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CLAY COUNTY
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2004

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CLAY COUNTY

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OFFICIALS

NAME	TITLE	TERM EXPIRES
Delmar R. Brockshus	Board of Supervisors	January 2005
Sylvia D. Schoer	Board of Supervisors	January 2005
Joel Sorensen	Board of Supervisors	January 2007
William D. Zinn	Board of Supervisors	January 2007
Ken Chalstrom	Board of Supervisors	January 2007
Marjorie A. Pitts	County Auditor	January 2005
Lavon C. Montgomery	County Treasurer	January 2007
Shirley Goyette	County Recorder	January 2007
Randy Krukow	County Sheriff	January 2005
Michael L. Zenor	County Attorney	January 2007
Larry M. Rozeboom	County Assessor	Office vacant as of September 17, 2004 until January 3, 2005

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INDEPENDENT AUDITORS' REPORT

To the Officials of Clay County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clay County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed on 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 U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clay County at June 30, 2004 and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2005 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. This 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 35 through 38 are not required parts 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 supplementary information. We did not audit the information and express no opinion on it.

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Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Clay County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on the financial statements for the year ended June 30, 2003 and a qualified opinion on the financial statements for the years ended June 30, 2001 and 2002 for the omission of the statement of general fixed assets and the omission of the materials and supplies inventory from the Special Revenue Funds. Other supplementary information included in Schedules 1 through 5 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 our 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.

Winther, Starr + Co., LLP

January 23, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Clay County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements which follow and hope that this section will assist you in understanding the events that significantly affected the financial position of Clay County as a whole.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 14.1%, or approximately $1,386,074 from fiscal 2003 to fiscal 2004. Property tax increased approximately $653,768, operating grants, contributions and restricted interest increased approximately $57,374 and capital grants, contributions and restricted interest increased approximately $173,515.

- Program expenses were 4.2% less in fiscal 2004 than in fiscal 2003. Roads and transportation and Public safety expense decreased more than the increased expenses in areas of Mental health, County environment, Governmental services, or Administration creating a net decrease of approximately $385,896.

- The County's net assets increased approximately $2,567,853 from June 30, 2003 to June 30, 2004. This is largely due to capital grants in the area of Roads and Transportation.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Clay County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Clay County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Clay County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency Funds.

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REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

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

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as 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 not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has two kinds of funds:

1. Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, (c) the Debt Service Fund, and (d) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

   The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for schools, emergency management services and the County Assessor, to name a few.

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The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Clay County's combined net assets for FY2004 totaled $10,049,940 compared to $7,482,087 for FY2003. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities

	June 30, 2004	June 30, 2003
Current and other assets	$10,159,539	$ 8,421,588
Capital assets	5,675,650	4,350,512
Total assets	15,835,189	12,772,100
Long-term debt outstanding	677,073	725,912
Other liabilities	5,108,176	4,564,101
Total liabilities	5,785,249	5,290,013
Net assets:		
Invested in capital assets - net of related debt	5,130,649	3,726,600
Restricted for:		
Supplemental levy	70,364	
Mental Health purposes	190,065	350,532
Secondary road purposes	2,497,860	1,657,634
Debt service	161,285	162,993
Other purposes	218,420	996,688
Unrestricted	1,781,297	587,640
Total net assets	$10,049,940	$ 7,482,087

The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—increased from approximately $587,640 at June 30, 2003 to approximately $1,781,297 at the end of this year.

This increase of approximately $1,193,657 in unrestricted net assets was primarily a result of increases in Local Option Sales Tax funds.

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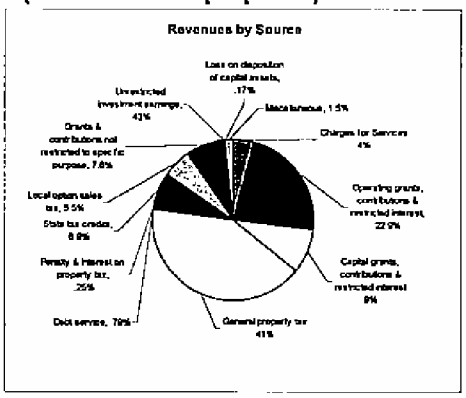
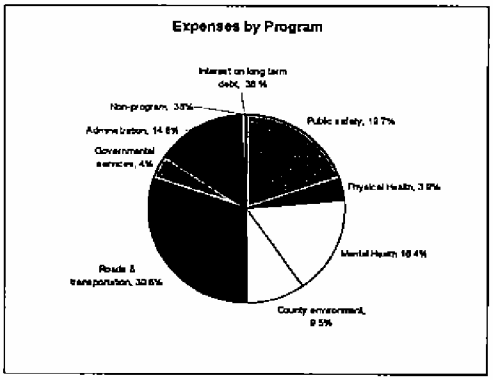
Changes in Net Assets of Clay County Governmental Type Activities

