

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**NORTHERN COUNTIES LAND USE
COORDINATING BOARD
DULUTH, MINNESOTA**

YEARS ENDED DECEMBER 31, 2005 AND 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**NORTHERN COUNTIES LAND USE
COORDINATING BOARD
DULUTH, MINNESOTA**

Years Ended December 31, 2005 and 2006



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

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**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DULUTH, MINNESOTA**

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**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DULUTH, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2006**

<u>Board</u>	<u>Representing</u>
Brain Napstad	Aitkin County
Robert Fenwick	Cook County
Jim Johnson	Cook County
Charles Lepper	Koochiching County
Wade Pavleck	Koochiching County
Clair Nelson	Lake County
Todd Beckel, Chair	Lake of the Woods County
Kim Bredeson	Lake of the Woods County
Brent Boen	Marshall County
Delray Larson	Marshall County
Donald Jensen	Pennington County
Oliver Swanson	Pennington County
Orris Rasmussen	Roseau County
Russell Walker	Roseau County
Mike Forsman, Vice Chair	St. Louis County
Dennis Fink	St. Louis County
Keith Nelson	St. Louis County
Steve Raukar	St. Louis County

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INDEPENDENT AUDITOR'S REPORT

Board of Managers
Northern Counties Land Use Coordinating Board

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Northern Counties Land Use Coordinating Board as of and for the years ended December 31, 2005 and 2006, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board'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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Northern Counties Land Use Coordinating Board as of December 31, 2005 and 2006, and the changes in financial position thereof and the budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Northern Counties Land Use Coordinating Board has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 13, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

BASIC FINANCIAL STATEMENTS

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**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DULUTH, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
DECEMBER 31, 2005 AND 2006**

	2005	2006
<u>Assets</u>		
Cash and pooled investments	\$ 57,251	\$ 75,537
<u>Liabilities and Fund Balance/Net Assets</u>		
Current liabilities		
Accounts payable	\$ -	\$ 4,058
Due to other governments	1,742	-
Deferred revenue - unearned	16,003	16,003
Total Liabilities	\$ 17,745	\$ 20,061
Fund Balance/Net Assets		
Undesignated/Unrestricted	39,506	55,476
Total Liabilities and Fund Balance/Net Assets	\$ 57,251	\$ 75,537

Note: The Board has no long-term liabilities or capital assets; it has deferred no revenue as unavailable. Therefore, it reports no differences between the governmental activities and the General Fund.

**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DULUTH, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006**

	2005	2006
Revenues		
Intergovernmental		
State of Minnesota		
Department of Administration	\$ 33,997	\$ -
Aitkin County	2,500	2,500
Cook County	2,500	2,500
Koochiching County	2,500	2,500
Lake County	2,500	2,500
Lake of the Woods County	2,500	2,500
Marshall County	2,500	2,500
Pennington County	2,500	2,500
Roseau County	2,500	2,500
St. Louis County	3,750	3,750
	\$ 57,747	\$ 23,750
Total Revenues		
	\$ 57,747	\$ 23,750
Expenditures/Expenses		
Current		
Conservation of natural resources		
Administration		
Personal services	\$ 3,059	\$ 770
Professional services	36,165	6,071
Other services and charges	1,057	939
	\$ 40,281	\$ 7,780
Total Expenditures/Expenses		
	\$ 40,281	\$ 7,780
Net Change in Fund Balance/Net Assets	\$ 17,466	\$ 15,970
Fund Balance/Net Assets - January 1	22,040	39,506
Fund Balance/Net Assets - December 31	\$ 39,506	\$ 55,476

Note: The Board has no long-term liabilities or capital assets; it has deferred no revenue as unavailable. Therefore, it reports no differences between the governmental activities and the General Fund.

**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DULUTH, MINNESOTA**

EXHIBIT 3

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006**

	2005			2006		
	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget
Revenues						
Intergovernmental						
State of Minnesota						
Department of Administration	\$ 50,000	\$ 33,997	\$ (16,003)	\$ -	\$ -	\$ -
Aitkin County	-	2,500	2,500	2,500	2,500	-
Cook County	2,500	2,500	-	2,500	2,500	-
Koochiching County	2,500	2,500	-	2,500	2,500	-
Lake County	2,500	2,500	-	2,500	2,500	-
Lake of the Woods County	2,500	2,500	-	2,500	2,500	-
Marshall County	2,500	2,500	-	2,500	2,500	-
Pennington County	2,500	2,500	-	2,500	2,500	-
Roseau County	2,500	2,500	-	2,500	2,500	-
St. Louis County	3,750	3,750	-	3,750	3,750	-
Total Revenues	\$ 71,250	\$ 57,747	\$ (13,503)	\$ 23,750	\$ 23,750	\$ -
Expenditures						
Current						
Conservation of natural resources						
Administration						
Personal services	\$ 5,000	\$ 3,059	\$ 1,941	\$ 5,000	\$ 770	\$ 4,230
Professional services	90,078	36,165	53,913	70,869	6,071	64,798
Other services and charges	3,400	1,057	2,343	3,400	939	2,461
Total Expenditures	\$ 98,478	\$ 40,281	\$ 58,197	\$ 79,269	\$ 7,780	\$ 71,489
Excess of Revenues Over (Under)						
Expenditures	\$ (27,228)	\$ 17,466	\$ 44,694	\$ (55,519)	\$ 15,970	\$ 71,489
Fund Balance - January 1	22,040	22,040	-	39,506	39,506	-
Fund Balance - December 31	\$ (5,188)	\$ 39,506	\$ 44,694	\$ (16,013)	\$ 55,476	\$ 71,489

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**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006**

1. Summary of Significant Accounting Policies

The Northern Counties Land Use Coordinating Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the years ended December 31, 2005 and 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 Board are discussed below.

A. Financial Reporting Entity

The Northern Counties Land Use Coordinating Board was established September 22, 1993, under the Joint Powers Act, Minn. Stat. § 471.59. It is governed by a Board composed of two elected County Commissioners from each member county, except St. Louis County, which has three members. Its purpose is to formulate land use plans or general policies needed for the protection, sustainable use, and development of lands and natural resources in Northern Minnesota. The Board is organized with a chair, vice chair, and secretary-treasurer elected each year.

The Board's membership at December 31, 2006, included the following counties: Aitkin, Cook, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, Roseau, and St. Louis Counties.

St. Louis County, as the fiscal agent, reports the transactions of the Board in an agency fund on its annual financial statements.

**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DUULTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund) and government-wide financial statements (governmental activities) into a single column presentation. These statements include all financial activities of the overall Board.

The Northern Counties Land Use Coordinating Board presents government-wide columns reported on a full accrual, economic resource basis. However, since the Board does not have long-term assets and long-term debt and obligations, the financial statements for the governmental fund are the same.

The Northern Counties Land Use Coordinating Board reports one governmental fund, the General Fund, which is the primary operating fund. It accounts for all financial resources of the Board.

C. Measurement Focus and Basis of Accounting

The governmental activities 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Board considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are 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 long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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

**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DUULTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Pooled Investments

The Board's available cash balances are pooled and invested by St. Louis County in accordance with Minnesota state statutes. The Board's cash balances and investments are at fair value based on quoted market prices. Additional disclosures defining cash and cash equivalents can be found in the St. Louis County Comprehensive Annual Financial Report.

2. Fund Equity

The fund financial statements 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 that are subject to change. The Board reported no reservations or designations for the years ended December 31, 2005 and 2006.

3. 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.

E. Budgetary Information

The Northern Counties Land Use Coordinating Board adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis of accounting. The budget can be amended during the year by the Board. Neither the 2005 nor 2006 budgets were amended.

**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DUULTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Expenditures

Personal services expenditures reported represent reimbursements to the St. Louis County Land Department for staff-provided services to the Board. There are no employees of the Northern Counties Land Use Coordinating Board as the Board has hired an independent contractor to perform management services.

2. Detailed Notes

A. Assets

Cash

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Board to deposit its cash and to invest in certificates of deposit in financial institutions designated by the St. Louis County Board of Commissioners and the Board. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Additional disclosures as required by GASB Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*; and No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the St. Louis County Comprehensive Annual Financial Report.

B. Liabilities

1. Payables

Payables for year-ends December 31, 2005 and 2006, were as follows:

	<u>2005</u>	<u>2006</u>
Accounts	\$ -	\$ 4,058
Due to other governments	<u>1,742</u>	<u>-</u>
Total Payables	<u>\$ 1,742</u>	<u>\$ 4,058</u>

**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DUULTH, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

2. Risk Management

The Northern Counties Land Use Coordinating Board has no known risks of loss. The Board would be exposed to a loss should one occur as insurance coverage has not been purchased.

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**NORTHERN COUNTIES LAND USE COORDINATING BOARD
DULUTH, MINNESOTA**

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

FINDINGS RELATED TO FINANCIAL STATEMENTS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Northern Counties Land Use Coordinating Board and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Northern Counties Land Use Coordinating Board. This decision was based on the availability of the Board's staff and the cost benefit of using this expertise.

During our audit, we proposed material adjustments to convert the Board's financial records to the financial statements as reported. These adjustments increased due to other governments and deferred revenue - unearned and decreased fund balance and revenue.

We recommend the Northern Counties Land Use Coordinating Board be mindful that limited staffing causes inherent risks in safeguarding the Board's assets and the proper reporting of its financial activity. We recommend the Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

When invoices are received, the Director reviews them and then submits them to the entire board with regular meeting agendas. The entire board reviews the invoices at its regular monthly meetings and action is taken. Approved invoices are then forwarded by the Director to the Land Use Office of St. Louis County which in turn submits them to the St. Louis County Auditor for payment. The board members monitor the disbursement of funds by reviewing and approving financial statements supplied by the Director and the St. Louis County Auditor.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Managers
Northern Counties Land Use Coordinating Board

We have audited the financial statements of the governmental activities and General Fund of the Northern Counties Land Use Coordinating Board as of and for the years ended December 31, 2005 and 2006, and have issued our report thereon dated December 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northern Counties Land Use Coordinating Board'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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency and a material weakness.

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 Board'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 Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control over financial reporting. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 06-1 to be a significant deficiency 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 Board's internal control over financial reporting.

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, we believe the significant deficiency described above is a material weakness.

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* covers 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, except that we did not test for compliance in public indebtedness because the Northern Counties Land Use Coordinating Board carries no debt.

The results of our tests indicate that, for the items tested, the Northern Counties Land Use Coordinating Board complied with the material terms and conditions of applicable legal provisions.

The Northern Counties Land Use Coordinating Board's written response to the material weakness identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Northern Counties Land Use Coordinating Board, management, and others within the Northern Counties Land Use Coordinating Board, 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

December 13, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR