

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COOK COUNTY
GRAND MARAIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013



**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, 2013**

		<u>Term Expires</u>
Elected		
Commissioners		
District 1	Janice Hall*	January 2015
District 2	Garry Gamble	January 2017
District 3	Sue Hakes	January 2015
District 4	Heidi Doo-Kirk	January 2017
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
Court Judge	Mike Cuzzo	January 2017
Appointed		
Assessor/Land Commissioner	Betty Schultz	January 2017
Court Administrator	Diane Herrick-Schmidt	Indefinite
Highway Engineer	David Betts	May 2015
Veteran Services Officer	Pat Strand	Indefinite
Human Services Board		
Chair	Sue Hakes	January 2015
Vice Chair	Jerry Lilja	January 2014
Member	Janice Hall	January 2015
Member	Garry Gamble	January 2017
Member	Carla LaPointe	January 2014
Member	Bruce Martinson	January 2015
Member	Heidi Doo Kirk	January 2017
Director	Sue Futterer	Indefinite

*Chair

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cook County

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the County'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 County'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 County'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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Cook County as of December 31, 2013, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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. 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cook County's basic financial statements. The supplementary information and other information as 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. 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.

The Tax Capacity, Tax Rates, and Percentage of Collections schedule, included in the report as Other Information 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014, on our consideration of Cook County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cook County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(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, 2013. 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 position is \$74,265,513 of which \$54,769,637 is the net investment in capital assets, and \$6,566,123 is restricted to specific purposes; \$12,929,753 remains as unrestricted net position available to help ensure fiscal strength in the face of uncertainty in the continuing level of support by state and federal governments.
- The Cook County and Grand Marais Joint Economic Development Authority (EDA) is shown as a "Discretely Presented Component Unit." The EDA has a total net position of \$5,482,830, of which \$5,280,925 is net investment in capital assets, and \$343,406 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 position increased by \$116,390 for the year ended December 31, 2013. Total net position of the County's discretely presented component unit (EDA) increased by \$963,354. Unrestricted net position for the EDA improved from a negative \$213,101 in 2012 to a negative \$141,501 in 2013. The improvement is mainly due to an increase in investment in capital assets from one percent Local Option Sales Tax that exceeded an operating loss on golf course operations.
- The net cost of governmental activities was \$8,427,131 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 \$8,543,521 just covered the net cost, resulting in the \$116,390 increase in net position referred to above.
- Governmental funds' fund balances decreased \$9,779,629 in 2013. The change was due primarily to \$9,962,130 of Local Option Sales Tax expenditures for a YMCA and for other projects authorized in the one percent legislation.

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 Position 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 Position and the Statement of Activities

The Statement of Net Position 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 position and changes in them. You can think of the County's net position--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 position 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 Position 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 activities are to oversee operation and management of Superior National Golf Course in Lutsen, to develop the Cedar Grove Business Park, and to manage a Housing Rehabilitation Program. 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 Position 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 position (Table 1) and changes in net position (Table 2) of the County's governmental and component unit activities.

Table 1
Net Position

	Governmental Activities		Component Unit Activities	
	2013	2012	2013	2012
Assets				
Current and other assets	\$ 27,403,795	\$ 37,604,320	\$ 515,937	\$ 538,900
Capital assets	<u>70,258,078</u>	<u>60,263,527</u>	<u>5,620,925</u>	<u>4,890,640</u>
Total Assets	<u>\$ 97,661,873</u>	<u>\$ 97,867,847</u>	<u>\$ 6,136,862</u>	<u>\$ 5,429,540</u>
Liabilities				
Long-term debt outstanding	\$ 21,685,481	\$ 22,301,851	\$ 340,000	\$ 500,000
Other liabilities	<u>1,710,879</u>	<u>1,416,873</u>	<u>314,032</u>	<u>410,064</u>
Total Liabilities	<u>\$ 23,396,360</u>	<u>\$ 23,718,724</u>	<u>\$ 654,032</u>	<u>\$ 910,064</u>
Net Position				
Net investment in capital assets	\$ 54,769,637	\$ 54,724,767	\$ 5,280,925	\$ 4,390,640
Restricted	6,566,123	7,165,020	343,406	341,937
Unrestricted	<u>12,929,753</u>	<u>12,259,336</u>	<u>(141,501)</u>	<u>(213,101)</u>
Total Net Position	<u>\$ 74,265,513</u>	<u>\$ 74,149,123</u>	<u>\$ 5,482,830</u>	<u>\$ 4,519,476</u>

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

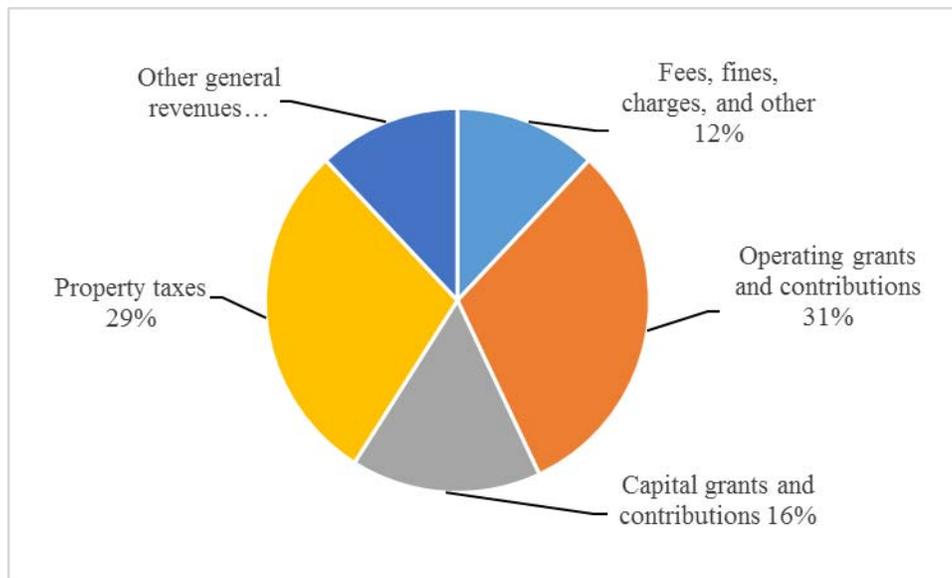
Table 2
Changes in Net Position

	Governmental Activities		Component Unit Activities	
	2013	2012	2013	2012
Revenues				
Program revenues				
Fees, fines, charges, and other	\$ 2,432,961	\$ 2,155,429	\$ 774,141	\$ 842,741
Operating grants and contributions	6,250,569	5,551,680	57,720	54,000
Capital grants and contributions	3,252,686	3,290,206	-	-
General revenues				
Property taxes	5,996,598	5,758,484	149,271	153,444
Other taxes	2,304,253	1,981,212	1,035,249	118,812
Unrestricted grants and contributions	472,152	379,715	-	-
Investment income	(408,936)	272,930	108	189
Miscellaneous	<u>179,454</u>	<u>44,355</u>	<u>84,541</u>	<u>147,859</u>
Total Revenues	<u>\$ 20,479,737</u>	<u>\$ 19,434,011</u>	<u>\$ 2,101,030</u>	<u>\$ 1,317,045</u>

	Governmental Activities		Component Unit Activities	
	2013	2012	2013	2012
Expenses				
General government	\$ 4,318,073	\$ 4,554,062	\$ -	\$ -
Public safety	3,492,924	3,153,387	-	-
Highways and streets	5,251,578	5,004,171	-	-
Sanitation	412,870	460,061	-	-
Human services	2,075,003	2,063,005	-	-
Health	312,572	299,624	-	-
Culture and recreation	1,169,240	746,855	-	-
Golf course	-	-	962,530	1,134,421
Conservation of natural resources	1,031,171	416,567	-	-
Economic development	1,858,942	513,355	175,146	238,133
Bond issuance and interest	440,974	569,961	-	-
Total Expenses	\$ 20,363,347	\$ 17,781,048	\$ 1,137,676	\$ 1,372,554
Increase (Decrease) in Net Position	\$ 116,390	\$ 1,652,963	\$ 963,354	\$ (55,509)
Net Position - January 1	74,149,123	72,496,160	4,519,476	4,574,985
Net Position - December 31	<u>\$ 74,265,513</u>	<u>\$ 74,149,123</u>	<u>\$ 5,482,830</u>	<u>\$ 4,519,476</u>

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

Total County Revenues by Sources



Governmental Activities

The cost of all governmental activities this year was \$20,363,347, a 14.5 percent increase over 2012. However, as shown in the Statement of Activities (Exhibit 2), the amount taxpayers ultimately financed for these activities through County taxes was \$5,996,598, four percent more than 2012. Some of the cost was paid by those who directly benefited from the programs (\$2,432,961) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,503,255).

