# STATE OF MINNESOTA

## Office of the State Auditor


**Rebecca Otto**
**State Auditor**


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

YEAR ENDED DECEMBER 31, 2012

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

## Year Ended December 31, 2012

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

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

TABLE OF CONTENTS

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# Introductory Section

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

ORGANIZATION
DECEMBER 31, 2012

| | | Term Expires |
|---|---|---|
| Commissioners | | |
| Chair | Mark Sandbo | December 2018 |
| Vice Chair | Hal Greenwood | December 2014 |
| Treasurer | Scott Harrison | December 2017 |
| Secretary | Don Davison | December 2013 |
| Commissioner | Heidi Doo-Kirk | December 2015 |
| Commissioner | Robert Spry | December 2016 |
| Commissioner | Abby Tofte | December 2018 |

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# Financial Section

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**STATE OF MINNESOTA**
OFFICE OF THE STATE AUDITOR

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# INDEPENDENT AUDITOR'S REPORT

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

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority, a component unit of Cook County, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the 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 Governmental Accounting Standards Board (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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a 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, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Supplementary Information*
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cook County and Grand Marais Joint Economic Development Authority's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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. Such 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, on our consideration of the Cook County and Grand Marais Joint Economic Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cook County and Grand Marais Joint Economic Development Authority's internal control over financial reporting and compliance.

*/s/Rebecca Otto*

REBECCA OTTO
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2013

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# BASIC FINANCIAL STATEMENTS

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

***EXHIBIT 1***

**STATEMENT OF NET POSITION**
**DECEMBER 31, 2012**

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 92,156 | $ 48,456 | $ 140,612 |
| Taxes receivable | 13,093 | - | 13,093 |
| Accounts receivable - net | 751 | 1,419 | 2,170 |
| Due from other governments | 5,000 | - | 5,000 |
| Internal balances | 213,000 | (213,000) | - |
| Inventories | - | 34,522 | 34,522 |
| Restricted assets - investments | - | 343,503 | 343,503 |
| Capital assets | | | |
| Non-depreciable | 2,612,033 | 213,685 | 2,825,718 |
| Depreciable - net of accumulated depreciation | - | 2,064,922 | 2,064,922 |
| **Total Assets** | **$ 2,936,033** | **$ 2,493,507** | **$ 5,429,540** |
| **Liabilities** | | | |
| Accounts payable | $ 34,740 | $ 46,004 | $ 80,744 |
| Contracts payable | 43,722 | - | 43,722 |
| Gift certificates | - | 10,916 | 10,916 |
| Due to other governments | 225,000 | - | 225,000 |
| Accrued interest payable | - | 11,566 | 11,566 |
| Deferred revenue - unearned | - | 38,116 | 38,116 |
| Long-term liabilities | | | |
| Due within one year | - | 160,000 | 160,000 |
| Due in more than one year | - | 340,000 | 340,000 |
| **Total Liabilities** | **$ 303,462** | **$ 606,602** | **$ 910,064** |
| **Net Position** | | | |
| Net investment in capital assets | $ 2,612,033 | $ 1,778,607 | $ 4,390,640 |
| Restricted for debt service | - | 341,937 | 341,937 |
| Unrestricted | 20,538 | (233,639) | (213,101) |
| **Total Net Position** | **$ 2,632,571** | **$ 1,886,905** | **$ 4,519,476** |

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

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

***EXHIBIT 2***

**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| **Functions/Programs** | | | | | | |
| **Governmental activities** | | | | | | |
| Urban and economic development | $ 238,133 | $ - | $ 54,000 | $ (184,133) | $ - | $ (184,133) |
| **Business-type activities** | | | | | | |
| Golf course | 1,134,421 | 842,741 | - | - | (291,680) | (291,680) |
| **Total** | **$ 1,372,554** | **$ 842,741** | **$ 54,000** | **$ (184,133)** | **$ (291,680)** | **$ (475,813)** |
| **General Revenues** | | | | | | |
| Property taxes | | | | $ 153,444 | $ - | $ 153,444 |
| Lodging taxes | | | | - | 50,000 | 50,000 |
| Sales taxes | | | | - | 68,812 | 68,812 |
| Unrestricted investment earnings | | | | 4 | 185 | 189 |
| Miscellaneous | | | | 13,419 | 22,445 | 35,864 |
| **Special Items** | | | | | | |
| Liability settlement | | | | 111,995 | - | 111,995 |
| **Total general revenues and special items** | | | | $ **278,862** | $ **141,442** | $ **420,304** |
| **Change in net position** | | | | **$ 94,729** | **$ (150,238)** | **$ (55,509)** |
| **Net Position - Beginning** | | | | **2,537,842** | **2,037,143** | **4,574,985** |
| **Net Position - Ending** | | | | **$ 2,632,571** | **$ 1,886,905** | **$ 4,519,476** |

