

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COOK COUNTY
GRAND MARAIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

For the Year Ended December 31, 2011



**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, 2011**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Janice Hall	January 2015
District 2	Fritz Sobanja	January 2013
District 3	Sue Hakes	January 2015
District 4	James Johnson	January 2013
District 5	Bruce Martinson*	January 2015
Officers		
Elected		
Attorney	Timothy Scannell	January 2015
Auditor/Treasurer	Braidy Powers	January 2015
Recorder/Registrar of Titles	Dusty Nelms	January 2015
Sheriff	Mark Falk	January 2015
Appointed		
Assessor/Land Commissioner	Mary Black	January 2013
Highway Engineer	David Betts	May 2015
Veteran Services Officer	Clarence Everson	April 2013
Human Services Board		
Chair	Sue Hakes	January 2015
Vice Chair	Janice Hall	January 2015
Member	Fritz Sobanja	January 2013
Member	Diane Fitzgerald	January 2012
Member	Carla LaPointe	January 2012
Member	Bruce Martinson	January 2015
Member	James Johnson	January 2013
Director	Sue Futterer	Indefinite

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of 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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cook County as of December 31, 2011, 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.

Cook County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cook County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, and the other information section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The other information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, 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, 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 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

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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 \$72,496,160 of which \$53,771,458 is invested in capital assets, net of related debt, and \$10,175,068 is restricted to specific purposes; \$8,549,634 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 \$4,574,985 of which \$4,440,012 is invested in capital assets, net of related debt, and \$337,968 is restricted to specific purposes. The majority of these amounts are for Superior National Golf Course in Lutsen and the Cedar Grove Business Park in Grand Marais.
- Cook County's net assets increased by \$1,810,373 for the year ended December 31, 2011, due mainly to major road renovation. Total net assets of the County's discretely presented component unit (EDA) increased by \$360,751. Unrestricted net assets improved from a negative \$289,271 in 2010 to a negative \$202,995 in 2011. The improvement is mainly due to funds from the City of Grand Marais to pay for improvements in the business park.
- The net cost of governmental activities was \$6,432,485 for the current fiscal year. Net cost is the amount by which the cost of services had to be paid by taxes or other unrestricted funds. General revenues of \$8,242,858 more than covered the net cost, resulting in the \$1,810,373 increase in net assets referred to above.
- Governmental funds' fund balances increased \$7,371,787 in 2011. The change was due primarily to an \$8.5 million dollar bond issue for various community projects funded by a one percent Local Option Sales Tax.

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 and to develop the Cedar Grove Business Park. Although legally separate, this “component unit” is important because the County is financially accountable for it.

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

Fund Financial Statements

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

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

The basic financial statements for governmental funds can be found in Exhibits 3 through 6.

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

The financial statement for fiduciary funds can be found 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	
	2011	2010	2011	2010
Current and other assets	\$ 28,786,999	\$ 20,247,158	\$ 641,458	\$ 646,510
Capital assets	55,186,457	54,029,523	5,090,012	4,995,375
Total Assets	\$ 83,973,456	\$ 74,276,681	\$ 5,731,470	\$ 5,641,885
Long-term debt outstanding	\$ 10,355,658	\$ 2,813,202	\$ 650,000	\$ 790,000
Other liabilities	1,121,638	777,692	506,485	637,651
Total Liabilities	\$ 11,477,296	\$ 3,590,894	\$ 1,156,485	\$ 1,427,651
Net Assets				
Invested in capital assets - net of debt	\$ 53,771,458	\$ 51,639,523	\$ 4,440,012	\$ 4,205,375
Restricted	10,175,068	4,488,831	337,968	298,130
Unrestricted	8,549,634	14,557,433	(202,995)	(289,271)
Total Net Assets	\$ 72,496,160	\$ 70,685,787	\$ 4,574,985	\$ 4,214,234

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

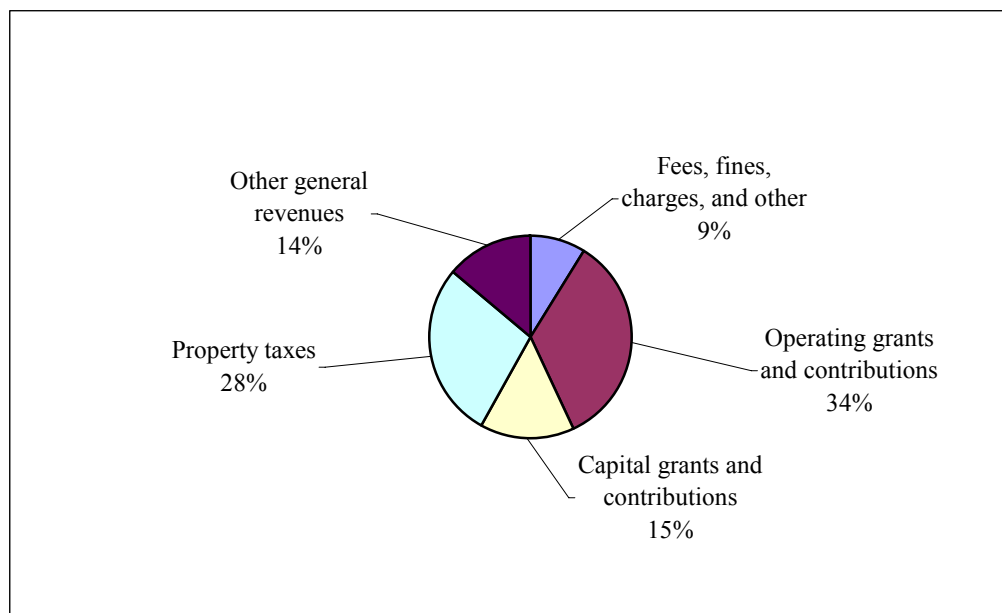
Table 2
Changes in Net Assets

	Governmental Activities		Component Unit Activities	
	2011	2010	2011	2010
Revenues				
Program revenues				
Fees, fines, charges, and other	\$ 1,767,587	\$ 1,996,405	\$ 822,706	\$ 827,840
Operating grants and contributions	6,734,029	5,952,190	9,500	109,500
Capital grants and contributions	2,843,308	2,076,600	204,847	-
General revenues				
Property taxes	5,483,887	4,949,474	152,061	151,249
Other taxes	1,865,833	1,364,083	50,000	50,000
Unrestricted grants and contributions	429,856	445,672	225,403	40,000
Investment income	385,594	313,990	236	191
Miscellaneous	77,688	29,575	10,556	2,029
Total Revenues	\$ 19,587,782	\$ 17,127,989	\$ 1,475,309	\$ 1,180,809

	Governmental Activities		Component Unit Activities	
	2011	2010	2011	2010
Expenses				
General government	\$ 3,318,946	\$ 3,346,692	\$ -	\$ -
Public safety	3,072,498	3,210,861	-	-
Highways and streets	4,326,591	4,122,894	-	-
Sanitation	413,245	374,642	-	-
Human services	1,878,410	1,855,582	-	-
Health	559,815	333,956	-	-
Culture and recreation	2,944,031	795,423	-	-
Golf course	-	-	1,001,202	889,774
Conservation of natural resources	488,253	425,957	-	-
Economic development	556,085	711,093	113,356	126,602
Interest	219,535	122,830	-	-
Total Expenses	\$ 17,777,409	\$ 15,299,930	\$ 1,114,558	\$ 1,016,376
Increase (Decrease) in Net Assets	\$ 1,810,373	\$ 1,828,059	\$ 360,751	\$ 164,433
Net Assets - January 1	70,685,787	68,857,728	4,214,234	4,049,801
Net Assets - December 31	<u>\$ 72,496,160</u>	<u>\$ 70,685,787</u>	<u>\$ 4,574,985</u>	<u>\$ 4,214,234</u>

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

Total County Revenues by Source



Governmental Activities

The cost of all governmental activities this year was \$17,777,409. However, as shown in the Statement of Activities (Exhibit 2), the amount taxpayers ultimately financed for these activities through County taxes was \$5,483,887, or 10.8 percent more than 2010. Some of the cost was paid by those who directly benefited from the programs (\$1,767,587), or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,577,337).

Table 3 presents the cost of each of the County's 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	
	2011	2010	2011	2010
General government	\$ 3,318,946	\$ 3,346,692	\$ 178,496	\$ 476,351
Public safety	3,072,498	3,210,861	1,206,588	2,095,570
Highways and streets	4,326,591	4,122,894	(67,346)	584,427
Sanitation	413,245	374,642	223,050	130,097
Human services	1,878,410	1,855,582	870,373	785,618
Culture and recreation	2,944,031	795,423	2,681,805	592,838
Conservation of natural resources	488,253	425,957	454,848	244,185
Economic development	556,085	711,093	386,819	103,141
All others	779,350	456,786	497,852	262,508
Total (Net Expense)	\$ 17,777,409	\$ 15,299,930	\$ 6,432,485	\$ 5,274,735

The County's Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$23,009,163 as compared to last year's total of \$15,637,376. Please see Exhibit 5 for details.

General Fund Budgetary Highlights

There were no significant changes to the final approved budget in December 2011.

Expenditures, excluding capital, were \$1,311,449 above the final budget amounts. The most significant event that led to the higher costs was related to unbudgeted grants for wildfire fuel reduction. Other significant events included expenditures from our revolving loan fund and grants for ski and snowmobile trail maintenance. The higher than budgeted expenditures were more than offset by revenues that exceeded budget by \$3,466,635. Grant revenues and related expenditures, capital, and operating costs were generally not budgeted. Please see Exhibit A-1 for details.

CAPITAL ASSETS

At the end of 2011, the County had a net investment of \$55,186,457 in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$1,156,934, or 2.1 percent, over last year.