	June 30, 2004	June 30, 2003
Program revenues:		
Charges for service	$ 458,102	$ 486,517
Operating grants, contribution, and restricted interest	2,569,635	2,512,261
Capital grants, contributions, and restricted interest	1,012,652	80,714
General revenues:		
Property tax:		
General purposes	4,600,870	3,946,758
Debt service	88,682	89,026
Penalty and interest on property tax	28,494	47,451
State tax credits	773,923	893,557
Local option sales tax	617,508	599,174
Grants and contributions not restricted to specific purpose	858,547	880,419
Unrestricted investment earnings	48,240	71,492
Loss on disposition of capital assets	(19,167)	
Miscellaneous	172,710	216,753
Total revenues and special item	11,210,196	9,824,122
Program expenses:		
Public safety and legal service	1,707,602	1,837,100
Physical health and social services	344,561	350,400
Mental health	1,421,131	1,287,670
County environment and education	820,332	692,660
Roads and transportation	2,650,454	3,340,280
Governmental services to residents	346,177	331,076
Administration	1,285,968	1,127,076
Non-program and interest on long-term debt	66,118	61,977
Total expenses	8,642,343	9,028,239
Change in net assets	2,567,853	795,883
Net assets - beginning of year	7,482,087	6,686,204
Net assets - end of year	$10,049,940	$ 7,482,087

(For illustrative purposes)





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Clay County's net assets of governmental activities increased by approximately $2,567,853 during the year. Revenues for governmental activities increased by approximately $1,386,074 over the prior year, with property tax revenue up from the prior year by approximately $653,768, or 16.2 percent.

The County increased property tax rates for 2004 by an average of 10.8 percent. This increase raised the County's budgeted property tax revenue by approximately $653,998 in 2004. Based on the decrease of nearly $34 million in the total assessed valuation, property tax revenue is budgeted to decrease by $353,174 next year.

The cost of all governmental activities this year was $8,642,343 compared to $9,028,239 last year. However, as shown in the Statement of Activities on page 13, the amount taxpayers ultimately financed for these activities was only $4,601,954 because some of the cost was paid by those directly benefited from the programs ($458,102) or by other governments and organizations that subsidized certain programs with grants and contributions ($3,582,287). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2004 from approximately $3,079,492 to $4,040,389, principally due to capital assets contributed by the Iowa Department of Transportation. The County paid for the remaining "public benefit" portion of governmental activities with approximately $5,307,060 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Clay County completed the year, its governmental funds reported a combined fund balance of $4,984,362, an increase of $1,206,077 above last year's total of $3,778,285. The increase in fund balance is primarily attributable to Secondary Road funds for bridge replacement and the inclusion of Local Option Sales Tax & Service dollars as major governmental funds. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures. The ending fund balance showed a modest increase of $200,231 from the prior year to $688,670.

- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately $1,421,131, an increase of 10.3% from the prior year. The Mental Health Fund balance at year ended decreased by approximately $160,454 over the prior year.

- Secondary Roads Fund expenditures decreased by approximately $175,737 over the prior year. This decrease in expenditures resulted in an increase in the Secondary Roads Fund ending balance of approximately $853,710.

BUDGETARY HIGHLIGHTS

Over the course of the year, Clay County amended its budget two (2) times. The first amendment was made in January 20, 2004 and resulted in an increase in budgeted disbursements of $409,885 related to public safety court ordered juvenile detention services, Physical health & social service federal grants, County environment noxious weed chemicals, Government services covering special election costs & records management equipment purchases, as well as building & grounds maintenance costs and increased Capital projects costs for the Scharnberg Park Project. This amendment also reflected the increase in revenues totaling $358,066 so that the net budget amendment resulted in a loss of ending fund balance equal to $51,819.

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The second amendment was made on May 18, 2004. This amendment increased the budgeted disbursements by $309,754 to utilize the Recreational Infrastructure Grant for the Scharnberg Park Project and reflect the flow thru of the Event Center Pledge Obligation fund activity. This amendment also reflected the increase in revenues associated with the Recreational Infrastructure Grant and the Event Center Pledge Obligation equaling $317,427 resulting in a net gain of ending fund balances of $7,673.

Even with these amendments, the County exceeded the budgeted amounts in the Debt Service functions by $2,612 for the year ended June 30, 2004.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Clay County had approximately $5,675,650 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately $1,325,138, or 30.4 percent over last year.

Capital Assets of Governmental Activities at Year End

	June 30, 2004	June 30, 2003
Land	$ 65,000	$ 65,000
Buildings and improvements	2,252,000	2,081,000
Equipment and vehicles	2,029,000	1,979,000
Infrastructure	1,329,000	225,000
Total	$ 5,675,000	$ 4,350,000
This year's major additions included:		
Scharnberg buildings		$ 246,000
Road grader and equipment		510,000
Road and bridge construction		1,189,000
Total		$ 1,945,000

The County had depreciation expense of $517,387 in FY04 and total accumulated depreciation of $4,820,457 at June 30, 2004.

The County's amended fiscal year 2004 capital budget included $830,660 for capital projects, principally for road and bridge repair. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

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Long-Term Debt

At June 30, 2004, Clay County had approximately $677,073 in general obligation bonds and other debt outstanding compared to approximately $725,912 at June 30, 2003, as shown below.