# FUND FINANCIAL STATEMENTS

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# GOVERNMENTAL FUNDS

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

***EXHIBIT 3***

**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**DECEMBER 31, 2012**

| | General | Resource Development Council | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 88,781 | $ 3,375 | $ 92,156 |
| Taxes receivable | 13,093 | - | 13,093 |
| Accounts receivable | 751 | - | 751 |
| Due from other funds | 213,000 | - | 213,000 |
| Due from other governments | 5,000 | - | 5,000 |
| **Total Assets** | **$ 320,625** | **$ 3,375** | **$ 324,000** |
| **Liabilities and Fund Balances** | | | |
| **Liabilities** | | | |
| Accounts payable | $ 34,740 | $ - | $ 34,740 |
| Contracts payable | 43,722 | - | 43,722 |
| Due to other governments | 225,000 | - | 225,000 |
| Deferred revenue - unavailable | 5,346 | - | 5,346 |
| **Total Liabilities** | **$ 308,808** | **$ -** | **$ 308,808** |
| **Fund Balances** | | | |
| Assigned for resource development | $ - | $ 3,375 | $ 3,375 |
| Unassigned | 11,817 | - | 11,817 |
| **Total Fund Balances** | **$ 11,817** | **$ 3,375** | **$ 15,192** |
| **Total Liabilities and Fund Balances** | **$ 320,625** | **$ 3,375** | **$ 324,000** |

| | |
|---|---|
| **Fund balances - total governmental funds** | **$ 15,192** |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | 2,612,033 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | 5,346 |
| **Net Position of Governmental Activities (Exhibit 1)** | **$ 2,632,571** |

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

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

*EXHIBIT 4*

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
### GOVERNMENTAL FUNDS
### FOR THE YEAR ENDED DECEMBER 31, 2012

| | General | Resource Development Council | Total |
|---|---|---|---|
| **Revenues** | | | |
| Taxes | $ 154,474 | $ - | $ 154,474 |
| Intergovernmental | 39,000 | 15,000 | 54,000 |
| Investment earnings | - | 4 | 4 |
| Miscellaneous | 13,419 | - | 13,419 |
| **Total Revenues** | **$ 206,893** | **$ 15,004** | **$ 221,897** |
| **Expenditures** | | | |
| **Current** | | | |
| **Urban and economic development** | | | |
| Salaries | $ 13,750 | $ - | $ 13,750 |
| Employee benefits | 18,878 | - | 18,878 |
| Board per diems | 1,860 | - | 1,860 |
| Legal | 3,684 | - | 3,684 |
| Professional services | 14,116 | - | 14,116 |
| Rent | 2,750 | - | 2,750 |
| Advertising | 4,780 | - | 4,780 |
| Office | 11,836 | - | 11,836 |
| Insurance | 8,104 | - | 8,104 |
| Telephone and internet | 1,347 | - | 1,347 |
| Affordable housing | 27,340 | - | 27,340 |
| Other housing expense | 106,665 | - | 106,665 |
| Other | 4,523 | 18,500 | 23,023 |
| **Total Expenditures** | **$ 219,633** | **$ 18,500** | **$ 238,133** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (12,740)** | **$ (3,496)** | **$ (16,236)** |
| **Special Item** | | | |
| Liability settlement | 111,995 | - | 111,995 |
| **Change in Fund Balance** | **$ 99,255** | **$ (3,496)** | **$ 95,759** |
| **Fund Balance - January 1** | **(87,438)** | **6,871** | **(80,567)** |
| **Fund Balance - December 31** | **$ 11,817** | **$ 3,375** | **$ 15,192** |

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

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

*EXHIBIT 4*
*(Continued)*

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
### GOVERNMENTAL FUNDS
### FOR THE YEAR ENDED DECEMBER 31, 2012

| | | |
|---|---|---|
| **Net change in fund balance** | **$** | **95,759** |
| In governmental funds, under the modified accrual basis, revenues not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The increase or decrease in deferred revenue is the adjustment to revenue between the fund statements and the statement of activities. | | |
| Deferred revenue - December 31 | | 5,346 |
| Deferred revenue - January 1 | | (6,376) |
| **Change in Net Position of Governmental Activities (Exhibit 2)** | **$** | **94,729** |

