

**FINANCIAL STATEMENTS
JUNE 30, 2007 AND DECEMBER 31, 2005**



**CLAY COUNTY COLLABORATIVE
MOORHEAD, MINNESOTA**

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1
BASIC FINANCIAL STATEMENTS		
Statements of Net Assets	A-1	2
Statement of Activities – June 30, 2007	A-2	3
Statement of Activities – December 31, 2005	A-3	4
Balance Sheets	A-4	5
Statements of Revenues, Expenditures and Changes in Fund Balance	A-5	6
Reconciliation of the Change in Fund Balance of Governmental Funds to the Statement of Activities	A-6	7
Notes to Financial Statements		8
ADDITIONAL REPORTS		
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> and the <i>Minnesota Legal Compliance Audit Guide for Local Governments</i>		12
Schedule of Audit Findings		14



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Governing Board of
Clay County Collaborative
Moorhead, Minnesota

We have audited the accompanying financial statements of the general fund of the Clay County Collaborative as of June 30, 2007 and December 31, 2005, and for the 18-month period ending June 30, 2007 and the year ending December 31, 2005, which comprise the Collaborative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Collaborative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide 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 general fund of the Collaborative, as of June 30, 2007 and December 31, 2005, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2007 on our consideration of the Collaborative's internal control over financial reporting and 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.

The Collaborative has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to part of, the basic financial statements.

Eide Bailly LLP

Fargo, North Dakota
October 30, 2007

**CLAY COUNTY COLLABORATIVE
MOORHEAD, MINNESOTA
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND DECEMBER 31, 2005**

Exhibit A-1

	<u>2007</u>	<u>2005</u>
ASSETS		
Cash and pooled investments	\$ 1,831,996	\$ 1,985,113
Due from other governmental units	<u>85,083</u>	<u>126,023</u>
Total assets	<u>\$ 1,917,079</u>	<u>\$ 2,111,136</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 39,062	\$ 29,050
Salaries payable	-	1,703
Due to other governmental units	-	5,835
Unearned revenue	<u>872,489</u>	<u>1,115,461</u>
Total liabilities	<u>911,551</u>	<u>1,152,049</u>
NET ASSETS		
Unrestricted	<u>1,005,528</u>	<u>959,087</u>
Total liabilities and net assets	<u>\$ 1,917,079</u>	<u>\$ 2,111,136</u>

**CLAY COUNTY COLLABORATIVE
MOORHEAD, MINNESOTA
STATEMENT OF ACTIVITIES
18-MONTH PERIOD ENDED JUNE 30, 2007**

Exhibit A-2

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities			
Local collaborative time study	\$ 274,441	\$ 579,164	\$ 304,723
Truancy Intervention Program	249,308	-	(249,308)
Family Services	163,246	-	(163,246)
Restorative Justice	55,616	5,519	(50,097)
Reentry Services	-	34,154	34,154
	<u>\$ 742,611</u>	<u>\$ 618,837</u>	<u>(123,774)</u>
 GENERAL REVENUES			
Unrestricted investment earnings			170,215
 CHANGES IN NET ASSETS			46,441
 NET ASSETS - BEGINNING			959,087
 NET ASSETS - ENDING			\$ 1,005,528

**CLAY COUNTY COLLABORATIVE
MOORHEAD, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2005**

Exhibit A-3

Functions/Programs	Expenses	Program Revenues <u>Operating Grants and Contributions</u>	Net (Expense) Revenue and Changes in Net Assets
Governmental activities			
Local collaborative time study	\$ 520,212	\$ 547,948	\$ 27,736
Truancy Intervention Program	122,190	122,190	-
Family Services	154,219	100	(154,119)
Restorative Justice	27,374	27,374	-
Local Advisory Council	3,742	3,742	-
Reentry Services	68,349	68,351	2
	<u>\$ 896,086</u>	<u>\$ 769,705</u>	<u>(126,381)</u>
GENERAL REVENUES			
Unrestricted investment earnings			<u>46,297</u>
CHANGES IN NET ASSETS			(80,084)
NET ASSETS - BEGINNING			<u>1,039,171</u>
NET ASSETS - ENDING			<u>\$ 959,087</u>

**CLAY COUNTY COLLABORATIVE
MOORHEAD, MINNESOTA
BALANCE SHEETS
JUNE 30, 2007 AND DECEMBER 31, 2005**

Exhibit A-4

	<u>2007</u>	<u>2005</u>
ASSETS		
Cash and pooled investments	\$ 1,831,996	\$ 1,985,113
Due from other governmental units	<u>85,083</u>	<u>126,023</u>
Total assets	<u>\$ 1,917,079</u>	<u>\$ 2,111,136</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 39,062	\$ 29,050
Salaries payable	-	1,703
Due to other governmental units	-	5,835
Unearned revenue	<u>872,489</u>	<u>1,115,461</u>
Total liabilities	<u>911,551</u>	<u>1,152,049</u>
FUND BALANCE - UNRESERVED	<u>1,005,528</u>	<u>959,087</u>
Total liabilities and fund balance	<u>\$ 1,917,079</u>	<u>\$ 2,111,136</u>

**CLAY COUNTY COLLABORATIVE
MOORHEAD, MINNESOTA**

STATEMENTS OF REVENUES,

EXPENDITURES AND CHANGES IN FUND BALANCE

Exhibit A-5

18-MONTH PERIOD ENDED JUNE 30, 2007 AND YEAR ENDED DECEMBER 31, 2005

	2007				2005 Actual
	Original Budget	Final Budget	Actual	Variance With Final Budget	
REVENUES					
Federal					
U.S. Department of Justice	\$ -	\$ -	\$ -	\$ -	\$ 68,349
State of Minnesota					
Department of Human Services	257,307	257,307	613,519	356,212	697,086
Investment earnings	40,000	40,000	170,215	130,215	46,297
Miscellaneous	7,940	7,940	5,318	(2,622)	4,270
Total revenues	<u>305,247</u>	<u>305,247</u>	<u>789,052</u>	<u>483,805</u>	<u>816,002</u>
EXPENDITURES					
Local collaborative time study	297,595	277,196	274,441	2,755	543,779
Truancy Intervention Program	374,552	374,552	249,308	125,244	122,190
Family Services	147,800	147,202	163,246	(16,044)	154,219
Restorative Justice	96,408	68,688	55,616	13,072	27,374
Local Advisory Council	-	-	-	-	3,742
Reentry Services	-	-	-	-	68,349
Total expenditures	<u>916,355</u>	<u>867,638</u>	<u>742,611</u>	<u>125,027</u>	<u>919,653</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(611,108)	(562,391)	46,441	608,832	(103,651)
FUND BALANCE, BEGINNING OF PERIOD	<u>959,087</u>	<u>959,087</u>	<u>959,087</u>	<u>-</u>	<u>1,062,738</u>
FUND BALANCE, END OF PERIOD	<u>\$ 347,979</u>	<u>\$ 396,696</u>	<u>\$ 1,005,528</u>	<u>\$ 608,832</u>	<u>\$ 959,087</u>

**CLAY COUNTY COLLABORATIVE
MOORHEAD, MINNESOTA**

**RECONCILIATION OF THE CHANGE IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Exhibit A-6

18-MONTH PERIOD ENDED JUNE 30, 2007 AND YEAR ENDED DECEMBER 31, 2005

	<u>2007</u>	<u>2005</u>
NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 46,441	\$ (103,651)
<p>Amounts reported for governmental activities in the statement of activities is different because:</p>		
<p style="padding-left: 40px;">In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid).</p>		
	<u>-</u>	<u>23,567</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 46,441</u>	<u>\$ (80,084)</u>

**CLAY COUNTY COLLABORATIVE
MOORHEAD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND DECEMBER 31, 2005**

NOTE 1 - ORGANIZATION AND PURPOSE

Clay County Collaborative (the Collaborative) was established in 1995 pursuant to Minn. Stat. 124D.23, between Clay County; Clay County Public Health; Independent School District Nos. 146, 150, 152, 914, and 2164; Clay-Wilkin Opportunity Council Head Start; Collaborative Advisory Committee; Minnesota Department of Corrections-Clay County Court Services; and voluntary partners. The Collaborative's primary purpose is to work in partnership with Clay County families, communities, agencies/organizations, and institutions to increase opportunities to improve child health and development, reduce barriers to quality school performance, and improve family functioning through enhanced self-esteem and the development of general employment skills.

The management of the Collaborative is vested in the Collaborative Board. The Board is composed of two Clay County Commissioners, two school board members from Independent School District No. 152, one school board member from each of the other four participating school districts, one city representative from within each of the five school districts, one representative of the Clay-Wilkin Opportunity Council Head Start, one representative of the Collaborative Advisory Committee, one representative of the Minnesota department of Corrections-Clay County Court Services, two consumer/parent representatives of children with special needs, The Administrator of the Clay County Public Health Department, the Director of Clay County Social Services, and two superintendent representatives. No single member party retains control over the operations or has oversight responsibility for the Collaborative. The Boards appoints a fiscal agent to handle and be responsible for safekeeping the funds of the Collaborative.

Clay County acts as fiscal agent for the Collaborative. These financial statements include only the transactions of the Collaborative and are not intended to present the transactions of the Collaborative's member agencies.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The goal of government-wide financial statements is to present a broad overview of government's finances. The basic statements that form the government-wide financial statements are the statement of net assets and the statement of activities. Governmental activities are normally financed through intergovernmental revenues.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function. Interest earnings and other items not properly included among program revenues are reported instead as general revenues.

NOTES TO FINANCIAL STATEMENTS

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide 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 the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Collaborative considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenue and investment income associated with the current fiscal period are the major revenues that are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are collected in 60 days. All other revenue items are considered to be measurable and available only when the Collaborative receives cash.

The Collaborative reports the following major governmental fund:

General Fund – The Collaborative uses this fund to account for all financial resources.

C. OTHER SIGNIFICANT ACCOUNTING POLICIES

Budget – The Collaborative’s board adopts an estimated revenue and expenditure budget. The budget may be amended or modified at any time by the board.

Cash and Investments – Cash and investments are on deposit with Clay County

Fund Balance – Unreserved indicates that portion of fund balance which is available for appropriation in future periods.

NOTE 3 - CASH DEPOSITS

Cash transactions are administered by the Clay County Treasurer, who is authorized to deposit cash in financial institutions designated by the County Board pursuant to Minn. Stat. 118A.02, Minn. Stat. 118A.04 and 118A.05 authorize the types of investments available to the County. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - DUE FROM OTHER GOVERNMENTS

The amount due from other governments at June 30, 2007 and December 31, 2005, is \$85,083 and \$267,953, respectively, due from the federal government.

NOTE 5 - UNEARNED REVENUE

Unearned revenue at June 30, 2007 and December 31, 2005, is \$872,489 and \$1,115,461, respectively, consists of the portion of the Local Collaborative Time Study grant received but not yet earned

NOTE 6 - RISK MANAGEMENT

The Collaborative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. To cover risk associated with property and casualty, the Collaborative is a member of the Minnesota Counties Insurance Trust (MCIT). Other risks are covered by commercial insurance. The Collaborative retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The Property and Casualty Division of MCIT is self-sustaining and members pay an annual premium to cover current and future losses. The 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 members in a method and amount to be determined by MCIT.

NOTE 7 - DEFINED BENEFIT PENSION PLANS - STATEWIDE

PERA

Plan Description

All full-time and certain part-time employees of the Collaborative are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) that is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

PERF 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.

NOTES TO FINANCIAL STATEMENTS

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 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 PERF's Coordinated and Basic Plan members. The retiring member receives the higher of 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 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 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 each year of service. PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, 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.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions available at any time to members who leave public service, but before retirement benefits begin.

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 receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the web at mnpera.com, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (612) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Collaborative makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10%, respectively, of their annual covered salary. The Collaborative is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 5.53% for Coordinated Plan PERF members. The Collaborative's contributions to the Public Employees Retirement Fund for the years ending June 30, 2007, 2005 and 2004, were equal to the contractually required contributions for each year as set by state statute.



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND
*THE MINNESOTA LEGAL COMPLIANCE GUIDE FOR LOCAL GOVERNMENTS***

To the Governing Board of
Clay County Collaborative
Moorhead, Minnesota

We have audited the financial statements of the general fund of Clay County Collaborative, Moorhead, Minnesota, for the 18-month period ended June 30, 2007 and the year ended December 31, 2005, and have issued our report thereon dated October 30, 2007. We conducted our audits 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; and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes, Section 6.65.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Collaborative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Collaborative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Collaborative's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiencies 07-1, 07-2 and 07-3 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1, 07-2 and 07-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Collaborative'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*.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements for Collaborative's. Our study included all of the listed categories. The results of our tests disclosed no instances of noncompliance that are required to be reported the *Minnesota Legal Compliance Audit Guide for Local Government*.

The Collaborative's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Collaborative's responses and, accordingly, we express no opinion on them.

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

Eide Bailly LLP

Fargo, North Dakota
October 30, 2007

**CLAY COUNTY COLLABORATIVE
MOORHEAD, MINNESOTA
SCHEDULE OF AUDIT FINDINGS
18-MONTH PERIOD ENDED JUNE 30, 2007 AND YEAR ENDED DECEMBER 31, 2005**

A. FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weaknesses

07-1 Segregation of Duties

Condition: The Collaborative has a lack of segregation of duties in certain areas due to a limited staff.

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

Effect: Inadequate segregation of duties could adversely affect the Collaborative's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the Collaborative.

Management's Response: Due to cost constraints, there will be no further administrative employees added.

07-2 Preparation of Financial Statements

Condition: The Collaborative does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This circumstance is not unusual in a Collaborative of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response: Due to cost constraints, the Collaborative will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

07-3 Significant Journal Entries

Condition: During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the Collaborative's existing internal controls, and therefore could have resulted in a material misstatement of the Collaborative's financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Management's Response: The Collaborative will make an effort to review and reconcile all accounts in future years.

B. FINDINGS – MINNESOTA LEGAL COMPLIANCE – NONE