Outstanding Debt of Governmental Activities at Year End

	June 30, 2004	June 30, 2003
General obligation notes	$ 545,000	$ 576,000
Rural Community 2000 Program loan	32,000	47,000
Compensated absences	100,000	102,000
Total	$ 677,000	$ 725,000

Debt decreased as a result of notes retired exceeding notes issued.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Clay County's outstanding general obligation debt is significantly below its constitutional debt limit of $35 million. Other obligations include accrued vacation pay and sick leave. Additional information about the County's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Clay County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and the fees that will be charged for various County activities. One of those factors is the economy. Unemployment in the Clay County now stands at 3.3 percent versus 4.0 percent a year ago. This compares with the State's unemployment rate of 5.1 percent and the national rate of 5.5 percent.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.9 percent for fiscal year 2004 compared with the national rate of 4.5 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004. The county's population growth has declined 1.2 percent from 1990 to 2000 and is forecast to continue a decline at a rate of 2.6 percent by the 2010 census. The Iowa net farm income has also declined nearly 20 percent since 2001.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are $10.9 million, an increase of 10 percent over the final 2004 budget. Property tax (benefiting from the 2004 rate increase and decreases in assessed valuations) and grant receipts (boosted by increased State funding in several of our current programs) are expected to lead this increase. Clay County will use these increases in receipts to finance programs we currently offer and offset the effect we expect inflation to have on program costs. Budgeted disbursements are expected to rise by approximately $2.2 million. Increased wage and cost-of-living adjustments, and increases in capital projects related to the planned restoration of the Clay County Courthouse, represent the largest increases.

If these estimates are realized, the County's budgetary operating balance is expected to modestly decrease by the close of 2005.

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CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Clay County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Clay County Auditor's Office, 300 W. 4th St., Spencer, Iowa. The county's financial statements can also be found on our website www.co.clay.ia.us .

Sources: Employment Situation Summary: http://bls.gov/news.release/empsit.nr0.html
Consumer Price Index: http://www.iowaforce.org/trends/cip.html
Iowa Personal Income: http://www.iowaworkforce.org/trends/income.html
2004 State of Iowa Workforce Development Annual Report

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CLAY COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
ASSETS	
Cash and pooled investments	$ 4,455,025
Receivables:	
Property tax:	
Delinquent	62,556
Succeeding year	4,493,000
Accounts	83,975
Accrued interest	214
Drainage assessments	4,643
Due from other governments	481,431
Inventories	552,380
Prepaid insurance	26,315
Capital assets - net of accumulated depreciation	5,675,650
TOTAL ASSETS	15,835,189
LIABILITIES	
Accounts payable	564,519
Salaries and benefits payable	41,000
Due to other governments	9,657
Deferred revenue:	
Succeeding year property tax	4,493,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation notes	193,453
Compensated absences	100,000
Rural Community 2000 program loan	15,799
Portion due or payable after one year:	
General obligation notes	351,548
Rural Community 2000 program loan	16,273
TOTAL LIABILITIES	5,785,249
NET ASSETS	
Invested in capital assets - net of related debt	5,130,649
Restricted for:	
Supplemental levy purposes	70,364
Mental health purposes	190,065
Secondary roads purposes	2,497,860
Debt service	161,285
Other purposes	218,420
Unrestricted	1,781,297
TOTAL NET ASSETS	$10,049,940

See Notes to Financial Statements

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CLAY COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

		Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS:					
Governmental activities:					
Public safety and legal services	$1,707,602				$ (1,707,602)
Physical health and social services	344,561				(344,561)
Mental health	1,421,131				(1,421,131)
County environment and education	820,332	$ 2,050		$ 123,261	(695,021)
Roads and transportation	2,650,454	19,318	$2,569,635	889,391	827,890
Governmental services to residents	346,177				(346,177)
Administration	1,285,968	436,734			(849,234)
Non-program	33,113				(33,113)
Interest on long-term debt	33,005				(33,005)
TOTAL	$8,642,343	$458,102	$2,569,635	$1,012,652	(4,601,954)
GENERAL REVENUES:					
Property and other county tax levied for:					
General purposes					4,600,870
Debt service					88,682
Penalty and interest on property tax					28,494
State tax credits					773,923
Local option sales tax					617,508
Grants and contributions not restricted to specific purpose					858,547
Unrestricted investment earnings					48,240
Loss on disposition of capital assets					(19,167)
Miscellaneous					172,710
TOTAL GENERAL REVENUES					7,169,807
Change in net assets					2,567,853
Net assets - beginning of year -					7,482,087
NET ASSETS - END OF YEAR					$10,049,940

See Notes to Financial Statements

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CLAY COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

ASSETS

		Special Revenue			
	General	Mental Health	Rural Services	Local Option Sales Tax	Secondary Roads
Cash and pooled investments	$ 666,316	$313,212	$ 75,621	$1,027,984	$1,977,604
Receivables:					
Property tax:					
Delinquent	60,269	1,060	788		
Succeeding year	2,833,000	374,000	1,125,000		
Accounts	81,619	760			48
Accrued interest	100				
Drainage assessments					
Due from other governments	58,820	2,998		93,075	326,538
Inventories					552,380
Prepaid insurance	10,526				15,789
TOTAL ASSETS	$3,710,650	$692,030	$1,201,409	$1,121,059	$2,872,359

LIABILITIES AND FUND BALANCES

LIABILITIES:					
Accounts payable	$ 119,293	$127,905	$ 18,839		$ 281,991
Salaries and benefits payable					41,000
Due to other governments	9,597	60			
Deferred revenue:					
Succeeding year property tax	2,833,000	374,000	1,125,000		
Other	60,090	1,047	788		
TOTAL LIABILITIES	3,021,980	503,012	1,144,627		322,991
FUND BALANCES:					
Reserved for:					
Supplemental levy purposes	70,364				
Drainage warrants					
Debt service					
Unreserved, reported in:					
General fund	618,306				
Special revenue funds:					
Designated for specific purpose				$ 50,000	
Undesignated		189,018	56,782	1,071,059	2,549,368
Capital projects fund					
TOTAL FUND BALANCES	688,670	189,018	56,782	1,121,059	2,549,368
TOTAL LIABILITIES AND FUND BALANCES	$3,710,650	$692,030	$1,201,409	$1,121,059	$2,872,359

See Notes to Financial Statements

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Nonmajor Governmental Funds	Total
$394,288	$ 4,455,025
439	62,556
161,000	4,493,000
1,548	83,975
114	214
4,643	4,643
	481,431
	552,380
	26,315
$562,032	$10,159,539
$ 16,491	$ 564,519
	41,000
	9,657
161,000	4,493,000
5,076	67,001
182,567	5,175,177
	70,364
120,844	120,844
161,285	161,285
	618,306
	50,000
97,297	3,963,524
39	39
379,465	4,984,362
$562,032	$10,159,539

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CLAY COUNTY
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total governmental fund balances (page 15)	$ 4,984,362
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is $10,496,107 and the accumulated depreciation is $4,820,457.	5,675,650
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	67,001
Long-term liabilities, including notes payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(677,073)
NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 12)	$10,049,940

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CLAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

		Special Revenue			
	General	Mental Health	Rural Services	Local Option Sales Tax	Secondary Roads
REVENUES:					
Property and other County tax	$2,944,602	$ 382,737	$1,257,732	$ 617,508	
Interest and penalty on property tax	28,494				
Intergovernmental	657,229	790,006	165,390		$2,700,603
Licenses and permits	4,528		20		840
Charges for service	343,292		2,050		2,009
Use of money and property	46,228				17,309
Fines, forfeitures and defaults	15,505				
Miscellaneous	11,639	87,934			51,441
TOTAL REVENUES	4,051,517	1,260,677	1,425,192	617,508	2,772,202
EXPENDITURES:					
Operating:					
Public safety and legal services	1,436,038		270,249		
Physical health and social services	344,561				
Mental health		1,421,131			
County environment and education	519,936		218,211		
Roads and transportation					2,685,991
Governmental services to residents	328,232				
Administration	1,158,619		3,754		
Non-program	16,751				
Debt service				40,235	
Capital projects	1,015				472,564
TOTAL EXPENDITURES	3,805,154	1,421,131	492,214	40,235	3,158,555
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	246,363	(160,454)	932,978	577,273	(386,353)
OTHER FINANCING SOURCES (USES):					
Sale of capital assets	11,554				
Operating transfers in (out)	(57,686)		(960,686)	(221,697)	1,240,069
General obligation note issued					
TOTAL OTHER FINANCING SOURCES (USES)	(46,132)		(960,686)	(221,697)	1,240,069
NET CHANGE IN FUND BALANCES	200,231	(160,454)	(27,708)	355,576	853,716
FUND BALANCES - BEGINNING OF YEAR	488,439	349,472	84,490	765,483	1,695,652
FUND BALANCES - END OF YEAR	$ 688,670	$ 189,018	$ 56,782	$1,121,059	$2,549,368

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Nonmajor Governmental Funds	Total
$ 88,682	$ 5,291,261
	28,494
428,247	4,741,475
	5,388
31,395	378,746
64,059	127,596
	15,505
803	151,817
613,186	10,740,282
	1,706,287
	344,561
	1,421,131
43,704	781,853
	2,685,991
8,015	336,247
	1,162,373
16,362	33,113
560,428	600,663
250,139	723,718
878,648	9,795,937
(265,462)	944,345
	11,554
250,178	250,178
250,178	261,732
(15,284)	1,206,077
394,749	3,778,285
$379,465	$ 4,984,362

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CLAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (page 18)		$1,206,077
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year as follows:		
Expenditures for capital assets	$1,114,822	
Capital assets contributed by the Iowa Department of Transportation	758,423	
Depreciation expense	(517,387)	1,355,858
In the Statement of Activities, the loss on disposition of capital assets is reported whereas the governmental funds report the proceeds from the disposition as an increase in financial resources.		(30,721)
Because some revenues will not be collected for several months after the County's year-end, they are not considered available revenues and are deferred in the governmental funds.		
Property tax		15,799
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments as follows:		
Issued	(250,178)	
Repaid	297,018	46,840
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, as follows:		
Compensated absences		(26,000)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 13)		$2,567,853

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CLAY COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2004

ASSETS

Cash and pooled investments:	
County Treasurer	$ 745,715
Other County officials	72,781
Property tax receivable:	
Delinquent	43,842
Succeeding year	13,792,000
Due from other governments	27,526
TOTAL ASSETS	14,681,864

LIABILITIES

Accounts payable	3,456
Due to other governments	14,496,045
Trusts payable	182,363
TOTAL LIABILITIES	14,681,864
NET ASSETS	$ 0

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Clay County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principals as prescribed by the Governmental Accounting Standards Board.

Reporting Entity
For financial reporting purposes, Clay County has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County.

These financial statements present Clay County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units
The following component units are entities which are legally separate from the County but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Ninety-eight drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Clay County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Clay County Auditor's office.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Jointly Governed Organizations
The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Clay County Assessor's Conference Board, Clay County Emergency Management Commission, and Clay County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in an Agency Fund of the County.

Basis of Presentation

Government-wide Financial Statements
The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The statement of net assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements
Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The County reports the following major governmental funds:

The *General Fund* is the general operating fund of the County. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:
The Mental Health Fund is used to account for property tax and other revenues designated to be used for mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for rural uses, any lawful purposes, and the Clay County Fair Association, Inc.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

Additionally, the County reports the following funds:

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

Measurement Focus and Basis of Accounting
The government-wide 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 tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus and Basis of Accounting - Continued
Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

Assets, Liabilities and Fund Equity
The following accounting policies are followed in preparing the combined balance sheet:

Cash and Pooled Investments
The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investment in the Iowa Public Agency Investment Trust is valued at amortized cost. Non-negotiable certificates of deposits are stated at cost.

Property Tax Receivable
Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments, is based on January 1, 2002 assessed property valuations, is for the tax accrual period July 1, 2003 through June 30, 2004, and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2003.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Drainage Assessments Receivable

Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Assessments receivable represent assessments which are due and payable but have not been collected.

Due from Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories

Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the governmental activities column in the government-wide statement of net assets. Capital 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 lives are not capitalized. The County, as allowed by GAAP, has elected to only record infrastructure assets placed in service after July 1, 2002. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Infrastructure	$50,000
Land, buildings, and improvements	25,000
Equipment and vehicles	5,000

Property and equipment of the County is depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings	40 - 50
Building improvements	20 - 50
Infrastructure	10 - 65
Equipment	2 - 20
Vehicles	3 - 10

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

Due to Other Governments

Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable

Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivable and other receivables not collected within sixty days after year-end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences

County employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Secondary Roads Funds.

County employees accumulate a limited amount of earned but unused sick leave. The employee does not receive any pay for unused sick leave upon termination of employment with the County. Since the amount of sick leave to be used is undeterminable, no liability has been accrued.

Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. In the government fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Equity

In the governmental fund financial statements, reservations of fund balance are reported 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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgets and Budgetary Accounting
The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service function.

2. CASH AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments that are subject to risk categorization. The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of $1,482,670 pursuant to Rule 2a-7 under the Investment Company Act of 1940 that also are not subject to risk categorization.

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	$ 61,627
Special Revenue:		
Secondary Roads	General	119,313
	Special Revenue:	
	Rural Services	960,686
	Local Option Sales Tax	160,070
		$1,301,696

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

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4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 65,215			$ 65,215
Construction in progress	73,946		$ (73,946)	
Total capital assets not being depreciated	139,161		(73,946)	65,215
Capital assets being depreciated:				
Buildings	3,174,005	$ 246,523		3,420,528
Machinery and equipment	5,485,612	510,826	(329,711)	5,666,727
Infrastructure	153,795	1,189,842		1,343,637
Total capital assets being depreciated	8,813,412	1,947,191	(329,711)	10,430,892
Less accumulated depreciation for:				
Buildings	1,092,797	74,767		1,167,564
Machinery and equipment	3,506,188	430,916	(298,991)	3,638,113
Infrastructure	3,076	11,704		14,780
Total accumulated depreciation	4,602,061	517,387	(298,991)	4,820,457
Total capital assets being depreciated - net	4,211,351	1,429,804	(30,720)	5,610,435
Governmental activities capital assets - net	$4,350,512	$1,429,804	$(104,666)	$5,675,650

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

Governmental activities:	
Public safety and legal services	$ 42,293
County environment and education	39,677
Roads and transportation	292,207
Governmental services to residents	16,314
Administrative services	126,896
Total depreciation expenses - governmental activities	$517,387

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5. DUE TO OTHER GOVERNMENTS

The County purchases services from other governmental units and also acts as a fee and tax collection agency for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due other governments is as follows:

Fund	Description	Amount
General	Services	$ 9,597
Special Revenue:		
Mental Health	Services	60
TOTAL FOR GOVERNMENTAL FUNDS		$ 9,657
Trust and agency:		
Agricultural extension education	Collections	$ 156,922
County assessor	Collections	237,403
Schools	Collections	8,727,330
Area schools	Collections	499,763
Corporations	Collections	4,096,667
Townships	Collections	165,248
Auto license and use tax	Collections	373,598
All others	Collections	239,114
TOTAL FOR TRUST AND AGENCY FUNDS		$14,496,045

6. CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	General Obligation Notes	Compensated Absences	Rural Community 2000 Program Loan	Total
Balance beginning of year	$576,502	$102,000	$ 47,410	$725,912
Increases	250,178			250,178
Decreases	(281,679)	(2,000)	(15,338)	(299,017)
Balance end of year	$545,001	$100,000	$ 32,072	$677,073
Due within one year	$193,453	$100,000	$ 15,799	$311,169

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6. CHANGES IN LONG-TERM LIABILITIES - Continued

Notes Payable
A summary of the County's June 30, 2004 general obligation notes payable is as follows:

Year Ending June 30,	Rates	Principal	Interest	Total
2005	3.00% - 5.31%	$193,453	$ 23,389	$216,842
2006	3.00% - 4.74%	110,773	34,232	145,005
2007	3.00% - 4.74%	113,848	9,881	123,729
2008	3.00% - 4.74%	82,021	5,400	87,421
2009	4.74%	44,906	2,098	47,004
Total		$545,001	$ 75,000	$620,001

During the year ended June 30, 2004, the County issued $250,178 in new general obligation notes and retired $281,679 of notes.

Rural Community 2000 Program Loan
During the year ended June 30, 1991, the County was awarded a loan not to exceed $200,091 to extend rural water service within Clay County, portions of southern Dickinson County, and portions of western Palo Alto County from the Iowa Department of Economic Development's Rural Community 2000 Program. The County subsequently received and loaned $200,091 during the year to the Clay County Rural Water Association.

The Clay County Rural Water Association loan requires 15 annual payments beginning one year after the project completion date, with three percent per annum interest on the unpaid balance. The amount of the annual payments is $16,761 including interest.

The County is required to remit the proceeds of the loan repayments from the subrecipient to the Iowa Department of Economic Development. The total balance outstanding on this loan at June 30, 2004 was $32,072. This amount is due from the Clay County Rural Water Association.

Principal balances of the loan mature as follows:

2005	$ 15,799
2006	16,273
TOTAL	$ 32,072

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6. CHANGES IN LONG-TERM LIABILITIES - Continued

Clay County Regional Events Center Conduit Debt Obligations
During the year ended June 30, 2004, the County issued a $1,415,000 Local Option Sales and Services Tax Revenue Bond for the purpose of constructing and furnishing the Clay County Regional Events Center at the Clay County Fairgrounds. The Bond is not a general obligation of the County but is payable from and secured solely and only by a pledge of certain Local Option Tax revenues received by Clay County and the City of Spencer. The bond will be repaid in annual installments of $115,000, including interest at 50 basis points over the one year U.S. Treasury Constant Maturities adjusted annually, beginning April 1, 2005 through April 1, 2023, with one final payment of all remaining principal and interest on April 1, 2024, based on a bond amortization at 5% interest. The interest rate at June 30, 2004 was 1.73%. The entire bond remained outstanding at June 30, 2004.

During the year ended June 30, 2004, the County also issued a $885,000 Special Pledge Obligation Note for the purpose of constructing and furnishing the Clay County Regional Events Center at the Clay County Fairgrounds. The Note is not a general obligation of the County but is payable from and secured solely and only from pledges of private funds made to the Clay County Fair Charitable Trust which have been further pledged to Clay County. The bond will be repaid in annual principal installments of various amounts plus interest at 75 basis points over the one year U.S. Treasury Constant Maturities, adjusted annually, from December 1, 2004 through December 1, 2007, based on a bond amortization at 3% interest. The interest rate at June 30, 2004 was 2.01%. The outstanding balance on the note at June 30, 2004 was $599,859.

The bond and note issued do not constitute a general obligation debt or bonded indebtedness of the County. Neither is the full faith and credit or taxing power of the County pledged to make repayment; and therefore, they have been excluded entirely from the County's debt presentation. There has not been and is not any condition of default under the bond, note, or the related financing documents.

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7. PENSION AND RETIREMENT BENEFITS

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were $197,241, $191,249, and $186,947, respectively, equal to the required contributions for each year.

The County also sponsors a Section 457 deferred compensation plan for the benefit of County employees. Employees may voluntarily participate in the plan. Contributions are made solely through employee salary deferrals with no County contributions to the plan.

8. RISK MANAGEMENT

The County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's members contributions.

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8. RISK MANAGEMENT - Continued

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were $103,685.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to $250,000 per claim. Claims exceeding $250,000 are reinsured in an amount not to exceed $1,750,000 per claim and $5,000,000 in aggregate per year. For members requiring specific coverage from $2,000,000 to $15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries insurance from the Iowa Municipalities Workers' Compensation Association for coverage associated with workers' compensation. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

9. CONSTRUCTION COMMITMENT

The County has entered into construction contracts totaling approximately $169,000. As of June 30, 2004, approximately $86,000 had been incurred against the contracts. The balance remaining at June 30, 2004 of approximately $83,000 will be paid as work on the projects progresses.

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10. SUBSEQUENT EVENT

During August and September 2004, the County received advances of $125,000 from the issuance of a general obligation computer equipment loan agreement anticipation (project) note which matured September 30, 2004.

During September 2004, the County issued $3,000,000 Health Care Facility Revenue Bonds, Series 2004 (St. Luke Homes and Services, Inc. Project) for the purpose of lending the proceeds to St. Luke Homes and Services, Inc. for facility improvement projects. The bonds are not a general obligation of the County but are payable solely from the revenues and other amounts derived from the facility.

During December 2004, the County issued a $2,000,000 Local Option Sales and Services Tax Revenue Bond for the purpose of retiring the $1,415,000 bond outstanding at June 30, 2004 and providing additional funding for the Clay County Regional Events Center. The bond is not a general obligation of the County but is payable from and secured solely and only by a pledge of certain Local Option Tax revenues received by Clay County and the City of Spencer.

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REQUIRED SUPPLEMENTARY INFORMATION

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CLAY COUNTY
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Actual	Less Funds not Required to be Budgeted
RECEIPTS:		
Property and other County tax	$ 5,299,313	
Interest and penalty on property tax	39,799	
Intergovernmental	4,162,835	
Licenses and permits	5,388	
Charges for service	376,500	
Use of money and property	133,168	$ 12,184
Miscellaneous	475,147	
TOTAL RECEIPTS	10,492,150	12,184
DISBURSEMENTS:		
Public safety and legal services	1,731,218	
Physical health and social services	342,270	
Mental health	1,373,854	
County environment and education services	741,253	
Roads and transportation	2,974,696	
Governmental services to residents	336,269	
Administration	1,094,562	
Non-program	330,871	16,362
Debt service	185,813	
Capital projects	732,992	
TOTAL DISBURSEMENTS	9,843,798	16,362
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	648,352	(4,178)
OTHER FINANCING SOURCES - NET	250,178	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	898,530	(4,178)
BALANCE - BEGINNING OF YEAR	3,556,495	124,908
BALANCE - END OF YEAR	$ 4,455,025	$120,730

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Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
$ 5,299,313	$ 5,361,295	$ 5,361,295	$ (61,982)
39,799	8,725	27,125	12,674
4,162,835	4,101,365	4,169,538	(6,703)
5,388	5,110	5,110	278
376,500	290,710	293,510	82,990
120,984	159,068	159,068	(38,084)
475,147	103,500	439,460	35,687
10,479,966	10,029,773	10,455,106	24,860
1,731,218	1,836,965	1,896,965	165,747
342,270	385,986	391,486	49,216
1,373,854	1,556,592	1,556,592	182,738
741,253	729,770	749,770	8,517
2,974,696	3,404,403	3,404,403	429,707
336,269	348,551	374,551	38,282
1,094,562	1,194,295	1,254,520	159,958
314,509	16,761	314,515	6
185,813	183,201	183,201	(2,612)
732,992	580,500	830,660	97,668
9,827,436	10,237,024	10,956,663	1,129,227
652,530	(207,251)	(501,557)	1,154,087
250,178		250,160	18
902,708	(207,251)	(251,397)	$1,154,105
3,431,587	2,275,863	2,275,863	
$ 4,334,295	$ 2,068,612	$ 2,024,466	

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CLAY COUNTY
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	$10,492,150	$248,132	$10,740,282
Expenditures	9,843,798	(47,861)	9,795,937
Net	648,352	295,993	944,345
Other financing sources	250,178	11,554	261,732
Beginning fund balances	3,556,495	221,790	3,778,285
ENDING FUND BALANCE	$ 4,455,025	$529,337	$ 4,984,362

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CLAY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2004

In accordance with the Code of Iowa, the County Board of supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administrative services, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and expendable trust funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by $719,639. This budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service function.

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OTHER SUPPLEMENTARY INFORMATION

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CLAY COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

ASSETS

	Debt Service	Capital Projects	Courthouse Restoration
CASH AND POOLED INVESTMENTS	$163,539	$ 39	$ 4,836
RECEIVABLES:			
Property tax:			
Delinquent	439		
Succeeding year	161,000		
Accounts			
Accrued interest			
Drainage assessments			
TOTAL ASSETS	$324,978	$ 39	$ 4,836

LIABILITIES AND FUND BALANCES

LIABILITIES:			
Accounts payable	$ 2,260		
Deferred revenue:			
Succeeding year property tax	161,000		
Other	433		
TOTAL LIABILITIES	163,693		
FUND BALANCES:			
Fund balances:			
Reserved for debt service	161,285		
Reserved for drainage warrants			
Unreserved		$ 39	$ 4,836
TOTAL FUND EQUITY	161,285	39	4,836
TOTAL LIABILITIES AND FUND EQUITY	$324,978	$ 39	$ 4,836

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Schedule 1

Special Revenue				
Resource Enhancement and Protection	County Recorder's Records Management	Drainage Districts	Conservation Land Acquisition Trust	Total
$ 25,784	$ 36,884	$120,730	$ 42,476	$394,288
				439
				161,000
	1,548			1,548
		114		114
		4,643		4,643
$ 25,784	$ 38,432	$125,487	$ 42,476	$562,032
$ 15			$ 14,216	$ 16,491
				161,000
		$ 4,643		5,076
15		4,643	14,216	182,567
				161,285
		120,844		120,844
25,769	$ 38,432		28,260	97,336
25,769	38,432	120,844	28,260	379,465
$ 25,784	$ 38,432	$125,487	$ 42,476	$562,032