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

	Governmental Activities	
	2011	2010
Land and easements	\$ 1,504,271	\$ 1,495,081
Construction in progress	2,682,612	803,410
Buildings and improvements	7,513,081	7,701,863
Machinery, vehicles, furniture, and equipment	2,541,028	2,263,767
Infrastructure	40,945,465	41,765,402
Total	<u>\$ 55,186,457</u>	<u>\$ 54,029,523</u>

The majority of the changes in 2011 are for construction in progress. Please see Note 3.A.3. for details.

DEBT

At year-end, the County had \$9,828,153 in bonds and notes outstanding, versus \$2,286,053 last year. The large increase is due to the net result of refunding Capital Improvement Bonds and a new \$8.5 million Sales Tax Revenue Bond.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	2011	2010
Certificates of participation	\$ -	\$ 2,390,000
Capital improvement bonds	1,415,000	-
Sales tax revenue bonds	8,500,000	-
Less: deferred charges for refunding bonds	(86,847)	(103,947)
Total	<u>\$ 9,828,153</u>	<u>\$ 2,286,053</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 2012 budget, tax levy, and fees that will be charged for various activities:

- the levy limits imposed by the state for years 2010, 2011, and 2012;
- continuing reductions in state aids to local governments;
- continuing and increasing unfunded state mandates;
- the need to maintain an unassigned fund balance of at least 50 percent of operating expenditures; and
- the weak economy and its effect on taxpayers and investment income.

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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Primary Government Governmental Activities	Component Unit Cook County and Grand Marais Joint Economic Development Authority
<u>Assets</u>		
Cash and pooled investments	\$ 19,532,524	\$ 237,246
Petty cash and change funds	1,179	-
Cash with escrow agent	19	-
Investments	16,284	-
Taxes receivable		13,414
Prior	252,258	
Accounts receivable - net	492,343	5,803
Lodging taxes receivable	4,087	-
Accrued interest receivable	41,009	-
Loan receivable	1,201,558	-
Due from other governments	6,635,802	-
Inventories	563,585	32,055
Restricted assets		
Cash and pooled investments	-	352,940
Deferred charges	46,351	-
Capital assets		
Non-depreciable	4,186,883	2,825,718
Depreciable - net of accumulated depreciation	50,999,574	2,264,294
Total Assets	\$ 83,973,456	\$ 5,731,470
<u>Liabilities</u>		
Accounts payable	\$ 642,805	\$ 185,684
Salaries payable	203,347	-
Contracts payable	75,912	43,722
Gift certificates	-	3,717
Due to other governments	49,292	227,285
Accrued interest payable	65,626	14,972
Unearned revenue	84,656	31,105
Long-term liabilities		
Due within one year	-	150,000
Due in more than one year	10,355,658	500,000
Total Liabilities	\$ 11,477,296	\$ 1,156,485

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

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Primary Government Governmental Activities	Component Unit Cook County and Grand Marais Joint Economic Development Authority
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 53,771,458	\$ 4,440,012
Restricted for		
General government	327,933	-
Highways and streets	2,998,238	-
Public safety	625,810	-
Culture and recreation	93,765	-
Conservation of natural resources	372,469	-
Economic development	410,341	-
Debt service	-	337,968
Environmental uses - expendable	16,358	-
Environmental uses - non-expendable	584,434	-
Unrestricted	13,295,354	(202,995)
Total Net Assets	\$ 72,496,160	\$ 4,574,985

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 3,318,946	\$ 711,507
Public safety	3,072,498	274,585
Highways and streets	4,326,591	257,997
Sanitation	413,245	96,652
Human services	1,878,410	304,272
Health	559,815	37,239
Culture and recreation	2,944,031	24,268
Conservation of natural resources	488,253	4,171
Economic development	556,085	56,896
Interest	219,535	-
Total Governmental Activities	\$ 17,777,409	\$ 1,767,587
Component unit		
Cook County and Grand Marais Joint Economic Development Authority	\$ 1,114,558	\$ 822,706

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
Unrestricted investment earnings
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
\$ 2,428,943	\$ -	\$ (178,496)	
1,591,325	-	(1,206,588)	
1,380,349	2,755,591	67,346	
93,543	-	(223,050)	
703,765	-	(870,373)	
244,259	-	(278,317)	
237,958	-	(2,681,805)	
29,234	-	(454,848)	
24,653	87,717	(386,819)	
-	-	(219,535)	
<u>\$ 6,734,029</u>	<u>\$ 2,843,308</u>	<u>\$ (6,432,485)</u>	
<u>\$ 9,500</u>	<u>\$ 204,847</u>		<u>\$ (77,505)</u>
		\$ 5,483,887	\$ 152,061
		-	50,000
		6,524	-
		1,130,318	-
		477,558	-
		251,433	-
		429,856	225,403
		385,594	236
		77,688	10,556
		<u>\$ 8,242,858</u>	<u>\$ 438,256</u>
		\$ 1,810,373	\$ 360,751
		<u>70,685,787</u>	<u>4,214,234</u>
		<u>\$ 72,496,160</u>	<u>\$ 4,574,985</u>

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge	Public Health and Human Services	Local Option Sales Tax	Nonmajor Funds	Total
<u>Assets</u>						
Cash and pooled investments	\$ 7,668,240	\$ 851,976	\$ 1,061,661	\$ 8,343,688	\$ 1,606,959	\$ 19,532,524
Petty cash and change funds	1,179	-	-	-	-	1,179
Cash with escrow agent	-	-	-	-	19	19
Investments	-	-	16,284	-	-	16,284
Taxes receivable						
Prior	130,283	59,286	40,451	-	22,238	252,258
Accounts receivable	282,059	8,314	65,254	-	136,716	492,343
Lodging taxes receivable	-	-	-	-	4,087	4,087
Accrued interest receivable	41,009	-	-	-	-	41,009
Loans receivable	1,201,558	-	-	-	-	1,201,558
Due from other funds	186,215	-	71	-	-	186,286
Due from other governments	2,606,025	3,718,518	163,058	147,384	817	6,635,802
Inventories	-	563,585	-	-	-	563,585
Advance to other funds	38,134	-	-	-	-	38,134
Total Assets	\$ 12,154,702	\$ 5,201,679	\$ 1,346,779	\$ 8,491,072	\$ 1,770,836	\$ 28,965,068
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 122,130	\$ 23,753	\$ 120,255	\$ 308,135	\$ 68,532	\$ 642,805
Salaries payable	132,841	36,937	33,569	-	-	203,347
Contracts payable	-	75,912	-	-	-	75,912
Due to other funds	71	-	26,931	-	159,284	186,286
Due to other governments	5,319	27,989	15,984	-	-	49,292
Deferred revenue - unavailable	1,312,384	3,282,599	63,966	-	16,524	4,675,473
Deferred revenue - unearned	29,062	-	55,594	-	-	84,656
Advance from other funds	-	-	-	-	38,134	38,134
Total Liabilities	\$ 1,601,807	\$ 3,447,190	\$ 316,299	\$ 308,135	\$ 282,474	\$ 5,955,905

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge	Public Health and Human Services	Local Option Sales Tax	Nonmajor Funds	Total
<u>Liabilities and Fund Balances</u> (Continued)						
Fund Balances						
Nonspendable						
Inventories	\$ -	\$ 563,585	\$ -	\$ -	\$ -	\$ 563,585
Restricted						
EDA	-	-	-	-	4,116	4,116
Environmental improvements	-	-	-	-	835,085	835,085
Special projects	-	-	-	8,182,937	-	8,182,937
Revolving loans	400,921	-	-	-	-	400,921
Law library	29,539	-	-	-	-	29,539
National forest Title III	90,992	-	-	-	-	90,992
Recorder's technology equipment	73,868	-	-	-	-	73,868
Recorder's compliance	102,561	-	-	-	-	102,561
Enhanced 911	285,036	-	-	-	-	285,036
Attorney's forfeiture	2,742	-	-	-	-	2,742
Drug forfeitures	5,097	-	-	-	-	5,097
DWI forfeitures	14,981	-	-	-	-	14,981
Extension services	40,460	-	-	-	-	40,460
Sheriff's contingency fund	5,000	-	-	-	-	5,000
20% unorganized townships	22,203	-	-	-	-	22,203
DNR snowmobile	17,758	-	-	-	-	17,758
Conceal and carry	26,487	-	-	-	-	26,487
Election equipment	7,387	-	-	-	-	7,387
Parks and recreation	9,590	-	-	-	-	9,590
Law enforcement	92	-	-	-	-	92
Timber development	18,216	-	-	-	-	18,216
Health	-	-	-	-	174,276	174,276

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge	Public Health and Human Services	Local Option Sales Tax	Nonmajor Funds	Total
<u>Liabilities and Fund Balances</u>						
(Continued)						
Assigned						
Highways and streets	-	1,190,904	-	-	-	1,190,904
Subsequent year's expenses	19,751	-	-	-	-	19,751
Sprinkler deposits	95,750	-	-	-	-	95,750
Emergency purposes	2,601	-	-	-	-	2,601
Hovland dock	1,471	-	-	-	-	1,471
Planning and zoning permit software	6,113	-	-	-	-	6,113
Telephone	84,175	-	-	-	-	84,175
Skateboard park	10,245	-	-	-	-	10,245
Data processing equipment	312,322	-	-	-	-	312,322
Elections	44,388	-	-	-	-	44,388
Sheriff's cars	263,725	-	-	-	-	263,725
Landfill future development	153,122	-	-	-	-	153,122
County cars	74,362	-	-	-	-	74,362
Photocopiers	68,963	-	-	-	-	68,963
County landings maintenance	49,705	-	-	-	-	49,705
Plat book fund	9,420	-	-	-	-	9,420
Hazardous materials team	1,383	-	-	-	-	1,383
NERCC facilities	22,118	-	-	-	-	22,118
Sheriff's response unit	2,993	-	-	-	-	2,993
ARMER	8,349	-	-	-	-	8,349
Human services	-	-	1,030,480	-	-	1,030,480
Building improvements	-	-	-	-	431,126	431,126
Debt service	-	-	-	-	61,423	61,423
Economic development	-	-	-	-	4,904	4,904
Unassigned	8,169,009	-	-	-	(22,568)	8,146,441
Total Fund Balances	\$ 10,552,895	\$ 1,754,489	\$ 1,030,480	\$ 8,182,937	\$ 1,488,362	\$ 23,009,163
Total Liabilities and Fund Balances	\$ 12,154,702	\$ 5,201,679	\$ 1,346,779	\$ 8,491,072	\$ 1,770,836	\$ 28,965,068