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	
	2013	2012	2013	2012
General government	\$ 4,318,073	\$ 4,554,062	\$ 1,347,183	\$ 1,474,665
Public safety	3,492,924	3,153,387	2,471,504	2,122,338
Highways and streets	5,251,578	5,004,171	623,906	1,689,111
Sanitation	412,870	460,061	145,277	321,427
Human services	2,075,003	2,063,005	1,112,773	1,060,910
Culture and recreation	1,169,240	746,855	822,845	545,758
Conservation of natural resources	1,031,171	416,567	735,328	337,682
Economic development	1,858,942	513,355	881,013	(1,288,245)
All others	753,546	869,585	287,302	520,087
Total	\$ 20,363,347	\$ 17,781,048	\$ 8,427,131	\$ 6,783,733

The County's Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$22,342,611 as compared to last year's total of \$32,122,240. The decrease was primarily due to use of Local Option Sales Taxes for various authorized projects. Note: capital assets are not shown in reporting governmental funds. Please see Exhibit 3 for details.

General Fund Budgetary Highlights

There were no significant changes to the final approved budget for the year ended December 31, 2013.

Expenditures, excluding capital, were \$1,733,212 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 offset by revenues that exceeded budget by \$1,253,422. Grant revenues and related expenditures, and capital were generally not budgeted. Please see Exhibit A-1 for details.

CAPITAL ASSETS

At the end of 2013, the County had a net investment of \$70,258,078 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 \$9,994,551, or seventeen percent over last year.

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

	Governmental Activities	
	2013	2012
Land and easements	\$ 1,781,918	\$ 1,573,271
Construction in progress	13,538,007	8,494,246
Buildings and improvements	7,459,288	7,209,170
Machinery, vehicles, furniture, and equipment	3,583,813	3,126,356
Infrastructure	43,895,052	39,860,484
Total	<u>\$ 70,258,078</u>	<u>\$ 60,263,527</u>

The majority of the changes in 2013 are work in progress for a YMCA and road improvements. Please see Note 3.A.3. for details.

DEBT

At year-end, the County had \$21,125,000 in bonds and notes outstanding, versus \$21,750,000 last year. The small decrease is due to the annual payments of the Capital improvement bonds and the sales tax revenue bonds.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	2013	2012
Capital Improvement (Refunding) Bonds of 2011	\$ 1,070,000	\$ 1,415,000
Sales Tax Revenue Bonds	17,880,000	18,160,000
Capital Equipment Note	2,175,000	2,175,000
Total	<u>\$ 21,125,000</u>	<u>\$ 21,750,000</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 2013 budget, tax levy, and fees that will be charged for various activities:

- continuing and increasing unfunded State mandates,
- the need to maintain an unrestricted fund balance of at least 50 percent of operating expenditures, and
- the continuing weak economy and its affect 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 POSITION
DECEMBER 31, 2013**

	Primary Government Governmental Activities	Component Unit Cook County and Grand Marais Joint Economic Development Authority
<u>Assets</u>		
Cash and pooled investments	\$ 19,186,884	\$ 98,462
Petty cash and change funds	1,217	-
Investments	16,077	-
Taxes receivable		
Prior	245,255	12,548
Accounts receivable - net	512,831	13,246
Lodging taxes receivable	4,342	-
Accrued interest receivable	37,020	-
Loan receivable	1,244,184	-
Due from other governments	5,552,690	-
Inventories	602,528	42,202
Prepaid items	767	
Restricted assets		
Cash and pooled investments	-	349,479
Capital assets		
Non-depreciable	15,319,925	3,751,068
Depreciable - net of accumulated depreciation	54,938,153	1,869,857
Total Assets	\$ 97,661,873	\$ 6,136,862
<u>Liabilities</u>		
Accounts payable	\$ 1,057,454	\$ 42,786
Salaries payable	313,304	-
Contracts payable	127,237	43,722
Gift certificates	-	15,511
Due to other governments	33,467	185,000
Accrued interest payable	108,167	6,073
Unearned revenue	71,250	20,940
Long-term liabilities		
Due within one year	1,155,000	340,000
Due in more than one year	20,530,481	-
Total Liabilities	\$ 23,396,360	\$ 654,032

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Cook County and Grand Marais Joint Economic Development Authority</u>
<u>Net Position</u>		
Net investment in capital assets	\$ 54,769,637	\$ 5,280,925
Restricted for		
General government	310,822	-
Highways and streets	1,898,409	-
Public safety	178,868	-
Culture and recreation	2,878,007	-
Conservation of natural resources	43,834	-
Economic development	409,359	-
Debt service	-	343,406
Environmental improvements	846,824	-
Unrestricted	<u>12,929,753</u>	<u>(141,501)</u>
Total Net Position	<u>\$ 74,265,513</u>	<u>\$ 5,482,830</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 4,318,073	\$ 522,368
Public safety	3,492,924	380,425
Highways and streets	5,251,578	468,539
Sanitation	412,870	184,920
Human services	2,075,003	321,956
Health	312,572	31,308
Culture and recreation	1,169,240	23,228
Conservation of natural resources	1,031,171	1,770
Economic development	1,858,942	498,447
Interest expense and bond issuance costs	440,974	-
Total Governmental Activities	\$ 20,363,347	\$ 2,432,961
Component unit		
Cook County and Grand Marais Joint Economic Development Authority	\$ 1,137,676	\$ 774,141

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
Gain on sale of capital assets
Unrestricted investment earnings
Miscellaneous

Total general revenues and special items

Change in net position

Net Position - Beginning

Net Position - 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 Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
\$ 2,448,522	\$ -	\$ (1,347,183)	
640,995	-	(2,471,504)	
1,331,601	2,827,532	(623,906)	
82,673	-	(145,277)	
640,274	-	(1,112,773)	
434,936	-	153,672	
323,167	-	(822,845)	
294,073	-	(735,328)	
54,328	425,154	(881,013)	
-	-	(440,974)	
<u>\$ 6,250,569</u>	<u>\$ 3,252,686</u>	<u>\$ (8,427,131)</u>	
<u>\$ 57,720</u>	<u>\$ -</u>		<u>\$ (305,815)</u>
		\$ 5,996,598	\$ 149,271
		-	50,000
		9,990	-
		1,516,840	985,249
		415,583	-
		361,840	-
		472,152	-
		-	900
		(408,936)	108
		179,454	83,641
		<u>\$ 8,543,521</u>	<u>\$ 1,269,169</u>
		\$ 116,390	\$ 963,354
		<u>74,149,123</u>	<u>4,519,476</u>
		<u>\$ 74,265,513</u>	<u>\$ 5,482,830</u>

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 6,314,622	\$ 621,834
Petty cash and change funds	1,217	-
Investments	-	-
Taxes receivable - Prior	104,454	55,759
Accounts receivable	273,044	58,507
Lodging taxes receivable	-	-
Accrued interest receivable	37,020	-
Loans receivable	1,244,184	-
Due from other funds	157,744	7,631
Due from other governments	2,961,598	2,157,417
Prepaid items	-	-
Inventories	-	602,528
Advance to other funds	13,088	-
	\$ 11,106,971	\$ 3,503,676
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 148,251	\$ 109,325
Salaries payable	185,387	82,600
Contracts payable	-	127,237
Due to other funds	8,071	10,197
Due to other governments	17,071	-
Unearned revenue	8,630	-
Advance from other funds	-	-
	\$ 367,410	\$ 329,359
Deferred Inflows of Resources		
Unavailable revenue		
Taxes	\$ 82,654	\$ 44,128
Grants	3,629	1,942,272
Long-term receivables	1,237,676	-
	\$ 1,323,959	\$ 1,986,400

EXHIBIT 3

Public Health and Human Services	Local Option Sales Tax	Nonmajor Funds	Total
\$ 749,607	\$ 8,172,183	\$ 3,328,638	\$ 19,186,884
-	-	-	1,217
16,077	-	-	16,077
41,404	-	43,638	245,255
44,564	-	136,716	512,831
-	-	4,342	4,342
-	-	-	37,020
-	-	-	1,244,184
440	-	-	165,815
182,208	251,467	-	5,552,690
767	-	-	767
-	-	-	602,528
-	-	-	13,088
<u>\$ 1,035,067</u>	<u>\$ 8,423,650</u>	<u>\$ 3,513,334</u>	<u>\$ 27,582,698</u>
\$ 90,718	\$ 690,260	\$ 18,900	\$ 1,057,454
45,317	-	-	313,304
-	-	-	127,237
21,849	-	125,698	165,815
16,396	-	-	33,467
62,620	-	-	71,250
-	-	13,088	13,088
<u>\$ 236,900</u>	<u>\$ 690,260</u>	<u>\$ 157,686</u>	<u>\$ 1,781,615</u>
\$ 32,768	\$ -	\$ 34,535	\$ 194,085
80,810	-	-	2,026,711
-	-	-	1,237,676
<u>\$ 113,578</u>	<u>\$ -</u>	<u>\$ 34,535</u>	<u>\$ 3,458,472</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Environmental improvements - principal	\$ -	\$ -
Inventories	-	602,528
Restricted		
EDA	-	-
Environmental improvements	-	-
Capital equipment	-	-
Special projects	-	-
Revolving loans	405,011	-
Law library	22,627	-
National forest Title III	90,549	-
Recorder's technology equipment	88,030	-
Recorder's compliance	104,095	-
Enhanced 911	109,601	-
Attorney's forfeiture	87	-
Drug forfeitures	1,096	-
DWI forfeitures	12,765	-
Extension services	43,253	-
Sheriff's contingency fund	5,000	-
20% unorganized townships	703	-
DNR snowmobile	14,496	-
Conceal and carry	35,818	-
Election equipment	4,731	-
Parks and recreation	19,463	-
Law enforcement	92	-
Timber development	581	-
Forfeited tax	-	-
Assigned		
Subsequent year's expenses	19,751	-
Sprinkler deposits	98,500	-
Emergency purposes	8,068	-
Hovland dock	1,471	-
Planning and zoning permit software	6,113	-
Telephone	115,564	-
Skateboard park	10,046	-
Data processing equipment	349,692	-
Elections	41,877	-
Sheriff's cars	140,176	-

EXHIBIT 3
(Continued)

<u>Public Health and Human Services</u>	<u>Local Option Sales Tax</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 584,434	\$ 584,434
-	-	-	602,528
-	-	4,348	4,348
-	-	262,390	262,390
-	-	725,997	725,997
-	7,733,390	-	7,733,390
-	-	-	405,011
-	-	-	22,627
-	-	-	90,549
-	-	-	88,030
-	-	-	104,095
-	-	-	109,601
-	-	-	87
-	-	-	1,096
-	-	-	12,765
-	-	-	43,253
-	-	-	5,000
-	-	-	703
-	-	-	14,496
-	-	-	35,818
-	-	-	4,731
-	-	-	19,463
-	-	-	92
-	-	-	581
-	-	11,022	11,022
-	-	-	19,751
-	-	-	98,500
-	-	-	8,068
-	-	-	1,471
-	-	-	6,113
-	-	-	115,564
-	-	-	10,046
-	-	-	349,692
-	-	-	41,877
-	-	-	140,176

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
Fund Balances		
Assigned (Continued)		
Landfill future development	131,430	-
County cars	109,573	-
Photocopiers	81,230	-
County landings maintenance	53,387	-
Hazardous materials team	1,383	-
E-911 signs	6,003	-
Plat book	2,528	-
NERCC facilities	22,118	-
Sheriff's response unit	833	-
Backpack program	2,865	-
Highways and streets	-	585,389
Human services	-	-
Building improvements	-	-
Debt service	-	-
Economic development	-	-
Unassigned	7,254,996	-
Total Fund Balances	\$ 9,415,602	\$ 1,187,917
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 11,106,971	\$ 3,503,676

EXHIBIT 3
(Continued)

<u>Public Health and Human Services</u>	<u>Local Option Sales Tax</u>	<u>Nonmajor Funds</u>	<u>Total</u>
-	-	-	131,430
-	-	-	109,573
-	-	-	81,230
-	-	-	53,387
-	-	-	1,383
-	-	-	6,003
-	-	-	2,528
-	-	-	22,118
-	-	-	833
-	-	-	2,865
-	-	-	585,389
684,589	-	-	684,589
-	-	672,896	672,896
-	-	787,971	787,971
-	-	272,055	272,055
-	-	-	7,254,996
<u>\$ 684,589</u>	<u>\$ 7,733,390</u>	<u>\$ 3,321,113</u>	<u>\$ 22,342,611</u>
<u><u>\$ 1,035,067</u></u>	<u><u>\$ 8,423,650</u></u>	<u><u>\$ 3,513,334</u></u>	<u><u>\$ 27,582,698</u></u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balances - total governmental funds (Exhibit 3)		\$	22,342,611
Amounts reported for governmental activities in the statement of net position 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.			70,258,078
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,458,472
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
Capital improvement bonds	\$	(1,070,000)	
Sales tax revenue bonds		(17,880,000)	
General obligation notes		(2,175,000)	
Accrued interest payable		(108,167)	
Compensated absences		(560,481)	
		<u> </u>	<u>(21,793,648)</u>
Net Position of Governmental Activities (Exhibit 1)			<u><u>\$ 74,265,513</u></u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Road and Bridge
Revenues		
Taxes	\$ 2,830,359	\$ 1,420,120
Special assessments	42,688	-
Licenses and permits	57,578	-
Intergovernmental	4,808,122	5,091,353
Charges for services	435,627	468,539
Fines and forfeits	37,823	-
Gifts and contributions	22,863	-
Investment earnings	(421,257)	-
Miscellaneous	678,092	179,454
	\$ 8,491,895	\$ 7,159,466
Expenditures		
Current		
General government	\$ 3,453,065	\$ -
Public safety	3,101,524	-
Highways and streets	-	7,194,791
Sanitation	386,138	-
Human services	-	-
Health	-	-
Culture and recreation	899,626	-
Conservation of natural resources	805,020	-
Economic development	386,412	-
Capital outlay	1,149,357	-
Debt service		
Principal	-	-
Interest	-	-
Administrative (fiscal) charges	-	-
	\$ 10,181,142	\$ 7,194,791
Excess of Revenues Over (Under) Expenditures	\$ (1,689,247)	\$ (35,325)
Other Financing Sources (Uses)		
Transfers in	\$ 404,782	\$ 798,000
Transfers out	-	-
	\$ 404,782	\$ 798,000
Net Change in Fund Balance	\$ (1,284,465)	\$ 762,675
Fund Balance - January 1	10,700,067	541,099
Increase (decrease) in inventories	-	(115,857)
Fund Balance - December 31	\$ 9,415,602	\$ 1,187,917

EXHIBIT 5

Public Health and Human Services	Local Options Sales Tax	Nonmajor Funds	Total
\$ 1,027,952	\$ 1,516,840	\$ 1,164,594	\$ 7,959,865
-	-	-	42,688
14,051	-	-	71,629
840,340	-	479,482	11,219,297
175,961	-	-	1,080,127
-	-	-	37,823
-	-	-	22,863
-	-	4,154	(417,103)
145,995	-	191,554	1,195,095
\$ 2,204,299	\$ 1,516,840	\$ 1,839,784	\$ 21,212,284
\$ -	\$ 369,113	\$ 11,470	\$ 3,833,648
-	-	-	3,101,524
-	-	-	7,194,791
-	-	-	386,138
2,055,060	-	-	2,055,060
312,572	-	-	312,572
-	81,894	-	981,520
-	218,000	1,410	1,024,430
-	985,249	161,300	1,532,961
-	7,591,318	629,119	9,369,794
-	280,000	345,000	625,000
-	435,656	21,162	456,818
-	900	900	1,800
\$ 2,367,632	\$ 9,962,130	\$ 1,170,361	\$ 30,876,056
\$ (163,333)	\$ (8,445,290)	\$ 669,423	\$ (9,663,772)
\$ -	\$ -	\$ 170,615	\$ 1,373,397
-	-	(1,373,397)	(1,373,397)
\$ -	\$ -	\$ (1,202,782)	\$ -
\$ (163,333)	\$ (8,445,290)	\$ (533,359)	\$ (9,663,772)
847,922	16,178,680	3,854,472	32,122,240
-	-	-	(115,857)
\$ 684,589	\$ 7,733,390	\$ 3,321,113	\$ 22,342,611

**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, 2013**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (9,663,772)

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 inflows of resources - December 31	\$ 3,458,472	
Deferred inflows of resources - January 1	<u>(4,191,019)</u>	(732,547)

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	\$ 12,260,100	
Net book value of assets disposed of	(1,372)	
Current year depreciation	<u>(2,264,177)</u>	9,994,551

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal repayments - General obligation bonds	\$ <u>625,000</u>	<u>625,000</u>
---	-------------------	----------------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 17,645	
Change in compensated absences	(8,630)	
Change in inventories	<u>(115,857)</u>	<u>(106,842)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 116,390

FIDUCIARY FUNDS

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 696,369
Accounts receivable	81,566
Due from other governments	<u>21</u>
Total Assets	<u><u>\$ 777,956</u></u>
<u>Liabilities</u>	
Accounts payable	\$ 126,315
Due to other governments	<u>651,641</u>
Total Liabilities	<u><u>\$ 777,956</u></u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. 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 County are discussed below.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statement Nos. 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity; Omnibus, and amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements of inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.3. in the notes to the financial statements for additional information regarding the County's deferred outflows/inflows of resources.

Restatement of December 31, 2012, net position or fund balance was not required as a result of adopting these changes in accounting principles.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

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.

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 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 position, 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 position are reported in three parts: (1) net investment in capital assets, (2) restricted net positions, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County 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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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. 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, Deferred Outflows/Inflows of Resources and Net Position 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, 2013, 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 losses for 2013 were \$421,257.

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). The investment in the pool is measured at the net asset value per share provided by the pool.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity
(Continued)

2. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as “due to/from other funds.”

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Loans receivable consist of the outstanding balances of economic development loans to private enterprises. The funds used for these loans are from the State of Minnesota Small Cities Grant Program.

3. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/ expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

3. Deferred Outflows/Inflows of Resources (Continued)

for reporting in this category. Accordingly, this item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

4. 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.

5. 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

5. Capital Assets (Continued)

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

6. 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.

7. Unearned Revenue

Governmental funds and the government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

8. 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 position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

8. Long-Term Obligations (Continued)

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.

9. Classification of Net Position

Net position in the government-wide and the component unit financial 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 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 through constitutional provisions or enabling legislation.

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity
(Continued)

10. Classification of Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources of the governmental funds. These classifications are as follows:

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

Restricted - amounts of fund balance subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions and enabling legislation.

Committed – amounts that can be used only for specific purposes as imposed by formal action (resolution) of the County Board. Those committed amount cannot be used for other purposes unless the County Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General fund, assigned fund balance represents the remaining positive amounts that is not restricted or committed. In the General Fund, assigned amounts represent intended uses as determined by the County Board, or by the Auditor-Treasurer.

Unassigned - the residual classification in the General Fund and 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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

10. Classification of Fund Balance (Continued)

The County 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.

11. 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

For the year ended December 31, 2013, expenditures exceeded appropriations in the following funds:

General Fund	\$ 2,628,169	Primarily funded by greater than anticipated revenues, much of which correspond to the excess expenditures.
Road and Bridge Fund	1,308,257	Primarily funded by greater than anticipated revenues, much of which correspond to the excess expenditures.
Public Health and Human Services Special Revenue Fund	24,946	Funded by increased reimbursements which are tied to expenditures and by use of fund balance.

**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	\$ 19,186,884
Petty cash and change funds	1,217
Investments	16,077
Cook County and Grand Marais Joint Economic Development Authority component unit	
Cash and pooled investments	98,462
Restricted assets held by trustee	349,479
Fiduciary funds	
Cash and pooled investments	<u>696,369</u>
 Total Cash and Investments	 <u><u>\$ 20,348,488</u></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 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, 2013, the primary government's bank balances of \$2,628,068 were not exposed to custodial credit risk.

The Cook County and Grand Marais Joint Economic Development Authority component unit had bank balances of \$95,452 at December 31, 2013, 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;
- (4) bankers' acceptances of United States banks;

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

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	\$	1,863,646
Government securities		
Insured		10,303,748
Uninsured, held by counterparty		2,156,343

Concentration of Credit Risk

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

The following table presents the County's cash and pooled investment balances at December 31, 2013, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation Discount Note	Aaa	Moody's	1.34%	05/27/2020	\$ 232,812
Federal Home Loan Bank Note	Aaa	Moody's		10/25/2022	144,561
Federal Home Loan Bank Note	AA+	S&P		12/28/2022	243,275
Federal Home Loan Bank Note	Aaa	Moody's		01/30/2023	941,860
Federal Home Loan Bank Note	Aaa	Moody's		01/30/2023	473,300
Federal Home Loan Bank Note	Aaa	Moody's		01/30/2023	954,280
Federal Home Loan Bank Note	Aaa	Moody's		02/08/2023	562,326

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal Home Loan Bank Note	Aaa	Moody's		02/14/2023	\$ 476,350
Federal Home Loan Bank Note	AA+	S&P		02/22/2023	191,828
Federal Home Loan Bank Note	Aaa	Moody's		03/14/2023	482,680
Federal Home Loan Bank Note	Aaa	Moody's		03/20/2023	477,650
Federal Home Loan Bank Note	Aaa	Moody's		05/08/2023	689,370
Federal Home Loan Bank Note	Aaa	Moody's		05/23/2023	466,755
Federal Home Loan Bank Note	Aaa	Moody's		06/06/2023	471,130
Federal Home Loan Bank Note	Aaa	Moody's		06/20/2023	465,370
Federal Home Loan Bank Note	Aaa	Moody's		06/27/2023	292,683
Federal Home Loan Bank Note	Aaa	Moody's		06/27/2023	379,532
Federal Home Loan Bank Note	Aaa	Moody's		05/22/2023	686,723
Federal Home Loan Bank Note	Aaa	Moody's		05/23/2023	700,133
Federal Home Loan Bank Note	Aaa	Moody's		06/06/2023	471,130
Total Federal Home Loan Bank Notes			55.06%		\$ 9,570,936
Governmental National Mortgage Association Notes	N/A	N/A	15.28%	01/20/2042	\$ 2,656,343
Investment pools/mutual funds					
Wells Fargo Treasury Money Market Fund	N/A	N/A		N/A	\$ 2,123,561
Ehlers Money market	N/A	N/A		N/A	933,324
MAGIC Fund	N/A	N/A		N/A	1,385
Total investment pools/mutual funds			17.60%		\$ 3,058,270
Certificates of deposit - Negotiable					
GE Capital Bank	N/A	N/A		07/13/2018	\$ 247,680
CIT Bank Salt Lake UT	N/A	N/A		06/27/2019	244,331
World's Foremost Bank	N/A	N/A		05/08/2023	187,114
Grand Marais State	N/A	N/A		01/03/2014	249,230
Security State Bank Aitkin	N/A	N/A		01/03/2014	248,987
HSBC BK	N/A	N/A		08/04/2023	213,556
BMO Harris	N/A	N/A		08/21/2024	237,748
Suntrust	N/A	N/A		05/28/2014	235,000
Total certificates of deposit - negotiable			10.72%		\$ 1,863,646
Total pooled investments					\$ 17,382,007
Deposits					2,501,246
Petty cash					1,217
Fund investments					16,077
Deposits - component unit					447,941
Total Cash and Investments					\$ 20,348,488

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2013, 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	\$ 249,597	\$ -
Accounts	512,831	-
Accrued interest	37,020	-
Loans	1,244,184	1,134,509
Due from other governments	5,552,690	904,982
Total Governmental Activities	\$ 7,596,322	\$ 2,039,491

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and easements	\$ 1,573,271	\$ 208,647	\$ -	\$ 1,781,918
Construction in progress	8,494,246	10,443,895	5,400,134	13,538,007
Total capital assets not depreciated	\$ 10,067,517	\$ 10,652,542	\$ 5,400,134	\$ 15,319,925
Capital assets depreciated				
Buildings	\$ 10,530,474	\$ 583,574	\$ -	\$ 11,114,048
Improvements other than buildings	998,062	-	-	998,062
Machinery, vehicles, furniture, and Equipment	8,041,579	1,200,328	418,091	8,823,816
Infrastructure	55,463,910	5,223,790	-	60,687,700
Total capital assets depreciated	\$ 75,034,025	\$ 7,007,692	\$ 418,091	\$ 81,623,626

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 3,887,175	\$ 282,841	\$ -	\$ 4,170,016
Improvements other than buildings	432,191	50,615	-	482,806
Machinery, vehicles, furniture, and equipment	4,915,223	741,499	416,719	5,240,003
Infrastructure	<u>15,603,426</u>	<u>1,189,222</u>	<u>-</u>	<u>16,792,648</u>
 Total accumulated depreciation	<u>\$ 24,838,015</u>	<u>\$ 2,264,177</u>	<u>\$ 416,719</u>	<u>\$ 26,685,473</u>
 Total capital assets depreciated, net	<u>\$ 50,196,010</u>	<u>\$ 4,743,515</u>	<u>\$ 1,372</u>	<u>\$ 54,938,153</u>
 Capital Assets, Net	<u>\$ 60,263,527</u>	<u>\$ 15,396,057</u>	<u>\$ 5,401,506</u>	<u>\$ 70,258,078</u>

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

Governmental Activities	
General government	\$ 186,272
Public safety	281,410
Highways and streets, including depreciation of infrastructure assets	1,547,118
Sanitation	39,341
Culture and recreation	44,116
Conservation of natural resources	1,405
Economic development	<u>164,515</u>
 Total Depreciation Expense - Governmental Activities	<u>\$ 2,264,177</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, 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	Road and Bridge Fund	\$ 10,197	Charges for services
	Public Health and Human Services Fund	21,849	Reimburse for supplies and services
	Airport Fund	4	Charges for services
	Forfeited Tax Fund	<u>125,694</u>	To fund deficit cash
Total Due to General Fund		\$ 157,744	
Road and Bridge Fund	General Fund	7,631	To transfer grant money and charges for services
Public Health and Human Services Fund	General Fund	<u>440</u>	Charges for services
Total Due To/From Other Funds		<u>\$ 165,815</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, 2013, is \$13,088.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Purpose</u>
Debt Service Fund	General Fund	\$ 404,782	Equipment purchases
	Road and Bridge Fund	798,000	Equipment purchases
	Building Fund	<u>170,615</u>	Equipment purchases
Total Transfers		<u>\$ 1,373,397</u>	

C. Liabilities

1. Payables

Payables at December 31, 2013, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 1,057,454
Salaries	313,304
Contracts	127,237
Due to other governments	<u>33,467</u>
Total Payables	<u>\$ 1,531,462</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2013
Capital Improvement (Refunding) Bonds of 2011	2016	\$345,000 - \$360,000	0.55 - 1.30	\$ 1,415,000	\$ 1,070,000
Sales Tax Revenue Bonds of 2011	2032	\$280,000 - \$565,000	2.00 - 3.65	8,500,000	8,220,000
Taxable Sales Tax Revenue Bonds of 2012	2035	\$160,000 - \$1,240,000	2.00 - 3.30	9,660,000	<u>9,660,000</u>
Total General Obligation Bonds, Net					<u>\$ 18,950,000</u>
General Obligation Notes					
Capital Equipment Notes of 2012	2020	\$305,000 - \$320,000	0.35 - 1.10	2,175,000	<u>\$ 2,175,000</u>

All long-term debt except for the sales tax revenue bonds is paid by the Debt Service Fund. The sales tax revenue bonds debt service is paid by the Local Option Sales Tax Special Revenue Fund.

3. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Year Ending December 31	Capital Improvement and Sales Tax Revenue Bonds		General Obligation Capital Equipment Notes	
	Principal	Interest	Principal	Interest
2014	\$ 850,000	\$ 542,031	\$ 305,000	\$ 14,464
2015	895,000	528,664	305,000	13,244
2016	920,000	513,549	310,000	11,783
2017	575,000	498,084	310,000	10,000
2018	600,000	482,734	310,000	7,752
2019 - 2023	3,375,000	2,130,587	635,000	6,776
2024 - 2028	4,150,000	1,587,142	-	-
2029 - 2033	5,150,000	844,230	-	-
2034 - 2035	2,435,000	80,800	-	-
Total	<u>\$ 18,950,000</u>	<u>\$ 7,207,821</u>	<u>\$ 2,175,000</u>	<u>\$ 64,019</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Capital improvement bonds	\$ 1,415,000	\$ -	\$ 345,000	\$ 1,070,000	\$ 355,000
Sales tax revenue bonds	8,500,000	-	280,000	8,220,000	335,000
Taxable sales tax revenue bonds	9,660,000	-	-	9,660,000	160,000
Total bonds payable	\$ 19,575,000	\$ -	\$ 625,000	\$ 18,950,000	\$ 850,000
Notes payable					
Capital equipment notes	2,175,000	-	-	2,175,000	305,000
Compensated absences	551,851	441,803	433,173	560,481	-
Long-Term Liabilities	\$ 22,301,851	\$ 441,803	\$ 1,058,173	\$ 21,685,481	\$ 1,155,000

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
- General Obligation Sales Tax Revenue Bonds, Series 2012A, December 31, 2012
- Taxable General Obligation Sales Tax Revenue Bonds, Series 2012B, December 13, 2012

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Cook County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). 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).

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.

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 highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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 remaining year. 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 remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for 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.

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2013:

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, 2013, 2012, and 2011, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 301,347	\$ 285,707	\$ 280,337
Public Employees Police and Fire Fund	125,764	121,384	114,460

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

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

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 6,429	\$ 6,429
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 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 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 \$470,000 per claim in 2013 and \$480,000 per claim in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Arrowhead Regional Corrections (Continued)

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. Cook County provided \$267,866 in funding during 2013.

Separate financial information can be obtained from:

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

Carlton-Cook-Lake-St.Louis 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 2013.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Carlton-Cook-Lake-St.Louis Community Health Board (Continued)

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 a “service delivery area”, and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for the service delivery area. The County is not a funding mechanism for this organization.

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

Separate financial information can be obtained from:

Northeast Minnesota Office of Job Training
820 North 9th Street, Suite 210
Virginia, Minnesota 55792

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Minnesota Counties Information System (MCIS)

Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of operating and maintaining data processing facilities and management information systems for use by its members.

MCIS is governed by a 13-member Board, composed of a member appointed by each of the participating county's Board of Commissioners. Financing is obtained through user charges to the member. 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.

Separate financial information can be obtained from:

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

Northern Counties Land Use Coordinating Board

The Northern Counties Land Use Coordinating 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, 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 comprise 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 provided \$2,000 to this organization during 2013.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northern Counties Land Use Coordinating Board (Continued)

Separate financial information can be obtained from:

Northern Counties Land Use Coordinating Board
St. Louis County Courthouse
100 North 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.

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, 2012, is as follows:

Total Assets	\$	200,164
Total Liabilities		200,164

Separate financial information can be obtained from:

Lake County
601 3rd Avenue
Two Harbors, Minnesota 55616

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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. In 2012, St. Louis County joined the Arrowhead Health Alliance.

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 2013.

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.

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 council member 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 2013.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northeast Minnesota Regional Radio Board (Continued)

Separate financial information can be obtained from:

Itasca County
123 N.E. 4th Street
Grand Rapids, Minnesota 55744-2847

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. During the year, the County made payments of \$2,500 to the Board.

Community Health Information Collaborative

The Community Health Information Collaborative (CHIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the CHIC during 2013.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Region Two - Northeast Minnesota Homeland Security Emergency Management Organization

The Region Two - Northeast Minnesota Security Emergency Management Organization (NERHSEM) was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the NERHSEM region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Cook County's responsibility does not extend beyond making this appointment.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Cook, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd and Traverse Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. The County's responsibility does not extend beyond making this appointment.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Sentence to Service

Cook County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Cook County has no operational or financial control over the STS program. The County does not budget for any percentage of this program.

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.

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.

**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)

Basis of Presentation

The Authority prepares separate financial statements.

Basis of Accounting

The Authority's governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Its enterprise fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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). The investment in the pool is measured by the net asset value per share provided by the pool.

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 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.

**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)

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:

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

B. Detailed Notes

1. Assets

Receivables

The Authority's receivables as of December 31, 2013, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes receivable	\$ 12,548	\$ -
Accounts receivable	13,246	-
Total	\$ 25,794	\$ -

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

B. Detailed Notes

1. Assets (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 295,658	\$ -	\$ -	\$ 295,658
Construction in progress	2,530,060	925,350	-	3,455,410
Total capital assets not depreciated	<u>\$ 2,825,718</u>	<u>\$ 925,350</u>	<u>\$ -</u>	<u>\$ 3,751,068</u>
Capital assets depreciated				
Land improvements	\$ 4,424,884	\$ -	\$ -	\$ 4,424,884
Buildings and structures	372,371	-	-	372,371
Furniture and equipment	1,046,708	-	7,250	1,039,458
Total capital assets depreciated	<u>\$ 5,843,963</u>	<u>\$ -</u>	<u>\$ 7,250</u>	<u>\$ 5,836,713</u>
Less: accumulated depreciation for				
Land improvements	\$ 2,581,973	\$ 151,467	\$ -	\$ 2,733,440
Buildings and structures	369,628	2,743	-	372,371
Furniture and equipment	827,440	40,855	7,250	861,045
Total accumulated depreciation	<u>\$ 3,779,041</u>	<u>\$ 195,065</u>	<u>\$ 7,250</u>	<u>\$ 3,966,856</u>
Total capital assets depreciated, net	<u>\$ 2,064,922</u>	<u>\$ (195,065)</u>	<u>\$ -</u>	<u>\$ 1,869,857</u>
Capital Assets, Net	<u>\$ 4,890,640</u>	<u>\$ 730,285</u>	<u>\$ -</u>	<u>\$ 5,620,925</u>

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

Golf course	<u>\$ 195,065</u>
-------------	-------------------

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.

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

B. Detailed Notes (Continued)

2. Liabilities

Operating Leases

The Authority leases golf carts under non-cancelable operating leases. Total costs for such leases were \$27,329 for the year ended December 31, 2013. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2014	\$ 20,846

Short-Term Debt

The Authority took out a loan \$225,000 in 2012 from Cook County to help pay operating costs. The Authority took out a loan of \$10,000 in 2013 from the City of Grand Marais to help make contractor payments.

Short-term debt activity for the year ended December 31, 2013, is:

	Beginning Balance	Additions/ Advances	Payments	Ending Balance
Due to other governments	\$ 225,000	\$ 10,000	\$ 50,000	\$ 185,000

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2013
1998 Golf Course Revenue Bonds	2015	\$35,000 - \$175,000	4.40 - 5.60	\$ 1,820,000	\$ 340,000

The debt service requirements at December 31, 2013, were \$340,000 in principal and \$14,379 in interest. The Revenue Bonds were paid in full in February 2014.

**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	\$ 500,000	\$ -	\$ 160,000	\$ 340,000	\$ 340,000

5. Sales Tax Collection Revenue

During 2013, the Authority received payments of \$985,249 from Cook County to cover the costs incurred by the Authority for planning costs and capital purchases 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.

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. 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 that 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. Contingent Liability

The Authority contracted with KGM Contractors, Inc., (KGM) to construct the Cedar Grove Business Park. As of December 31, 2013, 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
GRAND MARAIS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,692,517	\$ 2,692,517	\$ 2,830,359	\$ 137,842
Special assessments	-	-	42,688	42,688
Licenses and permits	48,700	48,700	57,578	8,878
Intergovernmental	3,367,985	3,367,985	4,808,122	1,440,137
Charges for services	430,800	430,800	435,627	4,827
Fines and forfeits	3,500	3,500	37,823	34,323
Gifts and contributions	-	-	22,863	22,863
Investment earnings	250,000	250,000	(421,257)	(671,257)
Miscellaneous	444,971	444,971	678,092	233,121
Total Revenues	\$ 7,238,473	\$ 7,238,473	\$ 8,491,895	\$ 1,253,422
Expenditures				
Current				
General government				
Commissioners	\$ 355,427	\$ 355,427	\$ 308,499	\$ 46,928
20% Unorganized	-	-	21,500	(21,500)
Courts	35,000	35,000	23,145	11,855
Law library	25,000	25,000	17,265	7,735
County auditor	519,085	519,085	676,851	(157,766)
County assessor	296,003	296,003	313,063	(17,060)
Elections	23,920	23,920	2,324	21,596
Data processing	601,027	601,027	546,120	54,907
Personnel	177,259	177,259	146,211	31,048
Broadband	-	-	1,681	(1,681)
Attorney	328,635	328,635	379,144	(50,509)
Recorder	184,178	184,178	182,624	1,554
Planning and zoning	301,145	301,145	305,538	(4,393)
Buildings and plant	486,281	486,281	513,937	(27,656)
Veterans service officer	46,500	46,500	15,163	31,337
Other general government	6,526	6,526	-	6,526
Total general government	\$ 3,385,986	\$ 3,385,986	\$ 3,453,065	\$ (67,079)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 1,920,462	\$ 1,920,462	\$ 1,879,556	\$ 40,906
Boat and water safety	-	-	9,089	(9,089)
Emergency services	82,651	82,651	126,028	(43,377)
Coroner	13,900	13,900	17,010	(3,110)
E-911 system	53,630	53,630	43,787	9,843
County jail	227,994	227,994	299,477	(71,483)
Community corrections	325,279	325,279	325,861	(582)
Other public safety	72,718	72,718	400,716	(327,998)
Total public safety	\$ 2,696,634	\$ 2,696,634	\$ 3,101,524	\$ (404,890)
Sanitation				
Solid waste	\$ 56,446	\$ 56,446	\$ 55,189	\$ 1,257
Recycling	333,010	333,010	330,792	2,218
Other sanitation	-	-	157	(157)
Total sanitation	\$ 389,456	\$ 389,456	\$ 386,138	\$ 3,318
Culture and recreation				
Historical society	\$ 70,000	\$ 70,000	\$ 72,053	\$ (2,053)
Parks	98,000	98,000	94,951	3,049
Senior citizens	86,268	86,268	81,000	5,268
Regional library	130,561	130,561	130,561	-
Contributions to YMCA	-	-	83,160	(83,160)
Other	152,670	152,670	437,901	(285,231)
Total culture and recreation	\$ 537,499	\$ 537,499	\$ 899,626	\$ (362,127)
Conservation of natural resources				
Cooperative extension	\$ 70,045	\$ 70,045	\$ 77,971	\$ (7,926)
Soil and water conservation	39,526	39,526	67,469	(27,943)
Agricultural inspections	9,000	9,000	52,995	(43,995)
Environmental services	152,580	152,580	594,087	(441,507)
Other	-	-	12,498	(12,498)
Total conservation of natural resources	\$ 271,151	\$ 271,151	\$ 805,020	\$ (533,869)

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 15,000	\$ 15,000	\$ 386,412	\$ (371,412)
Other miscellaneous	\$ 2,847	\$ 2,847	\$ -	\$ 2,847
Capital outlay				
General government	\$ 150,118	\$ 150,118	\$ 163,000	\$ (12,882)
Public safety	41,282	41,282	595,651	(554,369)
Sanitation	63,000	63,000	93,389	(30,389)
Culture and recreation	-	-	130,231	(130,231)
Conservation of natural resources	-	-	5,620	(5,620)
Housing	-	-	161,466	(161,466)
Total capital outlay	<u>\$ 254,400</u>	<u>\$ 254,400</u>	<u>\$ 1,149,357</u>	<u>\$ (894,957)</u>
Total Expenditures	<u>\$ 7,552,973</u>	<u>7,552,973</u>	<u>\$ 10,181,142</u>	<u>\$ (2,628,169)</u>
Excess of Revenues Over (Under)				
Expenditures	\$ (314,500)	\$ (314,500)	\$ (1,689,247)	\$ (1,374,747)
Other Financing Sources (Uses)				
Transfers in	-	-	404,782	404,782
Proceeds from the sale of bonds	185,000	185,000	-	(185,000)
Total Other Financing Sources (Uses)	<u>\$ 185,000</u>	<u>\$ 185,000</u>	<u>\$ 404,782</u>	<u>\$ 219,782</u>
Net Change in Fund Balance	\$ (129,500)	\$ (129,500)	\$ (1,284,465)	\$ (1,154,965)
Fund Balance - January 1	<u>10,700,067</u>	<u>10,700,067</u>	<u>10,700,067</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 10,570,567</u></u>	<u><u>\$ 10,570,567</u></u>	<u><u>\$ 9,415,602</u></u>	<u><u>\$ (1,154,965)</u></u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,407,612	\$ 1,407,612	\$ 1,420,120	\$ 12,508
Intergovernmental	3,225,922	3,225,922	5,091,353	1,865,431
Charges for services	310,000	310,000	468,539	158,539
Miscellaneous	45,000	45,000	179,454	134,454
Total Revenues	\$ 4,988,534	\$ 4,988,534	\$ 7,159,466	\$ 2,170,932
Expenditures				
Current				
Highways and streets				
Administration	\$ 330,102	\$ 330,102	\$ 331,472	\$ (1,370)
Maintenance	2,510,742	2,510,742	2,462,195	48,547
Construction	1,940,012	1,940,012	3,233,356	(1,293,344)
Equipment maintenance and shop	1,105,678	1,105,678	1,167,768	(62,090)
Total Expenditures	\$ 5,886,534	\$ 5,886,534	\$ 7,194,791	\$ (1,308,257)
Excess of Revenues Over (Under) Expenditures	\$ (898,000)	\$ (898,000)	\$ (35,325)	\$ 862,675
Other Financing Sources (Uses)				
Transfers in	798,000	798,000	798,000	-
Net Change in Fund Balance	\$ (100,000)	\$ (100,000)	\$ 762,675	\$ 862,675
Fund Balance - January 1	541,099	541,099	541,099	-
Increase (decrease) in inventories	-	-	(115,857)	(115,857)
Fund Balance - December 31	\$ 441,099	\$ 441,099	\$ 1,187,917	\$ 746,818

**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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,030,361	\$ 1,030,361	\$ 1,027,952	\$ (2,409)
Licenses and permits	15,900	15,900	14,051	(1,849)
Intergovernmental	853,870	853,870	840,340	(13,530)
Charges for services	267,560	267,560	175,961	(91,599)
Miscellaneous	95,425	95,425	145,995	50,570
Total Revenues	<u>\$ 2,263,116</u>	<u>\$ 2,263,116</u>	<u>\$ 2,204,299</u>	<u>\$ (58,817)</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,018,786	\$ 2,018,786	\$ 473,695	\$ 1,545,091
Social services	-	-	1,562,150	(1,562,150)
Other	-	-	19,215	(19,215)
Total human services	<u>\$ 2,018,786</u>	<u>\$ 2,018,786</u>	<u>\$ 2,055,060</u>	<u>\$ (36,274)</u>
Health				
Nursing service	323,900	323,900	312,572	11,328
Total Expenditures	<u>\$ 2,342,686</u>	<u>\$ 2,342,686</u>	<u>\$ 2,367,632</u>	<u>\$ (24,946)</u>
Net Change in Fund Balance	<u>\$ (79,570)</u>	<u>\$ (79,570)</u>	<u>\$ (163,333)</u>	<u>\$ (83,763)</u>
Fund Balance - January 1	<u>847,922</u>	<u>847,922</u>	<u>847,922</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 768,352</u></u>	<u><u>\$ 768,352</u></u>	<u><u>\$ 684,589</u></u>	<u><u>\$ (83,763)</u></u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the following major funds: the General Fund and the Road and Bridge and Public Health and Human Services 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.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2013, expenditures exceeded appropriations in the following funds:

	Excess Expenditures	
General Fund	\$ 2,628,169	Primarily funded by greater than anticipated revenues, much of which correspond to the excess expenditures.
Road and Bridge Special Revenue Fund	1,308,257	Primarily funded by greater than anticipated revenues, much of which correspond to the excess expenditures.
Public Health and Human Services Special Revenue Fund	24,946	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 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 Airport Special Revenue Fund is used to account for funds used for the operation and maintenance of the County Airport.

The Forfeited Tax Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282. The distribution of the net proceeds, after deducting the expenses of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08. Title to the tax-forfeited lands remains with the state until sold by the County.

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

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, 2013**

	Special		
	Building	Golf Course Lodging Tax	Airport
<u>Assets</u>			
Cash and pooled investments	\$ 685,406	\$ 6	\$ 288,285
Taxes receivable - Prior	11,755	-	3,832
Accounts receivable	-	-	-
Lodging taxes receivable	-	4,342	-
Total Assets	\$ 697,161	\$ 4,348	\$ 292,117
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 14,962	\$ -	\$ 3,938
Due to other funds	-	-	4
Advance from other funds	-	-	13,088
Total Liabilities	\$ 14,962	\$ -	\$ 17,030
Deferred Inflows of Resources			
Unavailable revenue			
Taxes	\$ 9,303	\$ -	\$ 3,032
Fund Balances			
Nonspendable			
Environmental improvements - principal	\$ -	\$ -	\$ -
Restricted			
EDA	-	4,348	-
Environmental improvements	-	-	-
Capital equipment	-	-	-
Forfeited tax	-	-	-
Assigned			
Building improvements	672,896	-	-
Debt service	-	-	-
Economic development	-	-	272,055
Total Fund Balances	\$ 672,896	\$ 4,348	\$ 272,055
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 697,161	\$ 4,348	\$ 292,117

EXHIBIT B-1

Revenue Funds				
Forfeited Tax	Total	Debt Service	Leased Lakeshore Permanent	Total (Exhibit 3)
\$ -	\$ 973,697	\$ 1,508,117	\$ 846,824	\$ 3,328,638
-	15,587	28,051	-	43,638
136,716	136,716	-	-	136,716
-	4,342	-	-	4,342
\$ 136,716	\$ 1,130,342	\$ 1,536,168	\$ 846,824	\$ 3,513,334
\$ -	\$ 18,900	\$ -	\$ -	\$ 18,900
125,694	125,698	-	-	125,698
-	13,088	-	-	13,088
\$ 125,694	\$ 157,686	\$ -	\$ -	\$ 157,686
\$ -	\$ 12,335	\$ 22,200	\$ -	\$ 34,535
\$ -	\$ -	\$ -	\$ 584,434	\$ 584,434
-	4,348	-	-	4,348
-	-	-	262,390	262,390
-	-	725,997	-	725,997
11,022	11,022	-	-	11,022
-	672,896	-	-	672,896
-	-	787,971	-	787,971
-	272,055	-	-	272,055
\$ 11,022	\$ 960,321	\$ 1,513,968	\$ 846,824	\$ 3,321,113
\$ 136,716	\$ 1,130,342	\$ 1,536,168	\$ 846,824	\$ 3,513,334

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Special Revenue Funds		
	Building	Golf Course Lodging Tax	Airport
Revenues			
Taxes	\$ 291,363	\$ 49,658	\$ 94,948
Intergovernmental	-	-	479,482
Investment earnings	-	5	-
Miscellaneous	-	-	191,554
Total Revenues	\$ 291,363	\$ 49,663	\$ 765,984
Expenditures			
Current			
General government	\$ 11,470	\$ -	\$ -
Conservation of natural resources	-	-	-
Economic development	-	50,000	111,300
Capital outlay	234,641	-	394,478
Debt service			
Principal	-	-	-
Interest	-	-	-
Administrative - fiscal charges	-	-	-
Total Expenditures	\$ 246,111	\$ 50,000	\$ 505,778
Excess of Revenues Over (Under) Expenditures	\$ 45,252	\$ (337)	\$ 260,206
Other Financing Sources (Uses)			
Transfers In	170,615	-	-
Transfers Out	-	-	-
Net Change in Fund Balance	\$ 215,867	\$ (337)	\$ 260,206
Fund Balance - January 1	457,029	4,685	11,849
Fund Balance - December 31	\$ 672,896	\$ 4,348	\$ 272,055

EXHIBIT B-2

<u>Forfeited Tax</u>	<u>Total</u>	<u>Debt Service</u>	<u>Leased Lakeshore Permanent</u>	<u>Total (Exhibit 5)</u>
\$ 35,000	\$ 470,969	\$ 693,625	\$ -	\$ 1,164,594
-	479,482	-	-	479,482
-	5	-	4,149	4,154
-	191,554	-	-	191,554
\$ 35,000	\$ 1,142,010	\$ 693,625	\$ 4,149	\$ 1,839,784
\$ -	\$ 11,470	\$ -	\$ -	\$ 11,470
1,410	1,410	-	-	1,410
-	161,300	-	-	161,300
-	629,119	-	-	629,119
-	-	345,000	-	345,000
-	-	21,162	-	21,162
-	-	900	-	900
\$ 1,410	\$ 803,299	\$ 367,062	\$ -	\$ 1,170,361
\$ 33,590	\$ 338,711	\$ 326,563	\$ 4,149	\$ 669,423
-	170,615	-	-	170,615
-	-	(1,373,397)	-	(1,373,397)
\$ 33,590	\$ 509,326	\$ (1,046,834)	\$ 4,149	\$ (533,359)
(22,568)	450,995	2,560,802	842,675	3,854,472
\$ 11,022	\$ 960,321	\$ 1,513,968	\$ 846,824	\$ 3,321,113

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
AIRPORT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 95,300	\$ 95,300	\$ 94,948	\$ (352)
Intergovernmental	404,650	404,650	479,482	74,832
Miscellaneous	21,717	21,717	191,554	169,837
Total Revenues	\$ 521,667	\$ 521,667	\$ 765,984	\$ 244,317
Expenditures				
Current				
Economic development	\$ 128,051	\$ 128,051	\$ 111,300	\$ 16,751
Capital outlay	400,000	400,000	394,478	5,522
Total Expenditures	\$ 528,051	\$ 528,051	\$ 505,778	\$ 22,273
Net Change in Fund Balance	\$ (6,384)	\$ (6,384)	\$ 260,206	\$ 266,590
Fund Balance - January 1	11,849	11,849	11,849	-
Fund Balance - December 31	\$ 5,465	\$ 5,465	\$ 272,055	\$ 266,590

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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MEDICAL AND DEPENDENT CARE FLEX PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>8,812</u>	\$ <u>81,691</u>	\$ <u>86,478</u>	\$ <u>4,025</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>8,812</u>	\$ <u>81,691</u>	\$ <u>86,478</u>	\$ <u>4,025</u>
 <u>SOIL AND WATER CONSERVATION DISTRICT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>73,601</u>	\$ <u>974,412</u>	\$ <u>738,539</u>	\$ <u>309,474</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>73,601</u>	\$ <u>974,412</u>	\$ <u>738,539</u>	\$ <u>309,474</u>
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>12,730</u>	\$ <u>185,544</u>	\$ <u>188,402</u>	\$ <u>9,872</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>12,730</u>	\$ <u>185,544</u>	\$ <u>188,402</u>	\$ <u>9,872</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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FIRE DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 10,482	\$ 294,475	\$ 293,236	\$ 11,721
<u>Liabilities</u>				
Due to other governments	\$ 10,482	\$ 294,475	\$ 293,236	\$ 11,721
 <u>CITIES AND TOWNS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 93,126	\$ 1,491,031	\$ 1,506,973	\$ 77,184
<u>Liabilities</u>				
Due to other governments	\$ 93,126	\$ 1,491,031	\$ 1,506,973	\$ 77,184
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 117,743	\$ 2,444,100	\$ 2,448,296	\$ 113,547
Accounts receivable	153	-	153	-
Due from other governments	11	21	11	21
Total Assets	\$ 117,907	\$ 2,444,121	\$ 2,448,460	\$ 113,568
<u>Liabilities</u>				
Due to other governments	\$ 117,907	\$ 2,444,121	\$ 2,448,460	\$ 113,568

**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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LODGING TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 41,263	\$ 1,547,718	\$ 1,548,257	\$ 40,724
Accounts receivable	92,462	81,566	92,462	81,566
Total Assets	\$ 133,725	\$ 1,629,284	\$ 1,640,719	\$ 122,290
<u>Liabilities</u>				
Accounts payable	\$ 133,725	\$ 1,629,284	\$ 1,640,719	\$ 122,290
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (12,807)	\$ 12,940,472	\$ 12,861,548	\$ 66,117
<u>Liabilities</u>				
Due to other governments	\$ (12,807)	\$ 12,940,472	\$ 12,861,548	\$ 66,117
 <u>SCHOOL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 60,348	\$ 2,041,151	\$ 2,037,794	\$ 63,705
Due from other governments	198,548	-	198,548	-
Total Assets	\$ 258,896	\$ 2,041,151	\$ 2,236,342	\$ 63,705
<u>Liabilities</u>				
Due to other governments	\$ 258,896	\$ 2,041,151	\$ 2,236,342	\$ 63,705

**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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 405,298	\$ 22,000,594	\$ 21,709,523	\$ 696,369
Accounts receivable	92,615	81,566	92,615	81,566
Due from other governments	198,559	21	198,559	21
Total Assets	\$ 696,472	\$ 22,082,181	\$ 22,000,697	\$ 777,956
<u>Liabilities</u>				
Accounts payable	\$ 142,537	\$ 1,710,975	\$ 1,727,197	\$ 126,315
Due to other governments	553,935	20,371,206	20,273,500	651,641
Total Liabilities	\$ 696,472	\$ 22,082,181	\$ 22,000,697	\$ 777,956

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, 2013**

	Governmental Funds	Component Unit
Shared Revenue		
State		
Highway users tax	\$ 4,856,456	\$ -
PERA rate reimbursement	17,931	-
Disparity reduction credit	3,157	-
Police aid	93,497	-
County program aid	256,842	-
Taconite credit	146,805	-
Casino revenue aid	47,417	-
Enhanced 911	82,340	-
Total shared revenue	\$ 5,504,445	\$ -
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 111,950	\$ -
Payments		
State		
Payments in lieu of taxes	\$ 361,840	\$ -
Local		
Local contributions	-	15,000
Total payments	\$ 361,840	\$ 15,000
Grants		
State		
Minnesota Department/Board of		
Public Safety	\$ 42,493	\$ -
Agriculture	171,368	-
Transportation	54,328	-
Health	47,370	-
Environmental Assistance	6,073	-
Natural Resources	323,167	-
Human Services	264,700	-
Veterans Affairs	7,500	-
Water and Soil Resources	76,600	-
Miscellaneous boards	144,601	-
Total state	\$ 1,138,200	\$ -

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

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

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Governmental Funds	Component Unit
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 2,320,520	\$ -
Commerce	27,943	-
Housing and Urban Development	183,084	42,720
Interior	196,097	-
Transportation	451,155	-
Environmental Protection Agency	249,312	-
Health and Human Services	396,595	-
Homeland Security	278,156	-
Total federal	\$ 4,102,862	\$ 42,720
Total state and federal grants	\$ 5,241,062	\$ 42,720
Total Intergovernmental Revenue	\$ 11,219,297	\$ 57,720

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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	\$ 60,503
U.S. Forest Service Cooperative Agreement - ARRA	10-PA-11094419-069	59,298
Cooperative Forestry Assistance	10.664	35,234
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	24,522
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	57,242
Passed Through Minnesota Office of Management and Budget Schools and Roads - Grants to States	10.665	2,083,721
Total U.S. Department of Agriculture		\$ 2,320,520
U.S. Department of Commerce		
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	11.419	\$ 27,943
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	\$ 183,084
Passed Through St. Louis County Home Investment Partnerships Program	14.239	42,720
Total U.S. Department of Housing and Urban Development		\$ 225,804
U.S. Department of the Interior		
Direct		
Payments in Lieu of Taxes	15.226	\$ 195,448
Passed Through Minnesota Department of Natural Resources Fish and Wildlife Management Assistance	15.608	649
Total U.S. Department of the Interior		\$ 196,097

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 425,154
Passed Through Minnesota Department of Natural Resources Recreational Trails Program	20.219	26,001
Total U.S. Department of Transportation		\$ 451,155
U.S. Environmental Protection Agency		
Passed Through Minnesota Pollution Control Agency Great Lakes Program	66.469	\$ 243,486
Passed Through Minnesota Department of Health Beach Monitoring and Notification Program Implementation Grants	66.472	5,826
Total U.S. Environmental Protection Agency		\$ 249,312
U.S. Department of Health and Human Services		
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Universal Newborn Hearing Screening	93.251	\$ 450
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	28,000
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	21,760
Maternal and Child Health Services Block Grant to the States	93.994	4,775
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	3,383
Temporary Assistance for Needy Families	93.558	32,799
Child Support Enforcement	93.563	56,827
Refugee and Entrant Assistance - State Administered Programs	93.566	25
Child Care and Development Block Grant	93.575	1,289
Foster Care Title IV-E	93.658	21,868
Social Services Block Grant	93.667	37,206
Chafee Foster Care Independence Program	93.674	842
Children's Health Insurance Program	93.767	25
Medical Assistance Program	93.778	226,396
Total U.S. Department of Health and Human Services		\$ 435,645

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 14,112
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	15,481
Pre-Disaster Mitigation	97.047	221,784
Homeland Security Grant Program	97.067	<u>26,779</u>
Total U.S. Department of Homeland Security		<u>\$ 278,156</u>
Total Federal Awards		<u><u>\$ 4,184,632</u></u>

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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. The Cook County and Grand Marais Joint Economic Development Authority discretely presented component unit expended \$42,720 of federal funding under CFDA No.14.239 - Home Investment Partnerships Program, which is included in the Schedule of Expenditures of Federal Awards of Cook County.

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, 2013. 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 position, 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. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,102,862
Federal Expenditures of Cook County and Grand Marais Joint Economic Development Authority	42,720
Grants received more than 60 days after year-end, unavailable in 2013 Medical Assistance Program	<u>39,050</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 4,184,632</u>

**COOK COUNTY
GRAND MARAIS, MINNESOTA**

5. Subrecipients

During 2013, the County did not pass any federal money to subrecipients.

6. 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

	2012		2013		2014	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 17,305,450		\$ 16,500,288		\$ 16,473,774	
Personal property	287,432		278,041		289,789	
Fiscal disparity contribution	(334,487)		(391,702)		(382,647)	
Net Tax Capacity	<u>\$ 17,258,395</u>		<u>\$ 16,386,627</u>		<u>\$ 16,380,916</u>	
Taxes Levied for County Purposes						
General	\$ 3,157,819	18.28	\$ 3,235,830	19.72	\$ 3,086,788	18.85
Road and Bridge	1,414,289	8.16	1,387,612	8.42	1,424,211	8.66
Social Services	943,779	5.44	1,030,361	6.25	1,032,804	6.28
Airport	95,300	0.55	95,300	0.58	95,300	0.58
Government Center	378,000	2.18	360,000	2.18	360,000	2.19
YMCA Operations	-	-	-	-	110,000	0.67
Economic Development	148,566	0.86	150,000	0.91	210,000	1.28
Total Levy for County Purposes	<u>\$ 6,137,753</u>	<u>35.47</u>	<u>\$ 6,259,103</u>	<u>38.06</u>	<u>\$ 6,319,103</u>	<u>38.51</u>
Less Credits Payable by State						
Taconite homestead credit	\$ 350,718		\$ 351,005		\$ 350,056	
Disparity reduction aid	3,157		3,157		3,157	
Total Credits Payable by State	<u>\$ 353,875</u>		<u>\$ 354,162</u>		<u>\$ 353,213</u>	
Net Levy for County Purposes	<u>\$ 5,783,878</u>		<u>\$ 5,904,941</u>		<u>\$ 5,965,890</u>	
Tax Capacity - Light and Power	<u>\$ 54,830</u>		<u>\$ 54,270</u>		<u>\$ 57,292</u>	
Light and Power Tax Levy (distributed pursuant to Minn. Stat. § 273.42, as amended)						
	<u>\$ 28,018</u>		<u>\$ 28,504</u>		<u>\$ 29,883</u>	
Percentage of Tax Collections for All Purposes	99.31%		99.73%			

(Unaudited)

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**COOK COUNTY
GRAND MARAIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- 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: **Unmodified**

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

The major program is:

Schools and Roads - Grants to States

CFDA #10.665

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-003

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 informed us that it would not be cost effective 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.

Finding 2006-006

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 2014.

ITEM ARISING THIS YEAR

Finding 2013-001

Audit Adjustments and/or Restatements

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. Auditing standards define 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 County's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

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

Effect: Material audit adjustments were necessary to eliminate improper receivables, reduce revenue and expenditures to proper balances, and correct an adjusting journal entry reallocating revenues and expenditures.

Cause: The adjustments were required due to incomplete or improper information being used to prepare the financial worksheets used to summarize information for the financial statement.

Recommendation: We recommend that the County staff review the trial balances, journal entries, and financial statement presentation in detail to help ensure their accuracy. Significant errors or misclassifications noted should be corrected.

Client's Response:

The County Auditor's Office will review adjustments made to determine where errors occurred; note the errors, and create a plan for next year's audit. The County Auditor's Office will ensure that the trial balances will not contain the material misstatements next year through documentation of current audit misstatements and comprehension of the process and expected product.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



REBECCA OTTO
STATE AUDITOR

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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*

Independent Auditor's Report

Board of County Commissioners
Cook County

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 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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 25, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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 or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be 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 County'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 Questioned Costs as item 2013-001 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 Questioned Costs as items 1996-003 and 2006-006 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cook County'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 seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because that provision was not applicable.

In connection with our audit, nothing came to our attention that caused us to believe that Cook County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 County's noncompliance with the above referenced provisions.

Cook County's Response to Findings

Cook County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected 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 County'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 County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2014

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REBECCA OTTO
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Cook County

Report on Compliance for Each Major Federal Program

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 the County's major federal program for the year ended December 31, 2013. Cook County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Cook County's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Cook County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Cook County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 25, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR