liabilities		1,182,416
Total Net Assets		1,567,560
Total Revenues		4,940,929
Total Expenses		4,915,961
Change in Net Assets		24,968

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 a 13-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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota Counties Information Systems (Continued)

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

A summary of the financial information of 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 Aitkin, Cook, Itasca, Koochiching, Lake, Lake of the Woods, 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 2006 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.

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

North Shore Collaborative (Continued)

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, 2006, is as follows:

Assets	\$	341,356
Liabilities	\$	341,356

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 2006.

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 2006.

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 as available if 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 trustees 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 (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). 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, 2006, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Next Year
Governmental Activities		
Taxes receivable	\$ 4,260	\$ -
Accounts receivable	219	-
Due from other governments	516,820	-
Total Governmental Activities	\$ 521,299	\$ -
Business-Type Activities		
Accounts receivable	283	-
Total Component Unit	\$ 521,582	\$ -

**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, 2006, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 81,973	\$ -	\$ -	\$ 81,973
Capital assets depreciated				
Furniture and equipment	\$ 1,986	\$ -	\$ -	\$ 1,986
Less: accumulated depreciation for Furniture and equipment	1,986	-	-	1,986
Total capital assets depreciated, net	\$ -	\$ -	\$ -	\$ -
Governmental Activities Capital Assets, Net	<u>\$ 81,973</u>	<u>\$ -</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	372,371	-	-	372,371
Furniture and equipment	915,413	5,500	-	920,913
Total capital assets depreciated	\$ 5,500,656	\$ 5,500	\$ -	\$ 5,506,156
Less: accumulated depreciation for				
Land improvements	\$ 1,565,939	\$ 140,429	\$ -	\$ 1,706,368
Buildings and structures	240,909	18,980	-	259,889
Furniture and equipment	689,347	54,902	-	744,249
Total accumulated depreciation	\$ 2,496,195	\$ 214,311	\$ -	\$ 2,710,506
Total capital assets depreciated, net	\$ 3,004,461	\$ (208,811)	\$ -	\$ 2,795,650
Business-Type Activities Capital Assets, Net	<u>\$ 3,218,146</u>	<u>\$ (208,811)</u>	<u>\$ -</u>	<u>\$ 3,009,335</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:

Business-Type Activities	
Golf course	<u>\$ 214,311</u>

2. Liabilities

Operating Leases

The EDA leases golf carts under non-cancelable operating leases. Total costs for such leases were \$40,050 for the year ended December 31, 2006. The future minimum lease payments for these leases are as follows:

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (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, 2006:

<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	\$ 8,815
2003 irrigation system upgrade	2007	Monthly	1,343	58,016	7,933
2005 mower	2009	Annual	4,807	19,908	12,809
2005 top-dresser	2009	Annual	2,302	9,510	<u>5,553</u>
Total Business-Type Activities Capital Leases					<u>\$ 35,110</u>

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

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

3. Long-Term Debt

Business-Type Activities

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

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

Business-Type Activities

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2007	\$ 115,000	\$ 66,512
2008	120,000	60,460
2009	125,000	54,028
2010	135,000	47,104
2011	140,000	39,712
2012 - 2016	<u>650,000</u>	<u>74,482</u>
Total	<u>\$ 1,285,000</u>	<u>\$ 342,298</u>

4. Changes in Long-Term Liabilities

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Golf course revenue bonds	\$ 1,395,000	\$ -	\$ 110,000	\$ 1,285,000	\$ 115,000
Capital leases	<u>61,322</u>	<u>-</u>	<u>26,212</u>	<u>35,110</u>	<u>19,258</u>
Total	<u>\$ 1,456,322</u>	<u>\$ -</u>	<u>\$ 136,212</u>	<u>\$ 1,320,110</u>	<u>\$ 134,258</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. Construction Commitment