**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, 2011**

Fund balances - total governmental funds (Exhibit 3)		\$ 23,009,163
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.		55,186,457
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,675,473
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	\$ (9,915,000)	
Unamortized charge - refunding bonds	86,847	
Accrued interest payable	(65,626)	
Compensated absences	(527,505)	
Deferred debt issuance charges	46,351	(10,374,933)
Net Assets of Governmental Activities (Exhibit 1)		<u><u>\$ 72,496,160</u></u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>	<u>Public Health and Human Services</u>	<u>Local Options Sales Tax</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues						
Taxes	\$ 3,138,369	\$ 1,359,072	\$ 919,649	\$ 1,130,318	\$ 556,476	\$ 7,103,884
Special assessments	33,362	-	-	-	-	33,362
Licenses and permits	65,649	-	15,139	-	-	80,788
Intergovernmental	4,770,791	3,408,081	948,745	-	187,999	9,315,616
Charges for services	314,625	257,997	162,560	-	-	735,182
Fines and forfeits	27,041	-	-	-	-	27,041
Gifts and contributions	9,398	-	-	-	-	9,398
Investment earnings	358,461	-	-	-	12,103	370,564
Miscellaneous	813,507	77,688	141,712	-	18,192	1,051,099
Total Revenues	\$ 9,531,203	\$ 5,102,838	\$ 2,187,805	\$ 1,130,318	\$ 774,770	\$ 18,726,934
Expenditures						
Current						
General government	\$ 3,051,286	\$ -	\$ -	\$ 3,365	\$ 14,307	\$ 3,068,958
Public safety	3,051,366	-	-	-	-	3,051,366
Highways and streets	-	5,695,464	-	-	-	5,695,464
Sanitation	382,819	-	-	-	-	382,819
Human services	-	-	1,879,242	-	-	1,879,242
Health	-	-	357,530	-	-	357,530
Culture and recreation	753,693	-	-	-	-	753,693
Conservation of natural resources	471,593	-	-	-	5,863	477,456
Economic development	73,456	-	-	-	162,087	235,543
Capital outlay	129,409	-	-	2,170,141	639,519	2,939,069
Debt service						
Principal	-	-	-	-	300,000	300,000
Interest	-	-	-	-	85,935	85,935
Bond issuance expense	-	-	-	69,246	35,869	105,115
Administrative (fiscal) charges	-	-	-	-	2,000	2,000
Total Expenditures	\$ 7,913,622	\$ 5,695,464	\$ 2,236,772	\$ 2,242,752	\$ 1,245,580	\$ 19,334,190

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>	<u>Public Health and Human Services</u>	<u>Local Options Sales Tax</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Excess of Revenues Over (Under) Expenditures	\$ 1,617,581	\$ (592,626)	\$ (48,967)	\$ (1,112,434)	\$ (470,810)	\$ (607,256)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ 424,000	\$ -	\$ -	\$ -	\$ 424,000
Transfers out	(424,000)	-	-	-	-	(424,000)
Refunding bonds issued	-	-	-	-	1,415,000	1,415,000
Payment to refunded bond escrow agent	-	-	-	-	(2,130,325)	(2,130,325)
Revenue bonds issued	-	-	-	8,500,000	-	8,500,000
Premium on bonds issued	-	-	-	67,680	-	67,680
Total Other Financing Sources (Uses)	\$ (424,000)	\$ 424,000	\$ -	\$ 8,567,680	\$ (715,325)	\$ 7,852,355
Net Change in Fund Balance	\$ 1,193,581	\$ (168,626)	\$ (48,967)	\$ 7,455,246	\$ (1,186,135)	\$ 7,245,099
Fund Balance - January 1	9,359,314	1,796,427	1,079,447	727,691	2,674,497	15,637,376
Increase (decrease) in inventories	-	126,688	-	-	-	126,688
Fund Balance - December 31	\$ 10,552,895	\$ 1,754,489	\$ 1,030,480	\$ 8,182,937	\$ 1,488,362	\$ 23,009,163

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 7,245,099

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 expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 4,675,473	
Deferred revenue - January 1	<u>(3,814,625)</u>	860,848

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

Expenditures for general capital assets and infrastructure	\$ 3,090,232	
Current year depreciation	<u>(1,933,298)</u>	1,156,934

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 - Certificates of participation		300,000
--	--	---------

Repayment of bond principal and redemption of refunding bonds is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net assets.

Payoff of refunded bond		2,130,325
Refunding bonds issued	\$ (1,415,000)	
Revenue bonds issued	<u>(8,500,000)</u>	(9,915,000)

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.

Net premium on bonds issued	\$ (40,325)	
Change in accrued interest payable	(27,632)	
Amortization of premiums and bond issuance costs	(26,208)	
Change in compensated absences	(356)	
Change in inventories	<u>126,688</u>	<u>32,167</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,810,373

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FIDUCIARY FUNDS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 438,711
Accounts receivable	77,936
Due from other governments	<u>255,948</u>
Total Assets	<u>\$ 772,595</u>
<u>Liabilities</u>	
Accounts payable	\$ 129,322
Due to other governments	<u>643,273</u>
Total Liabilities	<u>\$ 772,595</u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. 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/Treasurer, 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	The 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 (Authority)	The County appoints a majority of the Cook County and Grand Marais Joint Economic Development Authority Board.	Cook County and Grand Marais Joint Economic Development Authority Box 597 Grand Marais, Minnesota 55604

The Authority 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 Authority 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 Authority has included the Resource Development Council of Cook County, Inc., as a blended component unit of the Authority.

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 resources 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 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 Local Option Sales Tax Special Revenue Fund is used to account for the collection of a one percent sales and use tax to fund the construction, improvements, and additions to County community centers and public recreation areas.

Additionally, the County reports the following fund types:

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. 389, 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.

Agency funds are custodial in nature and do not present results of operations. These funds account for assets the County holds for others in an agent capacity.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Cook County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first 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, 2011, 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 2011 were \$358,461.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Cook County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (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 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the governmental 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 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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column of the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Fund Equity

In 2011, the County implemented the requirements of Statement No. 54 of the Governmental Accounting Standards Board, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is now classified as:

Nonspendable - amounts that cannot be spent because they are not in spendable form (non-current loans, inventories and prepaid items).

Restricted - amounts to be used for specific purposes as determined by enabling legislation or imposed by grantors or debt covenants; used before unrestricted fund balance when an expenditure is incurred for which both restricted and unrestricted (committed, assigned, or unassigned) fund balance is available.

Committed - amounts to be used for specific purposes as determined by formal County Board action; used when an expenditure is incurred for which committed, assigned, or unassigned fund balance is available.

Assigned - amounts intended to be used for certain purposes as determined by the County Board, or by the Administrator and Auditor-Treasurer acting together. Assigned fund balance totals \$3,949,793 and includes assignments for capital improvements, highways and streets and several other identified projects. Assigned fund balance is used when an expenditure is incurred for which both assigned and unassigned fund balance is available.

Unassigned - amount remaining in the General Fund that has not been restricted, committed, or assigned, or deficit residual fund balances in other governmental funds.

**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. Excess of Expenditures Over Appropriations

For the year ended December 31, 2011, expenditures exceeded appropriations in the following funds:

General Fund	\$ 1,381,376	Primarily funded by greater than anticipated revenues, much of which correspond to the excess expenditures.
Public Health and Human Services Special Revenue Fund	121,661	Funded by increased reimbursements which are tied to expenditures and by use of fund balance.

B. Deficit Fund Balances

For the year ended December 31, 2011, the Forfeited Tax Special Revenue Fund had a deficit fund balance of \$22,568. This deficit will be made up with future tax levies and other revenue sources.

**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	\$ 19,532,524
Petty cash and change funds	1,179
Cash with escrow agent	19
Investments	16,284
Cook County and Grand Marais Joint Economic Development Authority component unit	
Cash and pooled investments	237,246
Restricted assets held by trustee	352,940
Fiduciary funds	
Cash and pooled investments	<u>438,711</u>
 Total Cash and Investments	 <u>\$ 20,578,903</u>

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit 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 and 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, 2011, the primary government's bank balances of \$2,843,124 were not exposed to custodial credit risk.

The Cook County and Grand Marais Joint Economic Development Authority component unit had bank balances of \$259,297 at December 31, 2011, and these were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (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;

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. The County does not have an investment policy for custodial credit risk. All of Cook County's investments in negotiable certificates of deposit and government securities are held by the counterparty to the transactions and are, therefore, subject to custodial credit risk. A portion of these investments are insured by Securities Investor Protection Corporation (SIPC) insurance or excess SIPC insurance and are not subject to custodial credit risk.

Negotiable certificates of deposit	
Insured	\$ 3,632,744
Uninsured, held by counterparty	-
Government securities	
Insured	8,370,394
Uninsured, held by counterparty	1,942,237

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and pooled investment balances at December 31, 2011, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal National Mortgage Association Note	AAA	Moody's		09/16/2020	\$ 99,652
Federal National Mortgage Association Note	AAA	Moody's		10/28/2020	199,956
Federal National Mortgage Association Note	AAA	Moody's		04/12/2021	201,046
Federal National Mortgage Association Note	AAA	Moody's		07/20/2021	499,790
Federal National Mortgage Association Note	AAA	Moody's		09/30/2021	450,959
Federal National Mortgage Association Note	AAA	Moody's		12/28/2016	324,779
Federal National Mortgage Association Note	AAA	Moody's		12/28/2016	299,721
Federal National Mortgage Association Note	AAA	Moody's			<u>120,598</u>
Total Federal National Mortgage Association Notes			12.29%		\$ 2,196,501
Federal Home Loan Mortgage Corporation Discount Note					
Federal Home Loan Mortgage Corporation Discount Note	AAA	Moody's		07/13/2021	\$ 500,335
Federal Home Loan Mortgage Corporation Discount Note	AAA	Moody's		07/27/2021	700,048
Federal Home Loan Mortgage Corporation Discount Note	AAA	Moody's		09/30/2021	150,320
Federal Home Loan Mortgage Corporation Discount Note	AAA	Moody's		10/05/2018	500,140
Federal Home Loan Mortgage Corporation Discount Note	AAA	Moody's		10/25/2021	401,408
Federal Home Loan Mortgage Corporation Discount Note	AAA	Moody's		11/09/2021	625,231
Federal Home Loan Mortgage Corporation Discount Note	AAA	Moody's		12/01/2021	250,243
Federal Home Loan Mortgage Corporation Discount Note	AAA	Moody's		12/28/2021	327,015
Federal Home Loan Mortgage Corporation Discount Note	AAA	Moody's		12/29/2021	<u>100,080</u>
Total Federal Home Loan Mortgage Corporation Discount Notes			19.89%		\$ 3,554,820
Federal Home Loan Bank Note					
Federal Home Loan Bank Note	AAA	Moody's		11/24/2020	\$ 105,609
Federal Home Loan Bank Note	AAA	Moody's		07/26/2018	150,026
Federal Home Loan Bank Note	AAA	Moody's		07/27/2018	250,018
Federal Home Loan Bank Note	AAA	Moody's		09/09/2021	500,095
Federal Home Loan Bank Note	AAA	Moody's		09/30/2021	174,935
Federal Home Loan Bank Note	AAA	Moody's		10/12/2021	<u>501,210</u>
Total Federal Home Loan Bank Notes			9.41%		\$ 1,681,893
Governmental National Mortgage Association Notes	N/A	N/A	11.41%	11/15/2023 - 01/20/2041	\$ 2,040,135

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. Treasury Note	N/A	N/A		07/15/2012	\$ 63,475
U.S. Treasury Note	N/A	N/A		07/30/2012	92,746
U.S. Treasury Note	N/A	N/A		07/30/2012	51,526
U.S. Treasury Note	N/A	N/A		07/30/2012	76,258
U.S. Treasury Note	N/A	N/A		07/30/2012	59,770
U.S. Treasury Note	N/A	N/A		02/15/2013	23,306
U.S. Treasury Note	N/A	N/A		02/15/2013	81,066
U.S. Treasury Note	N/A	N/A		02/15/2013	44,770
U.S. Treasury Note	N/A	N/A		02/15/2013	70,800
U.S. Treasury Note	N/A	N/A		02/15/2013	45,811
U.S. Treasury Note	N/A	N/A		08/15/2013	29,241
U.S. Treasury Note	N/A	N/A		08/15/2013	67,557
U.S. Treasury Note	N/A	N/A		02/15/2014	64,295
U.S. Treasury Note	N/A	N/A		01/31/2015	40,141
U.S. Treasury Note	N/A	N/A		01/31/2015	28,520
Total U.S. Treasury Notes			4.69%		\$ 839,282
Investment pools/mutual funds					
Merrill Lynch	N/A	N/A		N/A	\$ 29,148
Wells Fargo Treasury Money Market Fund	N/A	N/A		N/A	3,892,276
U.S. Government Money Market	N/A	N/A		N/A	2,671
MAGIC Fund	N/A	N/A		N/A	6,656
Total investment pools/mutual funds			21.99%		\$ 3,930,751
Certificates of deposit - Negotiable					
Mizrahi Tefahot BK TDE, LA CA	N/A	N/A		02/08/2021	249,235
East-West BK Pasadena CA	N/A	N/A		10/15/2019	200,382
HSBC BK USA MC Lean VA	N/A	N/A		08/04/2023	208,670
Beal Bank	N/A	N/A		06/13/2012	247,983
GE Capital	N/A	N/A		09/10/2012	247,876
Wright Express	N/A	N/A		09/21/2012	247,859
Bank Baroda	N/A	N/A		12/12/2012	247,700
Goldman Sachs Bank	N/A	N/A		12/14/2012	247,806
Safra National Bank	N/A	N/A		12/14/2012	247,806
Barclays Bank	N/A	N/A		12/14/2012	247,807
Bank of China	N/A	N/A		12/14/2012	247,812
Bank of India	N/A	N/A		03/14/2012	247,975
Medallion Bank	N/A	N/A		03/19/2012	247,945
Bank Hapoalaim	N/A	N/A		03/19/2012	247,945
Starion Financial	N/A	N/A		02/29/2012	247,943
Total Certificates of Deposit - Negotiable			20.32%		\$ 3,632,744

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5 Percent of Portfolio	Rate Risk Maturity Date	
Total pooled investments					\$ 17,876,126
Deposits					2,095,109
Petty cash					1,179
Cash with escrow agent					19
Fund investments					16,284
Deposits - component unit					590,186
Total Cash and Investments					<u>\$ 20,578,903</u>

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes, including lodging taxes	\$ 256,345	\$ -
Accounts	492,343	-
Accrued nterest	41,009	-
Loans	1,201,558	1,093,792
Due from other governments	6,635,802	126,122
Total Governmental Activities	<u>\$ 8,627,057</u>	<u>\$ 1,219,914</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, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and easements	\$ 1,495,081	\$ 9,190	\$ -	\$ 1,504,271
Construction in progress	803,410	1,879,202	-	2,682,612
Total capital assets not depreciated	\$ 2,298,491	\$ 1,888,392	\$ -	\$ 4,186,883
Capital assets depreciated				
Buildings	\$ 10,410,137	\$ 117,807	\$ -	\$ 10,527,944
Improvements other than buildings	998,062	-	-	998,062
Machinery, vehicles, furniture, and equipment	6,828,795	819,820	387,301	7,261,314
Infrastructure	55,199,697	264,213	-	55,463,910
Total capital assets depreciated	\$ 73,436,691	\$ 1,201,840	\$ 387,301	\$ 74,251,230
Less: accumulated depreciation for				
Buildings	\$ 3,375,374	\$ 255,974	\$ -	\$ 3,631,348
Improvements other than buildings	330,962	50,615	-	381,577
Machinery, vehicles, furniture, and equipment	4,565,028	542,559	387,301	4,720,286
Infrastructure	13,434,295	1,084,150	-	14,518,445
Total accumulated depreciation	\$ 21,705,659	\$ 1,933,298	\$ 387,301	\$ 23,251,656
Total capital assets depreciated, net	\$ 51,731,032	\$ (731,458)	\$ -	\$ 50,999,574
Capital Assets, Net	\$ 54,029,523	\$ 1,156,934	\$ -	\$ 55,186,457

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

Governmental Activities	
General government	\$ 171,113
Public safety	255,363
Highways and streets, including depreciation of infrastructure assets	1,276,645
Sanitation	27,180
Culture and recreation	20,197
Conservation of natural resources	1,405
Economic development	181,395
Total Depreciation Expense - Governmental Activities	\$ 1,933,298

**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, 2011, 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 Fund	\$ 26,931	Reimburse for supplies and services
	Forfeited Tax Fund	<u>159,284</u>	To fund deficit cash
Total due to General Fund		\$ 186,215	
Public Health and Human Services	General Fund	<u>71</u>	Charges for services
Total Due To/From Other Funds		<u>\$ 186,286</u>	

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

2. Interfund Advances

The General Fund advanced \$104,968 to the Airport Special Revenue Fund to finance a new T-hangar. It is to be repaid over ten years, from 2005 through 2014, with interest at three percent. The balance outstanding as of December 31, 2011, is \$38,134.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfer to the Road and Bridge Special Revenue Fund from the General Fund	<u>\$ 424,000</u>	To fund equipment purchases
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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities
Accounts	\$ 642,805
Salaries	203,347
Contracts	75,912
Due to other governments	49,292
Total Payables	\$ 971,356

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2011
Capital Improvement (Refunding) Bonds of 2011	2016	\$345,000 - \$360,000	0.55 - 1.30	\$ 1,415,000	\$ 1,415,000
Sales Tax Revenue Bonds of 2011 Less: unamortized charge - refunding bonds	2032	\$280,000 - \$565,000	2.00 - 3.65	8,500,000	8,500,000 <u>(86,847)</u>
Total General Obligation Bonds, Net					\$ 9,828,153

All long-term debt is paid by the Debt Service Fund.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Capital Improvement and Sales Tax Revenue Bonds	
	Principal	Interest
2012	\$ -	\$ 186,961
2013	625,000	266,556
2014	690,000	258,215
2015	695,000	248,446
2016	710,000	237,432
2017 - 2021	1,885,000	1,020,038
2022 - 2026	2,185,000	714,703
2027 - 2031	2,560,000	332,989
2032 - 2036	565,000	10,311
Total	<u>\$ 9,915,000</u>	<u>\$ 3,275,651</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Certificates of participation	\$ 2,390,000	\$ -	\$ 2,390,000	\$ -	\$ -
Capital improvement bonds	-	1,415,000	-	1,415,000	-
Sales tax revenue bonds	-	8,500,000	-	8,500,000	-
Less: deferred charges refunding bonds	(103,947)	-	(17,100)	(86,847)	-
Total bonds payable	<u>\$ 2,286,053</u>	<u>\$ 9,915,000</u>	<u>\$ 2,372,900</u>	<u>\$ 9,828,153</u>	<u>\$ -</u>
Compensated absences	527,149	422,506	422,150	527,505	-
Long-Term Liabilities	<u>\$ 2,813,202</u>	<u>\$ 10,337,506</u>	<u>\$ 2,795,050</u>	<u>\$ 10,355,658</u>	<u>\$ -</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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 Capital Improvement Bonds, Series 2011A, November 22, 2011
- General Obligation Sales Tax Revenue Bonds, Series 2011B, November 22, 2011

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). PERA administers the General 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.

General 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 and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for the General Employees Retirement Fund 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 General 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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. 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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent.

The County is required to contribute the following percentages of annual covered payroll in 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2011	2010	2009
General Employees Retirement Fund	\$ 280,337	\$ 262,695	\$ 259,434
Public Employees Police and Fire Fund	114,460	110,619	112,307

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans (Continued)

B. Defined Contribution Plan

Five Commissioners of Cook County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. 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. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 8,654	\$ 8,654
Percentage of covered payroll	5%	5%

Required contribution rates were 5.0 percent.

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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$450,000 per claim in 2011 and \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

B. Contingent Liabilities

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

C. Joint Ventures

Arrowhead Regional Corrections

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

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

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

Arrowhead Regional Corrections is financed through state grants and contributions from the participating counties. During 2010 (the most recent information available), county contributions were in the following proportion:

	<u>Percent (%)</u>
Carlton County	9.36
Cook County	1.49
Koochiching County	1.59
Lake County	1.50
St. Louis County	<u>86.06</u>
Total	<u><u>100.00</u></u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Arrowhead Regional Corrections (Continued)

Following is a summary of the financial information from Arrowhead Regional Corrections' government-wide statements for December 31, 2010:

Total Assets	\$ 12,823,585
Total Liabilities	5,758,723
Total Net Assets	7,064,862
Total Revenues	20,089,338
Total Expenses	21,388,600
Change in Net Assets	(1,299,262)

Cook County provided \$136,129 in funding during 2011. Separate financial information can be obtained from:

Arrowhead Regional Corrections
211 West 2nd Street
Suite 450
Duluth, Minnesota 55802

Community Health Board

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

The Community Health Board is composed of nine members. The Carlton, Cook, and Lake County Boards of Commissioners each appoint two members; the St. Louis County Board of Commissioners appoints three members. Financing is obtained through federal and state grants. Cook County provided no funding to this organization in 2011.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Community Health Board (Continued)

At December 31, 2010 (the most recent information available), the Community Health Board's summary of financial information was:

Total Assets	\$ 2,411,822
Total Liabilities	2,206,290
Total Net Assets	205,532
Total Revenues	6,644,986
Total Expenses	6,597,385
Change in Net Assets	47,601

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 Act of 1982, authorized states to establish "service delivery areas" to provide programs to achieve full employment through the use of grants. The counties identified above are defined as such a service delivery area, and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for such service delivery area. Cook County is not a funding mechanism for this organization.

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

A summary of the financial information of Northeast Minnesota Office of Job Training's government-wide statements for June 30, 2011, was:

Total Assets	\$	3,057,757
Total Liabilities		1,682,354
Total Net Assets		1,375,403
Total Revenues		7,948,201
Total Expenses		7,939,583
Change in Net Assets		8,618

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North Ninth Street
Suite 240, P.O. Box 1028
Virginia, Minnesota 55792

Minnesota Counties Information Systems

The County entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, creating and operating the Minnesota Counties Information Systems (MCIS). MCIS operates and maintains data processing facilities and management information systems for the benefit of the 13 member counties 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.

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota Counties Information Systems (Continued)

A summary of the financial information of MCIS at December 31, 2010 (the most recent information available), was:

Total Assets	\$	1,527,727
Total Liabilities		349,605
Total Net Assets		1,178,122
Total Revenues		2,984,785
Total Expenses		2,591,311
Change in Net Assets		393,474

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, Pennington, Roseau and St. Louis Counties. Three elected County Commissioners from St. Louis County and two from each of the other counties make up the membership of the Board. St. Louis County handles all of the financial transactions for this organization through its Northern Counties Land Use Board Agency Fund.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northern Counties Land Use Board (Continued)

A summary of the financial statements at December 31, 2011, is shown below:

Total Assets	\$	117,632
Total Liabilities		991
Total Fund Balance		116,641
Total Revenues		17,500
Total Expenses		8,183
Change in Fund Balance		9,317

The County contributed \$2,000 during 2011 to the Northern Counties Land Use Board.

Separate financial information can be obtained from:

Northern Counties Land Use Board
St. Louis County Courthouse
100 N. 5th Avenue West, #214
Duluth, Minnesota 55802

North Shore Collaborative

The North Shore Collaborative was established in 1995 pursuant to Minn. Stat. § 124D.23. The Collaborative includes Lake County, Cook County, Independent School District 381, Independent School District 166, and the Grand Portage Reservation. The purpose of the Collaborative is to form a coalition of agencies, schools, and communities along the North Shore that will systematically address the mental health and other needs of the whole person for all children and youth; ensure their graduation from high school; and assist them in becoming healthy, happy, productive citizens.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

North Shore Collaborative (Continued)

Control of the North Shore Collaborative is vested in a Board of Directors. Financing is provided by state and federal grants, appropriations from Collaborative members, and miscellaneous revenues. Lake County is the fiscal agent for the Collaborative and handles all of the financial transactions for the organization. Financial information for the Collaborative for the fiscal year ended December 31, 2011, is as follows:

Total Assets	\$	198,483
Total Liabilities		5,000
Total Fund Balance		193,483

Arrowhead Health Alliance

Carlton, Cook, Koochiching, and Lake Counties entered into a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 256B.692, for the purpose of organizing, governing, planning, and administering a county-based purchasing entity to participate in prepaid health care programs through the Minnesota Department of Human Services and the federal Centers for Medicare and Medicaid Services.

Control of the Arrowhead Health Alliance is vested in a Board of Directors composed of one representative from each of the member counties. Carlton County is the fiscal agent for the Alliance.

Cook County contributed \$30,373 in start-up funds to the Arrowhead Health Alliance in 2007. The County provided no further funding in 2011.

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis, and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Councilor from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Cook County did not provide any funding in 2011.

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 organization:

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 contributed \$2,500 to the North Shore Management Board in 2011.

E. Tax-Forfeited Land

The County manages approximately 4,235 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures - Cook County and Grand Marais Joint Economic Development Authority

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 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 Authority is considered to be a component unit of Cook County.

Basis of Presentation

The Authority prepares separate financial statements.

Basis of Accounting

The Authority's 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.

Cash and Investments

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures - Cook County and Grand Marais Joint Economic Development Authority

A. Summary of Significant Accounting Policies (Continued)

Inventories

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

Restricted Assets

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

Capital Assets

Capital assets are defined by the Authority 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 value at the date of donation.

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

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

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures - Cook County and Grand Marais Joint Economic Development Authority (Continued)

B. Detailed Notes

1. Assets

Receivables

The Authority's receivables as of December 31, 2011, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Next Year
Taxes receivable	\$ 13,414	\$ -
Accounts receivable	5,803	-
Total	\$ 19,217	\$ -

Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 336,521	\$ -	\$ 40,863	\$ 295,658
Construction in progress	2,383,862	146,198	-	2,530,060
Total capital assets not depreciated	\$ 2,720,383	\$ 146,198	\$ 40,863	\$ 2,825,718
Capital assets depreciated				
Land improvements	\$ 4,424,884	\$ -	\$ -	\$ 4,424,884
Buildings and structures	372,371	-	-	372,371
Furniture and equipment	860,780	204,847	25,899	1,039,728
Total capital assets depreciated	\$ 5,658,035	\$ 204,847	\$ 25,899	\$ 5,836,983
Less: accumulated depreciation for				
Land improvements	\$ 2,280,788	\$ 150,593	\$ -	\$ 2,431,381
Buildings and structures	336,418	16,904	-	353,322
Furniture and equipment	765,837	48,048	25,899	787,986
Total accumulated depreciation	\$ 3,383,043	\$ 215,545	\$ 25,899	\$ 3,572,689
Total capital assets depreciated, net	\$ 2,274,992	\$ (10,698)	\$ -	\$ 2,264,294
Capital Assets, Net	\$ 4,995,375	\$ 135,500	\$ 40,863	\$ 5,090,012

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures - Cook County and Grand Marais Joint Economic Development Authority

B. Detailed Notes

1. Assets

Capital Assets (Continued)

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

Golf course	\$ 215,545
-------------	------------

The Authority is currently developing lots to be sold in the Cedar Grove Business Park. The development costs are reported as construction in progress. The City of Grand Marais is reimbursing the Authority for these development costs.

2. Liabilities

Operating Leases

The Authority leases golf carts under non-cancelable operating leases. Total costs for such leases were \$27,328 for the year ended December 31, 2011. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2012	\$ 20,846
2013	20,846
2014	20,846
Total	\$ 62,538

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures - Cook County and Grand Marais Joint Economic Development Authority

B. Detailed Notes

2. Liabilities (Continued)

Short-Term Debt

The Authority took out a \$31,000 loan from Cook County during 2010 to help cover operating costs.

The Authority took out an advance of \$225,000 in 2011 from Cook County to fund the golf season's start-up costs for the golf course.

