



---

CPAs & BUSINESS ADVISORS

To the Governing Board  
**Clay County Collaborative**  
Moorhead, Minnesota

---

We have audited the financial statements of **Clay County Collaborative** for the years ended December 31, 2005 and 2004, and have issued our report thereon dated May 11, 2006. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

**REVIEW OF INTERNAL CONTROL**

As part of our audit, we considered the internal control of the Collaborative. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**SIGNIFICANT ACCOUNTING POLICIES**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Collaborative are described in Note 1 to the financial statements. The Collaborative implemented no new accounting standards during 2005. The accounting policies are disclosed in Note 1 to the financial statements. We noted no transactions entered into by the Collaborative during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## **AUDIT ADJUSTMENTS**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Collaborative's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Collaborative, either individually or in the aggregate, indicate matters that could have a significant effect on the Collaborative's financial reporting process.

In addition, there are no uncorrected financial statement misstatements that are considered to be immaterial to the financial statements both individually and in the aggregate, and accordingly have not been made.

## **DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Collaborative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Collaborative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## **OTHER MATTERS**

### ***PRIOR YEAR FINDINGS RESOLVED***

#### ***Finding – Checking Account Reconciliations***

During 2003, Clay County Collaborative had four checking accounts used to provide four separate services. During 2004 three of these accounts were closed, with only the Reentry Services account remaining open. These accounts are not reconciled monthly to the general ledger balance. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled on a monthly basis as of the date of the bank statement.

***Action*** – The Reentry Services account is no longer under the control of the Collaborative. The only remaining funds are pooled in Clay County’s general checking account, which is reconciled on a monthly basis.

#### ***Finding – Investigate Differences between the Bank Statement Balance and the General Ledger***

We noted that in the bank reconciliations at the end of each year, there is a small difference between the bank balance and the general ledger. It is important for the control over cash that this account is reconciled to the penny. Unreconciled differences that appear immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. Also, if small differences are not reconciled on a monthly basis, over time, they can build up to a significant amount that will be difficult to reconcile. In preparing the bank reconciliations, all items should be investigated and corrected in that period.

***Action*** – Differences arising during the reconciliation process are now investigated and corrected immediately.

#### ***Finding – Improve Monthly Closing Procedures***

During the audit, we recommended eight adjusting journal entries for 2004 and eight adjusting journal entries for 2003. The effect of such entries was to increase (decrease) net income \$(56,759) and \$336,557 in 2004 and 2003, respectively. Substantially all of the entries were to correct bookkeeping errors or to make accruals and other adjustments that should have been made by the accounting department. We believe that a review and evaluation of transactions and proper monthly closing procedures would expedite the year-end closing and reduce audit time and fees.

Included in the liabilities is deferred revenue of \$1,263,219 and \$1,129,724 at December 31, 2004 and 2003, respectively. Money is received from the state to be used for Local Collaborative Time Study and is not recognized as revenue until expended. This account is a significant portion of the total liabilities and should be reconciled on a monthly basis to accurately reflect the financial position of the Clay County Collaborative. We noted no adjustments to this account during the two-year audit period.

***Action*** – It is now a mutual understanding that as part of our audit we will adjust the financial statements from a cash basis to accrual basis.

**Finding – Improve Financial Records**

We believe that the Clay County Collaborative's financial records are not adequately detailed. During 2004 and 2003, the four checking accounts received periodic payments from the cash on deposit with Clay County to replenish the balances. These payments amounted to approximately \$5,300 and \$22,400 during the years ended December 31, 2004 and 2003, respectively. These payments are classified as miscellaneous expenditures in the general ledger detail at the time of payment. The subsequent transactions in the four checking accounts are not accounted for in detail anywhere in the accounting records. Such a system does not permit the preparation of accurate and reliable financial statements. The importance of a good accounting system cannot be overemphasized. Without adequate financial records, management is basing its decision on incomplete and/or inaccurate information during the year, and excessive time is spent at year end in preparing and auditing the financial statements.

Action – The financial records are now adequately detailed.

This report is intended solely for the information and use of the Governing Board and management of Clay County Collaborative and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation we received during the course of the audit. We look forward to many years of continued service to Clay County Collaborative.

Eide Bailly LLP

Fargo, North Dakota  
May 11, 2006