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

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# PROPRIETARY FUND

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

*EXHIBIT 5*

## STATEMENT OF FUND NET POSITION
## GOLF COURSE ENTERPRISE FUND
## DECEMBER 31, 2012

| | | |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | $ | 48,456 |
| Accounts receivable | | 1,419 |
| Inventories | | 34,522 |
| **Total current assets** | **$** | **84,397** |
| **Restricted assets** | | |
| Assets held by trustee | **$** | **343,503** |
| **Noncurrent assets** | | |
| Capital assets | | |
| Not depreciated - land | $ | 213,685 |
| Depreciable - net of depreciation | | 2,064,922 |
| **Total noncurrent assets** | **$** | **2,278,607** |
| **Total Assets** | **$** | **2,706,507** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable | $ | 46,004 |
| Gift certificates | | 10,916 |
| Due to other funds | | 213,000 |
| Deferred revenue | | 38,116 |
| **Total current liabilities** | **$** | **308,036** |
| **Current liabilities payable from restricted assets** | | |
| Interest payable | $ | 11,566 |
| Bonds payable - current | | 160,000 |
| **Total current liabilities payable from restricted assets** | **$** | **171,566** |
| **Noncurrent liabilities** | | |
| Bonds payable - long-term | **$** | **340,000** |
| **Total Liabilities** | **$** | **819,602** |

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

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

*EXHIBIT 5*
*(Continued)*

### STATEMENT OF FUND NET POSITION
### GOLF COURSE ENTERPRISE FUND
### DECEMBER 31, 2012

| | | |
|---|---|---|
| **Net Position** | | |
| Net investment in capital assets | $ | 1,778,607 |
| Restricted for debt service | | 341,937 |
| Unrestricted | | (233,639) |
| **Total Net Position** | **$** | **1,886,905** |

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

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

***EXHIBIT 6***

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
## GOLF COURSE ENTERPRISE FUND
## FOR THE YEAR ENDED DECEMBER 31, 2012

| | | |
|---|---|---|
| **Operating Revenues** | | |
| **Sales** | | |
| Food and beverage | $ | 109,375 |
| Merchandise | | 116,325 |
| Less: cost of goods sold | | (132,850) |
| **Net sales** | **$** | **92,850** |
| **Charges for services** | | |
| Green fees | | 652,162 |
| Other | | 97,729 |
| **Total Operating Revenues** | **$** | **842,741** |
| **Operating Expenses** | | |
| Personal services | $ | 360,021 |
| Payroll taxes | | 49,992 |
| Retirement contribution | | 15,997 |
| Grounds maintenance and supplies | | 154,115 |
| Clubhouse maintenance and supplies | | 19,242 |
| Golf cart leases and maintenance | | 25,890 |
| Insurance | | 18,072 |
| Utilities | | 34,537 |
| Telephone | | 2,332 |
| Office | | 3,458 |
| Accounting and audit | | 12,496 |
| Legal fees | | 3,713 |
| Dues and licenses | | 5,485 |
| Travel | | 3,605 |
| Planning | | 121,563 |
| Marketing | | 20,207 |
| Bank charges and fees | | 19,039 |
| Other | | 20,454 |
| Depreciation | | 209,322 |
| **Total Operating Expenses** | **$** | **1,099,540** |
| **Operating Income (Loss)** | **$** | **(256,799)** |

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

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

*EXHIBIT 6*
*(Continued)*

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
### GOLF COURSE ENTERPRISE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2012

| | | |
|---|---|---|
| **Nonoperating Revenues (Expenses)** | | |
| Interest income | $ | 185 |
| Lodging tax | | 50,000 |
| Insurance reimbursement | | 22,445 |
| Sales taxes | | 68,812 |
| Interest expense | | (34,881) |
| **Total Nonoperating Revenues (Expenses)** | **$** | **106,561** |
| **Change in Net Position** | $ | **(150,238)** |
| **Net Position - January 1** | | **2,037,143** |
| **Net Position - December 31** | **$** | **1,886,905** |

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

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

***EXHIBIT 7***

**STATEMENT OF CASH FLOWS**
**GOLF COURSE ENTERPRISE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

| | | |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Receipts from customers | $ | 1,026,555 |
| Payments to suppliers | | (441,261) |
| Payments to employees | | (360,021) |
| **Net cash provided by (used in) operating activities** | **$** | **225,273** |
| **Cash Flows from Noncapital Financing Activities** | | |
| Lodging taxes received | $ | 50,000 |
| Sales taxes | | 68,812 |
| Payoff of prior year advances from other governments | | (225,000) |
| Insurance reimbursement | | 22,445 |
| **Net cash provided by (used in) noncapital financing activities** | **$** | **(83,743)** |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Payments to trustee for debt service | $ | (178,850) |
| Capital asset additions | | (9,950) |
| **Net cash provided by (used in) capital and related financing activities** | **$** | **(188,800)** |
| **Cash Flows from Investing Activities** | | |
| Interest on investments | **$** | **185** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **$** | **(47,085)** |
| **Cash at January 1** | | **95,541** |
| **Cash at December 31** | **$** | **48,456** |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities** | | |
| **Operating income (loss)** | **$** | **(256,799)** |
| **Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities** | | |
| Depreciation expense | | 209,322 |
| (Increase) decrease in accounts receivable | | 1,953 |
| (Increase) decrease in due from other funds | | 42,000 |
| (Increase) decrease in inventories | | (2,467) |
| Increase (decrease) in accounts payable | | 13,538 |
| Increase (decrease) in due to other governments | | (2,285) |
| Increase (decrease) in due to other funds | | 213,000 |
| Increase (decrease) in deferred revenue | | 7,011 |
| **Net Cash Provided by (Used in) Operating Activities** | **$** | **225,273** |
| **Noncash Investing, Capital, and Financing Activities** | | |
| Amount paid by trustee for debt payments | **$** | **167,966** |

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

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1. Summary of Significant Accounting Policies

The Cook County and Grand Marais Joint Economic Development Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

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

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the Authority's governmental activities and business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The Authority reports the following major governmental funds:

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

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

The Authority reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Cook County and Grand Marais Joint Economic Development Authority considers all revenues as available if collected within 90 days after the end of the current period, except for taxes, which have a 60-day accrual period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Budget

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

E. Assets, Liabilities, and Net Position or Equity

1. Cash

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

2. Investments

The Authority's assets held by trustee are invested in a mutual fund and an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (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). The investment in the pool is measured at the net asset value per share provided by the pool.

1. Summary of Significant Accounting Policies

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

      3. Receivables and Payables

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

         Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. The Authority approved an annual levy for operating purposes. Property taxes are collected by Cook County and distributed to the Authority three times each year. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable.

      4. Inventories

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

      5. Restricted Assets

         Certain funds of the Authority are classified as restricted assets on the statement of net position 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.

1. Summary of Significant Accounting Policies

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

6. Capital Assets

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

| Assets | Years |
|---|---|
| Land improvements | 30 |
| Buildings and structures | 20 |
| Furniture and equipment | 1 - 20 |

7. Compensated Absences

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

8. Deferred Revenue

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

1. Summary of Significant Accounting Policies

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

      9. Long-Term Obligations

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

      10. Classification of Net Position

         Net position in government-wide statements is classified in the following categories:

         Net investment in capital assets - the amount of net position representing capital assets net of accumulated depreciation and reduced by outstanding debt, if any, attributed to the acquisition, construction, or improvement of the assets.

         Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law though constitutional provisions or enabling legislation.

         Unrestricted net position - the amount of net position that does not meet the definition of restricted or invested in capital assets.

      11. Classification of Fund Balances

         Fund balance is divided into five classifications based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

         Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

1. Summary of Significant Accounting Policies

   E. Assets, Liabilities, and Net Position or Equity

      11. Classification of Fund Balances (Continued)

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Authority's Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the Authority intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

Unassigned - the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The Authority applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

1. Summary of Significant Accounting Policies

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

12. 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

Excess of Expenditures Over Appropriations

The following funds had expenditures or expenses in excess of budget for the year ended December 31, 2012:

| | Expenditures/ Expenses | Final Budget | Excess |
|---|---|---|---|
| General Fund | $ 219,633 | $ 161,066 | $ 58,567 |
| Golf Course Enterprise Fund | | | |
| Operating | 1,099,540 | 837,800 | 261,740 |

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

| | |
|---|---|
| Cash | $ 140,612 |
| Restricted assets | |
| Assets held by trustee | 343,503 |
| Total Cash | $ 484,115 |

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

The Authority 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 Authority 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 not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk.

