

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

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

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

Year Ended December 31, 2004



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

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

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

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

**ORGANIZATION
DECEMBER 31, 2004**

		<u>Term Expires</u>
Commissioners		
Chair	Mary Sanders	December 2008
Vice Chair	Janice Hall	December 2004
Treasurer	James Hall	December 2005
Secretary	Judy Motschenbacher	December 2007
Commissioner	Tim Kennedy	December 2005
Commissioner	Russell Zenk	December 2009
Commissioner	Andrea Peterson	December 2007
Executive Director		
John Kremer		

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority, a component unit of Cook County, as of and for the year ended December 31, 2004, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Cook County and Grand Marais Joint Economic Development Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Cook County and Grand Marais Joint Economic Development Authority as of and for the year ended December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cook County and Grand Marais Joint Economic Development Authority's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2005, on our consideration of the Cook County and Grand Marais Joint Economic Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: March 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(Unaudited)**

The Cook County and Grand Marais Joint Economic Development Authority has prepared this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2004, to assist users of this report to gain a better understanding of the Authority's financial health and history. The information presented in this section should be considered in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Golf course revenues continued to mirror the regional and national golfing trends, following the economy and the interest in golf generally. Golf course revenues went from \$884,423 to \$791,972. However, membership and patron revenues--the local base--increased by \$15,000 with the smallest of investment.
- Management continued to exercise financial restraint and phasing strategies while maintaining a course of this caliber. Total golf course operating costs, net of depreciation, went from \$726,449 to \$659,522.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) serves as an introduction to the Authority's basic financial statements, which consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to give users a broad overview of the Authority's finances, in a manner similar to that of a private-sector business. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets over time may serve as a useful indicator of whether the Authority's financial position is improving or deteriorating. The Statement of Activities shows how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event that caused the change occurs, regardless of the timing of the related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal years; an example is uncollected taxes.

Both of the government-wide financial statements distinguish between functions that are mainly supported by taxes and intergovernmental revenues and other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The first functions are identified in the statements as governmental activities, while the latter functions are reported as business-type activities.

FUND FINANCIAL STATEMENTS

A fund is a set of related accounts used to control resources that have been segregated to carry on specific activities or to attain certain objectives in accordance with special regulations, restrictions, or limitations. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Authority funds are divided into either governmental funds or proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. A major difference between the government-wide financial statements and the governmental fund financial statements is that the latter focuses on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than the government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in order to gain a better understanding of the long-term impact of the Authority's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to aid in the comparison of governmental funds with governmental activities.

The Authority maintains two governmental funds. Information is presented separately in the governmental fund financial statements for the General Fund and the Resource Development Council.

Proprietary Funds

The Authority maintains an enterprise fund used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements for the Superior National at Lutsen Golf Course.

Notes to the Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains budget information for the General Fund and Golf Course Proprietary Fund. These statements follow the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Authority's combined net assets decreased by 3.6 percent, from \$2,682,226 at December 31, 2003, to \$2,586,426 at December 31, 2004. As noted earlier, over time, net assets may serve as a useful indicator of the Authority's financial position. The largest portion of the Authority's business-type activities is invested in capital assets (golf course land improvements, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding.

The following table presents a comparative summary of the Authority's net assets at December 31, 2003 and 2004 (dollars in thousands):

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Current and other assets	\$ 309	\$ 322	\$ 408	\$ 386	\$ 717	\$ 708
Capital asset	83	82	3,634	3,410	3,717	3,492
Total Assets	\$ 392	\$ 404	\$ 4,042	\$ 3,796	\$ 4,434	\$ 4,200
Long-term liabilities	\$ -	\$ -	\$ 1,557	\$ 1,452	\$ 1,557	\$ 1,452
Other liabilities	32	3	163	158	195	161
Total Liabilities	\$ 32	\$ 3	\$ 1,720	\$ 1,610	\$ 1,752	\$ 1,613
Net assets						
Invested in capital assets, net of related debt	\$ 83	\$ 83	\$ 1,958	\$ 1,853	\$ 2,041	\$ 1,936
Restricted	2	-	274	279	276	279
Unrestricted	275	318	90	54	365	372
Total Net Assets	\$ 360	\$ 401	\$ 2,322	\$ 2,186	\$ 2,682	\$ 2,587

