

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT OF

CLAY COUNTY
MOORHEAD, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

For the Year Ended December 31, 2006



Management and Compliance Report

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

This page was left blank intentionally.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Schedule of Findings and Questioned Costs	Schedule 1	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		8
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		11
Schedule of Expenditures of Federal Awards	Schedule 2	14

This page was left blank intentionally.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Clay County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Clay County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Clay County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Clay County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Help America Vote Act	CFDA #90.401
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Clay County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-4 Segregation of Duties

Due to the limited number of office personnel within Clay County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Clay County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Segregation of duties is defined as an arrangement of responsibilities such that the work of one employee is checked by another. Ideally, no single individual should be able to: (1) authorize a transaction, (2) record the transaction in the books of account, and (3) ensure custody of the assets resulting from the transaction. The three elements of a transaction-- authorization, recording, and custody--should be separated whenever possible.

We recommend that Clay County's management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

Client's Response:

Clay County is aware of the lack of segregation of duties in some of the smaller departments and has implemented oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

ITEMS ARISING THIS YEAR

06-1 Audit Adjustment

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 of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified a material adjustment, due to errors in a supporting deferred lien schedule, in the Ditch Debt Service Fund. At the fund level, receivables and deferred revenue were reduced by \$329,937, resulting in no change to the fund balance. At the government-wide level, receivables and revenue were reduced, resulting in a reduction of net assets in the amount of \$329,937.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the County establish internal procedures for reviewing lead schedules to ensure amounts are correctly reported in accordance with generally accepted accounting principles (GAAP) in the County's annual financial statements.

Client's Response:

Clay County will establish internal procedures for reviewing lead schedules to ensure amounts are correctly reported.

06-2 Prior Period Adjustment

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 of the financial statements on a timely basis. SAS No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is restatement of previously issued financial statements to reflect the correction of a material misstatement.

While preparing lead schedules for their 2006 financial statements, Clay County employees realized that a change in their capital asset policy in a previous year had been applied only to the general capital assets and not to the capital assets reported in the Capital Equipment Internal Service Fund. A restatement in the amount of \$489,748 was made in 2006 to remove items below the capital asset policy.

We recommend the County establish internal procedures for reviewing lead schedules to ensure amounts are correctly reported in accordance with GAAP in the County's annual financial statements.

Client's Response:

Clay County will establish internal procedures for reviewing lead schedules to ensure amounts are correctly reported.

PREVIOUSLY REPORTED ITEM RESOLVED

Untimely Receipt and Deposit of Social Services Miscellaneous Collections (05-1)
The County was not receipting its Social Services miscellaneous collections in a timely manner. Collections were entered into a worksheet daily, but were not turned over and receipted until the end of the month.

Resolution

The County is now receipting its Social Services miscellaneous collections weekly.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Depository Pledge Agreement

Several years ago, Wells Fargo Bank changed its procedures for the assignment and substitution of collateral pledged to secure deposits. The new procedures are described in the depository pledge agreement. This agreement provides that if the aggregate market value of collateral held by the custodian (Federal Reserve Bank of Minneapolis) exceeds the required collateral value (Minn. Stat. § 118A.03, subd. 3), Wells Fargo may withdraw any excess collateral by providing the custodian with a withdrawal notice signed by authorized representatives of Wells Fargo and the County. Additionally, Wells Fargo may substitute eligible securities for any of the collateral held by the custodian at any time by providing the custodian with a substitution notice signed only by an authorized representative of Wells Fargo, provided that the market value of the collateral following such substitution would equal or exceed the required collateral value. Substitutions of securities not of like par value require the County Auditor/Treasurer's written confirmation.

The County Auditor/Treasurer does not receive notification of the substitution prior to substitution as required by Minn. Stat. § 118A.03, subd. 5. The County Auditor/Treasurer receives only a monthly collateral pledge report from the Federal Reserve Bank of Minneapolis verifying the balance of collateral.

The County Auditor/Treasurer has shifted County investments out of Wells Fargo, but the County still maintains several checking and savings accounts with bank balances totaling \$2,862,958.

We recommend that the County Auditor/Treasurer work with Wells Fargo to make the necessary changes to the pledge agreement to require notification and approval of the substitution of collateral prior to the substitution.

Client's Response:

Clay County will continue to work with Wells Fargo so that the Auditor/Treasurer receives notification for the substitution of collateral prior to the substitution.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

Schedule 1
(Continued)

If applicable for Clay County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2007 and 2008, respectively.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board of County Commissioners
Clay County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clay County as of and for the year ended December 31, 2006, and have issued our report thereon dated December 10, 2007. 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 Clay County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section 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 County'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 County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4, 06-1, and 06-2 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 Clay County's internal control.

Our consideration of 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 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, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay County'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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Clay County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-1.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to Clay County and is reported for that purpose.

Clay County's written responses to the significant deficiencies and legal compliance findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Clay County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 10, 2007

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Clay County

Compliance

We have audited the compliance of Clay County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Clay County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clay County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Clay County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of Clay County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Clay County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clay County as of and for the year ended December 31, 2006, and have issued our report thereon dated December 10, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Clay County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic

financial statements. Such information 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.

This report is intended solely for the information and use of the Board of County Commissioners, management and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 10, 2007

This page was left blank intentionally.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Education		
School Breakfast Program	10.553	\$ 13,317
National School Lunch Program	10.555	25,020
Passed Through Minnesota Department of Health		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	153,909
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Food Stamp Program	10.561	21,330
Direct		
Soil and Water Conservation	10.902	11,500
Total U.S. Department of Agriculture		\$ 225,076
U.S. Department of the Interior		
Direct		
Fish and Wildlife Management Assistance	15.608	\$ 15,000
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Incentive Block Grant	16.523	\$ 14,146
Enforcing Underage Drinking Laws Program	16.727	3,460
Byrne Formula Grant Program	16.579	137,795
Passed Through Minnesota Department of Public Safety and City of Moorhead		
Byrne Formula Grant Program	16.579	74,266
Direct		
Byrne Formula Grant Program	16.579	5,102
Total U.S. Department of Justice		\$ 234,769
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 1,172,975
Public Transportation for Non-Urbanized Areas	20.509	137,599
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	55,453
Safety Incentives for Seat Belt Use	20.604	5,437
Total U.S. Department of Transportation		\$ 1,371,464

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Education		
Passed Through Minnesota Department of Education Special Education Preschool Grants	84.173	\$ 3,700
Passed Through Minnesota Department of Education Special Education Grants for Infants and Families with Disabilities	84.181	62,590
Total U.S. Department of Education		\$ 66,290
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act	90.401	\$ 491,296
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Immunizations Grants	93.268	\$ 2,200
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	85,666
Temporary Assistance for Needy Families	93.558	45,738
Maternal and Child Health Services Block Grant	93.994	72,918
Passed Through Minnesota Department of Human Services Projects for Assistance in Transition from Homelessness (PATH)	93.150	37,460
Promoting Safe and Stable Families	93.556	45,512
Temporary Assistance for Needy Families	93.558	811,805
Child Care Mandatory and Matching Funds	93.596	53,455
Foster Care Title IV-E	93.658	441,234
Social Services Block Grant Title XX	93.667	383,659
Chafee Foster Care Independent Living	93.674	9,334
Community Mental Health Services Block Grant	93.958	67,791
Prevention/treatment of Substance Abuse	93.959	77,679
Total U.S. Department of Health and Human Services		\$ 2,134,451
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Grant	97.004	\$ 4,087
Public Assistance Grants	97.036	154,378
Hazard Mitigation Grant	97.039	27,592
Homeland Security Grant Program	97.067	16,484
Total U.S. Department of Homeland Security		\$ 202,541
Total Federal Awards		\$ 4,740,887

**CLAY COUNTY
MOORHEAD, MINNESOTA**

***Schedule 2
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Clay County. The County's reporting entity is defined in Note 1 to the general purpose financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the County. Governmental funds use the modified accrual basis of accounting. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule do not match the federal revenues reported in the financial statements.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. Clay County did not pass any federal awards to subrecipients in 2006.