

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

CLAY COUNTY
MOORHEAD, MINNESOTA

YEAR ENDED DECEMBER 31, 2003

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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**CLAY COUNTY
MOORHEAD, MINNESOTA**

Year Ended December 31, 2003



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

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2003

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Elected		
Commissioners		
1st District	Ben Brunsvold	January 2007
2nd District	Jerry Waller	January 2005
3rd District	Jon Evert*	January 2007
4th District	Kevin Campbell	January 2007
5th District	Mike McCarthy	January 2007
Attorney	Lisa Borgen	January 2007
Auditor/Treasurer	Lori J. Johnson	January 2007
County Recorder	J. Bonnie Rehder	January 2007
County Sheriff	Bill Berquist	January 2007
Appointed		
Assessor	Loren Johnson	December 2004
County Coordinator	Vijay Sethi	Indefinite
Highway Engineer	John A. Cousins	May 2005
Surveyor	Brian Rittenhouse	December 2006

*Chair

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Clay County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clay County, Minnesota, as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Clay County'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, each major fund, and the aggregate remaining fund information of Clay County, as of and for the year ended December 31, 2003, 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.

As discussed in the notes to the financial statements, Clay County adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2003. These statements result in a change in format and content of the basic financial statements.

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 Clay County's basic financial statements. The supplementary 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 August 19, 2004, on our consideration of Clay County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 19, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
December 31, 2003**

Introduction

Clay County's Management's Discussion and Analysis (MD&A) provides an overview of Clay County's financial activities for the fiscal year ended December 31, 2003. Because fiscal year 2003 represents the first year in which Clay County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34, this discussion and analysis provides only limited comparisons with the previous year. The MD&A is new and will now be presented at the front of each year's audited financial statements. Future reports will include significantly more comparative information. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with Clay County's financial statements and the notes to the financial statements.

Financial Highlights

- The assets of Clay County exceeded its liabilities at December 31, 2003, by \$73,132,459 (*net assets*). Of this amount, \$20,890,512 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities' total net assets are \$64,381,224, of which Clay County has invested \$46,866,879 in capital assets, net of related debt, and \$1,350,985 is restricted to specific purposes/uses by Clay County.
- Business-type activities have total net assets of \$8,751,235. Invested in capital assets, net of related debt, represents \$3,471,497 of the total; \$552,586 of the total business-type net assets is restricted for specific uses.
- The net cost of Clay County's governmental activities for the year ended December 31, 2003, was \$14,973,372. General property tax revenues and other general revenue sources totaled \$18,693,443.
- In 2003, Clay County issued new General Obligation Ditch Bonds of \$960,000 and General Obligation Watershed Improvement Refunding Bonds of \$590,000.

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Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Clay County's basic financial statements. Clay County's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Clay County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Clay County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Clay County is improving or deteriorating.

The *Statement of Activities* presents information showing how Clay County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the *timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Clay County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (*business-type activities*). The governmental activities of Clay County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. The business-type activities of Clay County include the Family Service Center, Juvenile Detention, Public Health, and Solid Waste.

The government-wide financial statements may be found in Exhibits 1 and 2 of this report.

Fund Financial Statements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Clay County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Clay County may be divided into three broad categories: *governmental funds, proprietary funds, and fiduciary funds*.

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Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Within the governmental funds, Clay County maintains four fund types: General, Special Revenue, Debt Service, and Capital Projects. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Fund, Social Services Fund, and Ditch Debt Service Fund, all of which are considered to be major funds. Data from the other special revenue, debt service, and capital project non-major governmental funds, are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Clay County adopts an annual budget for three of its major governmental funds and the County Building, Ditch, Forfeited Tax, and Gravel Removal Tax Reserve non-major special revenue funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with their budgets.

The basic governmental fund financial statements may be found in Exhibits 3 through 6 of this report.

General Fund. The General Fund is used to account for all financial resources not required to be accounted for in another fund.

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Special Revenue Funds. Special Revenue governmental funds account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Funds include:

- Road and Bridge
- Social Services
- County Building
- Ditch
- Forfeited Tax
- Gravel Removal Tax Reserve

Debt Service Funds. The Debt Service Funds account for the payment of principal, interest and fiscal charges on long-term debt obligations of Clay County.

Capital Projects Funds. The Capital Projects Funds track major building construction projects.

Proprietary Funds. Clay County maintains two different types of proprietary funds; enterprise fund and internal service fund. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Clay County uses enterprise funds to account for its Family Service Center, Juvenile Center, Public Health, and Solid Waste Management. The Family Service Center Enterprise Fund is used to account for the financing of the Family Service Center, which provides rental space to other departments and agencies. The Juvenile Center Enterprise Fund is used to account for the financial transactions of the fund, which provides housing for juveniles and rental space to other departments and agencies. The Public Health Fund provides nursing service care to the elderly and other residents of the County, and the Solid Waste Management Fund is used to account for providing refuse disposal services to the public. The Internal Service Fund is an accounting device used to accumulate and allocate costs internally among Clay County's various functions. Clay County uses its Equipment Replacement Internal Service Fund to account for the financing of equipment provided by one department to other departments of the County on a cost-reimbursement basis. Each year a transfer is made based upon the amount reflected in the equipment replacement schedule. Because this service benefits all fund types, it is included in both the governmental and business-type activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for all of Clay County's Enterprise Funds since they are all considered to be major funds of the County. Conversely, the Equipment Replacement Internal Service Fund is reported separately on the proprietary fund financial statements.

The basic proprietary fund financial statements may be found in Exhibits 7 through 9 of this report.

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Fiduciary Funds. Fiduciary funds (agency funds) are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Clay County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement may be found in Exhibit 10 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the exhibits.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information budgeting comparison schedules for Clay County's major governmental funds with budgets. Required supplementary information is presented immediately following the notes to the financial statements. After that, the combining statements referred to earlier in connection with non-major governmental funds and fiduciary funds are presented.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Clay County, assets exceeded liabilities by \$73,132,459 at the close of the most recent fiscal year, which is an increase of \$3,712,562.

Net capital assets of \$50,338,376 (land, buildings, machinery and equipment, infrastructure, improvements other than buildings, and construction in progress, less any related debt used to acquire assets that is still outstanding) represents the largest portion of net assets (69 percent). Clay County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Clay County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities.

Clay County's combined net assets for the year ended December 31, 2003, were \$73,132,459. Clay County's analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of Clay County's governmental and business-type activities.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**Table 1
Net Assets**

	Governmental Activities	Business-Type Activities	Total
Assets			
Current and other assets	\$ 29,196,838	\$ 16,178,880	\$ 45,375,718
Capital assets	<u>55,743,713</u>	<u>10,440,144</u>	<u>66,183,857</u>
Total Assets	<u>\$ 84,940,551</u>	<u>\$ 26,619,024</u>	<u>\$ 111,559,575</u>
Liabilities			
Long-term liabilities outstanding	\$ 16,920,483	\$ 17,016,939	\$ 33,937,422
Other liabilities	<u>3,638,844</u>	<u>850,850</u>	<u>4,489,694</u>
Total Liabilities	<u>\$ 20,559,327</u>	<u>\$ 17,867,789</u>	<u>\$ 38,427,116</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 46,866,879	\$ 3,471,497	\$ 50,338,376
Restricted	1,350,985	552,586	1,903,571
Unrestricted	<u>16,163,360</u>	<u>4,727,152</u>	<u>20,890,512</u>
Total Net Assets	<u>\$ 64,381,224</u>	<u>\$ 8,751,235</u>	<u>\$ 73,132,459</u>

Clay County's total net assets for the year ended December 31, 2003, total \$73,132,459. Unrestricted net assets totaling \$20,890,512 are available to Clay County to finance day-to-day operations. Of the unrestricted net assets, \$16,163,360 are available for governmental activities and \$4,727,152 are available for business-type activities.

**Table 2
Changes in Net Assets**

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program revenues			
Fees, fines, charges, and other	\$ 2,790,268	\$ 5,506,253	\$ 8,296,521
Operating grants and contributions	16,639,221	1,546,344	18,185,565
Capital grants and contributions	1,772,391	982,954	2,755,345
General revenues			
Property taxes	13,304,241	-	13,304,241
Other taxes	288,113	-	288,113
Grants and contributions	4,816,612	-	4,816,612
Other general revenues	<u>284,477</u>	<u>299,743</u>	<u>584,220</u>
Total Revenues	<u>\$ 39,895,323</u>	<u>\$ 8,335,294</u>	<u>\$ 48,230,617</u>

(Unaudited)

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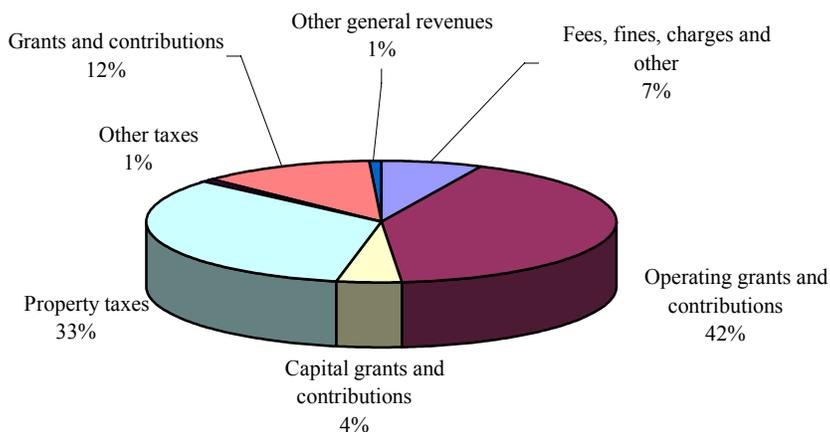
**Table 2
Changes in Net Assets
(Continued)**

	Governmental Activities	Business-Type Activities	Total
Expenditures			
Program expenses			
General government	\$ 5,147,346	\$ -	\$ 5,147,346
Public safety	6,093,311	-	6,093,311
Highways and streets	5,328,442	-	5,328,442
Sanitation	1,487	-	1,487
Human services	16,550,992	-	16,550,992
Culture and recreation	330,094	-	330,094
Conservation of natural resources	1,802,261	-	1,802,261
Economic development	312,307	-	312,307
Interest	605,012	-	605,012
Administrative charges	4,000	-	4,000
Family service	-	1,759,910	1,759,910
Public health	-	3,130,994	3,130,994
Solid waste	-	1,543,342	1,543,342
Juvenile center	-	1,908,557	1,908,557
Total program expenses	<u>\$ 36,175,252</u>	<u>\$ 8,342,803</u>	<u>\$ 44,518,055</u>
Excess (Deficiency) Before Special Items and Transfers	\$ 3,720,071	\$ (7,509)	\$ 3,712,562
Special Items	-	-	-
Transfers	-	-	-
Change in Net Assets	<u>\$ 3,720,071</u>	<u>\$ (7,509)</u>	<u>\$ 3,712,562</u>

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Clay County’s total revenues for the year ended December 31, 2003, were \$48,230,617. The total cost of Clay County programs and services for the year ended December 31, 2003, was \$44,518,055. The net assets for Clay County’s Governmental Activities increased by \$3,720,071 but decreased in the Business-Type Activities by \$7,509.

Revenues by Source - Governmental Activities



Governmental Activities. Revenues for Clay County’s governmental activities for the year ended December 31, 2003, were \$39,895,323. Clay County’s costs for all governmental activities for the year ended December 31, 2003, was \$36,175,252. As shown in Clay County’s Statement of Activities, the amount that Clay County taxpayers ultimately financed for these governmental activities through local property taxation was \$13,304,241 because \$2,790,268 of the costs were paid by those who directly benefited from the programs, and \$18,411,612 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Clay County paid for the remaining “public benefit” portion of governmental activities with \$5,389,202 in general revenues, primarily grants and contributions, which were not restricted to specific programs or services and with other revenues, such as interest income, mortgage registration tax, and deed tax.

Table 3 presents the cost of each of Clay County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Clay County’s taxpayers by each of these functions.

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**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
Program Expenses		
General government	\$ 5,147,346	\$ (3,662,756)
Public safety	6,093,311	(4,900,856)
Highways and streets	5,328,442	340,408
Human services	16,550,992	(5,746,713)
Conservation of natural resources	1,802,261	21,482
All others	1,252,900	(1,024,937)
Total Program Expenses	\$ 36,175,252	\$ (14,973,372)

Business-Type Activities. Revenues of Clay County business-type activities (Table 2) for the year ended December 31, 2003, were \$8,335,294. Expenditures of Clay County's business-type activities (Table 2) for the year ended December 31, 2003, were \$8,342,803.

This compares with total operating revenues of \$4,789,029 and with total non-operating revenues of \$3,159,912 for the year ended December 31, 2002. Increased fees and charges for services provided were the main reasons for the increase in revenues. Operating expenditures were \$7,507,138, and non-operating expenditures were \$702,144 for the year ended December 31, 2002.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of Clay County *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Clay County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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As of the end of the 2003, Clay County's governmental funds reported combined ending fund balances of \$17,226,100, which is below last year's total of \$18,454,455. Included in this year's total fund balance is Clay County's General Fund balance of \$6,495,925. The General Fund's change in fund balance (a decrease of \$768,329 from 2002) represented 62.5 percent of the total decrease in governmental fund balances. Most of the decrease was due to an operating transfer of \$793,000 to the Courthouses Expansion Capital Project Fund to cover construction costs. However, actual revenues did not meet budget expectations by \$328,149, and actual expenditures exceeded budgeted expenditures by \$7,245. All of the General Fund balance is either reserved (\$2,070,754) or unreserved designated (\$4,425,171) for specific purposes. The largest decrease in governmental fund balances was in the Courthouse Expansion Capital Projects Fund by \$1,247,720. This significant decrease in the Courthouse Expansion Fund was due to substantial completion of the Courthouse remodeling in 2003. Funding for the Courthouse Expansion expenditures was provided from the proceeds of bonds, which were issued in 2002 and transfers of \$1,543,000 from other funds in 2003.

General Fund Budgetary Highlights

Generally, over the course of a budget year, the Clay County Board of Commissioners do not amend/revise the County's budget; however, in 2003, the Board of Commissioners did make some amendments to the original budget due to state cutbacks. Differences between the original budget and the final amended budget were a decrease of \$913,182 for expenditures at fiscal year-end. The decrease for original to final budget for expenditures may be summarized as follows:

- \$168,280 decrease for general government activities
- \$152,658 decrease for public safety activities
- \$146,757 decrease for highways and streets activities
- \$415,010 decrease for human service activities
- \$17,742 decrease for culture and recreation activities
- \$12,735 decrease for conservation of natural resources

In Clay County's General Fund, the actual revenues fell short of the expected revenues by \$328,149. Total actual expenditures in Clay County's General Fund exceeded the budgeted expenditures by \$7,245. Most major expenditure categories had actual expenditures less than

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budgeted. Public Safety government expenditure category in the General Fund exceeded the budgeted expenditures by \$277,752 due to an increase in prisoner care, start-up costs of new joint dispatch center, and new grant expenditures. General government expenditure category in the County Building Fund exceeded the budgeted expenditures by \$33,737 due to construction of an employee overflow parking lot.

Capital Asset and Debt Administration

Capital Assets. Clay County's investment in capital assets for its governmental and business-type activities as of December 31, 2003, amount to \$66,183,857 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress. The total increase in the Clay County investment in capital assets for the current fiscal year was \$1,879,708, or 2.9 percent (see Table 4 below).

This year's major capital asset events during the current fiscal year included the following:

- Completion of the Joint Highway Facility resulting in a transfer of \$2,263,948 to buildings from construction in progress.
- Completion of road construction projects resulting in a transfer of \$2,749,058 from construction in progress to infrastructure.
- The Courthouse Expansion project was substantially complete at the end of 2003, increasing construction in progress by \$2,565,376.
- Clay County adopted a new capitalization policy as of January 1, 2003, resulting in a deletion of over \$2,000,000 in capital assets.

More detailed information about Clay County's capital assets can be found in Note 3.A.3. to the Clay County financial statements.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

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

	Governmental Activities		Business-Type Activities		Totals	
	2003	2002	2003	2002	2003	2002
Land	\$ 174,969	\$ 174,969	\$ 740,689	\$ 740,689	\$ 915,658	\$ 915,658
Construction in progress	7,256,504	9,173,393	-	-	7,256,504	9,173,393
Land improvements	-	-	44,675	77,720	44,675	77,720
Buildings	4,214,591	2,068,310	8,862,763	9,275,150	13,077,354	11,343,460
Machinery, furniture and equipment	2,852,078	2,934,367	421,779	523,043	3,273,857	3,457,410
Infrastructure	41,245,571	38,582,707	-	-	41,245,571	38,582,707
Landfill	-	-	370,238	753,801	370,238	753,801
Total	\$ 55,743,713	\$ 52,933,746	\$ 10,440,144	\$ 11,370,403	\$ 66,183,857	\$ 64,304,149

Long-Term Debt. At the end of 2003, Clay County had total bonded debt outstanding of \$28,354,999. This is an increase of \$744,999 from the start of the year (see Table 5 below). The key factor in this increase was due to the issuance of the General Obligation Ditch Bonds of \$960,000. During the current fiscal year, Clay County refinanced some of its existing debt to take advantage of favorable interest rates. Clay County is expected to have a net debt service savings of \$44,383 over the life span of the bonds.

**Table 5
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ 4,435,000	\$ 3,160,000	\$ -	\$ -	\$ 4,435,000	\$ 3,160,000
Revenue bonds	10,044,568	10,197,320	13,875,431	14,252,680	23,919,999	24,450,000
	\$ 14,479,568	\$ 13,357,320	\$ 13,875,431	\$ 14,252,680	\$ 28,354,999	\$ 27,610,000

Clay County's general obligation bonds are rated an A2, and revenue bonds are rated an A3. These ratings have been assigned by a national rating agency to Clay County's debt. The state limits the amount of net debt that the counties can issue to two percent of the market value of all taxable property in Clay County. Clay County's outstanding net debt is significantly below this \$41,131,476 state-imposed limit.

Other obligations include capital leases, compensated absences and landfill closure and postclosure costs. Clay County's notes to the financial statements provide detailed information about the County's long-term liabilities.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Economic Factors and Next Year's Budgets and Rates

- Clay County's unemployment rate for 2002 averaged 2.8 percent. The unemployment rate for 2003 averaged 3.1 percent. This compares favorably to the state's average unemployment rate of 5.0 percent and the national average rate of 6.0 percent.
- The State of Minnesota has projected a large budget deficit. How the State of Minnesota resolves this deficit could have a significant impact on future Clay County budgets. Major revenue sources for Clay County are State paid aids, credits, and grants. It would have a significant impact on next year's budget should the State of Minnesota reduce these revenues or pass on additional costs to Clay County. This factor is being considered in the 2004 budget process.
- Over the past ten years, the property tax levy increase has been less than the increase in the cost of current level services. This has been possible due to use of anticipated budget savings. Most of the increased costs have been due to salary and health insurance increases. Clay County's growth in tax base has contributed to its ability to maintain a consistent net tax capacity rate.
- Clay County's tax levy is planned to increase 2.28 percent from 2003.
- Reviewing revenue sources and considering cost effective and efficient means for the delivery of Clay County programs and services will influence the development of the future budget.

All of these factors were considered in preparing Clay County's government budget for the 2004 fiscal year.

On December 16, 2003, the Clay County Board of Commissioners approved the 2004 budget. The overall budget increase was .33 percent for a total budget of \$108,360,000. It also included a 2.3 percent property tax levy increase for a total levy of \$17,280,000.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Requests for Information

This financial report is designed to provide a general overview of Clay County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Lori J. Johnson, County Auditor/Treasurer (218-299-5006) or Stephanie Dauenhauer, Financial Manager (218-299-5006), Clay County Auditor's Office, P. O. Box 280, Moorhead, Minnesota 56561-0280. Or contact us via email at auditor@co.clay.mn.us.

BASIC FINANCIAL STATEMENTS

**CLAY COUNTY
MOORHEAD, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 13,907,194	\$ 4,803,306	\$ 18,710,500
Cash with escrow agent	2,861,286	-	2,861,286
Investments	2,440,660	2,909,949	5,350,609
Taxes receivable			
Current - net	193,175	-	193,175
Prior - net	104,041	-	104,041
Special assessments receivable			
Current - net	3,047	24,091	27,138
Prior - net	1,883	28	1,911
Liens - net	3,176,202	-	3,176,202
Accounts receivable - net	94,593	156,453	251,046
Accrued interest receivable	49,824	100,639	150,463
Internal balances	1,827,825	(1,827,825)	-
Due from other governments	4,357,231	634,042	4,991,273
Prepaid items	14,818	-	14,818
Inventories	165,059	-	165,059
Restricted assets			
Temporarily restricted			
Cash with escrow agent	-	7,261,000	7,261,000
Permanently restricted			
Investments	-	2,106,498	2,106,498
Accrued interest receivable	-	10,699	10,699
Capital assets			
Non-depreciable	7,431,473	740,689	8,172,162
Depreciable - net of accumulated depreciation	48,312,240	9,699,455	58,011,695
Total Assets	\$ 84,940,551	\$ 26,619,024	\$ 111,559,575
<u>Liabilities</u>			
Accounts payable	\$ 830,087	\$ 132,278	\$ 962,365
Salaries payable	544,646	151,882	696,528
Contracts payable	419,300	-	419,300
Due to other governments	1,551,101	210,767	1,761,868
Accrued interest payable	265,366	301,222	566,588
Unearned revenue	28,344	54,701	83,045
Long-term liabilities			
Due within one year	3,885,223	7,269,356	11,154,579
Due within more than one year	13,035,260	9,747,583	22,782,843
Total Liabilities	\$ 20,559,327	\$ 17,867,789	\$ 38,427,116

**CLAY COUNTY
MOORHEAD, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 46,866,879	\$ 3,471,497	\$ 50,338,376
Restricted for			
General government	160,833	-	160,833
Public safety	985	-	985
Highways and streets	1,188,859	-	1,188,859
Debt service	-	552,586	552,586
Other purposes	308	-	308
Unrestricted	<u>16,163,360</u>	<u>4,727,152</u>	<u>20,890,512</u>
Total Net Assets	<u>\$ 64,381,224</u>	<u>\$ 8,751,235</u>	<u>\$ 73,132,459</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Expenses</u>	<u>Fees, Charges, Fines and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<u>Functions/Programs</u>			
Governmental activities			
General government	\$ 5,147,346	\$ 1,230,793	\$ 253,797
Public safety	6,093,311	380,798	794,909
Highways and streets	5,328,442	423,315	5,245,535
Sanitation	1,487	-	-
Human services	16,550,992	685,738	10,118,541
Health	-	-	5,135
Culture and recreation	330,094	-	-
Conservation of natural resources	1,802,261	68,100	-
Economic development	312,307	1,524	221,304
Interest	605,012	-	-
Administrative charges	4,000	-	-
Total governmental activities	\$ 36,175,252	\$ 2,790,268	\$ 16,639,221
Business-type activities			
Family Service	\$ 1,759,910	\$ 1,400,957	\$ 24,169
Public Health	3,130,994	1,310,716	1,321,163
Solid Waste	1,543,342	996,821	117,612
Juvenile Center	1,908,557	1,797,759	83,400
Total business-type activities	\$ 8,342,803	\$ 5,506,253	\$ 1,546,344
Total	\$ 44,518,055	\$ 8,296,521	\$ 18,185,565

General Revenues

Property taxes
Gravel taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment income
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
\$ -	\$ (3,662,756)	\$ -	\$ (3,662,756)
16,748	(4,900,856)	-	(4,900,856)
-	340,408	-	340,408
-	(1,487)	-	(1,487)
-	(5,746,713)	-	(5,746,713)
-	5,135	-	5,135
-	(330,094)	-	(330,094)
1,755,643	21,482	-	21,482
-	(89,479)	-	(89,479)
-	(605,012)	-	(605,012)
-	(4,000)	-	(4,000)
\$ 1,772,391	\$ (14,973,372)	\$ -	\$ (14,973,372)
\$ -	\$ -	\$ (334,784)	\$ (334,784)
-	-	(499,115)	(499,115)
982,954	-	554,045	554,045
-	-	(27,398)	(27,398)
\$ 982,954	\$ -	\$ (307,252)	\$ (307,252)
\$ 2,755,345	\$ (14,973,372)	\$ (307,252)	\$ (15,280,624)
	\$ 13,304,241	\$ -	\$ 13,304,241
	197,042	-	197,042
	50,782	-	50,782
	40,289	-	40,289
	4,816,612	-	4,816,612
	275,886	299,743	575,629
	8,591	-	8,591
	\$ 18,693,443	\$ 299,743	\$ 18,993,186
	\$ 3,720,071	\$ (7,509)	\$ 3,712,562
	60,661,153	8,758,744	69,419,897
	\$ 64,381,224	\$ 8,751,235	\$ 73,132,459

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 5,062,410	\$ 1,600,030
Petty cash and change funds	4,025	-
Undistributed cash in agency funds	191,416	44,906
Departmental cash	84,599	307
Cash with escrow agent	-	-
Investments	20,660	500,000
Taxes receivable		
Current	98,652	26,759
Prior	53,074	14,124
Special assessments receivable		
Current	-	-
Prior	-	-
Liens	-	-
Accounts receivable	20,912	66,990
Accrued interest receivable	37,906	-
Due from other funds	351,849	25,330
Due from other governments	187,539	2,279,022
Inventories	-	165,059
Prepaid items	14,818	-
Advances to other funds	1,990,000	-
	\$ 8,117,860	\$ 4,722,527
Total Assets	\$ 8,117,860	\$ 4,722,527

EXHIBIT 3

Social Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 3,808,955	\$ 536,028	\$ 1,585,286	\$ 12,592,709
500	-	-	4,525
103,949	6,254	26,528	373,053
20,278	-	-	105,184
-	569,242	2,292,044	2,861,286
-	365,000	55,000	940,660
-	-	-	-
61,809	-	5,955	193,175
34,933	-	1,908	104,039
-	-	-	-
-	885	2,162	3,047
-	452	1,431	1,883
-	2,704,042	472,160	3,176,202
6,691	-	-	94,593
-	2,629	88	40,623
-	-	118,260	495,439
1,616,994	273,514	-	4,357,069
-	-	-	165,059
-	-	-	14,818
-	-	-	1,990,000
\$ 5,654,109	\$ 4,458,046	\$ 4,560,822	\$ 27,513,364

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 260,655	\$ 86,124
Salaries payable	318,484	67,747
Compensated absences	379,596	97,888
Contracts payable	-	75,387
Due to other funds	132,727	77,364
Due to other governments	367,037	119,344
Deferred revenue - unavailable	157,574	1,533,329
Deferred revenue - unearned	5,862	-
Advance from other funds	-	-
	\$ 1,621,935	\$ 2,057,183
Fund Balances		
Reserved for		
Encumbrances	\$ -	\$ -
Inventories	-	165,059
Advances to other funds	1,990,000	-
Prepaid items	14,818	-
State aid highway	-	364,484
Bond covenant	-	-
Missing heirs	308	-
Law library	43,983	-
Boat and water	985	-
Real estate shortfall	20,660	-
Unreserved		
Designated for debt service	-	-
Designated for future expenditures	-	334,991
Designated for cash flows	3,945,417	1,587,492
Designated for compensated absences	479,754	213,318
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt services funds	-	-
Capital projects funds	-	-
	\$ 6,495,925	\$ 2,665,344
Total Liabilities and Fund Balances	\$ 8,117,860	\$ 4,722,527

EXHIBIT 3
(Continued)

<u>Social Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 454,823	\$ -	\$ 2,507	\$ 804,109
158,415	-	-	544,646
273,848	-	-	751,332
-	-	343,913	419,300
624,383	-	24,746	859,220
389,834	-	468,329	1,344,544
79,540	2,964,130	481,198	5,215,771
22,480	-	-	28,342
-	-	320,000	320,000
\$ 2,003,323	\$ 2,964,130	\$ 1,640,693	\$ 10,287,264
\$ -	\$ -	\$ 81,372	\$ 81,372
-	-	-	165,059
-	-	-	1,990,000
-	-	-	14,818
-	-	-	364,484
-	-	510,945	510,945
-	-	-	308
-	-	-	43,983
-	-	-	985
-	-	-	20,660
-	-	-	-
-	1,493,916	-	1,493,916
-	-	-	334,991
3,390,930	-	-	8,923,839
259,856	-	-	952,928
-	-	185,333	185,333
-	-	1,970,842	1,970,842
-	-	171,637	171,637
\$ 3,650,786	\$ 1,493,916	\$ 2,920,129	\$ 17,226,100
\$ 5,654,109	\$ 4,458,046	\$ 4,560,822	\$ 27,513,364