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,343,802	\$ 2,343,802	\$ 2,337,716	\$ (6,086)
Special assessments	-	-	19,974	19,974
Licenses and permits	65,000	65,000	70,916	5,916
Intergovernmental	1,920,726	1,920,726	2,871,597	950,871
Charges for services	500,966	500,966	550,561	49,595
Fines and forfeits	4,200	4,200	17,346	13,146
Gifts and contributions	-	-	22,762	22,762
Investment earnings	325,000	325,000	592,642	267,642
Miscellaneous	249,200	249,200	445,427	196,227
Total Revenues	\$ 5,408,894	\$ 5,408,894	\$ 6,928,941	\$ 1,520,047
Expenditures				
Current				
General government				
Commissioners	\$ 301,708	\$ 301,708	\$ 353,824	\$ (52,116)
Courts	2,600	2,600	6,733	(4,133)
Law library	26,810	26,810	21,086	5,724
County auditor	486,720	486,720	480,799	5,921
County assessor	205,548	205,548	204,772	776
Elections	18,300	18,300	43,627	(25,327)
Data processing	424,150	424,150	348,856	75,294
Personnel	124,096	124,096	124,013	83
Attorney	233,860	233,860	273,778	(39,918)
Recorder	180,638	180,638	187,772	(7,134)
Planning and zoning	241,520	241,520	279,294	(37,774)
Buildings and plant	370,405	370,405	396,205	(25,800)
Veterans service officer	20,388	20,388	19,687	701
Other general government	4,456	4,456	5,000	(544)
Total general government	\$ 2,641,199	\$ 2,641,199	\$ 2,745,446	\$ (104,247)
Public safety				
Sheriff	\$ 1,484,826	\$ 1,484,826	\$ 1,378,669	\$ 106,157
Boat and water safety	-	-	15,373	(15,373)
Emergency services	128,359	128,359	229,577	(101,218)
Coroner	8,000	8,000	6,116	1,884
E-911 system	18,600	18,600	168,450	(149,850)
County jail	218,463	218,463	206,837	11,626
Community corrections	159,237	150,701	150,701	-
Probation and parole	13,265	13,265	18,276	(5,011)
DARE program	-	-	1,769	(1,769)
Civil defense	-	-	594	(594)
Other public safety	-	-	41,970	(41,970)
Total public safety	\$ 2,030,750	\$ 2,022,214	\$ 2,218,332	\$ (196,118)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 208,272	\$ 208,272	\$ 90,083	\$ 118,189
Recycling	302,973	302,973	297,950	5,023
Other sanitation	72,052	72,052	1,049	71,003
Total sanitation	\$ 583,297	\$ 583,297	\$ 389,082	\$ 194,215
Culture and recreation				
Historical society	\$ 32,195	\$ 32,195	\$ 62,613	\$ (30,418)
Parks	33,000	33,000	55,915	(22,915)
Senior citizens	104,103	104,103	98,167	5,936
Regional library	106,010	106,010	106,010	-
Other	96,098	96,098	328,068	(231,970)
Total culture and recreation	\$ 371,406	\$ 371,406	\$ 650,773	\$ (279,367)
Conservation of natural resources				
Cooperative extension	\$ 56,539	\$ 56,539	\$ 60,516	\$ (3,977)
Soil and water conservation	-	-	42,465	(42,465)
Agricultural inspections	4,425	4,425	4,095	330
Agricultural society/County fair	11,907	11,907	10,319	1,588
Water planning	24,294	24,294	216,638	(192,344)
Environmental services	-	-	108,835	(108,835)
Other	-	-	27,677	(27,677)
Total conservation of natural resources	\$ 97,165	\$ 97,165	\$ 470,545	\$ (373,380)
Economic development				
Community development	\$ 11,500	\$ 11,500	\$ 57,806	\$ (46,306)
Capital outlay				
General government	\$ -	\$ -	\$ 159,531	\$ (159,531)
Sanitation	-	-	16,985	(16,985)
Total capital outlay	\$ -	\$ -	\$ 176,516	\$ (176,516)
Total Expenditures	\$ 5,735,317	\$ 5,726,781	\$ 6,708,500	\$ (981,719)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 1
(Continued)

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

	<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	\$ (326,423)	\$ (317,887)	\$ 220,441	\$ 538,328
Other Financing Sources (Uses)				
Transfers in	-	-	94,450	94,450
Net Change in Fund Balance	\$ (326,423)	\$ (317,887)	\$ 314,891	\$ 632,778
Fund Balance - January 1	<u>8,236,277</u>	<u>8,236,277</u>	<u>8,236,277</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 7,909,854</u>	<u>\$ 7,918,390</u>	<u>\$ 8,551,168</u>	<u>\$ 632,778</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,049,034	\$ 1,049,034	\$ 1,058,712	\$ 9,678
Intergovernmental	3,823,000	3,823,000	2,906,085	(916,915)
Charges for services	190,000	190,000	203,303	13,303
Total Revenues	\$ 5,062,034	\$ 5,062,034	\$ 4,168,100	\$ (893,934)
Expenditures				
Current				
Highways and streets				
Administration	\$ 251,804	\$ 251,804	\$ 276,755	\$ (24,951)
Maintenance	1,363,596	1,363,596	1,429,158	(65,562)
Construction	2,906,720	2,906,720	1,300,142	1,606,578
Equipment maintenance and shop	520,445	520,445	595,209	(74,764)
Total highways and streets	\$ 5,042,565	\$ 5,042,565	\$ 3,601,264	\$ 1,441,301
Debt service				
Principal	\$ 80,000	\$ 80,000	\$ 80,000	\$ -
Interest	5,250	5,250	5,250	-
Administrative (fiscal) charges	-	-	431	(431)
Total debt service	\$ 85,250	\$ 85,250	\$ 85,681	\$ (431)
Total Expenditures	\$ 5,127,815	\$ 5,127,815	\$ 3,686,945	\$ 1,440,870
Excess of Revenues Over (Under) Expenditures	\$ (65,781)	\$ (65,781)	\$ 481,155	\$ 546,936
Fund Balance - January 1	948,426	948,426	948,426	-
Increase (decrease) in reserved for inventories	-	-	111,160	111,160
Fund Balance - December 31	\$ 882,645	\$ 882,645	\$ 1,540,741	\$ 658,096

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 800,570	\$ 800,570	\$ 762,552	\$ (38,018)
Licenses and permits	12,000	12,000	12,383	383
Intergovernmental	752,102	752,102	838,825	86,723
Charges for services	-	-	111,171	111,171
Miscellaneous	95,310	95,310	52,654	(42,656)
Total Revenues	\$ 1,659,982	\$ 1,659,982	\$ 1,777,585	\$ 117,603
Expenditures				
Current				
Human services				
Income maintenance	\$ 306,059	\$ 306,059	\$ 305,563	\$ 496
Social services	1,114,404	1,114,404	1,261,461	(147,057)
Total human services	\$ 1,420,463	\$ 1,420,463	\$ 1,567,024	\$ (146,561)
Health				
Nursing service	241,117	241,117	245,760	(4,643)
Total Expenditures	\$ 1,661,580	\$ 1,661,580	\$ 1,812,784	\$ (151,204)
Excess of Revenues Over (Under) Expenditures	\$ (1,598)	\$ (1,598)	\$ (35,199)	\$ (33,601)
Fund Balance - January 1	1,307,990	1,307,990	1,307,990	-
Fund Balance - December 31	\$ 1,306,392	\$ 1,306,392	\$ 1,272,791	\$ (33,601)

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

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/Treasurer 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, 2006, expenditures exceeded appropriations in the following funds:

General Fund	\$ 981,719	Mostly funded by greater than anticipated revenues
Public Health and Human Services	151,204	Primarily funded by grants reimbursing the expenditures

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

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

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 1

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

	Special Revenue (Statement 3)	Debt Service	Leased Lakeshore Permanent	Total (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 1,448,413	\$ 387,548	\$ 682,749	\$ 2,518,710
Cash with escrow agent	-	429,136	-	429,136
Taxes receivable				
Prior	1,567	7,215	-	8,782
Accounts receivable	3,200	-	36,611	39,811
Lodging taxes receivable	27,439	-	-	27,439
Due from other funds	26,863	-	-	26,863
Due from other governments	53,581	-	-	53,581
Total Assets	<u>\$ 1,561,063</u>	<u>\$ 823,899</u>	<u>\$ 719,360</u>	<u>\$ 3,104,322</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 4,270	\$ -	\$ -	\$ 4,270
Contracts payable	50,144	-	-	50,144
Due to other funds	288	-	-	288
Due to other governments	76	-	-	76
Deferred revenue - unavailable	39,803	3,980	36,611	80,394
Advance from other funds	94,636	-	-	94,636
Total Liabilities	<u>\$ 189,217</u>	<u>\$ 3,980</u>	<u>\$ 36,611</u>	<u>\$ 229,808</u>
Fund Balances				
Reserved for debt service	\$ 226,151	\$ 429,136	\$ -	\$ 655,287
Reserved for environmental improvements	-	-	682,749	682,749
Unreserved				
Designated for debt service	-	390,783	-	390,783
Designated for capital improvements	537,201	-	-	537,201
Undesignated	608,494	-	-	608,494
Total Fund Balances	<u>\$ 1,371,846</u>	<u>\$ 819,919</u>	<u>\$ 682,749</u>	<u>\$ 2,874,514</u>
Total Liabilities and Fund Balances	<u>\$ 1,561,063</u>	<u>\$ 823,899</u>	<u>\$ 719,360</u>	<u>\$ 3,104,322</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 2

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

	Special Revenue (Statement 4)	Debt Service	Leased Lakeshore Permanent	Total (Exhibit 5)
Revenues				
Taxes	\$ 403,925	\$ 373,348	\$ -	\$ 777,273
Intergovernmental	127,244	19,412	-	146,656
Investment earnings	57,760	18,106	24,067	99,933
Miscellaneous	36,518	-	18,869	55,387
Total Revenues	\$ 625,447	\$ 410,866	\$ 42,936	\$ 1,079,249
Expenditures				
Current				
General government	\$ 6,684	\$ -	\$ -	\$ 6,684
Public safety	4,635	-	-	4,635
Culture and recreation	1,548	-	-	1,548
Economic development	227,899	-	-	227,899
Capital outlay	235,307	-	-	235,307
Debt service				
Principal	-	821,667	-	821,667
Interest	-	286,128	-	286,128
Administrative charges	-	4,109	-	4,109
Total Expenditures	\$ 476,073	\$ 1,111,904	\$ -	\$ 1,587,977
Excess of Revenues Over (Under) Expenditures	\$ 149,374	\$ (701,038)	\$ 42,936	\$ (508,728)
Other Financing Sources (Uses)				
Transfers in	\$ 26,863	\$ 719,321	\$ -	\$ 746,184
Transfers out	(221,361)	-	-	(221,361)
Total Other Financing Sources (Uses)	\$ (194,498)	\$ 719,321	\$ -	\$ 524,823
Net Change in Fund Balance	\$ (45,124)	\$ 18,283	\$ 42,936	\$ 16,095
Fund Balance - January 1	1,416,970	801,636	639,813	2,858,419
Fund Balance - December 31	\$ 1,371,846	\$ 819,919	\$ 682,749	\$ 2,874,514

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2006**

	Building	Airport	Golf Course Lodging Tax	Total (Statement 1)
<u>Assets</u>				
Cash and pooled investments	\$ 961,038	\$ 91,311	\$ 396,064	\$ 1,448,413
Taxes receivable				
Prior	-	1,567	-	1,567
Accounts receivable	-	3,200	-	3,200
Lodging taxes receivable	-	-	27,439	27,439
Due from other funds	26,863	-	-	26,863
Due from other governments	-	53,581	-	53,581
	\$ 987,901	\$ 149,659	\$ 423,503	\$ 1,561,063
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 4,270	\$ -	\$ 4,270
Contracts payable	-	50,144	-	50,144
Due to other funds	-	288	-	288
Due to other governments	-	76	-	76
Deferred revenue - unavailable	-	39,803	-	39,803
Advance from other funds	-	94,636	-	94,636
	\$ -	\$ 189,217	\$ -	\$ 189,217
 Fund Balances				
Reserved for debt service	\$ -	\$ -	\$ 226,151	\$ 226,151
Unreserved				
Designated for capital improvements	537,201	-	-	537,201
Undesignated	450,700	(39,558)	197,352	608,494
	\$ 987,901	\$ (39,558)	\$ 423,503	\$ 1,371,846
 Total Liabilities and Fund Balances	\$ 987,901	\$ 149,659	\$ 423,503	\$ 1,561,063

**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, 2006**

	<u>Building</u>	<u>Airport</u>	<u>Golf Course Lodging Tax</u>	<u>Total (Statement 2)</u>
Revenues				
Taxes	\$ 90	\$ 81,739	\$ 322,096	\$ 403,925
Intergovernmental	-	127,244	-	127,244
Investment earnings	-	-	57,760	57,760
Miscellaneous	1,000	35,518	-	36,518
Total Revenues	\$ 1,090	\$ 244,501	\$ 379,856	\$ 625,447
Expenditures				
Current				
General government	\$ 6,684	\$ -	\$ -	\$ 6,684
Public safety	4,635	-	-	4,635
Culture and recreation	1,548	-	-	1,548
Economic development	-	120,963	106,936	227,899
Capital outlay	184,195	51,112	-	235,307
Total Expenditures	\$ 197,062	\$ 172,075	\$ 106,936	\$ 476,073
Excess of Revenues Over (Under) Expenditures	\$ (195,972)	\$ 72,426	\$ 272,920	\$ 149,374
Other Financing Sources (Uses)				
Transfers in	\$ 26,863	\$ -	\$ -	\$ 26,863
Transfers out	-	(14,200)	(207,161)	(221,361)
Total Other Financing Sources (Uses)	\$ 26,863	\$ (14,200)	\$ (207,161)	\$ (194,498)
Net Change in Fund Balance	\$ (169,109)	\$ 58,226	\$ 65,759	\$ (45,124)
Fund Balance - January 1	1,157,010	(97,784)	357,744	1,416,970
Fund Balance - December 31	\$ 987,901	\$ (39,558)	\$ 423,503	\$ 1,371,846

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
AIRPORT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 85,100	\$ 85,100	\$ 81,739	\$ (3,361)
Intergovernmental	198,350	198,350	127,244	(71,106)
Miscellaneous	32,750	32,750	35,518	2,768
Total Revenues	\$ 316,200	\$ 316,200	\$ 244,501	\$ (71,699)
Expenditures				
Current				
Economic development	\$ 111,000	\$ 111,000	\$ 120,963	\$ (9,963)
Capital outlay	191,000	191,000	51,112	139,888
Total Expenditures	\$ 302,000	\$ 302,000	\$ 172,075	\$ 129,925
Excess of Revenues Over (Under) Expenditures	\$ 14,200	\$ 14,200	\$ 72,426	\$ 58,226
Other Financing Sources (Uses)				
Transfers out	(14,200)	(14,200)	(14,200)	-
Net Change in Fund Balance	\$ -	\$ -	\$ 58,226	\$ 58,226
Fund Balance - January 1	(97,784)	(97,784)	(97,784)	-
Fund Balance - December 31	\$ (97,784)	\$ (97,784)	\$ (39,558)	\$ 58,226

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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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEDICAL AND DEPENDENT CARE FLEX PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,256	\$ 82,672	\$ 82,057	\$ 8,871
Accounts receivable	242	-	242	-
Total Assets	<u>\$ 8,498</u>	<u>\$ 82,672</u>	<u>\$ 82,299</u>	<u>\$ 8,871</u>
<u>Liabilities</u>				
Accounts payable	<u>\$ 8,498</u>	<u>\$ 82,672</u>	<u>\$ 82,299</u>	<u>\$ 8,871</u>
 <u>SOIL AND WATER CONSERVATION DISTRICT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 81,454	\$ 134,812	\$ 138,316	\$ 77,950
Accounts receivable	2,768	-	2,768	-
Total Assets	<u>\$ 84,222</u>	<u>\$ 134,812</u>	<u>\$ 141,084</u>	<u>\$ 77,950</u>
<u>Liabilities</u>				
Due to other governments	\$ 84,126	\$ 134,812	\$ 140,988	\$ 77,950
Accounts payable	96	-	96	-
Total Liabilities	<u>\$ 84,222</u>	<u>\$ 134,812</u>	<u>\$ 141,084</u>	<u>\$ 77,950</u>
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 22,064</u>	<u>\$ 222,561</u>	<u>\$ 225,579</u>	<u>\$ 19,046</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 22,064</u>	<u>\$ 222,561</u>	<u>\$ 225,579</u>	<u>\$ 19,046</u>

**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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FIRE DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,118	\$ 226,648	\$ 215,894	\$ 16,872
<u>Liabilities</u>				
Due to other governments	\$ 6,118	\$ 226,648	\$ 215,894	\$ 16,872
 <u>CITIES AND TOWNS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 62,227	\$ 1,034,054	\$ 1,063,226	\$ 33,055
Accounts receivable	170	338	170	338
Total Assets	\$ 62,397	\$ 1,034,392	\$ 1,063,396	\$ 33,393
<u>Liabilities</u>				
Due to other governments	\$ 62,397	\$ 1,034,392	\$ 1,063,396	\$ 33,393
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 148,979	\$ 2,181,266	\$ 2,240,562	\$ 89,683
Accounts receivable	468	827	468	827
Due from other governments	32	-	32	-
Total Assets	\$ 149,479	\$ 2,182,093	\$ 2,241,062	\$ 90,510
<u>Liabilities</u>				
Due to other governments	\$ 148,949	\$ 2,181,405	\$ 2,240,532	\$ 89,822
Accounts payable	530	688	530	688
Total Liabilities	\$ 149,479	\$ 2,182,093	\$ 2,241,062	\$ 90,510

**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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LODGING TAX</u>				
<u>Assets</u>				
Accounts receivable	\$ 29,500	\$ 721,784	\$ 716,490	\$ 34,794
<u>Liabilities</u>				
Accounts payable	\$ 29,500	\$ 34,794	\$ 29,500	\$ 34,794
Due to other governments	-	686,990	686,990	-
Total Liabilities	\$ 29,500	\$ 721,784	\$ 716,490	\$ 34,794
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (1,065)	\$ 9,226,996	\$ 9,227,664	\$ (1,733)
Accounts receivable	152	-	152	-
Due from other governments	1,023	1,733	1,023	1,733
Total Assets	\$ 110	\$ 9,228,729	\$ 9,228,839	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 110	\$ 9,228,729	\$ 9,228,839	\$ -
 <u>SCHOOL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 25,738	\$ 1,775,506	\$ 1,767,725	\$ 33,519
Accounts receivable	11,781	26,863	11,781	26,863
Due from other governments	136,716	104,183	136,716	104,183
Total Assets	\$ 174,235	\$ 1,906,552	\$ 1,916,222	\$ 164,565
<u>Liabilities</u>				
Due to other governments	\$ 174,235	\$ 1,906,552	\$ 1,916,222	\$ 164,565

**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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 353,771	\$ 14,884,515	\$ 14,961,023	\$ 277,263
Accounts receivable	45,081	749,812	732,071	62,822
Due from other governments	137,771	105,916	137,771	105,916
Total Assets	\$ 536,623	\$ 15,740,243	\$ 15,830,865	\$ 446,001
<u>Liabilities</u>				
Accounts payable	\$ 38,624	\$ 118,154	\$ 112,425	\$ 44,353
Due to other governments	497,999	15,622,089	15,718,440	401,648
Total Liabilities	\$ 536,623	\$ 15,740,243	\$ 15,830,865	\$ 446,001

OTHER SCHEDULES

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 5

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

	2005		2006		2007	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 9,994,575		\$ 11,603,494		\$ 13,823,645	
Personal property	137,926		132,758		140,416	
Fiscal disparity contribution	(147,380)		(184,193)		(226,393)	
Net Tax Capacity	\$ 9,985,121		\$ 11,552,059		\$ 13,737,668	
Taxes Levied for County Purposes						
General	\$ 2,729,877	21.42	\$ 2,673,538	19.45	\$ 3,008,201	19.99
Road and Bridge	983,448	9.82	1,046,034	9.05	1,070,093	7.77
Social Services	771,391	7.70	800,570	6.91	746,194	5.46
Airport	89,900	0.90	85,100	0.74	72,500	0.53
Government Center	370,000	3.70	392,000	3.38	385,000	2.80
Economic Development	81,000	0.81	82,620	0.07	85,000	0.62
Total Levy for County Purposes	\$ 5,025,616	44.35	\$ 5,079,862	39.60	\$ 5,366,988	37.17
Less Credits Payable by State						
Taconite homestead credit	\$ 315,998		\$ 328,952		\$ 342,235	
Disparity reduction aid	3,220		3,179		3,157	
HACA and agricultural credit	599,628		435,005		263,481	
Total Credits Payable by State	\$ 918,846		\$ 767,136		\$ 608,873	
Net Levy for County Purposes	\$ 4,106,770		\$ 4,312,726		\$ 4,758,115	
Tax Capacity - Light and Power						
Assessed at 43%	\$ 42,803		\$ 43,065		\$ 44,731	
Light and Power Tax Levy (distributed pursuant to Minn. Stat. § 273.42, as amended)						
Assessed at 43%	\$ 21,881	51.12	\$ 21,889	50.83	\$ 21,485	48.03
Percentage of Tax Collections for All Purposes	98.24%		100.22%			

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Primary Government	Component Unit
Shared Revenue		
State		
Highway users tax	\$ 2,299,973	\$ -
County program aid	435,005	-
PERA rate reimbursement	17,931	-
Disparity reduction aid	3,179	-
Police aid	56,486	-
Taconite credit	158,444	-
Mobile home taconite credit	293	-
Enhanced 911	69,139	-
Market value credit aid	227,944	-
	\$ 3,268,394	\$ -
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 380,650	\$ -
Payments		
State		
Payments in lieu of taxes	\$ 171,367	\$ -
Local		
Local contributions	-	722,677
Other contributions	11,000	-
	\$ 182,367	\$ 722,677
Grants		
State		
Minnesota Department of		
Agriculture	\$ 156,509	\$ -
Public Safety	38,227	-
Transportation	195,162	-
Aeronautics	24,653	-
Health	39,062	-
Natural Resources	297,334	-
Human Services	300,922	-
Office of Environmental Assistance	27,763	-
Pollution Control Agency	47,851	-
Water and Soil Resources Board	14,573	-
Miscellaneous boards	4,341	-
	\$ 1,146,397	\$ -

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 6
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Primary Government	Component Unit
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 852,524	\$ -
Commerce	67,760	-
Interior	119,179	-
Justice	17,707	-
Transportation	353,233	-
Health and Human Services	116,654	-
Homeland Security	143,210	-
Environmental Protection Agency	30,375	-
Election Assistance Commission	84,713	-
	<u>\$ 1,785,355</u>	<u>\$ -</u>
Total Federal	<u>\$ 1,785,355</u>	<u>\$ -</u>
Total State and Federal Grants	<u>\$ 2,931,752</u>	<u>\$ -</u>
Total Intergovernmental Revenue	<u>\$ 6,763,163</u>	<u>\$ 722,677</u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 7

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Cook County.
- B. Significant deficiencies 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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Cook County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award 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:
 - National Forest Lands - 3/4 of 1% CFDA #10.668
- 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 ITEMS NOT RESOLVED

96-3 Segregation of Duties

To provide for adequate internal control, the following duties should be segregated, if possible:

- Bank reconciliations should be prepared by someone who is independent of the cash collection and receipting function and the cash disbursement function. If this is not possible, someone independent of these functions should review the bank reconciliations.
- Individuals who collect and receipt cash should not also:
 - post cash receipts to the general ledger system,
 - process cash disbursements,
 - maintain the general ledger,
 - make bank deposits,
 - make wire transfers,
 - make general journal entries, or
 - prepare billings.
- Individuals who process vouchers for payments should not also:
 - print or sign checks or
 - make journal entries.

In the Cook County Auditor/Treasurer's Office, the same individuals who collect and receipt cash also process cash disbursements, make the bank deposits, and have the ability to prepare and record journal entries into the system. Also, at the departmental level, there is a lack of segregation of duties between the cash collection and billing functions.

We recommend the County segregate these functions as much as possible. If it is not possible to segregate these duties, Cook County management should be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being followed by staff. One oversight procedure which could be implemented is to distribute detailed monthly revenue and expenditure reports to department heads and require them to affirm they have reviewed the reports and concur with the revenues and expenditures reported for their department.

Client's Response:

The Auditor's Office will separate the calculation of deed tax from the preparation of the deed tax receipt. We will begin distributing detailed revenue and expenditure reports to department heads on a monthly basis for their review and affirmation that the reports are correct. 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.

05-1 Duplicate Check Numbers

During our disbursement testing, we noted three separate occasions from 2005 to 2007 where the County Auditor/Treasurer's Office personnel had issued a sequence of checks using the same check numbers as had been previously used. This occurred due to incorrect ranges of check numbers being keyed into the system, causing overlaps in ranges, resulting in multiple checks being issued with duplicate check numbers.

Duplicate check numbers increase the risk of errors and irregularities occurring and also make the bank reconciliation process more 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 with numbers that have previously been issued. The warning should be evaluated before overriding that control.

Client's Response:

The Auditor's Office has instituted procedures to ensure that duplicate checks are not issued. The Disbursement Clerk prepares a check register prior to printing checks and forwards it to the Financial Coordinator who compares the list to a separate check listing that he maintains.

Public Health & Human Services has a written log of check numbers used, however human error was a factor in using duplicate check numbers during 2007. Efforts will be made to provide a second person to look at warrant registers and check the number sequence prior to issuance of checks.

ITEMS ARISING THIS YEAR

06-1 Inventory

The Road and Bridge inventory at Cook County is on a perpetual inventory system. Inventory purchases are entered to the inventory system from vendor invoices, and usage slips are used to enter usage into the system. However, purchases and usage of inventory have not been entered on a monthly basis. At the time of our audit, Cook County was four months behind in entering purchases and usage in the perpetual inventory system.