At December 31, 2012, the carrying amount of the Authority's deposits totaled $140,612. The bank balance deposit amount was $153,031. Minnesota statutes require that all of the Authority's deposits be covered by insurance, surety bond, or collateral.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2012.

| | Bank Balance |
|---|---|
| Covered Deposits | |
| Insured, or collateralized with securities held by the Authority or its agent in the Authority's name | $ 153,031 |

b. Investments

The Authority 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;

(4) bankers' acceptances of United States banks;

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Following is a summary of the fair values of the Authority's investments held by a trustee at December 31, 2012:

| | | |
|---|---|---|
| Assets held by trustee | | |
| Mutual funds | $ | 158,232 |
| MAGIC Fund | | 185,271 |
| Total Assets Held by Trustee | $ | 343,503 |

As of and during the year ended December 31, 2012, the Authority did not own any investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk.

2. Receivables

Receivables as of December 31, 2012, for the Authority's governmental activities and business-type activities are as follows:

| | Total Receivables | | Amounts Not Scheduled for Collection During the Subsequent Year | |
|---|---|---|---|---|
| Governmental Activities | | | | |
| Taxes receivable | $ | 13,093 | $ | - |
| Accounts receivable | | 751 | | - |
| Total Governmental Activities | $ | 13,844 | $ | - |

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|---|---|---|
| Business-Type Activities | | |
| Accounts receivable | $ 1,419 | $ - |

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Governmental Activities

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not depreciated | | | | |
| Land | $ 81,973 | $ - | $ - | $ 81,973 |
| Construction in progress | 2,530,060 | - | - | 2,530,060 |
| Total capital assets not depreciated | $ 2,612,033 | $ - | $ - | $ 2,612,033 |
| Capital assets depreciated | | | | |
| Furniture and equipment | $ 1,986 | $ - | $ - | $ 1,986 |
| Less: accumulated depreciation for | | | | |
| Furniture and equipment | 1,986 | - | - | 1,986 |
| Total capital assets depreciated, net | $ - | $ - | $ - | $ - |
| Governmental Activities Capital Assets, Net | $ 2,612,033 | $ - | $ - | $ 2,612,033 |

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.

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not depreciated | | | | |
| Land | $ 213,685 | $ - | $ - | $ 213,685 |
| Capital assets depreciated | | | | |
| Land improvements | $ 4,424,884 | $ - | $ - | $ 4,424,884 |
| Buildings and structures | 372,371 | - | - | 372,371 |
| Furniture and equipment | 1,037,742 | 9,950 | 2,970 | 1,044,722 |
| Total capital assets depreciated | $ 5,834,997 | $ 9,950 | $ 2,970 | $ 5,841,977 |
| Less: accumulated depreciation for | | | | |
| Land improvements | $ 2,431,381 | $ 150,592 | $ - | $ 2,581,973 |
| Buildings and structures | 353,322 | 16,306 | - | 369,628 |
| Furniture and equipment | 786,000 | 42,424 | 2,970 | 825,454 |
| Total accumulated depreciation | $ 3,570,703 | $ 209,322 | $ 2,970 | $ 3,777,055 |
| Total capital assets depreciated, net | $ 2,264,294 | $ (199,372) | $ - | $ 2,064,922 |
| Business-Type Activities Capital Assets, Net | $ 2,477,979 | $ (199,372) | $ - | $ 2,278,607 |

Depreciation expense was charged to functions/programs as follows:

| | |
|---|---|
| Business-Type Activities | |
| Golf course | $ 209,322 |

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2012, is as follows:

Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General Fund | Golf Course Enterprise Fund | $ 213,000 |

The EDA General Fund loaned $213,000 to the Golf Course Fund to help cover start-up costs for the year at the golf course. The golf course will repay the loan to the General Fund during 2013 as revenues become available.

C. Liabilities

1. Leases

Operating Leases

The Authority leases golf carts under non-cancelable operating leases. Total costs for such leases were $25,890 for the year ended December 31, 2012. These operating leases are expected to continue indefinitely or be replaced by similar leases. The future minimum lease payments for these leases are as follows:

| Year Ending December 31 | Amount |
|---|---|
| 2013 | $ 20,846 |
| 2014 | 20,846 |
| Total | $ 41,692 |

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Short-Term Debt

Governmental Funds/Activities

The Authority took out a loan of $225,000 in 2012 from Cook County to help pay operating costs.

Short-term debt activity for the year ended December 31, 2012, is:

| | Beginning Balance | Additions | Payments | Ending Balance |
|---|---|---|---|---|
| Due to other governments | $ - | $ 225,000 | $ - | $ 225,000 |

Business-Type Activities

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, 2012, is:

| | Beginning Balance | Advances | Payments | Ending Balance |
|---|---|---|---|---|
| Advances | $ 225,000 | $ - | $ 225,000 | $ - |

3. Long-Term Debt

Business-Type Activities

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2012 |
|---|---|---|---|---|---|
| 1998 Golf Course Revenue Bonds | 2015 | $35,000 - $175,000 | 4.40 - 5.60 | $ 1,820,000 | $ 500,000 |

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Business-Type Activities

| Year Ending December 31 | Revenue Bonds Principal | Revenue Bonds Interest |
|---|---|---|
| 2013 | $ 160,000 | $ 23,845 |
| 2014 | 165,000 | 14,379 |
| 2015 | 175,000 | 4,900 |
| Total | $ 500,000 | $ 43,124 |

5. Changes in Long-Term Liabilities

Business-Type Activities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | | | | | |
| Golf course revenue bonds | $ 650,000 | $ - | $ 150,000 | $ 500,000 | $ 160,000 |

D. Sales Tax Collection Revenue

During 2012, the Economic Development Authority received payments of $68,812 from Cook County to cover the costs incurred by the Authority for planning for future developments of the golf course. The funds received were derived from the one percent sales tax collected by Cook County and are reported as nonoperating revenues in the financial statements.

3. Detailed Notes on All Funds (Continued)

E. Liability Settlement

In June 2013, the Cook County and Grand Marais Joint Economic Development Authority reached a settlement with Short Elliot Hendrickson, Inc., (SEH) to reduce the liability related to prior years' engineering and surveying services performed for the creation of the Sawtooth Cottages Development. On December 31, 2011, the liability reported by the Authority was $141,995. The settlement stated that the Authority shall make annual payments of $10,000 to SEH in 2013, 2014, and 2015. The settlement resulted in a liability reduction of $111,995, which is reported as a special item - liability settlement in the financial statements.

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service (five years for those first eligible for membership after June 30, 2010). 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 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

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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 General Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. 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. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. 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.

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The Authority is required to contribute the following percentages of annual covered payroll in 2012:

| | |
|---|---|
| General Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.25 |

The Authority's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund were:

| 2012 | 2011 | 2010 |
|---|---|---|
| $ 16,994 | $ 16,559 | $ 16,053 |

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

5. 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.

6. Cedar Grove Business Park

The Authority constructed the Cedar Grove Business Park 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 has an agreement with the Authority whereby lot purchasers are to be charged an assessment at the time of the sale to be used to help 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.

7. Contingent Liability

The Authority contracted with KGM Contractors, Inc., (KGM) to construct the Cedar Grove Business Park. As of December 31, 2012, the project is substantially complete. KGM contends that the Authority owes them approximately $395,000 for work performed. The Authority contends that the original contract and subsequent agreements limit the amount owed to $43,722, which is recorded as a contract payable. The remaining amount in dispute of $351,278 is not reported in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

*EXHIBIT A-1*

### BUDGETARY COMPARISON SCHEDULE
### GENERAL FUND
### FOR THE YEAR ENDED DECEMBER 31, 2012

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 148,566 | $ 148,566 | $ 154,474 | $ 5,908 |
| Intergovernmental | - | - | 39,000 | 39,000 |
| Miscellaneous | 12,500 | 12,500 | 13,419 | 919 |
| **Total Revenues** | **$ 161,066** | **$ 161,066** | **$ 206,893** | **$ 45,827** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Urban and economic development** | | | | |
| Salaries | $ 34,000 | $ 34,000 | $ 13,750 | $ 20,250 |
| Payroll benefits | 4,225 | 4,225 | 18,878 | (14,653) |
| Board per diems | 3,600 | 3,600 | 1,860 | 1,740 |
| Legal | 5,000 | 5,000 | 3,684 | 1,316 |
| Professional services | 11,600 | 11,600 | 14,116 | (2,516) |
| Rent | 3,000 | 3,000 | 2,750 | 250 |
| Rent | 6,000 | 6,000 | 4,780 | 1,220 |
| Office | 10,000 | 10,000 | 11,836 | (1,836) |
| Insurance | 12,000 | 12,000 | 8,104 | 3,896 |
| Telephone and internet | 1,440 | 1,440 | 1,347 | 93 |
| Cedar Grove Business Park | 12,500 | 12,500 | - | 12,500 |
| Housing coordinator program | 45,700 | 45,700 | - | 45,700 |
| Affordable housing | - | - | 27,340 | (27,340) |
| Other housing expense | 8,100 | 8,100 | 106,665 | (98,565) |
| Other | 3,901 | 3,901 | 4,523 | (622) |
| **Total Expenditures** | **$ 161,066** | **$ 161,066** | **$ 219,633** | **$ (58,567)** |
| **Excess of Revenues Over (Under) Expenditures** | **$ -** | **$ -** | **$ (12,740)** | **$ (12,740)** |
| **Special Item** | | | | |
| Liability settlement | - | - | 111,995 | (111,995) |
| **Change in Fund Balance** | **$ -** | **$ -** | **$ 99,255** | **$ (124,735)** |
| **Fund Balance - January 1** | **(87,438)** | **(87,438)** | **(87,438)** | **-** |
| **Fund Balance - December 31** | **$ (87,438)** | **$ (87,438)** | **$ 11,817** | **$ (124,735)** |

The notes to the required supplementary information are an integral part of this schedule.

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

Budgetary Information

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

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

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

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# SUPPLEMENTARY INFORMATION

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

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE**
**GOLF COURSE ENTERPRISE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Budget | Actual | Variance |
|---|---|---|---|
| **Operating Revenues** | | | |
| **Sales** | | | |
| Food, beverage, and merchandise | $ 283,000 | $ 225,700 | $ (57,300) |
| Less: cost of goods sold | (168,000) | (132,850) | 35,150 |
| **Net sales** | **$ 115,000** | **$ 92,850** | **$ (22,150)** |
| **Charges for services** | | | |
| Green fees and other charges | 898,000 | 749,891 | (148,109) |
| **Total Operating Revenues** | **$ 1,013,000** | **$ 842,741** | **$ (170,259)** |
| **Operating Expenses** | | | |
| **Current** | | | |
| **Culture and recreation** | | | |
| Salaries and wages | $ 379,500 | $ 360,021 | $ 19,479 |
| Payroll taxes | 58,000 | 49,992 | 8,008 |
| Retirement contribution | 16,000 | 15,997 | 3 |
| Grounds maintenance and supplies | 147,000 | 154,115 | (7,115) |
| Clubhouse maintenance and supplies | 15,000 | 19,242 | (4,242) |
| Golf cart leases and maintenance | 24,000 | 25,890 | (1,890) |
| Insurance | 17,600 | 18,072 | (472) |
| Utilities | 34,700 | 34,537 | 163 |
| Telephone | 3,500 | 2,332 | 1,168 |
| Office | 4,500 | 3,458 | 1,042 |
| Accounting and audit | 12,000 | 12,496 | (496) |
| Legal fees | 5,000 | 3,713 | 1,287 |
| Dues and licenses | 5,000 | 5,485 | (485) |
| Travel | 6,000 | 3,605 | 2,395 |
| Planning | - | 121,563 | (121,563) |
| Marketing | 60,000 | 20,207 | 39,793 |
| Bank charges and fees | 25,000 | 19,039 | 5,961 |
| Other | 25,000 | 20,454 | 4,546 |
| Depreciation | - | 209,322 | (209,322) |
| **Total Expenses** | **$ 837,800** | **$ 1,099,540** | **$ (261,740)** |
| **Operating Income (Loss)** | **$ 175,200** | **$ (256,799)** | **$ (431,999)** |

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

*EXHIBIT B-1*
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE**
**GOLF COURSE ENTERPRISE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Budget | Actual | Variance |
|---|---|---|---|
| **Nonoperating Revenues (Expenses)** | | | |
| Interest income | $ - | $ 185 | $ 185 |
| Lodging tax | 50,000 | 50,000 | - |
| Sales tax | - | 68,812 | 68,812 |
| Insurance reimbursement | - | 22,445 | 22,445 |
| Interest expense | (13,000) | (34,881) | (21,881) |
| **Total Nonoperating Revenues (Expenses)** | **$ 37,000** | **$ 106,561** | **$ 69,561** |
| **Change in Net Position** | **$ 212,200** | **$ (150,238)** | **$ (362,438)** |
| **Net Position - January 1** | **2,037,143** | **2,037,143** | **-** |
| **Net Position - December 31** | **$ 2,249,343** | **$ 1,886,905** | **$ (362,438)** |

**Management and**
**Compliance Section**

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Segregation of Duties

**Criteria:** Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect the Authority's assets, proper segregation of the record-keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

**Condition:** Due to the limited number of personnel, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible.

**Context:** The size of the Cook County and Grand Marais Joint Economic Development Authority and its staffing limits the internal control that management can design and implement into the organization. Without proper segregation of duties, errors or irregularities may not be detected timely.

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

**Cause:** This arrangement is not unusual for an organization the size of the Cook County and Grand Marais Joint Economic Development Authority.

**Recommendation:** Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Commissioners and management be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Board of Commissioners and management continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

*The system that has been implemented seems to be working so far. The Board is mindful of the need to be diligent in oversight of the procedures, and will try to maintain proper control of finances.*

06-2 Payroll Procedures

**Criteria:** Authorization and documentation of salaries to be paid is a key control over payroll expenses and is a basis for resolving any salary disputes.

**Condition:** Employment contracts were not completed, nor salaries documented by Board resolution, for the Executive Director or the golf course manager for 2012.

**Context:** The Executive Director's salary was not documented for the year 2012, in which he was terminated, and the golf course manager was a new position in 2011.

**Effect:** Little or no documentation that the salaries being paid are for properly approved amounts.

**Cause:** Lack of formality by the Authority Board. Salaries being paid were based on amounts approved in prior years, but these also were not always documented.

**Recommendation:** We recommend the Board annually establish and approve compensation levels and related benefits for the Executive Director and the manager of the golf course. This should be in the form of either signed employment contracts or a resolution documented in the official Board minutes of the Authority.

Client's Response:

*The Board is aware of the need to be prompt and attentive of the employee contracts and has set a procedure to make sure employee contracts are in place.*

08-1 Golf Course Internal Controls

**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:** The golf pro, at times, will work cash registers, process daily closing reports, and prepare deposits. The golf pro and maintenance supervisor each have relatives who work at the golf course whom they supervise.

**Context:** The size of the golf course staff limits the internal control that management can design and implement into the organization. It was noted that the Authority hired a golf course manager in 2011, in part to help alleviate and monitor the internal control concerns.

**Effect:** These practices increase the risk of improper recording of financial transactions. Without proper segregation of duties, errors or irregularities may not be detected timely.

**Cause:** The Authority does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties totally.

**Recommendation:** We recommend that the Authority and Board review, re-establish, and monitor internal controls of the golf course. Duties should be segregated to the extent possible.

Client's Response:

*With a new manager in place, we hope the monitoring of the golf course has improved, and as we move forward, better controls will be in place.*

11-1 Audit Adjustments

**Criteria:** 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 of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified a material adjustment that was made to the General Fund to eliminate a payable of $111,995 that was reported by the Authority and should not have been. There was also an adjustment of $76,412 required to record revenues netted against expenses. The adjustments resulted in significant changes to the Authority's financial statements.

**Context:** The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Audit adjustments were necessary to reduce an over-accrual in payables and to record additional revenue and expenses for amounts incorrectly netted against each other.

**Cause:** The adjustment resulted from controls not detecting these errors and the Authority not considering the need for controls over the recording of certain accounting transactions.

**Recommendation:** We recommend that the Authority staff review the trial balances and journal entries in detail to ensure all transactions have been properly recorded to be presented in the financial statements.

Client's Response:

*We will have our treasurer go over the trial balances and report to the Board.*

## II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-2 Prompt Payment of Claims

**Criteria:** The Authority is required by Minn. Stat. § 471.425 to make payment on vendor invoices according to the terms of the contract or within 35 days of the completed delivery of goods or services or the receipt of the invoice, whichever is later.

**Condition:** In our testing of disbursements and other procedures performed, we noted a number of payments that were not paid timely in accordance with the statute.

**Context:** Payments not being made timely could also be an indicator of other problems, such as poor procedural controls, poor internal controls, or cash flow problems.

**Effect:** Noncompliance with Minnesota statutes. Also, payments not made within the required period may be subject to interest or penalties.

**Cause:** This was, in part, due to cash flow problems. The Authority is on a very tight budget and, at certain times of the year, may not have sufficient funds to pay its bills.

**Recommendation:** We recommend the Authority make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

Client's Response:

*The majority of payments not being made on time are a cash flow issue rather than poor internal control.*

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

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority, a component unit of Cook County, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cook County and Grand Marais Joint Economic Development Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and significant deficiencies.

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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 11-1 to be a material weakness.
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. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 96-1, 06-2, and 08-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cook County and Grand Marais Joint Economic Development Authority's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Cook County and Grand Marais Joint Economic Development Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as item 09-2. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

**Other Matters**

The Cook County and Grand Marais Joint Economic Development Authority's written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. The Authority's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

| | |
|---|---|
| */s/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

September 25, 2013