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2003**

Fund balances - total governmental funds (Exhibit 3)	\$	17,226,100
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.		55,743,713
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		5,215,771
Reclassification of transfers in and out between governmental funds		(26,669)
Internal service funds are used by management to charge the costs of management of fleet maintenance and self-insurance to individual funds. The assets and liabilities that are included in governmental activities in the statement of net assets are:		
Total internal services net assets	\$ 4,385,540	
Long-term liabilities of the Internal Service Fund	741,302	
Net assets representing capital assets included above	(2,470,016)	2,656,826
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (4,430,354)	
Facility lease revenue bonds	(10,044,568)	
Capital leases	(741,302)	
Compensated absences	(952,927)	
Accrued interest payable	(265,366)	(16,434,517)
Net assets of governmental activities (Exhibit 1)	\$	<u>64,381,224</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	General	Road and Bridge
Revenues		
Taxes	\$ 7,016,414	\$ 2,040,979
Special assessments	-	-
Licenses and permits	36,547	2,400
Intergovernmental	3,857,648	4,772,447
Charges for services	1,366,948	126,087
Fines and forfeits	3,970	-
Interest on investments	244,450	3,352
Miscellaneous	77,737	115,889
	\$ 12,603,714	\$ 7,061,154
Expenditures		
Current		
General government	\$ 5,018,975	\$ -
Public safety	6,039,813	-
Highways and streets	-	5,743,239
Sanitation	-	-
Human services	-	-
Culture and recreation	330,094	-
Conservation	391,582	-
Economic development	325,248	-
Capital outlay	-	-
General government	-	-
Highway and streets	-	-
Debt service		
Principal retirement	-	-
Interest	-	-
Administrative (fiscal charges)	-	-
	\$ 12,105,712	\$ 5,743,239
Excess of Revenues Over (Under) Expenditures	\$ 498,002	\$ 1,317,915
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(1,266,331)	(3,221)
Bonds and notes issued	-	-
	\$ (1,266,331)	\$ (3,221)

EXHIBIT 5

Social Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 4,298,858	\$ -	\$ 431,634	\$ 13,787,885
-	310,151	425,615	735,766
-	-	-	38,947
11,857,950	-	170,453	20,658,498
-	-	-	1,493,035
-	-	-	3,970
-	7,404	24,404	279,610
656,872	-	44,437	894,935
\$ 16,813,680	\$ 317,555	\$ 1,096,543	\$ 37,892,646
\$ -	\$ -	\$ 83,737	\$ 5,102,712
-	-	-	6,039,813
-	-	-	5,743,239
-	-	1,487	1,487
16,511,877	-	-	16,511,877
-	-	-	330,094
-	970,302	439,271	1,801,155
-	-	-	325,248
-	-	-	-
-	-	2,632,257	2,632,257
-	-	60,305	60,305
-	245,000	182,751	427,751
-	150,944	515,166	666,110
-	-	4,000	4,000
\$ 16,511,877	\$ 1,366,246	\$ 3,918,974	\$ 39,646,048
\$ 301,803	\$ (1,048,691)	\$ (2,822,431)	\$ (1,753,402)
\$ -	\$ -	\$ 1,546,221	\$ 1,546,221
(250,000)	-	-	(1,519,552)
-	1,550,000	-	1,550,000
\$ (250,000)	\$ 1,550,000	\$ 1,546,221	\$ 1,576,669

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	General	Road and Bridge
Change in Fund Balance	\$ (768,329)	\$ 1,314,694
Fund Balance - January 1	\$ 7,264,254	\$ 1,436,006
Prior period adjustment	-	(127,739)
Fund Balance - January 1 as restated	\$ 7,264,254	\$ 1,308,267
Increase (decrease) in reserved for inventories	-	42,383
Fund Balance - December 31	\$ 6,495,925	\$ 2,665,344

EXHIBIT 5
(Continued)

Social Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 51,803	\$ 501,309	\$ (1,276,210)	\$ (176,733)
\$ 3,598,983	\$ 992,607	\$ 5,162,605	\$ 18,454,455
-	-	(966,266)	(1,094,005)
\$ 3,598,983	\$ 992,607	\$ 4,196,339	\$ 17,360,450
-	-	-	42,383
\$ 3,650,786	\$ 1,493,916	\$ 2,920,129	\$ 17,226,100

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(176,733)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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.</p>		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 4,929,326	
Current year depreciation	(2,048,617)	2,880,709
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		5,215,771
Revenues reported in the fund statements in the current year, but reported in the government-wide statement of activities in the prior year		(3,185,862)
Reclassification of transfers in and out among governmental activities		(26,669)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:		(1,545,354)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayments		
General obligation bonds	\$ 275,000	
Facility lease revenue bonds	152,751	
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	\$ 23,256	
Change in compensated absences	(77,119)	
Change in inventories	42,383	(11,480)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of certain activities of the internal service funds is reported with governmental activities.		
Governmental activities share of net income before transfers		141,938
Change in net assets of governmental activities (Exhibit 2)	\$	<u>3,720,071</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003**

	Family Service	Juvenile Center
<u>Assets</u>		
Current assets		
Cash and pooled investments	\$ 18,259	\$ 216,669
Undistributed cash in agency funds	-	-
Petty cash and change funds	300	-
Departmental cash	-	35,988
Investments	-	130,000
Taxes receivable		
Prior	-	-
Special assessments		
Current	-	-
Prior	-	-
Accounts receivable (net)	38,616	53
Accrued interest receivable	92,968	2,426
Due from other funds	-	80,667
Due from other governments	5,744	233,909
Total current assets	\$ 155,887	\$ 699,712
Restricted assets		
Cash with escrow agent - temporary	\$ 5,064,434	\$ 2,196,566
Investments	-	-
Accrued interest receivable	-	-
Total restricted assets	\$ 5,064,434	\$ 2,196,566
Noncurrent assets		
Capital assets		
Nondepreciable	\$ 240,500	\$ -
Depreciable (net)	5,958,507	3,114,897
Total noncurrent assets	\$ 6,199,007	\$ 3,114,897
Total Assets	\$ 11,419,328	\$ 6,011,175

EXHIBIT 7

Enterprise Funds			Internal Service Fund
Public Health	Solid Waste	Totals	
\$ 187,599	\$ 4,221,294	\$ 4,643,821	\$ 831,716
-	44,156	44,156	7
170	-	470	-
1,076	77,795	114,859	-
-	2,779,949	2,909,949	1,500,000
-	-	-	2
-	24,091	24,091	-
-	28	28	-
55,052	62,732	156,453	-
-	5,245	100,639	9,201
129,342	440	210,449	-
330,954	54,441	625,048	162
\$ 704,193	\$ 7,270,171	\$ 8,829,963	\$ 2,341,088
\$ -	\$ -	\$ 7,261,000	\$ -
-	2,106,498	2,106,498	-
-	10,699	10,699	-
\$ -	\$ 2,117,197	\$ 9,378,197	\$ -
\$ -	\$ 500,189	\$ 740,689	\$ -
-	626,051	9,699,455	2,470,016
\$ -	\$ 1,126,240	\$ 10,440,144	\$ 2,470,016
\$ 704,193	\$ 10,513,608	\$ 28,648,304	\$ 4,811,104

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003**

	Family Service	Juvenile Center
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 33,481	\$ 20,119
Salaries payable	29,850	39,106
Compensated absences payable - current	26,295	57,013
Due to other funds	-	14,655
Due to other governments	10,446	5,752
Accrued interest payable	219,998	81,224
Deferred revenue - unearned	17,757	-
Facility lease revenue bonds payable - current	4,760,000	2,277,124
Capital leases payable - current	-	-
Total current liabilities	\$ 5,097,827	\$ 2,494,993
Noncurrent liabilities		
Compensated absences payable - long-term	31,514	76,785
Advance from other funds	970,000	350,000
Estimated liability for landfill closure/postclosure	-	-
Facility lease revenue bonds payable - long-term	4,575,000	2,263,307
Unamortized discounts on lease revenue bonds	(115,719)	(45,534)
Capital leases payable - long-term	-	-
Total noncurrent liabilities	\$ 5,460,795	\$ 2,644,558
Total Liabilities	\$ 10,558,622	\$ 5,139,551
<u>Net Assets</u>		
Invested in capital assets net of related debt	\$ 1,491,574	\$ 853,683
Restricted for		
Debt service	552,586	-
Unrestricted	(1,183,454)	17,941
Total Net Assets	\$ 860,706	\$ 871,624

Some amounts reported for business-type activities in the statement of net assets (Exhibit 1) are different because certain internal service fund assets and liabilities are included with business-type activities.

EXHIBIT 7
(Continued)

Enterprise Funds			Internal Service Fund
Public Health	Solid Waste	Totals	
\$ 24,471	\$ 54,207	\$ 132,278	\$ 25,978
74,451	8,475	151,882	-
131,174	17,750	232,232	-
26,522	-	41,177	-
34,380	160,189	210,767	3,054
-	-	301,222	-
36,944	-	54,701	2
-	-	7,037,124	-
-	-	-	269,016
\$ 327,942	\$ 240,621	\$ 8,161,383	\$ 298,050
\$ 102,862	\$ 25,912	\$ 237,073	\$ -
350,000	-	1,670,000	-
-	2,833,456	2,833,456	-
-	-	6,838,307	-
-	-	(161,253)	-
-	-	-	472,286
\$ 452,862	\$ 2,859,368	\$ 11,417,583	\$ 472,286
\$ 780,804	\$ 3,099,989	\$ 19,578,966	\$ 770,336
\$ -	\$ 1,126,240	\$ 3,471,497	\$ 2,552,916
-	-	552,586	-
(76,611)	6,287,379	5,045,255	1,487,852
\$ (76,611)	\$ 7,413,619	\$ 9,069,338	\$ 4,040,768
		(318,103)	
		\$ 8,751,235	

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Family Service</u>	<u>Juvenile Center</u>
Operating Revenues		
Charges for services	\$ 231,779	\$ 1,716,988
License and permits	-	-
Rents	1,080,590	53,888
Miscellaneous	88,588	26,883
Total Operating Revenues	\$ 1,400,957	\$ 1,797,759
Operating Expenses		
Personal services	\$ 362,055	\$ 1,257,484
Other services and charges	497,916	263,509
Supplies	39,352	41,411
Depreciation	317,779	141,516
Total Operating Expenses	\$ 1,217,102	\$ 1,703,920
Operating Income (Loss)	\$ 183,855	\$ 93,839
Nonoperating Revenues (Expenses)		
Property taxes	\$ -	\$ -
Special assessments	-	-
Intergovernmental	-	83,400
Interest income	229,642	25,517
Gain on sale/disposal of capital assets	-	-
Interest expense	(544,408)	(205,355)
Total Nonoperating Revenues (Expenses)	\$ (314,766)	\$ (96,438)
Income (Loss) before Contributions and Transfers	\$ (130,911)	\$ (2,599)
Transfers in	-	-
Transfers out	-	-
Change in Net Assets	\$ (130,911)	\$ (2,599)
Net Assets - January 1	991,617	874,223
Net Assets - December 31	\$ 860,706	\$ 871,624

Some amounts reported for business-type activities in the statement of activities (Exhibit 2) are different because the net revenue (expense) of the Equipment Replacement Internal Services Fund is reported with business-type activities.

Change in Net Assets of Business-Type Activities

EXHIBIT 8

Enterprise Funds			Internal Service Funds
Public Health	Solid Waste	Totals	
\$ 1,306,300	\$ 983,926	\$ 4,238,993	\$ 819,243
-	420	420	-
-	-	1,134,478	-
4,416	12,475	132,362	99,176
\$ 1,310,716	\$ 996,821	\$ 5,506,253	\$ 918,419
\$ 2,609,085	\$ 305,894	\$ 4,534,518	\$ -
420,408	745,336	1,927,169	21,430
72,953	31,274	184,990	6,456
30,524	460,838	950,657	749,996
\$ 3,132,970	\$ 1,543,342	\$ 7,597,334	\$ 777,882
\$ (1,822,254)	\$ (546,521)	\$ (2,091,081)	\$ 140,537
\$ -	\$ -	\$ -	\$ 7
-	982,954	982,954	-
1,321,163	117,612	1,522,175	-
-	68,022	323,181	21,396
-	-	-	31,659
-	-	(749,763)	(46,636)
\$ 1,321,163	\$ 1,168,588	\$ 2,078,547	\$ 6,426
\$ (501,091)	\$ 622,067	\$ (12,534)	\$ 146,963
473,331	-	473,331	-
-	-	-	(500,000)
\$ (27,760)	\$ 622,067	\$ 460,797	\$ (353,037)
(48,851)	6,791,552		4,393,805
\$ (76,611)	\$ 7,413,619		\$ 4,040,768
		(468,306)	
		\$ (7,509)	

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Family Service</u>	<u>Juvenile Center</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 1,348,674	\$ 1,675,443
Payments to suppliers	(519,908)	(309,526)
Payments to employees	(348,915)	(1,261,908)
Net cash provided by (used in) operating activities	\$ 479,851	\$ 104,009
Cash Flows from Noncapital Financing Activities		
Property taxes	\$ -	\$ -
Intergovernmental	-	100,057
Transfers in	-	-
Transfers out	-	-
Net cash provided by (used in) noncapital and related financing activities	\$ -	\$ 100,057
Cash Flows from Capital and Related Financing Activities		
Principal paid on installment purchase	\$ (4,414)	\$ -
Principal paid on long-term debt	(275,000)	(102,250)
Interest paid on long-term debt	(199,763)	(119,130)
Proceeds from the sale of capital assets	-	-
Purchases of capital assets	-	-
Net cash provided by (used in) capital and related financing activities	\$ (479,177)	\$ (221,380)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	\$ -	\$ 110,000
Purchase of investments	-	-
Investment earnings received	-	3,781
Net cash provided by (used in) investing activities	\$ -	\$ 113,781
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 674	\$ 96,467
Cash and Cash Equivalents at January 1	17,885	156,190
Cash and Cash Equivalents at December 31	\$ 18,559	\$ 252,657

EXHIBIT 9

Enterprise Funds			
Public Health	Solid Waste	Totals	Internal Service Fund
\$ 1,089,247	\$ 990,282	\$ 5,103,646	\$ 918,419
(482,065)	(776,973)	(2,088,472)	(28,052)
(2,573,924)	(304,352)	(4,489,099)	-
\$ (1,966,742)	\$ (91,043)	\$ (1,473,925)	\$ 890,367
\$ -	\$ 972,221	\$ 972,221	\$ 7
1,324,654	121,571	1,546,282	-
473,331	-	473,331	-
-	-	-	(500,000)
\$ 1,797,985	\$ 1,093,792	\$ 2,991,834	\$ (499,993)
\$ -	\$ -	\$ (4,414)	\$ (284,256)
-	-	(377,250)	-
-	-	(318,893)	(46,636)
-	-	-	31,659
-	(20,398)	(20,398)	(509,750)
\$ -	\$ (20,398)	\$ (720,955)	\$ (808,983)
\$ -	\$ -	\$ 110,000	\$ -
-	(247,971)	(247,971)	-
-	74,673	78,454	33,400
\$ -	\$ (173,298)	\$ (59,517)	\$ 33,400
\$ (168,757)	\$ 809,053	\$ 737,437	\$ (385,209)
357,602	3,534,192	4,065,869	1,216,932
\$ 188,845	\$ 4,343,245	\$ 4,803,306	\$ 831,723

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Family Service</u>	<u>Juvenile Center</u>
Cash and Cash Equivalents - Exhibit 7		
Cash and pooled investments	\$ 18,259	\$ 216,669
Undistributed cash in agency funds	-	-
Petty cash and change funds	300	35,988
Total Cash and Cash Equivalents	<u>\$ 18,559</u>	<u>\$ 252,657</u>
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	<u>\$ 183,855</u>	<u>\$ 93,839</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation expense	\$ 317,779	\$ 141,516
(Increase) decrease in accounts receivable	(27,452)	1,976
(Increase) decrease in due from other governments	1,549	(88,110)
(Increase) decrease in due from other funds	-	(36,698)
Increase (decrease) in accounts payable	14,570	(5,840)
Increase (decrease) in salaries payable	8,089	4,396
Increase (decrease) in compensated absences payable - current	1,418	(6,704)
Increase (decrease) in compensated absences payable - long-term	3,703	(4,969)
Increase (decrease) in due to other funds	(4,628)	-
Increase (decrease) in due to other governments	3,395	3,527
Increase (decrease) in deferred revenue	(22,427)	1,076
Total adjustments	<u>\$ 295,996</u>	<u>\$ 10,170</u>
Net Cash Provided by Operating Activities	<u>\$ 479,851</u>	<u>\$ 104,009</u>
Noncash Investing, Capital, and Financing Activities		
Capital asset disposals	<u>\$ 46,666</u>	<u>\$ 29,952</u>

EXHIBIT 9
(Continued)

Enterprise Funds			
Public Health	Solid Waste	Totals	Internal Service Fund
\$ 187,599	\$ 4,221,294	\$ 4,643,821	\$ 831,716
-	44,156	44,156	7
1,246	77,795	115,329	-
\$ 188,845	\$ 4,343,245	\$ 4,803,306	\$ 831,723
\$ (1,822,254)	\$ (546,521)	\$ (2,091,081)	\$ 140,537
\$ 30,524	\$ 460,838	\$ 950,657	\$ 749,996
(22,327)	126	(47,677)	-
(61,068)	(6,506)	(154,135)	-
(89,813)	-	(126,511)	-
11,412	(6,885)	13,257	(47)
(3,547)	164	9,102	-
4,112	253	(921)	-
7,912	975	7,621	-
26,522	6,513	28,407	-
8,676	-	15,598	(119)
(56,891)	-	(78,242)	-
\$ (144,488)	\$ 455,478	\$ 617,156	\$ 749,830
\$ (1,966,742)	\$ (91,043)	\$ (1,473,925)	\$ 890,367
\$ 71,221	\$ 88,422	\$ 236,261	\$ -

CLAY COUNTY
MOORHEAD, MINNESOTA

EXHIBIT 10

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2003

	<u>Agency</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 3,013,573
Due from other funds	203,503
Due from other governments	<u>10,153</u>
Total Assets	<u>\$ 3,227,229</u>
<u>Liabilities</u>	
Accounts payable	\$ 2,763
Due to other funds	8,994
Due to other governments	<u>3,215,472</u>
Total Liabilities	<u>\$ 3,227,229</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2003. 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 County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- For the first time, the financial statements include:
 - A Management's Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.).
 - A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to financial statements). The County has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

Clay County was established March 8, 1862, and organized April 14, 1872; it has the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, appointed by the Board, serves as the clerk of the Board of Commissioners but has no vote.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures which are described in Note 8.B. The County also participates in jointly-governed organizations which are described in Note 8.C.

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 primary government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, 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 County'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 County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and different 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: (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.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--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. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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 County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The Ditch Debt Service Fund is used to account for the accumulation of resources and the payment of principal and interest of ditch bond issues.

The County reports the following major enterprise funds:

The Family Service Center Fund is used to account for the financing of the Family Service Center, which provides rental space to other departments and agencies.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Juvenile Center Fund is used to account for the financial transactions of the Juvenile Center, which provides housing for juveniles and rental space to other departments and agencies.

The Public Health Fund is used to account for providing nursing service care to the elderly and other residents of the County. All activities necessary to provide such services are accounted for in this fund. Financing is provided by a health service grant and user service charges.

The Solid Waste Management Fund is used to account for the operation, maintenance, and development of the County solid waste landfill.

Additionally, the County reports the following fund types:

Internal Service Fund is used to account for the financing of equipment provided by one department to other departments of the County on a cost-reimbursement.

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agency capacity.

C. Measurement Focus and Basis of Accounting

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

**CLAY COUNTY
MOORHEAD, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Clay County considers all revenues to be *available* if they are collected within 90 days after the end of the current period. Property and other taxes, shared revenues, 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, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2003, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2003 were \$349,819.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

Clay County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County'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 County:

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

**CLAY COUNTY
MOORHEAD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

All other 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.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

No allowance has been made for uncollectible receivables.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

Certain funds of the County 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 property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), 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 \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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's lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	15 - 75
Land improvements	5 - 30
Public domain infrastructure	20 - 50
Furniture, equipment, and vehicles	3 - 15

The County landfill is depreciated based on capacity.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds for balances up to 80 hours.

8. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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. Designations of fund balance represent tentative management plans that are subject to change.

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.

E. Prior Period Adjustment

Fund balance at January 1, 2003, for the Road and Bridge Special Revenue Fund was decreased by \$127,739 to correct errors made in the determination of revenues. The fund balance of the Road and Bridge Special Revenue Fund was adjusted from \$1,436,006 to \$1,308,267.

Fund balance at January 1, 2003, for the Courthouse Expansion Capital Projects Fund was decreased by \$966,266 to correct errors made made in the determination of revenues. The fund balance of the Courthouse Expansion Capital Projects Fund was adjusted from \$2,795,417 to \$1,829,151.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major fund had a deficit net assets as of December 31, 2003:

Public Health Enterprise Fund	\$ 76,611
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The Public Health Enterprise Fund deficit will be eliminated with future revenues from operations.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The following is a summary of individual funds which had expenditures in excess of budget for the year ended December 31, 2003.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Special Revenue Funds			
County Building	\$ 83,737	\$ 50,000	\$ 33,737
Ditch	394,834	-	394,834
Forfeited Tax	44,437	-	44,437

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Primary government		
Cash and pooled investments		\$ 18,710,500
Cash with escrow agent		2,861,286
Investments		5,350,609
Restricted assets		
Cash with escrow agent		7,261,000
Investments		2,106,498
Fiduciary funds		
Cash and pooled investments		
Agency funds		3,013,573
Total Cash and Investments		\$ 39,303,466

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2003, the carrying amount of the County's deposits totaled \$16,778,708. The bank balance deposit amount was \$17,569,699. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2003.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 807,171
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>16,762,528</u>
Total covered deposits	\$ 17,569,699
Uncollateralized	<u>-</u>
Total	<u><u>\$ 17,569,699</u></u>

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 County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County'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 County's name.

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2003:

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

	Category			Fair Value
	1	2	3	
U.S. government securities				
Negotiable certificates of deposit	\$ 17,820	\$ -	\$ 83,122	\$ 100,942
FHLB	482,180	-	2,249,134	2,731,314
Cash with escrow agent	-	-	10,122,286	10,122,286
Total Investments	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 12,454,542</u>	\$ 12,954,542
Add				
Money market checking				
Minnesota Association of Governments Investing for Counties (MAGIC)				9,334,907
Cash on hand				235,309
Deposits				<u>16,778,708</u>
Total Cash and Investments				<u>\$ 39,303,466</u>

2. Receivables

Receivables as of December 31, 2003, year-end for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 297,216	\$ -
Special assessments	3,181,132	2,344,048
Due from other governments	4,357,231	241,886
Accounts	94,593	-
Interest	49,824	-
Total Governmental Activities	<u>\$ 7,979,996</u>	<u>\$ 2,585,934</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Special assessments	\$ 24,119	\$ -
Due from other governments	634,042	-
Accounts	156,453	-
Interest	111,338	-
Total Business-Type Activities	\$ 925,952	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 174,969	\$ -	\$ -	\$ 174,969
Construction in progress	9,173,393	3,096,116	5,013,005	7,256,504
Total capital assets not depreciated	\$ 9,348,362	\$ 3,096,116	\$ 5,013,005	\$ 7,431,473
Capital assets depreciated				
Land improvements	\$ 35,324	\$ -	\$ 2,465	\$ 32,859
Buildings	6,047,082	2,263,949	854,497	7,456,534
Machinery, furniture, and equipment	9,716,856	781,617	1,574,148	8,924,325
Infrastructure	55,485,722	4,479,903	-	59,965,625
Total capital assets depreciated	\$ 71,284,984	\$ 7,525,469	\$ 2,431,110	\$ 76,379,343

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	\$ 35,324	\$ -	\$ 2,465	\$ 32,859
Buildings	3,978,772	117,668	854,497	3,241,943
Machinery, furniture, and equipment	6,782,489	863,906	1,574,148	6,072,247
Infrastructure	16,903,015	1,817,039	-	18,720,054
 Total accumulated depreciation	 \$ 27,699,600	 \$ 2,798,613	 \$ 2,431,110	 \$ 28,067,103
 Total capital assets depreciated, net	 \$ 43,585,384	 \$ 4,726,856	 \$ -	 \$ 48,312,240
 Governmental Activities Capital Assets, Net	 \$ 52,933,746	 \$ 7,822,972	 \$ 5,013,005	 \$ 55,743,713

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 740,689	\$ -	\$ -	\$ 740,689
Capital assets depreciated				
Buildings	\$ 12,168,895	\$ -	\$ 19,060	\$ 12,149,835
Landfill	2,811,028	-	-	2,811,028
Improvement other than buildings	269,022	-	50,669	218,353
Machinery, furniture, and equipment	1,698,588	20,398	166,533	1,552,453
 Total capital assets depreciated	 \$ 16,947,533	 \$ 20,398	 \$ 236,262	 \$ 16,731,669

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 2,893,745	\$ 412,387	\$ 19,060	\$ 3,287,072
Landfill	2,057,227	383,563	-	2,440,790
Improvements other than buildings	191,302	33,045	50,669	173,678
Machinery, furniture, and equipment	<u>1,175,545</u>	<u>121,662</u>	<u>166,533</u>	<u>1,130,674</u>
Total accumulated depreciation	<u>\$ 6,317,819</u>	<u>\$ 950,657</u>	<u>\$ 236,262</u>	<u>\$ 7,032,214</u>
Total capital assets depreciated, net	<u>\$ 10,629,714</u>	<u>\$ (930,259)</u>	<u>\$ -</u>	<u>\$ 9,699,455</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,370,403</u>	<u>\$ (930,259)</u>	<u>\$ -</u>	<u>\$ 10,440,144</u>

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

Governmental Activities	
General government	\$ 35,570
Public safety	59,055
Highways and streets, including depreciation of infrastructure assets	1,892,191
Human services	23,982
Economic development	34,684
Conservation	3,135
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>749,996</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,798,613</u>
Business-Type Activities	
Family Service Center	\$ 317,779
Juvenile Center	141,516
Public Health	30,524
Solid Waste	<u>460,838</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 950,657</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2003, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and Bridge	\$ 58,707
	Social Services	245,642
	Other Governmental	20,978
	Public Health	<u>26,522</u>
Total Due to General Fund		<u>\$ 351,849</u>
Road and Bridge	General	<u>\$ 25,330</u>
Other Governmental	General	\$ 57,495
	Road and Bridge	18,657
	Social Services	41,262
	Other Governmental	<u>846</u>
Total Due to Governmental Funds		<u>\$ 118,260</u>
Public Health	General	\$ 9,320
	Social Services	96,373
	Juvenile Center	14,655
	Joint Powers Collaborative	<u>8,994</u>
Total Due to Public Health		<u>\$ 129,342</u>
Solid Waste	Other Governmental	<u>\$ 440</u>
Juvenile Center	General	\$ 34,655
	Social Services	<u>46,012</u>
Total Due to Juvenile Center		<u>\$ 80,667</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

Receivable Fund	Payable Fund	Amount
Agency	General	\$ 5,927
	Social Services	195,094
	Other Governmental	2,482
		\$ 203,503
Total Due to Agency Funds		
		\$ 909,391

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Other Governmental	\$ 320,000
	Family Service Center	970,000
	Juvenile Center	350,000
	Public Health	350,000
		\$ 1,990,000
Total Due to General Fund		
		\$ 1,990,000

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2003, consisted of the following:

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

3. Interfund Transfers (Continued)

Transfers to nonmajor governmental funds from		
General Fund	\$	793,000
Road and Bridge		3,221
Social Services Fund		250,000
Internal Service Fund		500,000
Total transfers to nonmajor governmental funds	\$	1,546,221
Transfers to Public Health Enterprise Fund from General Fund		473,331
Total Interfund Transfers	\$	2,019,552

C. Liabilities

1. Payables

Payables at December 31, 2003, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 830,087	\$ 132,278
Salaries	544,646	151,882
Contracts	419,300	-
Due to other governments	1,551,101	210,767
Total Payables	\$ 3,345,134	\$ 494,927

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The government has active construction projects as of December 31, 2003. The projects include the following (amounts in thousands):

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Courthouse expansion	\$ 6,394,343	\$ 81,372

3. Other Post-Employment Benefits

Retirees

The County provides post-retirement health care benefits for certain retirees. The County pays for health insurance for qualified retired employees (employees who retired with over five years of County employment) from the date of retirement until age 65.

As of year-end, the County has 12 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2003, the County expended \$18,051 for these benefits.

Elected Officials

After their County service, elected County officials, Social Services managers, Sheriff department's lieutenants and the negotiating team are eligible to participate in the Minnesota State Retirement System (MSRS).

This benefit is funded on a pay-as-you-go basis. Clay County has four former elected officials/employees that elected to take advantage of this benefit.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Leases

Capital Leases

The County 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, 2003:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
1999 motor grader	2004	Annual	\$ 13,977	\$ 151,413	\$ 108,186
1999 motor grader	2004	Annual	13,977	151,413	108,186
2000 motor grader	2005	Annual	17,211	159,571	114,335
2001 motor grader	2006	Annual	20,151	168,751	123,985
2002 motor grader	2007	Annual	21,267	170,201	134,816
2003 motor grader	2008	Annual	19,814	171,608	<u>151,794</u>
Total Governmental Activities Capital Leases					<u>\$ 741,302</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2003, were as follows:

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Leases

Capital Leases (Continued)

Year Ending December 31	Governmental Activities
2004	\$ 306,175
2005	171,233
2006	142,981
2007	112,314
2008	95,500
Total minimum lease payments	\$ 828,203
Less: amount representing interest	(86,901)
Present Value of Minimum Lease Payments	\$ 741,302

5. Long-Term Debt

Governmental Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2003
General Obligation Bonds					
1993 G.O. Refunding Bonds	2007	\$15,000 - \$40,000	4.6448	\$ 725,000	\$ 140,000
1995 G.O. Watershed Improvement Bonds	2011	\$25,000 - \$95,000	5.3731	990,000	635,000
1997 G.O. Watershed Improvement Bonds	2013	\$30,000 - \$60,000	4.9785	660,000	485,000
1999 G.O. Watershed Improvement Bonds	2015	\$55,000 - \$105,000	5.2452	1,125,000	960,000
2000 G.O. Watershed Improvement Bonds	2016	\$20,000 - \$45,000	5.3936	465,000	425,000

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Governmental Activities (Continued)

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2003
General Obligation Bonds (Continued)					
2002 G.O. Watershed Improvement Bonds	2012	\$20,000 - \$32,000	5.086	260,000	240,000
2003 G.O. Ditch Bonds	2014	\$85,000 - \$110,000	2.8555	960,000	960,000
2003 G.O. Watershed Improvement Refunding Bonds	2011	\$80,000 - \$90,000	2.943	590,000	590,000
Total general obligation bonds				\$ 5,775,000	\$ 4,435,000
Less: unamortized discount					(4,646)
Total General Obligation Bonds, Net					\$ 4,430,354
Revenue Bonds					
1996 Law Enforcement Facility Revenue Bonds	2004	\$69,332 - \$187,866	5.1527	\$ 2,186,350	\$ 1,842,875
2001 Joint Highway Lease Revenue Bonds	2022	\$70,000 - \$175,000	5.298	2,240,000	2,170,000
2002 Courthouse Expansion Lease Revenue Bonds	2023	\$135,000 - \$320,000	4.999	4,200,000	4,200,000
2002 Law Enforcement Revenue Refunding Bonds	2017	\$109,588 - \$181,157	3.8785	1,831,693	1,831,693
Total Revenue Bonds				\$ 10,458,043	\$ 10,044,568

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt (Continued)

Business-Type Activities

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issues Amount</u>	<u>Outstanding Balance December 31, 2003</u>
Revenue Bonds					
1992 Family Service Center Lease Revenue Bonds	2004	\$40,000 - \$4,760,000,000	6.3985	\$ 6,300,000	\$ 4,760,000
1996 Law Enforcement Facility Revenue Bonds	2017	\$85,669 - \$2,277,124	5.1527	2,758,650	2,277,124
1998 Family Service Center Lease Revenue Refunding Bonds	2014	\$355,000 - \$495,000	5.10241	4,575,000	4,575,000
2002 Law Enforcement Facility Revenue Refunding Bonds	2017	\$135,411 - \$223,844	3.8785	<u>2,263,307</u>	<u>2,263,307</u>
Total Revenue Bonds				<u>\$ 15,896,957</u>	\$ 13,875,431
Less: unamortized discount					<u>(161,253)</u>
Total Revenue Bonds, Net					<u>\$ 13,714,178</u>

6. Debt Service Requirements

Debt service requirements at December 31, 2003, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 817,000	\$ 162,313	\$ 2,047,875	\$ 410,259
2005	353,000	138,459	324,588	354,710
2006	369,000	126,351	339,062	343,645
2007	365,000	113,499	348,535	331,699
2008	346,000	100,617	368,008	318,647
2009-2013	1,745,000	286,619	2,086,078	1,356,136
2014-2018	440,000	23,352	2,435,422	836,002
2019-2023	-	-	<u>2,095,000</u>	<u>265,897</u>
Total	<u>\$ 4,435,000</u>	<u>\$ 951,210</u>	<u>\$ 10,044,568</u>	<u>\$ 4,216,995</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 7,037,124	\$ 514,218
2005	490,412	295,601
2006	520,939	275,150
2007	546,466	253,447
2008	571,993	230,038
2009-2013	3,378,922	718,697
2014-2017	<u>1,329,577</u>	<u>85,198</u>
Total	<u>\$ 13,875,433</u>	<u>\$ 2,372,349</u>

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2003, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
General obligation bonds	\$ 3,160,000	\$ 1,550,000	\$ 275,000	\$ 4,435,000	\$ 817,000
Revenue bonds	10,197,320	-	152,751	10,044,568	2,047,875
Less: deferred amounts for issuance discounts	<u>-</u>	<u>(5,310)</u>	<u>(664)</u>	<u>(4,646)</u>	<u>-</u>
Total bonds payable	\$ 13,357,320	\$ 1,544,690	\$ 427,087	\$ 14,474,922	\$ 2,864,875
Compensated absences	1,618,870	1,016,285	930,896	1,704,259	751,332
Capital leases	<u>853,950</u>	<u>171,608</u>	<u>284,256</u>	<u>741,302</u>	<u>269,016</u>
Governmental Activity Long-Term Liabilities	<u>\$ 15,830,140</u>	<u>\$ 2,732,583</u>	<u>\$ 1,642,239</u>	<u>\$ 16,920,483</u>	<u>\$ 3,885,223</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Bonds Payable					
Revenue bonds	\$ 14,252,680	\$ -	\$ 377,250	\$ 13,875,430	\$ 7,037,124
Less: deferred amounts for issuance discounts	<u>(176,205)</u>	<u>-</u>	<u>(14,953)</u>	<u>(161,252)</u>	<u>-</u>
Total bonds payable	\$ 14,076,475	\$ -	\$ 362,297	\$ 13,714,178	\$ 7,037,124
Estimated liability for landfill closure/postclosure	2,833,456	-	-	2,833,456	-
Compensated absences	<u>462,604</u>	<u>293,819</u>	<u>287,118</u>	<u>469,305</u>	<u>232,232</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 17,372,535</u>	<u>\$ 293,819</u>	<u>\$ 649,415</u>	<u>\$ 17,016,939</u>	<u>\$ 7,269,356</u>

Long-term liabilities for internal service funds are included as part of the above totals based upon their activity. For internal service funds, \$741,302 of lease purchases payable are included in the amounts for the governmental activities at year-end.

8. Prior Year's Refunded Debt - Crossover Refunding Bonds

In 2003, \$590,000 General Obligation Watershed Improvement Refunding Bonds were sold to refund General Obligation Watershed Improvement Bonds on the February 1, 2004, call date.

The proceeds from the refunding bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury bills were purchased. The County is responsible for the principal and interest payments on the original issue through the call dates. The County was required to deposit \$569,241 with the escrow agent which, together with investment earnings on the escrow account, will be sufficient to pay principal and interest payments on the refunded bonds.

The County crossover refunded the General Obligation Watershed Improvement Bonds of 1995 to reduce its total debt service payments in the year 2004 by \$44,383 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$38,919.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Clay County 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, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are 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. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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 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 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 Police and Fire Fund members, the annuity accrual rate is three percent for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

For PERA members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund and Public Employees Correctional Fund members and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. 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 benefit is payable. Also available are various types of joint and survivor annuity options that 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 are 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 yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional 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.

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 County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan

**CLAY COUNTY
MOORHEAD, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County 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
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2003, 2002, and 2001, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
	_____	_____	_____
2003	\$ 619,674	\$ 150,780	\$ 119,622
2002	601,638	138,273	111,560
2001	519,991	141,552	105,497

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan. Established by the Legislature in 1987 to provide a retirement plan for personnel employed by public ambulance services, the plan has been expanded to include elected local government officials, except elected county sheriffs.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2003, 2002, and 2001, were \$8,392, \$8,128, and \$8,048, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,833,456 landfill closure and postclosure care liability at December 31, 2003, represents the cumulative amount reported to date based on the use of 96 percent of the estimated capacity of the landfill. It is estimated that no additional costs will be recognized as closure and postclosure care expense between December 31, 2003 and the date the landfill is expected to be filled to capacity (2004) due to a change in accounting estimates. The estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, maintain, and adopt a contingency action plan at the landfill were acquired as of December 31, 2003. Actual cost may be higher due to inflation, changes in technology, or changes in state or federal laws and regulations affecting landfills.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2003, investments of \$2,106,498 are held for these purposes. These are reported as restricted assets on the balance sheet. Clay County expects that future inflation costs will be paid from investment earnings on

**CLAY COUNTY
MOORHEAD, MINNESOTA**

5. Landfill Closure and Postclosure Care Costs (Continued)

these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

6. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years. The County was charged \$54,000 by MCIT in 2003 for payments on one settlement made in 2003.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2003 and 2004. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays 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 County in a method and amount to be determined by MCIT.

7. Conduit Debt

The County has issued Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of educational facilities deemed to be in the public interest. The bonds are secured by the property financed through a series of loan

**CLAY COUNTY
MOORHEAD, MINNESOTA**

7. Conduit Debt (Continued)

agreements and are payable solely from the revenue of the entity. The County is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. Bonds issued and outstanding as of December 31, 2003, are as follows:

<u>Entity</u>	<u>Series</u>	<u>Principal Issued</u>	<u>Outstanding</u>
Concordia College Corporation	1998	\$ 5,425,000	\$ 4,250,677
Concordia College Corporation	2001	3,300,000	3,300,000
Minnesota State University Moorhead	2001	3,940,000	3,869,318
Concordia College Corporation	2003	2,300,000	2,300,000

8. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in carrying out this agreement.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Area Agency on Aging (Continued)

Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

Any county may withdraw by providing notice to the Chair of the Board 90 days prior to the beginning of the fiscal year. The Chair shall forward a copy to each of the counties. Withdrawal shall not result in the discharging of any liability incurred or chargeable to any county before the effective date of withdrawal.

Control is vested in the West Central Board on Aging. The Board consists of one Commissioner from each of the counties. Each member of the Board is appointed by the County Commissioners of the county he or she represents. Complete financial statements for the West Central Area Agency on Aging may be obtained from its administrative office at P. O. Box 726, Fergus Falls, Minnesota 56538-0726.

Fargo-Moorhead Metropolitan Council of Governments

The Fargo-Moorhead Metropolitan Council of Governments was established in 1967 by a joint powers agreement between the Cities of Fargo and West Fargo, North Dakota; Moorhead and Dilworth, Minnesota; Cass County, North Dakota; and Clay County. The primary purpose of the Council is metropolitan area planning for the two-county area. The Council also serves as a coordinating agency for investigations and studies for improvement of government and services in the area.

The primary source of revenues are federal grants administered by the North Dakota and Minnesota Departments of Transportation, the Federal Transit Administration, and member support on a per capita basis. During 2003, Clay County contributed \$5,912 to the Fargo-Moorhead Metropolitan Council of Governments.

Control of the Council is vested in a 13-member Board of Directors of which one is an elected County Commissioner. The Council representatives to the Board are appointed by their respective governing bodies for a term determined by their governing bodies.

As of December 31, 2003, the total equity, excluding fixed assets, of the Fargo-Moorhead Metropolitan Council of Governments is \$251,591. Complete financial statements for the Council may be obtained from its administrative office at Case Plaza, One Second Street North, Suite 232, Fargo, North Dakota 58102.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association (NCDPSA) was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Roseau, and Wadena Counties. The purpose of the NCDPSA is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and back-up system.

Control of the NCDPSA is vested in the NCDPSA Joint Powers Board, which comprises one County Commissioner from each member county. In the event of dissolution, the net assets of the NCDPSA at that time shall be distributed to the respective member counties in proportion to their contributions.

The NCDPSA has no long-term debt. Financing is provided by grants from the State of Minnesota and appropriations from member counties. Complete financial information can be obtained from the Clearwater County Auditor, 213 North Main Avenue, Bagley, Minnesota 56621.

Clay County Joint Powers Collaborative

The Clay County Joint Powers Collaborative was established March 4, 1997, under the authority of the Joint Powers Act, pursuant to Minn Stat. §§ 471.59 and 124D.23. The Collaborative includes Clay County; Independent School District Nos. 152 (Moorhead), 146 (Barnesville), 2164 (Dilworth-Glyndon-Felton), 150 (Hawley), and 914 (Ulen-Hitterdal); the Clay-Wilkin Opportunity Council; Lakeland Mental Health; and the Clay County Court Services. The purpose of the Collaborative is to provide services designed to enhance opportunities for children or youth to improve child health and development, reduce barriers to adequate school performance, improve family functioning, provide community service, enhance self-esteem, and develop general employment skills.

Control of the Clay County Joint Powers Collaborative is vested in a 20-member Board of Directors appointed by the member parties.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Clay County Joint Powers Collaborative (Continued)

In the event of a withdrawal from the Clay County Joint Powers Collaborative, the withdrawing party shall give 90-day notice. The Board shall continue to exist if the Collaborative is terminated for the limited purpose of discharging the Board's debts and liabilities, settling its affairs, and disposing of its property.

Financing is provided by state and federal grants and contributions from its member parties. Clay County, in an agent capacity, reports the cash transactions of the Clay County Joint Powers Collaborative as an agency fund on its financial statements. During 2003, the County did not contribute any funds to the Collaborative.

West Central Minnesota Drug Task Force

The West Central Minnesota Drug Task Force was established in 1996 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Clay, Douglas, Grant, Otter Tail, and Todd Counties, and the Cities of Alexandria, Breckenridge, Detroit Lakes, Fargo, Fergus Falls, Moorhead, Pelican Rapids, Perham, and Wahpeton. The Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the six-county area. Control of the West Central Minnesota Drug Task Force is vested in a Board of Directors. The Board of Directors consists of department heads or a designee from each participating full-time member agency.

In the event of dissolution of the West Central Minnesota Drug Task Force, the equipment will be divided and returned to the appropriate agencies. However, if only one agency terminates its agreement and the unit continues, all equipment will remain with the Task Force.

Douglas County, in an agent capacity, reports the cash transactions of the West Central Minnesota Drug Task Force as an agency fund on its financial statements. Financing and equipment will be provided by the full-time and associated member agencies. During 2003, the County contributed \$3,000 to the Task Force.

C. Jointly-Governed Organizations

Clay County, in conjunction with other governmental entities and various private organizations, have formed the jointly-governed organizations listed below:

**CLAY COUNTY
MOORHEAD, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnomon, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. Clay County's responsibility does not extend beyond making this appointment.

Western Area City/County Co-op

Clay County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burden on each of its members through the cooperative sharing of existing resources. The management and control of WACCO is vested in a Board of Directors composed of a representative appointed by each member city and county.

District IV Transportation Planning

Clay County and 13 other cities and counties entered into a joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

Agassiz Recreational Trail Joint Powers Board

Clay, Norman, and Polk Counties entered into a joint powers agreement to establish the Agassiz Recreational Trail Joint Powers Board, effective February 9, 1993, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to provide the construction, maintenance, and operation of a system of trails and pathways. The Board consists of two members appointed by each member county and one person appointed by the Norman County Soil and Water Conservation District.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Clay County and 14 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget. Control is vested in a Joint Powers Board comprised of one Commissioner from each member County. Each member of the Board is appointed by the County Commissioners of the County he or she represents. In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties.

During 2003, Clay County did not contribute any funds to the Joint Powers Board. Complete financial statements can be obtained from the offices of the International Coalition.

Agassiz Regional Library

The Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Becker, Clay, Clearwater, Mahnomon, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board which is composed of 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Clay County contributed \$201,881 to the Agassiz Regional Library during the year 2003.

D. Related Organizations

Clay County Housing and Redevelopment Authority

The Clay County Housing and Redevelopment Authority (HRA) has its own governing board which is appointed by the Clay County Board of Commissioners. Clay County has no other financial, operational, or managerial control over this organization. The HRA issued the following debt for Clay County: \$6,300,000 Family Service Center Lease Revenue Bonds of 1992, \$4,945,000 Law Enforcement Facility Revenue Bonds

**CLAY COUNTY
MOORHEAD, MINNESOTA**

8. Summary of Significant Contingencies and Other Items

D. Related Organizations

Clay County Housing and Redevelopment Authority (Continued)

of 1996, \$4,575,000 Family Service Center Lease Revenue Refunding Bonds of 1998, \$2,240,000 Joint Highway Facility Lease Revenue Bonds of 2001, \$4,200,000 Courthouse Expansion Lease Revenue Bonds of 2002, and \$4,095,000 Law Enforcement Facility Refunding Bonds of 2002. The County makes lease payments in the amounts necessary to make the bond and interest payments each year. Because the debt is essentially an obligation of the County, it is shown as County debt in the County's financial statements.

Buffalo-Red River Watershed District

The Buffalo-Red River Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective June 17, 1963, and includes land within Becker, Clay, and Wilkin Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. Control of the District is vested in the Buffalo-Red River Watershed District Board of Managers, which is composed of five members having staggered terms of three years each, with three appointed by the Clay County Board, one appointed by the Becker County Board, and one appointed by the Wilkin County Board.

Wild Rice Watershed District

The Wild Rice Watershed District was established in 1969 pursuant to Minn. Stat. ch. 103D, and includes Becker, Clay, Clearwater, Mahnomen, Norman, and Polk Counties. The purpose of the Wild Rice Watershed District is to oversee watershed projects, conduct studies for future project planning, administration of legal drainage systems, issuance of applications and permits, public education on conservation issues, and dispute resolution.

Control of the Watershed District is vested in the Board of Managers, which is composed of seven members appointed by the County Commissioners of Becker, Clay, Mahnomen, and Norman Counties. Norman County appoints three members, Clay County appoints two members, and Mahnomen and Becker Counties each appoint one member.

REQUIRED SUPPLEMENTARY INFORMATION

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 8,863,221	\$ 8,863,221	\$ 7,016,414	\$ (1,846,807)
Licenses and permits	14,680	14,680	36,547	21,867
Intergovernmental	1,889,223	1,889,223	3,857,648	1,968,425
Charges for services	1,544,343	1,552,843	1,366,948	(185,895)
Fines and forfeits	5,000	5,000	3,970	(1,030)
Investments earnings	350,000	350,000	244,450	(105,550)
Miscellaneous	256,746	256,896	77,737	(179,159)
Total Revenues	\$ 12,923,213	\$ 12,931,863	\$ 12,603,714	\$ (328,149)
Expenditures				
Current				
General government				
Commissioners	\$ 192,051	\$ 189,151	\$ 203,591	\$ (14,440)
Courts	-	-	25,267	(25,267)
Public defender	35,000	35,000	125,935	(90,935)
Law library	101,395	101,395	101,202	193
County administration	220,729	219,929	207,620	12,309
County auditor	430,043	429,986	369,949	60,037
License bureau	285,885	285,885	290,520	(4,635)
County treasurer	152,229	152,229	159,117	(6,888)
County assessor	265,968	244,029	248,721	(4,692)
Elections	20,273	19,561	17,511	2,050
Internal audit	37,000	37,000	42,915	(5,915)
Data processing	812,832	779,947	759,058	20,889
Personnel	115,724	115,224	114,658	566
Attorney	821,109	780,799	793,772	(12,973)
Victim witness	89,984	87,308	80,964	6,344
Recorder	306,084	302,476	286,693	15,783
Surveyor	40,000	38,500	38,487	13
Planning and zoning	131,648	120,055	334,747	(214,692)
Maintenance	435,270	400,063	410,268	(10,205)
Veterans service officer	30,745	30,745	31,036	(291)
Unallocated	827,720	814,127	376,944	437,183
Total general government	\$ 5,351,689	\$ 5,183,409	\$ 5,018,975	\$ 164,434

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,914,660	\$ 2,764,941	\$ 2,774,984	\$ (10,043)
Boat and water safety	3,500	3,500	650	2,850
Drug seizures	-	-	29,003	(29,003)
Youth intervention	8,500	8,500	8,500	-
Coroner	31,785	31,785	39,053	(7,268)
E-911 system	30,000	30,000	32,857	(2,857)
Community corrections	1,927,961	1,927,961	1,952,815	(24,854)
Dispatchers	197,750	197,750	246,357	(48,607)
Probation and parole	379,447	379,447	400,546	(21,099)
Electronic monitoring	58,663	58,663	74,651	(15,988)
Juvenile detention	317,550	317,550	399,206	(81,656)
Civil defense	44,903	41,964	81,191	(39,227)
Total public safety	\$ 5,914,719	\$ 5,762,061	\$ 6,039,813	\$ (277,752)
Culture and recreation				
Historical society	\$ 131,135	\$ 126,713	\$ 126,713	\$ -
Senior citizens	1,500	1,500	1,500	-
Regional library	215,201	201,881	201,881	-
Total culture and recreation	\$ 347,836	\$ 330,094	\$ 330,094	\$ -
Conservation of natural resources				
Cooperative extension	\$ 212,395	\$ 205,195	\$ 214,130	\$ (8,935)
Soil and water conservation	98,142	94,807	94,807	-
International coalition	1,280	1,280	1,281	(1)
Agricultural inspections	63,171	60,971	55,991	4,980
Agricultural society/county fair	21,592	21,592	21,574	18
Valley water rescue	4,000	4,000	3,799	201
Total conservation of natural resources	\$ 400,580	\$ 387,845	\$ 391,582	\$ (3,737)

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Economic development				
Metropolitan Council	\$ 5,912	\$ 5,912	\$ 5,912	\$ -
Red River winter shows	800	800	800	-
West Central Council on Aging	4,860	4,860	4,914	(54)
Chamber of Commerce	1,210	1,210	1,246	(36)
County-wide incentive program	86,565	86,565	11,974	74,591
West Central Minnesota Initiatives	15,128	15,128	15,127	1
Pew Partnership	4,434	4,434	4,434	-
Riverkeepers	650	650	650	-
Rural MN Counties Caucus	2,000	2,000	2,000	-
Minnesota Housing Partnership	600	600	591	9
WACCO	5,000	5,000	5,000	-
Rural transit	307,899	307,899	272,600	35,299
Total economic development	\$ 435,058	\$ 435,058	\$ 325,248	\$ 109,810
Total Expenditures	\$ 12,449,882	\$ 12,098,467	\$ 12,105,712	\$ (7,245)
Excess of Revenues Over (Under) Expenditures	\$ 473,331	\$ 833,396	\$ 498,002	\$ (335,394)
Other Financing Sources (Uses)				
Transfers out	(473,331)	(456,389)	(1,266,331)	(809,942)
Change in Fund Balance	\$ -	\$ 377,007	\$ (768,329)	\$ (1,145,336)
Fund Balance - January 1	7,264,254	7,264,254	7,264,254	-
Fund Balance - December 31	\$ 7,264,254	\$ 7,641,261	\$ 6,495,925	\$ (1,145,336)

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,506,007	\$ 2,506,007	\$ 2,040,979	\$ (465,028)
Licenses and permits	2,300	2,300	2,400	100
Intergovernmental	3,785,050	3,785,050	4,772,447	987,397
Charges for services	650,000	650,000	126,087	(523,913)
Investments earnings	20,000	20,000	3,352	(16,648)
Miscellaneous	-	-	115,889	115,889
Total Revenues	\$ 6,963,357	\$ 6,963,357	\$ 7,061,154	\$ 97,797
Expenditures				
Current				
Highway and streets				
Administration	\$ 415,988	\$ 415,988	\$ 428,867	\$ (12,879)
Maintenance	2,663,783	2,574,479	1,854,364	720,115
Construction	2,885,317	2,885,317	2,603,285	282,032
Equipment maintenance and shop	998,269	940,816	856,723	84,093
Total Expenditures	\$ 6,963,357	\$ 6,816,600	\$ 5,743,239	\$ 1,073,361
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 146,757	\$ 1,317,915	\$ 1,171,158
Other Financing Sources (Uses)				
Transfers out	-	-	(3,221)	(3,221)
Change in Fund Balance	\$ -	\$ 146,757	\$ 1,314,694	\$ 1,167,937
Fund Balance - January 1	\$ 1,436,006	\$ 1,436,006	\$ 1,436,006	\$ -
Prior period adjustment	(127,739)	(127,739)	(127,739)	-
Fund Balance - January 1 as restated	\$ 1,308,267	\$ 1,308,267	\$ 1,308,267	\$ -
Increase (decrease) in reserved for inventory	\$ -	\$ -	\$ 42,383	\$ 42,383
Fund Balance - December 31	\$ 1,308,267	\$ 1,455,024	\$ 2,665,344	\$ 1,210,320

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,493,828	\$ 5,497,828	\$ 4,298,858	\$ (1,198,970)
Intergovernmental	12,514,108	12,534,474	11,857,950	(676,524)
Miscellaneous	523,601	523,601	656,872	133,271
Total Revenues	\$ 18,531,537	\$ 18,555,903	\$ 16,813,680	\$ (1,742,223)
Expenditures				
Current				
Human services				
Income maintenance	\$ 6,466,581	\$ 6,279,384	\$ 2,932,119	\$ 3,347,265
Social services	12,064,956	11,837,143	13,579,758	(1,742,615)
Total Expenditures	\$ 18,531,537	\$ 18,116,527	\$ 16,511,877	\$ 1,604,650
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 439,376	\$ 301,803	\$ (137,573)
Other Financing Sources (Uses)				
Transfers out	-	-	(250,000)	(250,000)
Changes in Fund Balance	\$ -	\$ 439,376	\$ 51,803	\$ (387,573)
Fund Balance - January 1	3,598,983	3,598,983	3,598,983	-
Fund Balance - December 31	\$ 3,598,983	\$ 4,038,359	\$ 3,650,786	\$ (387,573)

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund, the Forfeited Tax Special Revenue Fund, and the Gravel Removal Tax Special Revenue Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made several supplemental budgetary amendments throughout the governmental funds.

Encumbrances (purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual funds which had expenditures in excess of budget for the year ended December 31, 2003.

	<u>Expenditures</u>		<u>Final Budget</u>		<u>Excess</u>
General Fund	\$ 12,105,712		\$ 12,098,467		\$ (7,245)

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

SPECIAL REVENUE FUNDS

County Building - to account for the acquisition or repair of buildings used in County administration.

Ditch - to account for the financing and related costs of all County ditches.

Forfeited Tax - to account for revenue received from the sale of land for delinquent taxes. Monies are held until disbursements to various entities.

Gravel Removal Tax Reserve - to account for ten percent of gravel removal tax collections used for the rehabilitation of exhausted gravel pits.

DEBT SERVICE FUNDS

Americana Estates - to account for the financial transactions of the Americana Estates project for the City of Moorhead sewer and water hook-up. Financing is provided by issuing bonds and will be paid back through special assessments levied against the Americana Estates' residents.

Courthouse Expansion - to account for accumulation of resources and payment of principal and interest of courthouse expansion lease revenue issues.

Joint Highway Facility - to account for the bonds issued for the construction of the joint highway facility.

Law Enforcement Expansion - to account for the bonds issued for the expansion of the Law Enforcement Center.

CAPITAL PROJECTS FUNDS

Courthouse Expansion - to account for unspent bond proceeds from the Juvenile Center and other sources and the costs of expanding the courthouse.

Joint Highway Facility - to account for the construction of the Joint Highway Facility.

Law Enforcement Expansion - to account for revenues received by the trustee and billings by the County to the trustee for the costs of remodeling law enforcement facilities.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

AGENCY FUNDS

Joint Powers Collaborative - to account for the receipt and payment of federal, state, and local grants and membership contributions for the Clay County Joint Powers Collaborative.

State Revenue - to account for the collection and payment of monies due the State of Minnesota.

Taxes and Penalties - to account for the collection of taxes and penalties and their payment to the various taxing districts.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2003**

	Special Revenue (Statement B-1)	Debt Service (Statement C-1)	Capital Projects (Statement D-1)	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 640,590	\$ 102,868	\$ 841,828	\$ 1,585,286
Undistributed cash in agency funds	17,488	9,040	-	26,528
Cash with escrow agent	-	1,780,451	511,593	2,292,044
Investments	-	55,000	-	55,000
Taxes receivable				
Current	519	5,436	-	5,955
Prior	338	1,570	-	1,908
Special assessments receivable				
Current	1,735	427	-	2,162
Prior	1,431	-	-	1,431
Liens	399,444	72,716	-	472,160
Accrued interest receivable	-	88	-	88
Due from other funds	18,657	42,108	57,495	118,260
Total Assets	\$ 1,080,202	\$ 2,069,704	\$ 1,410,916	\$ 4,560,822
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 30	\$ 2,477	\$ 2,507
Contracts payable	-	-	343,913	343,913
Due to other funds	24,746	-	-	24,746
Due to other governments	467,657	100	572	468,329
Deferred revenue - unavailable	402,466	78,732	-	481,198
Advance from other funds	-	20,000	300,000	320,000
Total Liabilities	\$ 894,869	\$ 98,862	\$ 646,962	\$ 1,640,693
Fund Balances				
Reserved for encumbrances	\$ -	\$ -	\$ 81,372	\$ 81,372
Reserved for bond covenant	-	-	510,945	510,945
Unreserved				
Designated for debt service	-	1,970,842	-	1,970,842
Undesignated	185,333	-	171,637	356,970
Total Fund Balances	\$ 185,333	\$ 1,970,842	\$ 763,954	\$ 2,920,129
Total Liabilities and Fund Balances	\$ 1,080,202	\$ 2,069,704	\$ 1,410,916	\$ 4,560,822

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Special Revenue (Statement B-2)	Debt Service (Statement C-2)	Capital Projects (Statement D-2)	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues				
Taxes	\$ 54,831	\$ 376,803	\$ -	\$ 431,634
Special assessments	395,289	30,326	-	425,615
Intergovernmental	12,601	100,767	57,085	170,453
Investment earnings	-	18,087	6,317	24,404
Miscellaneous	44,437	-	-	44,437
Total Revenues	\$ 507,158	\$ 525,983	\$ 63,402	\$ 1,096,543
Expenditures				
Current				
General government	\$ 83,737	\$ -	\$ -	\$ 83,737
Sanitation	-	1,487	-	1,487
Conservation	439,271	-	-	439,271
Capital outlay				
General government	-	-	2,632,257	2,632,257
Highway and streets	-	-	60,305	60,305
Debt service				
Principal	-	182,751	-	182,751
Interest	-	345,430	169,736	515,166
Administrative (fiscal) charges	-	4,000	-	4,000
Total Expenditures	\$ 523,008	\$ 533,668	\$ 2,862,298	\$ 3,918,974
Excess of Revenues Over (Under) Expenditures	\$ (15,850)	\$ (7,685)	\$ (2,798,896)	\$ (2,822,431)
Other Financing Sources (Uses)				
Transfers in	-	-	1,546,221	1,546,221
Change in Fund Balance	\$ (15,850)	\$ (7,685)	\$ (1,252,675)	\$ (1,276,210)
Fund Balance - January 1	\$ 201,183	\$ 1,978,527	\$ 2,982,895	\$ 5,162,605
Prior period adjustment	-	-	(966,266)	(966,266)
Fund Balance - January 1, as restated	\$ 201,183	\$ 1,978,527	\$ 2,016,629	\$ 4,196,339
Fund Balance - December 31	\$ 185,333	\$ 1,970,842	\$ 763,954	\$ 2,920,129

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2003**

	<u>County Building</u>	<u>Ditch</u>	<u>Forfeited Tax</u>	<u>Gravel Tax</u>	<u>Total (Statement A-1)</u>
<u>Assets</u>					
Cash and pooled investments	\$ 25,390	\$ 423,773	\$ 51,173	\$ 140,254	\$ 640,590
Undistributed cash in agency funds	880	9,924	6,684	-	17,488
Taxes receivable					
Current	519	-	-	-	519
Prior	338	-	-	-	338
Special assessments receivable					
Current	-	1,735	-	-	1,735
Prior	-	1,431	-	-	1,431
Liens	-	399,444	-	-	399,444
Due from other funds	-	-	-	18,657	18,657
Total Assets	<u>\$ 27,127</u>	<u>\$ 836,307</u>	<u>\$ 57,857</u>	<u>\$ 158,911</u>	<u>\$ 1,080,202</u>
<u>Liabilities and Fund Balance</u>					
Liabilities					
Due to other funds	\$ 846	\$ -	\$ 23,900	\$ -	\$ 24,746
Due to other governments	-	433,700	33,957	-	467,657
Deferred revenue - unavailable	711	401,755	-	-	402,466
Total Liabilities	\$ 1,557	\$ 835,455	\$ 57,857	\$ -	\$ 894,869
Fund Balance					
Undesignated	25,570	852	-	158,911	185,333
Total Liabilities and Fund Balance	<u>\$ 27,127</u>	<u>\$ 836,307</u>	<u>\$ 57,857</u>	<u>\$ 158,911</u>	<u>\$ 1,080,202</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	County Building	Ditch	Forfeited Tax	Gravel Tax	Total (Statement A-2)
Revenues					
Taxes	\$ 36,174	\$ -	\$ -	\$ 18,657	\$ 54,831
Special assessments	-	395,289	-	-	395,289
Intergovernmental	12,601	-	-	-	12,601
Miscellaneous	-	-	44,437	-	44,437
Total Revenues	\$ 48,775	\$ 395,289	\$ 44,437	\$ 18,657	\$ 507,158
Expenditures					
Current					
General government	\$ 83,737	\$ -	\$ -	\$ -	\$ 83,737
Conservation	-	394,834	44,437	-	439,271
Total Expenditures	\$ 83,737	\$ 394,834	\$ 44,437	\$ -	\$ 523,008
Excess of Revenues Over (Under) Expenditures	\$ (34,962)	\$ 455	\$ -	\$ 18,657	\$ (15,850)
Fund Balance - January 1	60,532	397	-	140,254	201,183
Fund Balance - December 31	\$ 25,570	\$ 852	\$ -	\$ 158,911	\$ 185,333

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement C-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
DECEMBER 31, 2003**

	Americana Estates	Courthouse Expansion	Joint Highway Facility	Law Enforcement Expansion	Total (Statement A-1)
<u>Assets</u>					
Cash and pooled investments	\$ 52,105	\$ 2,742	\$ 5,762	\$ 42,259	\$ 102,868
Undistributed cash in agency funds	-	1,924	3,545	3,571	9,040
Cash with escrow agent	-	-	-	1,780,451	1,780,451
Investments	55,000	-	-	-	55,000
Taxes receivable					
Current	-	1,167	2,144	2,125	5,436
Prior	-	-	409	1,161	1,570
Special assessments receivable					
Unapportioned	427	-	-	-	427
Liens	72,716	-	-	-	72,716
Accrued interest receivable	88	-	-	-	88
Due from other funds	-	9,039	16,608	16,461	42,108
Total Assets	\$ 180,336	\$ 14,872	\$ 28,468	\$ 1,846,028	\$ 2,069,704
<u>Liabilities and Fund Balance</u>					
Liabilities					
Accounts payable	\$ 30	\$ -	\$ -	\$ -	\$ 30
Due to other governments	100	-	-	-	100
Deferred revenue - unavailable	73,143	888	2,007	2,694	78,732
Advance from other funds	-	10,000	10,000	-	20,000
Total Liabilities	\$ 73,273	\$ 10,888	\$ 12,007	\$ 2,694	\$ 98,862
Fund Balance					
Unreserved					
Designated for debt service	107,063	3,984	16,461	1,843,334	1,970,842
Total Liabilities and Fund Balance	\$ 180,336	\$ 14,872	\$ 28,468	\$ 1,846,028	\$ 2,069,704

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement C-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Americana Estates	Courthouse Expansion	Joint Highway Facility	Law Enforcement Expansion	Total (Statement A-2)
Revenues					
Taxes	\$ -	\$ 80,506	\$ 148,468	\$ 147,829	\$ 376,803
Special assessments	30,326	-	-	-	30,326
Intergovernmental	-	21,571	39,736	39,460	100,767
Investment earnings	1,005	-	-	17,082	18,087
Total Revenues	\$ 31,331	\$ 102,077	\$ 188,204	\$ 204,371	\$ 525,983
Expenditures					
Current					
Sanitation	\$ 1,487	\$ -	\$ -	\$ -	\$ 1,487
Debt service					
Principal	30,000	-	70,000	82,751	182,751
Interest	8,082	96,093	103,294	137,961	345,430
Administrative (fiscal) charges	-	2,000	2,000	-	4,000
Total Expenditures	\$ 39,569	\$ 98,093	\$ 175,294	\$ 220,712	\$ 533,668
Excess of Revenues Over (Under) Expenditures	\$ (8,238)	\$ 3,984	\$ 12,910	\$ (16,341)	\$ (7,685)
Fund Balance - January 1	115,301	-	3,551	1,859,675	1,978,527
Fund Balance - December 31	\$ 107,063	\$ 3,984	\$ 16,461	\$ 1,843,334	\$ 1,970,842

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement D-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS
DECEMBER 31, 2003**

	Courthouse Expansion	Joint Highway Facility	Law Enforcement	Total (Statement A-1)
<u>Assets</u>				
Cash and pooled investments	\$ 599,323	\$ -	\$ 242,505	\$ 841,828
Cash with escrow agent	329,070	182,523	-	511,593
Due from other funds	-	-	57,495	57,495
Total Assets	\$ 928,393	\$ 182,523	\$ 300,000	\$ 1,410,916
<u>Liabilities and Fund Balance</u>				
Liabilities				
Accounts payable	\$ 2,477	\$ -	\$ -	\$ 2,477
Contracts payable	343,913	-	-	343,913
Due to other governments	572	-	-	572
Advance from other funds	-	-	300,000	300,000
Total Liabilities	\$ 346,962	\$ -	\$ 300,000	\$ 646,962
Fund Balance				
Reserved for				
Encumbrances	\$ 81,372	\$ -	\$ -	\$ 81,372
Bond covenant	329,026	181,919	-	510,945
Unreserved				
Undesignated	171,033	604	-	171,637
Total Fund Balance	\$ 581,431	\$ 182,523	\$ -	\$ 763,954
Total Liabilities and Fund Balance	\$ 928,393	\$ 182,523	\$ 300,000	\$ 1,410,916

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement D-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL
CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Courthouse Expansion	Joint Highway Facility	Total (Statement A-2)
Revenues			
Intergovernmental	\$ -	\$ 57,085	\$ 57,085
Investment earnings	5,446	871	6,317
Total Revenues	\$ 5,446	\$ 57,956	\$ 63,402
Expenditures			
Capital outlay			
General government	\$ 2,632,257	\$ -	\$ 2,632,257
Highways and streets	-	60,305	60,305
Debt service			
Interest	163,909	5,827	169,736
Total Expenditures	\$ 2,796,166	\$ 66,132	\$ 2,862,298
Excess of Revenues Over (Under) Expenditures	\$ (2,790,720)	\$ (8,176)	\$ (2,798,896)
Other Financing Sources (Uses)			
Transfers in	1,543,000	3,221	1,546,221
Change in Fund Balance	\$ (1,247,720)	\$ (4,955)	\$ (1,252,675)
Fund Balance - January 1	\$ 2,795,417	\$ 187,478	\$ 2,982,895
Prior period adjustment	(966,266)	-	(966,266)
Fund Balance - January 1, as restated	\$ 1,829,151	\$ 187,478	\$ 2,016,629
Fund Balance - December 31	\$ 581,431	\$ 182,523	\$ 763,954

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
COUNTY BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 45,440	\$ 45,440	\$ 36,174	\$ (9,266)
Intergovernmental	4,560	4,560	12,601	8,041
Total Revenues	\$ 50,000	\$ 50,000	\$ 48,775	\$ (1,225)
Expenditures				
Current				
General government				
Other general government	50,000	50,000	83,737	(33,737)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (34,962)	\$ (34,962)
Fund Balance - January 1	60,532	60,532	60,532	-
Fund Balance - December 31	\$ 60,532	\$ 60,532	\$ 25,570	\$ (34,962)

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULES
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ -	\$ 395,289	\$ 395,289
Expenditures				
Current				
Conservation				
Ditch maintenance	-	-	394,834	(394,834)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 455	\$ 455
Fund Balance - January 1	397	397	397	-
Fund Balance - December 31	\$ 397	\$ 397	\$ 852	\$ 455

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULES
FORFEITED TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ -	\$ -	\$ 44,437	\$ 44,437
Expenditures				
Current				
Conservation of natural resources				
Other	-	-	44,437	(44,437)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULES
GRAVEL REMOVAL TAX RESERVE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 18,657	\$ 18,657
Fund Balance - January 1	<u>140,254</u>	<u>140,254</u>	<u>140,254</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 140,254</u>	<u>\$ 140,254</u>	<u>\$ 158,911</u>	<u>\$ 18,657</u>

FIDUCIARY FUNDS

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement E-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Balance January 1	Additions	Deductions	Balance December 31
<u>JOINT POWERS COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,070,566	\$ 1,445,340	\$ 1,548,132	\$ 1,967,774
Due from other funds	235,640	201,021	235,640	201,021
Due from other governments	434	10,153	434	10,153
Total Assets	<u>\$ 2,306,640</u>	<u>\$ 1,656,514</u>	<u>\$ 1,784,206</u>	<u>\$ 2,178,948</u>
<u>Liabilities</u>				
Accounts payable	\$ 44,303	\$ 1,168,393	\$ 1,209,933	\$ 2,763
Due to other funds	6,322	373,850	371,178	8,994
Due to other governments	2,256,015	114,271	203,095	2,167,191
Total Liabilities	<u>\$ 2,306,640</u>	<u>\$ 1,656,514</u>	<u>\$ 1,784,206</u>	<u>\$ 2,178,948</u>
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 10,170</u>	<u>\$ 157,943</u>	<u>\$ 159,341</u>	<u>\$ 8,772</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 10,170</u>	<u>\$ 157,943</u>	<u>\$ 159,341</u>	<u>\$ 8,772</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 757,540	\$ 17,434,329	\$ 17,154,842	\$ 1,037,027
Due from other funds	-	2,482	-	2,482
Total Assets	<u>\$ 757,540</u>	<u>\$ 17,436,811</u>	<u>\$ 17,154,842</u>	<u>\$ 1,039,509</u>
<u>Liabilities</u>				
Accounts payable	\$ 100	\$ 162,659	\$ 162,759	\$ -
Due to other governments	757,440	17,274,152	16,992,083	1,039,509
Total Liabilities	<u>\$ 757,540</u>	<u>\$ 17,436,811</u>	<u>\$ 17,154,842</u>	<u>\$ 1,039,509</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Statement E-1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,838,276	\$ 19,037,612	\$ 18,862,315	\$ 3,013,573
Due from other funds	235,640	203,503	235,640	203,503
Due from other governments	434	10,153	434	10,153
Total Assets	<u>\$ 3,074,350</u>	<u>\$ 19,251,268</u>	<u>\$ 19,098,389</u>	<u>\$ 3,227,229</u>
<u>Liabilities</u>				
Accounts payable	\$ 44,403	\$ 1,331,052	\$ 1,372,692	\$ 2,763
Due to other funds	6,322	373,850	371,178	8,994
Due to other governments	3,023,625	17,546,366	17,354,519	3,215,472
Total Liabilities	<u>\$ 3,074,350</u>	<u>\$ 19,251,268</u>	<u>\$ 19,098,389</u>	<u>\$ 3,227,229</u>

OTHER SCHEDULES

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 8

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2003**

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Pooled Deposits and Investments			
Money market checking (2)	Variable	-	\$ 999,644
Certificates of deposit (9)	1.15 - 3.40	January 4, 2004 to February 18, 2006	1,570,942
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	Variable	Continuous	6,948,460
Savings accounts (2)	Variable	Continuous	9,238,404
Federal Home Loan Bank (7)	2.00 - 3.50	July 22, 2008 to June 12, 2013	<u>2,731,314</u>
Total pooled deposits and investments			<u>\$ 21,488,764</u>
Deposits and Investments from Funds			
General Fund			
Real estate shortfall			
Certificates of deposit (3)	1.05 - 1.75	April 4, 2004 to December 7, 2004	<u>\$ 20,660</u>
Special Revenue Fund			
Road and Bridge			
MAGIC fund	Variable	Continuous	<u>\$ 500,000</u>
Debt Service Funds			
Americana Estates			
Certificates of deposit (2)	1.25 - 1.50	August 21, 2004 to December 7, 2004	\$ 55,000
Ditch			
Certificates of deposit (6)	1.25 - 2.48	January 29, 2004 to December 18, 2004	<u>365,000</u>
Total debt service			<u>\$ 420,000</u>
Enterprise Funds			
Juvenile Detention Fund			
Certificates of deposit (3)	1.20 - 2.23	March 27, 2004 to July 27, 2004	\$ 130,000
Solid Waste Management Fund			
Certificates of deposit (3)	1.25 - 2.05	May 12, 2004 to August 26, 2005	3,000,000
MAGIC fund (2)	Variable	Continuous	<u>1,886,447</u>
Total enterprise funds			<u>\$ 5,016,447</u>

CLAY COUNTY
MOORHEAD, MINNESOTA

Schedule 8
(Continued)

SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2003

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Equipment Replacement Internal Service Fund			
Certificates of deposit (2)	1.23 - 1.44	January 13, 2004 to April 25, 2004	<u>\$ 1,500,000</u>
Total deposits and investments from funds			<u>\$ 7,457,107</u>
Total Deposits and Investments			<u>\$ 28,945,871</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 9

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Total Governmental Funds	Total Enterprise Funds	Total All Funds
Shared Revenue			
State			
Highway users tax	\$ 3,954,998	\$ -	\$ 3,954,998
Market value credit	890,803	-	890,803
PERA rate reimbursement	61,294	-	61,294
Disparity reduction aid	13,227	-	13,227
Family Preservation Aid	276,445	-	276,445
Police aid	138,330	-	138,330
Criminal justice aid	300,455	-	300,455
Market value credit	2,060,358	-	2,060,358
Disparity credit	1,472,915	-	1,472,915
Property tax replacement aid	41,426	-	41,426
Prior year credit adjustment	144	-	144
Total Shared Revenue	\$ 9,210,395	\$ -	\$ 9,210,395
Reimbursement for Services			
State			
Minnesota Department of Health	\$ -	\$ 9,718	\$ 9,718
Human Services	3,744,234	206,025	3,950,259
Total Reimbursement for Services	\$ 3,744,234	\$ 215,743	\$ 3,959,977
Payments			
Local			
Transit	\$ 37,081	\$ -	\$ 37,081
Payments in lieu of taxes	40,289	-	40,289
Total Payments	\$ 77,370	\$ -	\$ 77,370
Grants			
State			
Minnesota Department/Board of Administration	\$ 65,714	\$ -	\$ 65,714
Agriculture	-	916	916
Education	685,442	-	685,442
Corrections	142,911	23,566	166,477
Public safety	75,288	-	75,288
Transportation	172,191	-	172,191
Trial Courts	179,362	-	179,362
Health	-	254,384	254,384
Natural Resources	21,096	-	21,096
Human Services	3,176,476	465,516	3,641,992
Soil and Water Resources	56,142	1,500	57,642
Office of Environmental Assistance	-	117,612	117,612
Peace Officer's Board	18,653	-	18,653
Total State	\$ 4,593,275	\$ 863,494	\$ 5,456,769

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 9
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Total Governmental Funds	Total Enterprise Funds	Total All Funds
Grants (Continued)			
Federal			
Department of			
Agriculture	\$ 70,394	\$ 127,748	\$ 198,142
Justice	85,319	59,834	145,153
Transportation	62,761	-	62,761
Education	100,159	-	100,159
Health and Human Services	2,401,911	255,356	2,657,267
Homeland Security	312,680	-	312,680
	\$ 3,033,224	\$ 442,938	\$ 3,476,162
Total Federal	\$ 3,033,224	\$ 442,938	\$ 3,476,162
Total State and Federal Grants	\$ 7,626,499	\$ 1,306,432	\$ 8,932,931
Total Intergovernmental Revenue	\$ 20,658,498	\$ 1,522,175	\$ 22,180,673

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 10

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2003

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of Clay County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Clay County and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting 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:

Cooperating Technical Partners Grant	CFDA #97.045
Child Care Development Block Grant	CFDA #93.596
- 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.

Our review of the internal control in the following departments showed one or more weaknesses in the proper segregation of duties: County Recorder, Sheriff, Motor Vehicle, County Extension, Planning and Zoning, Public Health Nurse, and County Landfill.

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 in some of the smaller departments and has implemented oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

ITEM ARISING THIS YEAR

03-1 **Final Contract Amount**

During our review of contracts, we noted that the final contract amounts presented and approved by the Board on five road construction contracts did not agree with the actual contract amounts paid. The amounts presented to the Board did not include miscellaneous adjustments to the amount of work certified on each contract. Thus, the approved amount for each contract was less than the amount actually paid. The differences ranged from \$1,116 to \$78,256 for a total of \$108,542.

We recommend the Highway Department establish the appropriate controls to ensure the final contract amounts presented for Board approval prior to final payment agree with the amounts paid on each contract.

Client's Response:

The Highway Department has established appropriate controls to ensure the final amounts presented for Board approval prior to final payment agree with the amounts paid on each contract.

PREVIOUSLY REPORTED ITEM RESOLVED

Purchasing Procedures (02-1)

The Office of the State Auditor issued a special investigative report, dated March 14, 2003, on its review of the Sheriff's Department purchasing and inventory systems, questionable expenditures, and use of the Sheriff's contingent fund. In response, the Sheriff's Department established a system for tracking miscellaneous supplies, and the County Attorney provided clarification on several issues. However, revisions to the Purchasing and Procurement Policy were not complete.

Resolution

The County Board adopted a new procurement and contract administration policy on August 3, 2004. This policy gives the County Administrator the responsibility to oversee and coordinate the purchase of goods and services and contract administration with all County departments. It provides that the County Auditor is responsible to ensure that a complete audit trail and proof of purchase is maintained with appropriate authorized signatures. The policy provides guidance to department heads on when they are authorized to approve purchases and when Board approval is required. It also provides that misappropriation of County funds by any department head, elected or appointed, or a County employee is a criminal offense. Anyone who participates in a violation is individually responsible for restitution and personally subject to legal action.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Security System Contract (02-2)

On May 21, 2002, the County Board approved a contract in the amount of \$178,950, with Com-Tec for the purchase and installation of the security system for the Courthouse and Law Enforcement expansion project without obtaining a performance and payment bond as required by Minn. Stat. § 574.26.

Resolution

The County provided performance and payment bonds as required by Minn. Stat. § 574.26 for all contracts tested in excess of \$75,000 in 2003.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-4 Public Health Enterprise Fund Net Asset Deficit

The Public Health Enterprise Fund closed the year ended December 31, 2003, with a net asset deficit of \$76,611.

While this fund had a favorable cash balance at December 31, 2003, of \$188,845, an advance from the General Fund of \$350,000 resulted in the net asset deficit. The Public Health Enterprise Fund had a net loss of \$27,760 in 2003.

We recommend that the County Board monitor net asset balances and provide adequate funding for effective operations.

Client's Response:

Clay County will monitor the fund equity balance of the Public Health Fund and provide funding for effective operations.

PREVIOUSLY REPORTED ITEMS RESOLVED

Juvenile Center Enterprise Fund Deficit (97-5)

The Juvenile Center Enterprise Fund closed the year ended December 31, 2002, with deficit retained earnings of \$670,777.

Resolution

With the implementation of GASB 34, contributed capital is combined with the retained earnings and reported as net assets. On December 31, 2003, the Juvenile Center Enterprise Fund had net assets of \$871,624.

Capital Asset Accounting System (01-8)

To comply with GASB Statement 34, the County must establish accounting policies for capital assets and evaluate its capital asset accounting system to determine if it is capable of providing the information needed to comply with the reporting requirements of GASB Statement 34.

Resolution

The County established the capital asset policies necessary for the implementation of GASB 34. The County has a centralized capital asset accounting system which provides the information needed for GASB 34 reporting.

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OTHER REQUIRED REPORTS

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**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 County Commissioners
Clay County

We have audited the financial statements of Clay County as of and for the year ended December 31, 2003, and have issued our report thereon dated August 19, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether Clay County's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clay County'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 assurance 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 County'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 Questioned Costs as items 96-4 and 03-1.

A material weakness is a 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 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 none of the reportable conditions indicated above is a material weakness.

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.

This report is intended for the information of the Board, management, 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.

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 19, 2004

**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, 2003. The 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, 2003.

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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Clay County as of and for the year ended December 31, 2003, and have issued our report thereon dated August 19, 2004. Our audit was performed for the purpose of forming opinions on the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended for the information of the Board, management, 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.

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 19, 2004

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 11

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Woman, Infants, and Children	10.557	\$ 127,748
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Food Stamp Program	10.561	70,394
Total U.S. Department of Agriculture		\$ 198,142
U.S. Department of Justice		
Passed Through Minnesota Department of Employment and Economic Development Juvenile Accountability Incentive Block Grant	16.523	\$ 59,834
Passed Through Minnesota Department of Public Safety Crime Victim Assistance Grant	16.575	21,534
Passed Through Minnesota Department of Public Safety and City of Moorhead Byrne Formula Grant Program	16.579	40,969
Direct Byrne Formula Grant Program	16.579	20,396
Bulletproof Vest Partnership Program	16.607	2,420
Total U.S. Department of Justice		\$ 145,153
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Formula Grants for Other than Urbanized Areas	20.509	\$ 62,761
U.S. Department of Education		
Passed Through Minnesota Department of Education Special Education Preschool Grants	84.173	\$ 4,078
Special Education Grants for Infants and Families with Disabilities	84.181	96,081
Total U.S. Department of Education		\$ 100,159

**CLAY COUNTY
MOORHEAD, MINNESOTA**

***Schedule 11
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Education Child Care Mandatory and Matching Funds	93.596	\$ 545,930
Passed Through Minnesota Department of Health Immunizations Grants	93.268	950
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	59,630
Temporary Assistance for Needy Families	93.558	109,673
Maternal and Child Health Services Block Grant	93.994	76,603
Passed Through Minnesota Department of Human Services Projects for Assistance in Transition from Homelessness (PATH)	93.150	62,573
Temporary Assistance for Needy Families	93.558	733,884
Child Care Mandatory and Matching Funds	93.596	289,941
Chafee Education and Training Vouchers Program	93.599	5,000
Child Welfare Services - State Grants	93.645	10,332
Adoption Opportunities	93.652	6,050
Foster Care Title IV-E	93.658	347,816
Social Services Block Grant Title XX	93.667	374,791
Chafee Foster Care Independent Living	93.674	20,119
Community Mental Health Services Block Grant	93.958	5,135
Passed Through Minnesota Department of Public Safety Developmental Disabilities Basic Support & Advocacy Grants	93.630	8,500
Passed Through Minnesota Supreme Court State Court Improvement Program	93.586	340
Total U.S. Department of Health and Human Services		\$ 2,657,267

**CLAY COUNTY
MOORHEAD, MINNESOTA**

Schedule 11
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Grant	97.004	\$ 20,220
Public Assistance Grants	97.036	164,713
Emergency Management Performance Grant	97.042	16,748
State and Local All Hazards Emergency Operations Planning	97.051	4,500
Direct Cooperating Technical Partners Grant	97.045	106,499
Total U.S. Department of Homeland Security		\$ 312,680
Total Federal Awards		\$ 3,476,162

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 financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
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 2003.