Access to inventory is generally limited to individuals needing the inventory for repairs and maintenance. However, inventory is not locked up, and sometimes access to inventory is uncontrolled.

The Road and Bridge Department also maintains an inventory of gravel stockpiles. After gravel is crushed under a crushing contract, County Road and Bridge Department personnel will go to the gravel site and measure the gravel pile to determine how much gravel has been crushed in order to pay the contractor the proper amount. The gravel stockpile is added to inventory at this time. Gravel is removed from inventory based on usage slips as County trucks remove gravel from the stockpiles. The County generally does not measure the gravel piles at any time after the initial measurement when the gravel is crushed. At year-end, the value of the gravel on the inventory system may not be accurate due to non-recording or inaccurate recording of usage. Salt and sand stockpiles are also not being measured on a regular basis.

We recommend the County update the perpetual inventory system on a monthly basis for purchases and usage to better control management of inventory stock. Access to inventory should be limited, if possible. Gravel stockpiles should be measured at or close to year-end to determine whether the perpetual inventory values are accurate. Salt and sand stockpiles should also be measured at or close to year-end.

Client's Response:

The Cook County Highway Department will make a diligent effort to update the perpetual inventory system on a monthly basis and to measure stockpiles of gravel and salt and sand at or close to year-end.

06-2 Journal Entries

Cook County limits access to the journal entry function on the Integrated Financial System (IFS) to select County employees. Three employees from the County Auditor/Treasurer's Office have access to this function, but only one employee, the Cook County Chief Accountant, makes all of the journal entries. The journal entries made are not generally reviewed or approved by anyone else.

The ability to make journal entries on the IFS general ledger system is a powerful function. It allows those employees with access to the journal entry function to make changes to the general ledger system. To prevent abuse of this function, it should be limited to those employees who have a logical need for this access. There should also be a procedure for review and approval of the journal entries made.

We recommend the County Auditor/Treasurer review the access to the journal entry function periodically to determine who has access to this function and if there is a logical need for that access. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. Supporting documentation should be attached to the journal entry or sufficient explanation included on the journal entry to explain why the journal entry is being made and who is making and approving the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the IFS which lists all journal entries made. This report should be reviewed periodically by the person charged with review and approval of journal entries. Review of this report would be to ensure that no journal entries have been made that have not been submitted for review and approval.

Client's Response:

The County Auditor will limit access to the journal entry function to the County Financial Coordinator and County Auditor for journal entries for funds other than Fund 11. The County Auditor will review and sign off on these manual journal entries prior to entry and verify entry on the summary report. Public Health & Human Services will restrict the journal entry function to the Fiscal Supervisor. The Director will review and approve all journal entries made and on a quarterly basis will review a printed journal entry summary.

06-3 Budgeting

Cook County has not adopted a budget policy. A formal written budget policy should include policies such as:

- which funds require budgets,
- the legal level of control,
- when budgets can be modified by management and when budget modifications require Board approval, and
- the budgetary basis on which the budget is adopted.

Cook County does distribute budget preparation guidelines each year, but these do not indicate which funds are required to be budgeted, the budgetary basis, or the legal level of control.

During the year, County department heads are expected to monitor the departmental budgets for which they are responsible. Cook County prepares quarterly budget to actual reports that are available to each department head. However, it is not known the extent to which department heads review these reports. Monitoring of budgets should also be done periodically by the County Board.

We recommend the County Board prepare a formal budget policy to include the elements recommended above to provide better internal control over the budget process. Budget amendments should be approved by the County Board and entered into the IFS. The budget should be monitored on an ongoing basis by department heads and the County Board. Department heads and the County Board should indicate their review of budget to actual reports by signing off on them. The County Board should designate an employee to be responsible for entering budget amendments to the IFS and for verifying departmental and County Board review.

Client's Response:

Currently the County Board reviews the General Fund budget to actual reports on a quarterly basis at a County Board meeting. The County Board also reviews the PHHS budget on a monthly basis at a Human Services Board meeting. This report is reviewed by the Director and presented to the Human Services Board. The County follows a set of budget practices that include elements in this finding but which have not been adopted as a formal policy. Cook County will develop and adopt a formal written budget policy.

06-4 Preparation of Financial Statements

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

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP.

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

Client's Response:

The Financial Coordinator, along with the staff in PHHS and Road & Bridge, currently prepares the spreadsheets and other workpapers that form the basis of the financial statements. The County intends to have the state auditors continue to assist in the preparation of the financial statements. The Financial Coordinator will work with the State Auditor's Office to obtain the expertise, at a minimum, sufficient to review, understand and approve the County's financial statements. The County's goal is to prepare a greater share of the audit each year.

06-5 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 state that one control deficiency that shall be regarded as at least a significant deficiency is identification by the Auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we proposed adjustments that resulted in significant changes to the County's financial statements. The County provides cash basis financial statements and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis. However, County staff do not have the time nor the governmental accounting expertise to prepare all of the information necessary to provide accurate financial statements. Therefore, audit adjustments were necessary to record additional receivables and payables found during the audit, record the fair value adjustment for cash and pooled investments, and to make reclassification entries as necessary. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

We recommend that County staff review the trial balances and journal entries in detail to ensure they have an understanding of all of the audit adjustments made so that, in future audits, this information can be prepared by the County.

Client's Response:

County staff will review the trial balances and journal entries in detail with the State Auditor's Office staff to ensure they have an understanding of all audit adjustments made so that in the future this information can be prepared by the County.

06-6 Accounting Policies and Procedures Manual

Cook County has various policies and procedures documents that have been adopted by the County Board. Although some of these policies are accounting-related policies, most of the policies are administrative in nature.

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in

the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

The County follows established accounting procedures but has not documented and gathered those procedures in a single manual. The County will establish an accounting policies and procedures manual, to be formally adopted by the County Board.

06-7 SSIS Segregation of Duties

In October 2006, the Cook County Health and Human Services Department implemented the Minnesota Department of Human Services (MDHS) newly-issued Social Service Information System Fiscal Payment (SSIS) software module. The County uses this module to pay vendors providing services to the various social service programs.

The software allows the County's SSIS system administrator flexibility in assigning staff access to the software. One basic objective of internal control is to provide for segregation of incompatible duties so that no single individual can establish a vendor, authorize a transaction, record the transaction, and obtain custody of the asset resulting from the transaction. The size of a department and the number of staff sometimes limit the application of adequate segregation of duties. County management must perform a risk assessment to determine if incompatible access exists that affects the internal control over the SSIS system. When it is not possible to limit an employee's incompatible access, mitigating controls should be implemented, such as independent review, to ensure that transactions are authorized and appropriate.

County management has not performed a risk assessment to determine if incompatible access exists since initially assigning staff access to the SSIS system.

We recommend that County management review staff's access to the SSIS system and identify those with incompatible or inappropriate access. If assigning incompatible access is unavoidable, management should develop appropriate mitigating controls to minimize the risk of undetected errors or fraud.

Client's Response:

While segregation of duties relating to establishing a vendor, authorizing transactions and recording transactions is best practice this is not always possible in a small county with just two accounting staff. The normal process for a payment provides a three step process; the Social Work Supervisor approves the service arrangement, the Fiscal Supervisor approves the payment and the Account Technician processes the payment. The SSIS payment system has been designed to accommodate various size counties for the practical use of this payment process and allows more than one of these functions to be assigned to the same employee so payments can be made when a staff person is not available. Therefore, to ensure further controls on the payment system, a paper copy of the claim is signed by the Supervisor/Director and the Fiscal Supervisor reviews an account activity of all transactions on a monthly basis.

A risk assessment will be made, with the above controls reviewed and formalized in writing.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

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.

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OTHER REQUIRED REPORTS

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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, 2006, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-3, 05-1, and 06-1 through 06-7 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-5 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six 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.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to Cook County and are reporting it for that purpose.

Cook County's written responses to the significant deficiencies and material weakness identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Cook County, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 28, 2007

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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)

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, 2006. 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, 2006.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Cook County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2006, and have issued our report thereon dated September 28, 2007. 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 others within the County, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 28, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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 2,311
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)		10.557	18,781
Passed Through Minnesota Department of Finance			
Federal Forests - 25% Payments to States		10.665	104,182
Federal Forests - 3/4 of 1%		10.668	704,250
Total U.S. Department of Agriculture			\$ 852,524
U.S. Department of Commerce			
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Grant			
	A53960, A53959, A39259	11.419	\$ 67,760
U.S. Department of the Interior			
Direct			
Payments in lieu of taxes		15.226	\$ 119,179
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety Crime Victim Assistance			
		16.575	\$ 17,707
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	1609-33, 1609-35	20.106	\$ 98,375
Highway Planning and Construction Grant	SP-412, SP-9001	20.205	247,400
Total U.S. Department of Transportation			\$ 345,775
U.S. Environmental Protection Agency			
Direct			
Beach Monitoring and Notification Program		66.472	\$ 5,000
Passed Through Minnesota Pollution Control Agency Great Lakes Program			
		66.469	25,375
Total U.S. Environmental Protection Agency			\$ 30,375

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State Help America Vote Act		90.401	\$ <u>72,643</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families		93.556	\$ 7,248
Temporary Assistance for Needy Families (TANF)		93.558	13,000
Social Services Block Grant Title XX		93.667	40,634
Support for Emancipation and Living Functionally (SELF)		93.674	613
Passed Through Minnesota Department of Education			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund		93.596	19,871
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board			
Health Alert Network (HAN) Grant		93.283	29,387
Maternal and Child Health Services Block Grant		93.994	<u>5,901</u>
Total U.S. Department of Health and Human Services			\$ <u>116,654</u>
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Hazard Mitigation Grant		97.039	\$ 20,242
Emergency Management Performance Grants		97.042	8,464
Homeland Security Grant Program		97.067	<u>114,504</u>
Total U.S. Department of Homeland Security			\$ <u>143,210</u>
Total Federal Awards			\$ <u><u>1,765,827</u></u>

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 2006, there was \$7,458 of prior year deferred revenue which became available and \$12,070 of current year federal revenues not recognized as expenditures because they had not been spent.
4. Cook County did not pass any federal awards to subrecipients in 2006.