To give users a better understanding of the sources and uses of the Authority's net assets, the following table presents a summary of revenues, expenses, and changes in net assets for the years ended December 31, 2003 and 2004 (dollars in thousands):

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Revenues						
Program revenues						
Charges for services	\$ -	\$ -	\$ 884	\$ 792	\$ 884	\$ 792
Operating grants and contributions	21	10	-	-	21	10
General revenues						
Property taxes	87	84	-	-	87	84
Tax increments	59	22	80	-	139	22
Other	14	28	3	52	17	80
Total Revenues	\$ 181	\$ 144	\$ 967	\$ 844	\$ 1,148	\$ 988
Expenses						
Urban and economic development	\$ 152	\$ 103	\$ -	\$ -	\$ 152	\$ 103
Interest	-	-	91	84	91	84
Golf	-	-	962	896	962	896
Total Expenses	\$ 152	\$ 103	\$ 1,053	\$ 980	\$ 1,205	\$ 1,083
Increase (decrease) in net assets	\$ 29	\$ 41	\$ (86)	\$ (136)	\$ (57)	\$ (95)
Net Assets, January 1	331	360	2,408	2,322	2,739	2,682
Net Assets, December 31	<u>\$ 360</u>	<u>\$ 401</u>	<u>\$ 2,322</u>	<u>\$ 2,186</u>	<u>\$ 2,682</u>	<u>\$ 2,587</u>

FUND FINANCIAL ANALYSIS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is helpful in assessing the Authority's financing requirements; unreserved fund balance may be an especially useful measure of the net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the Authority. At December 31, 2004, fund balance of the General Fund was \$310,205, all of which is reported as unreserved. The fund balance of the General Fund increased by \$47,892 (18 percent) during 2004.

PROPRIETARY FUND

The Authority's Golf Course proprietary fund, provides the same type of information found in the government-wide financial statements, only in more detail. Unrestricted net assets were \$53,628 at December 31, 2004. The change in total net assets for fiscal year 2004 was (\$136,388.)

GENERAL FUND BUDGETARY HIGHLIGHTS

The approved budget for the year is considered a nonappropriated budget. The budget estimated that the fund balance would increase by \$2,350; however, the fund balance actually increased by \$47,892.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Authority's investment in capital assets for its governmental and business-type activities as of December 31, 2004, was \$3,492,515, net of accumulated depreciation. This investment primarily comprises golf course land, improvements, and equipment. The Authority's total investment in capital assets, net of accumulated depreciation, decreased during 2004. The decrease was due to depreciation expense which exceeded current year additions to capital assets. Additional information related to the Authority's capital assets can be found in the notes to the financial statements. The following table shows the Authority's investment in capital assets, net of accumulated depreciation as of December 31, 2003 and 2004 (dollars in thousands):

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Land	\$ 82	\$ 82	\$ 214	\$ 214	\$ 296	\$ 296
Land improvements	-	-	2,928	2,788	2,928	2,788
Buildings	-	-	167	148	167	148
Equipment	1	-	325	261	326	261
Total	<u>\$ 83</u>	<u>\$ 82</u>	<u>\$ 3,634</u>	<u>\$ 3,411</u>	<u>\$ 3,717</u>	<u>\$ 3,493</u>

LONG-TERM DEBT

The Authority had \$1,500,000 of golf course revenue bonds outstanding as of December 31, 2004. The golf course revenue bonds are secured solely by specific revenue sources. The Authority has also entered into lease purchase agreements that had an outstanding balance at December 31, 2004, of \$57,065. The following table shows the Authority's outstanding debt as of December 31, 2004 and 2003 (dollars in thousands):

	2004	2003
Business-Type Activities		
Revenue bonds	\$ 1,500	\$ 1,600
Capital leases	57	76
Total	<u>\$ 1,557</u>	<u>\$ 1,676</u>

ECONOMIC AND OTHER FACTORS

The Authority considered many factors when setting the fiscal year 2005 budget for the EDA and Superior National at Lutsen. Since the ending of the last management contract, the Authority decided to eliminate that level of bureaucracy and expense, and provide management in-house. Some new ideas emerged from this shift. A mailing list and E-mailing program were begun as low-cost, personal marketing tools to build the base of our customers. Until this time, we did not have access to our customers of the past 15 years. This approach also matches up with our lean budget times instead of the general and glossy advertising campaigns of the past. This new patient, personal, and inexpensive approach will gain momentum as we reach out to--and discover--our core customers. We will also continue to reinvest excess revenues in our capital plan as is warranted. Nearly all of the sand traps, for example, were refurbished in 2004, a longstanding identified need of the course. The phasing of marketing, capital improvements, and golf cart purchases allows us to assist in keeping expenses in line with revenues. For example, \$10,000 of marketing and identity budget was scheduled to be implemented on matching the front entrance signage with our identity work; this was postponed in August because the revenues were matching the weather--cloudy. In the long-run, the golf industry will cycle up and our well-maintained and well-capitalized course will benefit. Also, in ten short years, an additional \$180,000 per year in bond payment revenue will be freed up for other projects.

REQUESTS FOR INFORMATION

This financial report is meant to provide a general overview of the Authority's finances. Questions concerning information provided in the report, or requests for additional financial information, should be addressed to the Authority at P. O. Box 597, Grand Marais, Minnesota 55604.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash	\$ 275,024	\$ 84,567	\$ 359,591
Taxes receivable	1,541	-	1,541
Due from Cook County	6,092	-	6,092
Internal balances	39,185	(39,185)	-
Inventories	-	28,229	28,229
Restricted assets			
Assets held by trustee	-	312,377	312,377
Capital assets			
Not depreciated - land	81,973	213,685	295,658
Depreciable, net of depreciation	331	3,196,526	3,196,857
Total Assets	\$ 404,146	\$ 3,796,199	\$ 4,200,345
<u>Liabilities</u>			
Accounts payable	\$ 1,999	\$ 19,960	\$ 21,959
Due to State of Minnesota	1,501	23	1,524
Liabilities payable from restricted assets			
Accrued interest payable	-	33,371	33,371
Bonds payable - current	-	105,000	105,000
Long-term liabilities			
Due within one year	-	19,605	19,605
Due in more than one year	-	1,432,460	1,432,460
Total Liabilities	\$ 3,500	\$ 1,610,419	\$ 1,613,919
<u>Net Assets</u>			
Investment in capital assets, net of related debt	\$ 82,304	\$ 1,853,146	\$ 1,935,450
Restricted for debt service	-	279,006	279,006
Unrestricted	318,342	53,628	371,970
Total Net Assets	\$ 400,646	\$ 2,185,780	\$ 2,586,426

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Functions/Programs</u>						
Governmental activities						
Urban and economic development	\$ 102,864	\$ -	\$ 9,500	\$ (93,364)	\$ -	\$ (93,364)
Business-type activities						
Golf course	980,606	791,972	-	-	(188,634)	(188,634)
Total	<u>\$ 1,083,470</u>	<u>\$ 791,972</u>	<u>\$ 9,500</u>	<u>\$ (93,364)</u>	<u>\$ (188,634)</u>	<u>\$ (281,998)</u>
 General Revenues						
Property taxes				\$ 84,046	\$ -	\$ 84,046
Tax increments				21,978	-	21,978
Lodging taxes				-	50,000	50,000
Investment income				1,243	2,246	3,489
Miscellaneous				26,685	-	26,685
Total general revenues				<u>\$ 133,952</u>	<u>\$ 52,246</u>	<u>\$ 186,198</u>
Change in Net Assets				<u>\$ 40,588</u>	<u>\$ (136,388)</u>	<u>\$ (95,800)</u>
Net Assets - Beginning				<u>360,058</u>	<u>2,322,168</u>	<u>2,682,226</u>
Net Assets - Ending				<u>\$ 400,646</u>	<u>\$ 2,185,780</u>	<u>\$ 2,586,426</u>

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Resource Development Council	Total Governmental Funds
<u>Assets</u>			
Cash	\$ 268,428	\$ 6,596	\$ 275,024
Taxes receivable	1,541	-	1,541
Due from other funds	39,185	-	39,185
Due from Cook County	6,092	-	6,092
Total Assets	\$ 315,246	\$ 6,596	\$ 321,842
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 1,999	\$ -	\$ 1,999
Due to Cook County	1,501	-	1,501
Deferred revenue	1,541	-	1,541
Total Liabilities	\$ 5,041	\$ -	\$ 5,041
Fund Balance			
Unreserved - undesignated	310,205	6,596	316,801
Total Liabilities and Fund Balance	\$ 315,246	\$ 6,596	\$ 321,842
Fund balance - total governmental funds			\$ 316,801
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			82,304
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.			1,541
Net assets of governmental activities (Exhibit 1)			\$ 400,646

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

EXHIBIT 4

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Resource Development Council	Total Governmental Funds
Revenues			
Taxes			
Property taxes	\$ 84,516	\$ -	\$ 84,516
Tax increments	21,978	-	21,978
Intergovernmental			
Coastal Zone Management Grant	6,195	-	6,195
Cook County	-	9,500	9,500
Miscellaneous			
Investment earnings	1,221	22	1,243
Administrative fees	26,685	-	26,685
Total Revenues	\$ 140,595	\$ 9,522	\$ 150,117
Expenditures			
Current			
Urban and economic development			
Personal services	\$ 20,478	\$ -	\$ 20,478
Employee benefits	4,226	-	4,226
Professional services	17,879	-	17,879
Utilities	1,433	-	1,433
Tax increment distributions	20,578	-	20,578
Other services and charges	28,109	9,500	37,609
Total Expenditures	\$ 92,703	\$ 9,500	\$ 102,203
Excess of Revenues Over (Under) Expenditures	\$ 47,892	\$ 22	\$ 47,914
Fund Balance - January 1 (Note 1.F.)	262,313	6,574	268,887
Fund Balance - December 31	\$ 310,205	\$ 6,596	\$ 316,801
Net change in fund balances			\$ 47,914
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.			(662)
In the funds, under the modified accrual basis, revenues not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The increase (decrease) in deferred revenue is the adjustment to revenue between the fund statements and the statement of activities.			(6,664)
Change in net assets of governmental activities (Exhibit 2)			\$ 40,588

PROPRIETARY FUND

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

EXHIBIT 5

**STATEMENT OF NET ASSETS
GOLF COURSE ENTERPRISE FUND
DECEMBER 31, 2004**

Assets

Current assets

Cash	\$	84,567
Inventory		28,229

Total current assets	\$	112,796
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Restricted assets

Assets held by trustee		312,377
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Noncurrent assets

Capital assets, net of accumulated depreciation		3,410,211
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Total Assets	\$	3,835,384
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Liabilities

Current liabilities

Accounts payable	\$	19,960
Due to State of Minnesota		23
Due to other funds		39,185
Capital leases payable - current		19,605

Total current liabilities	\$	78,773
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Current liabilities payable from restricted assets

Accrued interest payable	\$	33,371
Bonds payable - current		105,000

Total current liabilities payable from restricted assets	\$	138,371
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Noncurrent liabilities

Capital leases payable - long-term	\$	37,460
Bonds payable - long-term		1,395,000

Total noncurrent liabilities	\$	1,432,460
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Total Liabilities	\$	1,649,604
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Net Assets

Invested in capital assets, net of related debt	\$	1,853,146
Restricted for debt service		279,006
Unrestricted		53,628

Total Net Assets	\$	2,185,780
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**COOK COUNTY AND GRAND MARAIS
JOINT ECONOMIC DEVELOPMENT AUTHORITY
GRAND MARAIS, MINNESOTA**

EXHIBIT 6

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOLF COURSE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

Operating Revenues	
Sales	
Food and beverage	\$ 76,451
Merchandise	133,951
Less: cost of goods sold	<u>(139,518)</u>
Net sales	\$ 70,884
Charges for services	
Green fees	655,448
Other	<u>65,640</u>
Total Revenues	\$ 791,972
Operating Expenses	
Personal services	\$ 318,361
Employee benefits	34,605
Professional services	31,365
Grounds maintenance and supplies	105,761
Clubhouse maintenance and supplies	11,906
Utilities	39,331
Other services and charges	118,193
Depreciation expense	<u>236,898</u>
Total Expenses	\$ 896,420
Operating Income (loss)	\$ (104,448)
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 2,246
Lodging tax	50,000
Interest expense	<u>(84,186)</u>
Total Nonoperating Revenues (Expenses)	\$ (31,940)
Income (Loss)	\$ (136,388)
Net Assets - January 1	<u>2,322,168</u>
Net Assets - December 31	<u>\$ 2,185,780</u>

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

EXHIBIT 7

**STATEMENT OF CASH FLOWS
GOLF COURSE ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2004**

Cash Flows from Operating Activities	
Cash received from customers	\$ 932,453
Cash paid to suppliers	(447,756)
Cash paid to employees	(319,873)
	<u> </u>
Net cash provided by (used for) operating activities	\$ 164,824
Cash Flows from Noncapital Financing Activities	
Lodging taxes received	\$ 130,308
	<u> </u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on lease purchases	\$ (18,559)
Interest paid on lease purchases	(3,696)
Payments to trustee for debt service	(183,586)
Acquisition of capital assets	(13,446)
	<u> </u>
Net cash provided by (used for) capital and related financing activities	\$ (219,287)
Cash Flows from Investing Activities	
Interest on investments	\$ 740
	<u> </u>
Net Increase (Decrease) in Cash	\$ 76,585
Cash - January 1	7,982
	<u> </u>
Cash - December 31	\$ 84,567
	<u> </u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Net operating income (loss)	\$ (104,448)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities	
Depreciation expense	236,898
Decrease (increase) in accounts receivable	963
Decrease (increase) in inventories	(6,104)
Increase (decrease) in accounts payable	12,319
Increase (decrease) in due to State of Minnesota	23
Increase (decrease) in accrued payroll liabilities	(1,512)
Increase (decrease) in due to other funds	26,685
	<u> </u>
Net Cash Provided by (Used for) Operating Activities	\$ 164,824
	<u> </u>
Noncash Investing, Capital, and Financing Activities	
Assets held by trustee debt payments	\$ 182,490

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The Cook County and Grand Marais Joint Economic Development Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Unit (Continued)

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

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the Authority’s governmental activities and business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include:

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

(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 that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

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

The Authority reports the following major governmental funds:

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

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

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Authority reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

1. Summary of Significant Accounting Policies (Continued)

D. Budget

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

E. Assets, Liabilities, and Net Assets or Equity

1. Cash

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

2. Investments

The Authority's assets held by trustee are invested in a mutual fund and an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. The fair value of the Authority's position in the pool is the same as the value of the pool shares.

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Authority:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

2. Investments (Continued)

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

The Authority does not consider its investments to be cash equivalents.

3. Receivables and Payables

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

Property taxes, including property taxes captured as tax increment, 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 on May 15 and the second half payment due October 15. The Authority approved an annual levy for operating purposes. Property taxes, including tax increment, are collected by Cook County and distributed to the Authority three times each year.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable.

4. Inventories

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

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

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Deferred Revenue

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

9. Long-Term Obligations

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

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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.

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Cash	\$	359,591
Restricted assets		
Assets held by trustee		312,377
 Total Cash	 \$	 <u>671,968</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Authority to deposit its cash and to invest in certificates of deposit in financial institutions. At December 31, 2004, the carrying amount of the Authority's deposits totaled \$359,591. The bank balance deposit amount was \$368,024. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral. At various times during the year, Authority deposits exceeded the amount of available insurance and collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

		Bank Balance
Covered Deposits		
Insured, or collateralized with securities held by the Authority or its agent in the Authority's name	\$	143,620
Collateralized with securities held by the pledging financial institution's agent in the Authority's name		224,404
Total covered deposits	\$	368,024
Uncollateralized		-
Total	\$	<u>368,024</u>

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the Authority or its agent in the Authority's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the Authority's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the Authority's name.

The assets held by trustee are not considered securities for purposes of custodial credit risk classification. Following is a summary of the fair values of the Authority's investments at December 31, 2004:

Assets Held by Trustee	
Mutual funds	\$ 128,567
Minnesota Association of Governments Investing for Counties (MAGIC)	<u>183,810</u>
Total Assets Held by Trustee	<u>\$ 312,377</u>

2. Receivables

Receivables as of December 31, 2004, for the Authority's governmental activities and business-type activities are as follows:

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

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 1,541	\$ -
Due from Cook County	6,092	-
Total Governmental Activities	\$ 7,633	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 81,973	\$ -	\$ -	\$ 81,973
Capital assets depreciated				
Furniture and equipment	\$ 3,538	\$ -	\$ -	\$ 3,538
Less: accumulated depreciation				
For				
Furniture and equipment	2,545	662	-	3,207
Total capital assets, depreciated, net	\$ 993	\$ (662)	\$ -	\$ 331
Governmental Activities Capital Assets, Net	\$ 82,966	\$ (662)	\$ -	\$ 82,304

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

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 213,685	\$ -	\$ -	\$ 213,685
Capital assets depreciated				
Land improvements	\$ 4,212,872	\$ -	\$ -	\$ 4,212,872
Buildings and structures	369,961	-	-	369,961
Furniture and equipment	878,341	13,446	-	891,787
 Total capital assets depreciated	 \$ 5,461,174	 \$ 13,446	 \$ -	 \$ 5,474,620
Less: accumulated depreciation for				
Land improvements	\$ 1,285,081	\$ 140,429	\$ -	\$ 1,425,510
Buildings and structures	203,431	18,498	-	221,929
Furniture and equipment	552,684	77,971	-	630,655
 Total accumulated depreciation	 \$ 2,041,196	 \$ 236,898	 \$ -	 \$ 2,278,094
 Total capital assets, depreciated, net	 \$ 3,419,978	 \$ (223,452)	 \$ -	 \$ 3,196,526
 Business-Type Activities Capital Assets, Net	 \$ 3,633,663	 \$ (223,452)	 \$ -	 \$ 3,410,211

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Urban and economic development	<u>\$ 662</u>
Business-Type Activities	
Golf course	<u>\$ 236,898</u>

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

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Golf Course	\$ 39,185

C. Liabilities

1. Leases

Operating Leases

The Authority leases golf carts under non-cancelable operating leases. Total costs for such leases were \$40,205 for the year ended December 31, 2004. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2005	\$ 36,045
2006	16,020

Capital Leases

The Authority has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2004:

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

2. Detailed Notes on All Funds

C. Liabilities

1. Leases

Capital Leases (Continued)

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Business-Type Activities 2003 tractor	2008	Monthly	\$ 511	\$ 26,900	\$ 19,500
2003 irrigation system upgrade	2007	Monthly	1,343	58,016	<u>37,565</u>
Total Business-Type Activities Capital Leases					<u>\$ 57,065</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>Business-Type Activities</u>
2005	\$ 22,255
2006	22,255
2007	14,195
2008	<u>3,068</u>
Total minimum lease payments	\$ 61,773
Less: amount representing interest	<u>(4,708)</u>
Present Value of Minimum Lease Payments	<u>\$ 57,065</u>

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

2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Business-Type Activities

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
1998 Golf Course Revenue Bonds	2015	\$35,000 - \$175,000	4.40 to 5.60	\$ 1,820,000	\$ 1,500,000

3. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 105,000	\$ 77,518
2006	110,000	72,195
2007	115,000	66,512
2008	120,000	60,460
2009	125,000	54,028
2010-2014	750,000	156,398
2015	175,000	4,900
Total	<u>\$ 1,500,000</u>	<u>\$ 492,011</u>

4. Changes in Long-Term Liabilities

Business-Type Activities

	<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	\$ 1,600,000	\$ -	\$ 100,000	\$ 1,500,000	\$ 105,000
Capital leases	75,624	-	18,559	57,065	19,605
Total	<u>\$ 1,675,624</u>	<u>\$ -</u>	<u>\$ 118,559</u>	<u>\$ 1,557,065</u>	<u>\$ 124,605</u>

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each 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 members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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.

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Authority is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The Authority's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund were:

2004	\$	10,297
2003		1,562
2002		1,468

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

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

4. 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.

5. Conduit Debt - Tax Increment Financing Commitments

The Authority has issued a \$425,130 taxable limited revenue tax increment note with interest at the annual rate of seven percent, pursuant to the development agreement for Tax Increment Financing District No. 1-3. Payments totaling \$357,476 have been made to the developer as of December 31, 2004. The note is not considered a liability of the Authority and is payable solely from captured available tax increment from the District. Tax Increment Financing District No. 1-3 expired in June 2004.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 85,500	\$ 85,500	\$ 84,516	\$ (984)
Tax increments	-	-	21,978	21,978
Intergovernmental				
Coastal Zone Management Grant	-	-	6,195	6,195
Miscellaneous				
Investment earnings	1,500	1,500	1,221	(279)
Administrative fees	20,000	30,000	26,685	(3,315)
Total Revenues	\$ 107,000	\$ 117,000	\$ 140,595	\$ 23,595
Expenditures				
Current				
Urban and economic development				
Salaries	\$ 40,000	\$ 55,000	\$ 20,478	\$ 34,522
Payroll taxes	5,600	7,250	2,996	4,254
Board per diems	3,600	3,600	1,230	2,370
Legal	2,500	2,000	98	1,902
Professional services	21,100	11,600	17,781	(6,181)
Rent	3,000	3,000	3,000	-
Office	4,200	5,200	6,462	(1,262)
Insurance	3,000	3,000	2,368	632
Telephone and internet	1,050	1,050	1,433	(383)
Travel and training	1,200	1,200	391	809
Special projects	20,750	20,750	12,144	8,606
Developer reimbursements	-	-	10,831	(10,831)
Cook County tax increment reimbursements	-	-	9,748	(9,748)
Other	1,000	1,000	3,743	(2,743)
Total Expenditures	\$ 107,000	\$ 114,650	\$ 92,703	\$ 21,947
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 2,350	\$ 47,892	\$ 45,542
Fund Balance - January 1	262,313	262,313	262,313	-
Fund Balance - December 31	\$ 262,313	\$ 264,663	\$ 310,205	\$ 45,542

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

Budgetary Information

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

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

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

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SUPPLEMENTAL INFORMATION

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

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
GOLF COURSE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues			
Sales			
Food, beverage, and merchandise	\$ 222,080	\$ 210,402	\$ (11,678)
Less: cost of goods sold	(138,195)	(139,518)	(1,323)
Net sales	\$ 83,885	\$ 70,884	\$ (13,001)
Charges for services			
Green fees and other charges	938,000	721,088	(216,912)
Total Revenues	\$ 1,021,885	\$ 791,972	\$ (229,913)
Operating Expenses			
Current			
Culture and recreation			
Salaries and wages	\$ 354,000	\$ 318,361	\$ 35,639
Payroll taxes	53,100	25,577	27,523
Retirement contribution	7,000	9,028	(2,028)
Grounds maintenance and supplies	114,700	105,761	8,939
Clubhouse maintenance and supplies	10,000	11,906	(1,906)
Golf cart leases and maintenance	45,600	42,798	2,802
Insurance	27,000	27,296	(296)
Utilities	30,000	35,569	(5,569)
Telephone	4,000	3,762	238
Office	1,500	1,932	(432)
Administrative fee	20,000	20,000	-
Accounting and audit	18,000	12,007	5,993
Professional services	3,000	3,638	(638)
Dues and licenses	2,000	2,183	(183)
Travel	1,500	3,034	(1,534)
Marketing	30,000	15,720	14,280
Bank charges and fees	20,000	20,512	(512)
Capital outlay	70,000	-	70,000
Depreciation expense	-	236,898	(236,898)
Other	5,000	438	4,562
Total Expenses	\$ 816,400	\$ 896,420	\$ (80,020)
Operating Income (Loss)	\$ 205,485	\$ (104,448)	\$ (309,933)
Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 2,246	\$ 2,246
Lodging tax	-	50,000	50,000
Interest expense	(84,000)	(84,186)	(186)
Total Nonoperating Revenues (Expenses)	\$ (84,000)	\$ (31,940)	\$ 52,060

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

Schedule 2
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GOLF COURSE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budget	Actual	Variance
Income (Loss)	\$ 121,485	\$ (136,388)	\$ (257,873)
Net Assets - January 1	2,322,168	2,322,168	-
Net Assets - December 31	\$ 2,443,653	\$ 2,185,780	\$ (257,873)

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

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Segregation of Duties

Due to the limited number of office personnel within the Cook County and Grand Marais Joint Economic Development Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Authority; however, the Authority 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.

Currently, bills are approved by the Authority, and checks issued for payment require dual signatures. We recommend that the Authority continue to monitor and oversee these procedures and constantly be aware of the lack of segregation of the accounting functions.

Client's Response:

When invoices are received, the Director and/or the Assistant Director review them. The invoices are then forwarded to Accounting for review and the drafting of checks. Two Board Members then review the invoice and accompanying check. Upon the final approval of the two Board Members, both parties sign the check and accompanying invoice and the check is then issued to the vendor. Lastly, the seven (7) EDA Board Members continually monitor this situation through monthly profit and loss statements, check register, and balance sheet reports. To further segregate duties, the Director and Assistant Director are no longer signatory to any bank accounts.

96-2 Golf Course Segregation of Duties

The Cook County and Grand Marais Joint Economic Development Authority manages the operations of the Superior National at Lutsen Golf Course. Our review of golf course operations disclosed a lack of segregation of duties. Currently, the golf pro is responsible for clubhouse operations and, in that capacity, performs the following functions: collects receipts, operates the cash register, closes the cash register at the end of the day, counts the day's receipts, prepares the daily deposit, and takes the deposit to the bank. Some of these duties have been assigned to the assistant golf pro. However, the golf pro remains involved in these functions. This situation is not unusual in operations with a limited number of office personnel. Management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of personnel is not desirable from an accounting point of view.

We recommend the Authority continue to monitor and oversee procedures and constantly be aware of the lack of segregation of duties.

Client's Response:

The Authority is aware of this situation and is taking strides to rectify any potential weakness in the system. One such action is the "Daily Cash Drawer Summary" from the Golf Course to the EDA office. This report is faxed to the EDA office every morning depicting the previous day's business. This report is reviewed on an ongoing basis with Accounting.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

04-1 Collateral Requirements

During August and September 2004, the Authority's deposits with the North Shore Federal Credit Union exceeded the amount of insurance available to the Authority. Deposits at the North Shore Federal Credit Union on September 30, 2004, were \$204,746, which exceeded available insurance by \$104,746. No additional insurance or collateral was obtained to secure these excess deposits.

Minn. Stat. § 118A.03 requires a governmental entity to obtain collateral or a surety bond from a financial institution for deposits in excess of available federal deposit insurance. The amount of pledged collateral, based on its market value, must be at least ten percent more than the uninsured amount on deposit. Unsecured deposits expose the Authority to risk of loss due to financial institution default.

We recommend the Authority's Board monitor deposits and the amount of available insurance and pledged collateral. Additional collateral should be requested from the financial institution as needed.

Client's Response:

The Authority shall closely monitor banking accounts to insure deposits do not exceed the federally insured amount of \$100,000. In the event EDA deposits do exceed the insured amount, the EDA will obtain additional insurance or collateral to secure the excess deposits with the financial institution.

04-2 Rate Covenant Compliance

Net revenues for the golf course for the year ended December 31, 2004, did not meet the threshold specified in the golf course revenue bond resolution.

Part 6(a) of the Board resolution providing for the issuance and sale of the golf course revenue bonds contains a covenant regarding the adequacy of the net revenues of the golf course. The covenant states, in part, that commencing with fiscal year 2000, if the net revenues of the golf course are less than 115 percent of the maximum annual debt service on the bonds, as determined by the annual audit of the golf course, the Authority is required to hire a nationally-recognized golf course consultant to evaluate the performance of the golf course.

Golf course net revenues of \$184,696 for 2004 are less than the maximum annual debt service on the bonds of \$209,896. The maximum annual debt service calculation is equal to 115 percent of 2005 scheduled debt service payments of \$182,518. Golf course net revenues are equal to the excess of revenues over/under expenses, excluding bond interest and depreciation expense $((\$136,388) + \$84,186 + \$236,898 = \$184,696)$ as reported in the 2004 audited golf course financial statements.

We recommend the Board review the net revenue requirement specified in the golf course revenue bond resolution and hire a nationally-recognized golf course consultant to evaluate the performance of the golf course.

Client's Response:

The Board of Commissioners will review the net revenue requirement and review the appropriate options.



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PATRICIA ANDERSON
STATE AUDITOR

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

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

We have audited the financial statements of the Cook County and Grand Marais Joint Economic Development Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated March 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cook County and Grand Marais Joint Economic Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 96-1 and 96-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Cook County and Grand Marais Joint Economic Development Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 04-1 and 04-2.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: March 2, 2005