Short-term debt activity for the year ended December 31, 2011, is:

	Beginning Balance	Issued	Paid	Ending Balance
Due to other governments	\$ 31,000	\$ -	\$ 31,000	\$ -
Advances	\$ 200,000	\$ 225,000	\$ 200,000	\$ 225,000

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2011
1998 Golf Course Revenue Bonds	2015	\$35,000 - \$175,000	4.40 - 5.60	\$ 1,820,000	\$ 650,000

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2012	\$ 150,000	\$ 31,845
2013	160,000	23,357
2014	165,000	14,379
2015	175,000	4,900
Total	\$ 650,000	\$ 74,481

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures - Cook County and Grand Marais Joint Economic Development Authority

B. Detailed Notes (Continued)

4. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Golf course revenue bonds	\$ 790,000	\$ -	\$ 140,000	\$ 650,000	\$ 150,000

C. Risk Management

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

D. Construction Commitment

The Authority began work in 2006 on the Cedar Grove Business Park, which was substantially completed by December 31, 2011. This is a project within the City of Grand Marais to provide land sites for new or existing businesses. The project was funded by the Minnesota Department of Employment and Economic Development, Iron Range Resources grants obtained by the City, and a City-issued bond. The City entered into an agreement with the Authority whereby lot purchasers will be assessed \$60,000 per platted lot, payable from the closing proceeds at the time of the sale. The assessment will be used to repay the City-issued bond that financed the improvement. Assets related to the project will be transferred to the City of Grand Marais at some future date.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

6. Component Unit Disclosures - Cook County and Grand Marais Joint Economic Development Authority (Continued)

E. Joint Venture

In 2008, the Cook County and Grand Marais Joint Economic Development Authority entered into a joint powers agreement with the Lake County Housing and Redevelopment Authority, pursuant to Minn. Stat. § 471.59, for the purpose of preserving the existing housing market, encouraging new housing construction, and providing housing opportunities to the residents of Lake and Cook Counties. The power of each party is exercised jointly under this agreement with the assistance of a housing coordinator retained by both parties. The Lake County Housing and Redevelopment Authority is the fiscal agent, and all financial information is included as part of the Lake County Housing and Redevelopment Authority's financial statements. During 2011, this joint venture was dissolved.

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REQUIRED SUPPLEMENTARY INFORMATION

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,117,456	\$ 3,117,456	\$ 3,138,369	\$ 20,913
Special assessments	-	-	33,362	33,362
Licenses and permits	43,300	43,300	65,649	22,349
Intergovernmental	1,967,072	1,967,072	4,770,791	2,803,719
Charges for services	416,825	416,825	314,625	(102,200)
Fines and forfeits	4,000	4,000	27,041	23,041
Gifts and contributions	-	-	9,398	9,398
Investment earnings	175,000	175,000	358,461	183,461
Miscellaneous	340,915	340,915	813,507	472,592
Total Revenues	\$ 6,064,568	\$ 6,064,568	\$ 9,531,203	\$ 3,466,635
Expenditures				
Current				
General government				
Commissioners	\$ 364,078	\$ 364,078	\$ 318,070	\$ 46,008
Courts	10,000	10,000	-	10,000
Law library	26,110	26,110	29,706	(3,596)
County auditor	561,581	561,581	579,456	(17,875)
County assessor	224,935	224,935	209,794	15,141
Elections	17,510	17,510	3,148	14,362
Data processing	485,363	485,363	416,685	68,678
Personnel	142,064	142,064	137,977	4,087
Broadband	-	-	52,128	(52,128)
Attorney	289,539	289,539	315,198	(25,659)
Recorder	196,929	196,929	172,657	24,272
Planning and zoning	278,266	278,266	281,331	(3,065)
Buildings and plant	418,182	418,182	490,654	(72,472)
Veterans service officer	23,452	23,452	17,598	5,854
Other general government	9,500	9,500	26,884	(17,384)
Total general government	\$ 3,047,509	\$ 3,047,509	\$ 3,051,286	\$ (3,777)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,636,645	\$ 1,636,645	\$ 1,827,934	\$ (191,289)
Boat and water safety	-	-	13,301	(13,301)
Emergency services	78,690	78,690	146,744	(68,054)
Coroner	13,900	13,900	16,772	(2,872)
E-911 system	55,052	55,052	33,053	21,999
County jail	220,091	220,091	213,158	6,933
Community corrections	193,067	193,067	182,198	10,869
Other public safety	94,107	94,107	618,206	(524,099)
Total public safety	\$ 2,291,552	\$ 2,291,552	\$ 3,051,366	\$ (759,814)
Sanitation				
Solid waste	\$ 51,666	\$ 51,666	\$ 55,564	\$ (3,898)
Recycling	329,156	329,156	326,563	2,593
Other sanitation	117,101	117,101	692	116,409
Total sanitation	\$ 497,923	\$ 497,923	\$ 382,819	\$ 115,104
Culture and recreation				
Historical society	\$ 55,000	\$ 55,000	\$ 55,000	\$ -
Parks	89,500	89,500	92,958	(3,458)
Senior citizens	83,000	83,000	83,000	-
Regional library	124,996	124,996	125,086	(90)
Other	147,715	147,715	397,649	(249,934)
Total culture and recreation	\$ 500,211	\$ 500,211	\$ 753,693	\$ (253,482)
Conservation of natural resources				
Cooperative extension	\$ 71,002	\$ 71,002	\$ 74,672	\$ (3,670)
Soil and water conservation	36,120	36,120	60,331	(24,211)
Agricultural inspections	8,800	8,800	42,369	(33,569)
Agricultural society/County fair	6,800	6,800	1,868	4,932
Environmental services	-	-	142,011	(142,011)
Other	-	-	150,342	(150,342)
Total conservation of natural resources	\$ 122,722	\$ 122,722	\$ 471,593	\$ (348,871)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 9,500	\$ 9,500	\$ 73,456	\$ (63,956)
Other miscellaneous	\$ 3,347	\$ 3,347	\$ -	\$ 3,347
Capital outlay				
General government	\$ 59,482	\$ 59,482	\$ 92,078	\$ (32,596)
Public safety	-	-	29,287	(29,287)
Conservation of natural resources	-	-	8,044	(8,044)
Total capital outlay	\$ 59,482	\$ 59,482	\$ 129,409	\$ (69,927)
Total Expenditures	\$ 6,532,246	\$ 6,532,246	\$ 7,913,622	\$ (1,381,376)
Excess of Revenues Over (Under)				
Expenditures	\$ (467,678)	\$ (467,678)	\$ 1,617,581	\$ 2,085,259
Other Financing Sources (Uses)				
Transfers out	-	-	(424,000)	(424,000)
Net Change in Fund Balance	\$ (467,678)	\$ (467,678)	\$ 1,193,581	\$ 1,661,259
Fund Balance - January 1	9,359,314	9,359,314	9,359,314	-
Fund Balance - December 31	\$ 8,891,636	\$ 8,891,636	\$ 10,552,895	\$ 1,661,259

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,403,067	\$ 1,403,067	\$ 1,359,072	\$ (43,995)
Intergovernmental	4,447,398	4,447,398	3,408,081	(1,039,317)
Charges for services	210,000	210,000	257,997	47,997
Miscellaneous	45,000	45,000	77,688	32,688
Total Revenues	<u>\$ 6,105,465</u>	<u>\$ 6,105,465</u>	<u>\$ 5,102,838</u>	<u>\$ (1,002,627)</u>
Expenditures				
Current				
Highways and streets				
Administration	\$ 316,492	\$ 316,492	\$ 298,123	\$ 18,369
Maintenance	2,715,112	2,715,112	2,446,412	268,700
Construction	2,685,517	2,685,517	1,947,601	737,916
Equipment maintenance and shop	628,041	628,041	1,003,328	(375,287)
Total Expenditures	<u>\$ 6,345,162</u>	<u>\$ 6,345,162</u>	<u>\$ 5,695,464</u>	<u>\$ 649,698</u>
Excess of Revenues Over (Under)				
Expenditures	\$ (239,697)	\$ (239,697)	\$ (592,626)	\$ (352,929)
Other Financing Sources (Uses)				
Transfers in	424,000	424,000	424,000	-
Net Change in Fund Balance	\$ 184,303	\$ 184,303	\$ (168,626)	\$ (352,929)
Fund Balance - January 1	1,796,427	1,796,427	1,796,427	-
Increase (decrease) in inventories	<u>-</u>	<u>-</u>	<u>126,688</u>	<u>126,688</u>
Fund Balance - December 31	<u>\$ 1,980,730</u>	<u>\$ 1,980,730</u>	<u>\$ 1,754,489</u>	<u>\$ (226,241)</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 943,779	\$ 943,779	\$ 919,649	\$ (24,130)
Licenses and permits	14,000	14,000	15,139	1,139
Intergovernmental	859,438	859,438	948,745	89,307
Charges for services	138,723	138,723	162,560	23,837
Miscellaneous	123,699	123,699	141,712	18,013
Total Revenues	<u>\$ 2,079,639</u>	<u>\$ 2,079,639</u>	<u>\$ 2,187,805</u>	<u>\$ 108,166</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 374,584	\$ 374,584	\$ 468,050	\$ (93,466)
Social services	1,441,093	1,441,093	1,411,192	29,901
Total human services	<u>\$ 1,815,677</u>	<u>\$ 1,815,677</u>	<u>\$ 1,879,242</u>	<u>\$ (63,565)</u>
Health				
Nursing service	\$ 299,434	\$ 299,434	\$ 344,995	\$ (45,561)
Miscellaneous	-	-	12,535	(12,535)
Total health	<u>\$ 299,434</u>	<u>\$ 299,434</u>	<u>\$ 357,530</u>	<u>\$ (58,096)</u>
Total Expenditures	<u>\$ 2,115,111</u>	<u>\$ 2,115,111</u>	<u>\$ 2,236,772</u>	<u>\$ (121,661)</u>
Net Change in Fund Balance	<u>\$ (35,472)</u>	<u>\$ (35,472)</u>	<u>\$ (48,967)</u>	<u>\$ (13,495)</u>
Fund Balance - January 1	<u>1,079,447</u>	<u>1,079,447</u>	<u>1,079,447</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 1,043,975</u></u>	<u><u>\$ 1,043,975</u></u>	<u><u>\$ 1,030,480</u></u>	<u><u>\$ (13,495)</u></u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

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 Building, Golf Course Lodging Tax, Forfeited Tax, Local Option Sales Tax, and Hospital Sales 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 assign 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) 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, 2011, expenditures exceeded appropriations in the following funds:

	Excess Expenditures	
General Fund	\$ 1,381,376	Primarily funded by greater than anticipated revenues, much of which correspond to the excess expenditures.
Public Health and Human Services Special Revenue Fund	121,661	Funded by increased reimbursements which are tied to expenditures and by use of fund balance.

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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 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 costs of expanding and improving the North Shore Hospital and Nursing Home. Collections for this one percent sales tax ceased in 2008.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>Building</u>	<u>Airport</u>	<u>Special Golf Course Lodging Tax</u>
<u>Assets</u>			
Cash and pooled investments	\$ 431,778	\$ 108,683	\$ 29
Cash with escrow agent	-	-	-
Taxes receivable			
Prior	2,133	3,385	-
Accounts receivable	-	-	-
Lodging taxes receivable	-	-	4,087
Due from other governments	-	817	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 433,911</u>	<u>\$ 112,885</u>	<u>\$ 4,116</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 1,200	\$ 67,332	\$ -
Due to other funds	-	-	-
Deferred revenue - unavailable	1,585	2,515	-
Advance from other funds	-	38,134	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 2,785</u>	<u>\$ 107,981</u>	<u>\$ -</u>
Fund Balances			
Nonspendable			
Environmental improvements - principal	\$ -	\$ -	\$ -
Restricted			
EDA	-	-	4,116
Environmental improvements - interest	-	-	-
Health	-	-	-
Assigned			
Building improvements	431,126	-	-
Debt service	-	-	-
Economic development	-	4,904	-
Unassigned	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>\$ 431,126</u>	<u>\$ 4,904</u>	<u>\$ 4,116</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 433,911</u>	<u>\$ 112,885</u>	<u>\$ 4,116</u>

EXHIBIT B-1

Revenue Funds			Debt Service	Leased Lakeshore Permanent	Total Nonmajor Governmental Funds (Exhibit 3)
Forfeited Tax	Hospital Sales Tax	Total			
\$ -	\$ 174,276	\$ 714,766	\$ 57,108	\$ 835,085	\$ 1,606,959
-	-	-	19	-	19
-	-	5,518	16,720	-	22,238
136,716	-	136,716	-	-	136,716
-	-	4,087	-	-	4,087
-	-	817	-	-	817
\$ 136,716	\$ 174,276	\$ 861,904	\$ 73,847	\$ 835,085	\$ 1,770,836
\$ -	\$ -	\$ 68,532	\$ -	\$ -	\$ 68,532
159,284	-	159,284	-	-	159,284
-	-	4,100	12,424	-	16,524
-	-	38,134	-	-	38,134
\$ 159,284	\$ -	\$ 270,050	\$ 12,424	\$ -	\$ 282,474
\$ -	\$ -	\$ -	\$ -	\$ 584,434	\$ 584,434
-	-	4,116	-	-	4,116
-	-	-	-	250,651	250,651
-	174,276	174,276	-	-	174,276
-	-	431,126	-	-	431,126
-	-	-	61,423	-	61,423
-	-	4,904	-	-	4,904
(22,568)	-	(22,568)	-	-	(22,568)
\$ (22,568)	\$ 174,276	\$ 591,854	\$ 61,423	\$ 835,085	\$ 1,488,362
\$ 136,716	\$ 174,276	\$ 861,904	\$ 73,847	\$ 835,085	\$ 1,770,836

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Building</u>	<u>Airport</u>	<u>Special Golf Course Lodging Tax</u>
Revenues			
Taxes	\$ 48,749	\$ 76,994	\$ 50,081
Intergovernmental	69,742	113,362	-
Investment earnings	-	-	4
Miscellaneous	-	18,192	-
Total Revenues	\$ 118,491	\$ 208,548	\$ 50,085
Expenditures			
Current			
General government	\$ 14,307	\$ -	\$ -
Conservation of natural resources	-	-	-
Economic development	-	112,087	50,000
Capital outlay	196,423	240,811	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Bond issuance expense	-	-	-
Administrative - fiscal charges	-	-	-
Total Expenditures	\$ 210,730	\$ 352,898	\$ 50,000
Excess of Revenues Over (Under) Expenditures	\$ (92,239)	\$ (144,350)	\$ 85
Other Financing Sources (Uses)			
Refunding bonds issued	\$ -	\$ -	\$ -
Payment to refunded bond escrow agent	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ (92,239)	\$ (144,350)	\$ 85
Fund Balance - January 1	523,365	149,254	4,031
Fund Balance - December 31	\$ 431,126	\$ 4,904	\$ 4,116

EXHIBIT B-2

Revenue Funds				Leased Lakeshore Permanent	Total Nonmajor Governmental Funds (Exhibit 5)
Forfeited Tax	Hospital Sales Tax	Total	Debt Service		
\$ 400	\$ -	\$ 176,224	\$ 380,252	\$ -	\$ 556,476
-	-	183,104	4,895	-	187,999
-	-	4	-	12,099	12,103
-	-	18,192	-	-	18,192
\$ 400	\$ -	\$ 377,524	\$ 385,147	\$ 12,099	\$ 774,770
\$ -	\$ -	\$ 14,307	\$ -	\$ -	\$ 14,307
5,863	-	5,863	-	-	5,863
-	-	162,087	-	-	162,087
-	202,285	639,519	-	-	639,519
-	-	-	300,000	-	300,000
-	-	-	85,935	-	85,935
-	-	-	35,869	-	35,869
-	-	-	2,000	-	2,000
\$ 5,863	\$ 202,285	\$ 821,776	\$ 423,804	\$ -	\$ 1,245,580
\$ (5,463)	\$ (202,285)	\$ (444,252)	\$ (38,657)	\$ 12,099	\$ (470,810)
\$ -	\$ -	\$ -	\$ 1,415,000	\$ -	\$ 1,415,000
-	-	-	(2,130,325)	-	(2,130,325)
\$ -	\$ -	\$ -	\$ (715,325)	\$ -	\$ (715,325)
\$ (5,463)	\$ (202,285)	\$ (444,252)	\$ (753,982)	\$ 12,099	\$ (1,186,135)
(17,105)	376,561	1,036,106	815,405	822,986	2,674,497
\$ (22,568)	\$ 174,276	\$ 591,854	\$ 61,423	\$ 835,085	\$ 1,488,362

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
AIRPORT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 79,000	\$ 79,000	\$ 76,994	\$ (2,006)
Intergovernmental	405,250	405,250	113,362	(291,888)
Miscellaneous	30,217	30,217	18,192	(12,025)
Total Revenues	\$ 514,467	\$ 514,467	\$ 208,548	\$ (305,919)
Expenditures				
Current				
Economic development	\$ 114,467	\$ 114,467	\$ 112,087	\$ 2,380
Capital outlay	400,000	400,000	240,811	159,189
Total Expenditures	\$ 514,467	\$ 514,467	\$ 352,898	\$ 161,569
Net Change in Fund Balance	\$ -	\$ -	\$ (144,350)	\$ (144,350)
Fund Balance - January 1	149,254	149,254	149,254	-
Fund Balance - December 31	\$ 149,254	\$ 149,254	\$ 4,904	\$ (144,350)

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**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEDICAL AND DEPENDENT CARE FLEX PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>3,015</u>	\$ <u>97,652</u>	\$ <u>90,496</u>	\$ <u>10,171</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>3,015</u>	\$ <u>97,652</u>	\$ <u>90,496</u>	\$ <u>10,171</u>
 <u>SOIL AND WATER CONSERVATION DISTRICT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>250,831</u>	\$ <u>353,980</u>	\$ <u>455,243</u>	\$ <u>149,568</u>
<u>Liabilities</u>				
Accounts payable	\$ 7,703	\$ 4,091	\$ 7,703	\$ 4,091
Due to other governments	<u>243,128</u>	<u>349,889</u>	<u>447,540</u>	<u>145,477</u>
Total Liabilities	\$ <u>250,831</u>	\$ <u>353,980</u>	\$ <u>455,243</u>	\$ <u>149,568</u>
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>13,568</u>	\$ <u>147,612</u>	\$ <u>143,855</u>	\$ <u>17,325</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>13,568</u>	\$ <u>147,612</u>	\$ <u>143,855</u>	\$ <u>17,325</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FIRE DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 12,495	\$ 264,653	\$ 266,200	\$ 10,948
<u>Liabilities</u>				
Due to other governments	\$ 12,495	\$ 264,653	\$ 266,200	\$ 10,948
 <u>CITIES AND TOWNS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 59,970	\$ 1,369,756	\$ 1,379,602	\$ 50,124
<u>Liabilities</u>				
Due to other governments	\$ 59,970	\$ 1,369,756	\$ 1,379,602	\$ 50,124
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 87,135	\$ 2,260,578	\$ 2,269,431	\$ 78,282
Accounts receivable	416	105	416	105
Due from other governments	10	-	10	-
Total Assets	\$ 87,561	\$ 2,260,683	\$ 2,269,857	\$ 78,387
<u>Liabilities</u>				
Due to other governments	\$ 87,561	\$ 2,260,683	\$ 2,269,857	\$ 78,387

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LODGING TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,398,858	\$ 1,361,752	\$ 37,106
Accounts receivable	79,572	77,831	79,572	77,831
Total Assets	\$ 79,572	\$ 1,476,689	\$ 1,441,324	\$ 114,937
<u>Liabilities</u>				
Accounts payable	\$ 79,572	\$ 1,513,796	\$ 1,478,431	\$ 114,937
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 27,053	\$ 11,929,614	\$ 11,918,362	\$ 38,305
<u>Liabilities</u>				
Accounts payable	\$ 11,822	\$ 123	\$ 11,822	\$ 123
Due to other governments	15,231	11,956,667	11,933,716	38,182
Total Liabilities	\$ 27,053	\$ 11,956,790	\$ 11,945,538	\$ 38,305
 <u>SCHOOL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 31,928	\$ 2,130,940	\$ 2,115,986	\$ 46,882
Due from other governments	293,284	255,948	293,284	255,948
Total Assets	\$ 325,212	\$ 2,386,888	\$ 2,409,270	\$ 302,830
<u>Liabilities</u>				
Due to other governments	\$ 325,212	\$ 302,830	\$ 325,212	\$ 302,830

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 485,995	\$ 19,953,643	\$ 20,000,927	\$ 438,711
Accounts receivable	79,988	77,936	79,988	77,936
Due from other governments	293,294	255,948	293,294	255,948
Total Assets	\$ 859,277	\$ 20,287,527	\$ 20,374,209	\$ 772,595
<u>Liabilities</u>				
Accounts payable	\$ 102,112	\$ 1,615,662	\$ 1,588,452	\$ 129,322
Due to other governments	757,165	16,652,090	16,765,982	643,273
Total Liabilities	\$ 859,277	\$ 18,267,752	\$ 18,354,434	\$ 772,595

OTHER SCHEDULES

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Governmental Funds	Component Unit
Shared Revenue		
State		
Highway users tax	\$ 2,021,848	\$ -
PERA rate reimbursement	17,931	-
Police aid	79,826	-
County program aid	125,919	-
Market value credit	71,687	-
Taconite credit	170,056	-
Casino revenue aid	44,263	-
Enhanced 911	75,497	-
Total shared revenue	\$ 2,607,027	\$ -
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 183,115	\$ -
Payments		
State		
Payments in lieu of taxes	\$ 251,433	\$ -
Local		
Local contributions	100,000	234,903
Total payments	\$ 351,433	\$ 234,903
Grants		
State		
Minnesota Department/Board of		
Public Safety	\$ 42,691	\$ -
Transportation	24,653	-
Health	22,907	-
Economic Security	69,742	-
Natural Resources	237,958	-
Human Services	308,611	-
Veterans Affairs	12,350	-
Water and Soil Resources	35,247	-
Office of Environmental Assistance	58,296	-
Miscellaneous boards	4,923	-
Total state	\$ 817,378	\$ -

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Funds</u>	<u>Component Unit</u>
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 2,974,807	\$ -
Commerce	24,211	-
Interior	194,161	-
Justice	4,422	-
Transportation	1,026,842	-
Energy	27,657	-
Health and Human Services	413,894	-
Homeland Security	690,669	-
	<hr/>	<hr/>
Total federal	\$ 5,356,663	\$ -
	<hr/>	<hr/>
Total state and federal grants	\$ 6,174,041	\$ -
	<hr/>	<hr/>
Total Intergovernmental Revenue	\$ 9,315,616	\$ 234,903
	<hr/> <hr/>	<hr/> <hr/>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct		
U.S. Forest Service Cooperative Agreement	R9-9-95-36C	\$ 249,183
Cooperative Forestry Assistance	10.664	223,696
Wildland Fire Management - ARRA	10.688	93,850
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	29,933
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	55,041
Passed Through Minnesota Department of Management & Budget Schools and Roads - Grants to States	10.665	2,323,104
Total U.S. Department of Agriculture		\$ 2,974,807
U.S. Department of Commerce		
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	11.419	\$ 24,211
U.S. Department of the Interior		
Direct		
Payments in Lieu of Taxes	15.226	\$ 194,161
U.S. Department of Justice		
Direct		
Northern Border Prosecution Initiative Program	16.814	\$ 4,422
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Airport Improvement Program	20.106	\$ 87,717
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	12,025
Highway Planning and Construction Cluster Highway Planning and Construction	20.205	1,078,812
Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program	20.219	17,404
Total U.S. Department of Transportation		\$ 1,195,958

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Energy		
Passed Through Minnesota Department of Commerce - Office of Energy Security Energy Efficiency and Conservation Block Grant - ARRA	81.128	\$ <u>27,657</u>
U.S. Department of Health and Human Services		
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Immunization Cooperative Agreements	93.268	\$ 1,601
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	30,962
Maternal and Child Health Services Block Grant to the States	93.994	6,231
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	3,000
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families	93.558	34,632
Child Support Enforcement	93.563	79,865
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	938
Foster Care Title IV-E	93.658	31,509
Social Services Block Grant	93.667	39,804
Temporary Assistance for Needy Families Cluster Emergency Contingency Fund for TANF State Program - ARRA	93.714	1,482
Children's Health Insurance Program	93.767	6
Medical Assistance Program	93.778	<u>183,864</u>
Total U.S. Department of Health and Human Services		\$ <u>413,894</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 13,301
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	958
Hazard Mitigation Grant	97.039	4,563
Emergency Management Performance Grants	97.042	2,287
Pre-Disaster Mitigation	97.047	576,113
Homeland Security Grant Program	97.067	<u>93,447</u>
Total U.S. Department of Homeland Security		\$ <u>690,669</u>
Total Federal Awards		\$ <u>5,525,779</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Cook County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cook County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Cook County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Cook County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Planning and Construction Cluster	\$ 1,096,216
Temporary Assistance for Needy Families Cluster	36,114

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue Deferred in 2011, recognized as revenue in 2012	\$ 5,356,663
Highway Planning and Construction	<u>169,116</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,525,779</u>

6. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

**Other Information
Section**

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT E-1

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

	2010		2011		2012	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 19,105,562		\$ 18,656,794		\$ 17,305,450	
Personal property	326,041		288,739		287,432	
Fiscal disparity contribution	(253,297)		(317,449)		(334,487)	
Net Tax Capacity	<u>\$ 19,178,306</u>		<u>\$ 18,628,084</u>		<u>\$ 17,258,395</u>	
Taxes Levied for County Purposes						
General	\$ 3,086,310	16.13	\$ 3,091,306	16.62	\$ 3,157,819	18.28
Road and Bridge	1,383,066	7.20	1,383,067	7.40	1,414,289	8.16
Social Services	943,776	4.92	943,779	5.05	943,779	5.44
Airport	84,000	0.44	79,000	0.42	95,300	0.55
Government Center	390,000	2.03	390,000	2.09	378,000	2.18
Economic Development	148,566	0.77	148,566	0.80	148,566	0.86
Total Levy for County Purposes	<u>\$ 6,035,718</u>	<u>31.49</u>	<u>\$ 6,035,718</u>	<u>32.38</u>	<u>\$ 6,137,753</u>	<u>35.47</u>
Less Credits Payable by State						
Taconite homestead credit	\$ 344,090		\$ 332,478		\$ 350,718	
Disparity reduction aid	3,155		3,157		3,157	
Total Credits Payable by State	<u>\$ 347,245</u>		<u>\$ 335,635</u>		<u>\$ 353,875</u>	
Net Levy for County Purposes	<u>\$ 5,688,473</u>		<u>\$ 5,700,083</u>		<u>\$ 5,783,878</u>	
Tax Capacity - Light and Power						
Assessed at 43%	<u>\$ 50,407</u>		<u>\$ 58,005</u>		<u>\$ 54,830</u>	
Light and Power Tax Levy						
(distributed pursuant to Minn. Stat. § 273.42, as amended)						
Assessed at 43%	<u>\$ 23,127</u>	45.88	<u>\$ 28,447</u>		<u>\$ 28,018</u>	
Percentage of Tax Collections for All Purposes	99.01%		99.64%			

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Schools and Roads - Grants to States	CFDA #10.665
Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Recreational Trails Program	CFDA #20.219

The threshold for distinguishing between Types A and B programs was \$300,000.

Cook County qualified as low-risk auditee? **Yes**

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

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one or two staff people who are responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

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

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

The County is aware of the lack of segregation of accounting functions and will continue to monitor the situation and implement oversight procedures where possible. We will review the departmental procedures in effect for those departments that collect fees.

06-6 Accounting Policies and Procedures Manual

Criteria: 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.

Condition: The County does not have a current and comprehensive accounting policies and procedures manual.

Context: This manual should be on hand to document the accounting policies and procedures which make up the County's internal control system. 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.

Effect: 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.

Cause: 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.

Recommendation: 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 Auditor's Office is continuing to accumulate and document accounting policies and procedures with the goal of producing a policy and procedures manual for approval by the County Board in 2013.

PREVIOUSLY REPORTED ITEM RESOLVED

Preparation of Financial Statements (06-4)

The County needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

Resolution

The County provides a general ledger, accruals, a GASB34 Audit List, and other supporting schedules necessary for preparing fund level and government-wide financial statements. The County has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



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

Board of 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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2012. 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

Management of Cook County is responsible for establishing and maintaining effective 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.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-3 and 06-6 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. 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.

Cook County's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses 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

September 27, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Cook County

Compliance

We have audited Cook County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Cook County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Cook County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of the Board of 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2012