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CLAY COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Debt Service	Capital Projects	Courthouse Restoration
REVENUES:			
Property tax	$ 88,682		
Intergovernmental	294,046	$123,261	
Charges for service			
Use of money and property	52,731		
Miscellaneous			$ 112
TOTAL REVENUES	435,459	123,261	112
EXPENDITURES:			
Operating:			
County environment and education services			
Governmental services to residents			
Non-program			
Debt service	437,167	123,261	
Capital projects		250,139	
TOTAL EXPENDITURES	437,167	373,400	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,708)	(250,139)	112
OTHER FINANCING USES:			
General obligation note issued		250,178	
TOTAL OTHER FINANCING USES		250,178	
NET CHANGE IN FUND BALANCES	(1,708)	39	112
FUND BALANCES - BEGINNING OF YEAR	162,993		4,724
FUND BALANCES - END OF YEAR	$161,285	$ 39	$ 4,836

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Schedule 2

Resource Enhancement and Protection	County Recorder's Records Management	Drainage Districts	Conservation Land Acquisition Trust	Total
				$ 88,682
$ 10,940				428,247
	$ 27,974	$ 1,674	$ 1,747	31,395
218	121	10,288	701	64,059
		207	484	803
11,158	28,095	12,169	2,932	613,186
14,948			28,756	43,704
	8,015			8,015
		16,362		16,362
				560,428
				250,139
14,948	8,015	16,362	28,756	878,648
(3,790)	20,080	(4,193)	(25,824)	(265,462)
				250,178
				250,178
(3,790)	20,080	(4,193)	(25,824)	(15,284)
29,559	18,352	125,037	54,084	394,749
$ 25,769	$ 38,432	$120,844	$ 28,260	$379,465

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CLAY COUNTY
COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2004

	County Offices		Agricultural
	County Recorder	County Sheriff	Extension Education
ASSETS			
CASH AND POOLED INVESTMENTS:			
County Treasurer			$ 1,504
Other County officials	$ 51,135	$ 21,646	
RECEIVABLES:			
Property tax:			
Delinquent			418
Succeeding year			155,000
Due from other governments			
TOTAL ASSETS	$ 51,135	$ 21,646	$156,922
LIABILITIES			
LIABILITIES:			
Accounts payable			
Due to other governments	$ 10,828		$156,922
Trusts payable	40,307	$ 21,646	
TOTAL LIABILITIES	$ 51,135	$ 21,646	$156,922

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Schedule 3

Agency Funds						
County Assessor	Special Appraiser	Assessor's FICA Fund	Schools	Area Schools	Corporations	Townships
$ 52,105	$ 58,642		$ 88,081	$ 5,432	$ 28,662	$ 2,098
500	105	$ 55	23,249	1,331	18,005	150
185,000	39,000	20,000	8,616,000	493,000	4,050,000	163,000
$237,605	$ 97,747	$ 20,055	$8,727,330	$499,763	$4,096,667	$165,248
$ 202	$ 640					
237,403	97,107	$ 20,055	$8,727,330	$499,763	$4,096,667	$165,248
$237,605	$ 97,747	$ 20,055	$8,727,330	$499,763	$4,096,667	$165,248

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CLAY COUNTY
COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES - Continued
AGENCY FUNDS
JUNE 30, 2004

	Agency Funds			
	City Special Assessments	Auto License and Use Tax	Lost Island Sanitary Sewer District	Joint Disaster Services
ASSETS				
CASH AND POOLED INVESTMENTS:				
County Treasurer	$ 16,187	$373,598	$ 38	$20,244
Other County officials				
RECEIVABLES:				
Property tax:				
Delinquent			21	
Succeeding year			3,000	
Due from other governments				4,839
TOTAL ASSETS	$ 16,187	$373,598	$ 3,059	$25,083
LIABILITIES				
LIABILITIES:				
Accounts payable				$ 2,034
Due to other governments	$ 16,187	$373,598	$ 3,059	23,049
Trusts payable				
TOTAL LIABILITIES	$ 16,187	$373,598	$ 3,059	$25,083

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Schedule 3

E-911	Property Tax Agency	Emergency Medical Services	Total
$ 98,303	$ 821		$ 745,715
			72,781
	8		43,842
	68,000		13,792,000
12,665		$ 10,022	27,526
$110,968	$68,829	$ 10,022	$14,681,864
$ 456		$ 124	$ 3,456
	$68,829		14,496,045
110,512		9,898	182,363
$110,968	$68,829	$ 10,022	$14,681,864

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CLAY COUNTY
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2004

	County Offices			Employee Cafeteria Plan
	County Auditor	County Recorder	County Sheriff	
BALANCE - BEGINNING OF YEAR		$ 49,629	$ 42,987	
ADDITIONS:				
Property and other County tax				
911 surcharge				
State tax credits				
Office fees and collections	$ 1,299	286,010	71,544	
Auto licenses, use tax, and postage				
Assessments				
Trusts			157,820	
Transfers from other funds				
Miscellaneous				$84,876
TOTAL ADDITIONS	1,299	286,010	229,364	84,876
DEDUCTIONS:				
Agency Remittances:				
To other funds	1,299	168,388	71,545	
To other governments		116,116		
Trusts paid out			179,160	84,876
TOTAL DEDUCTIONS	1,299	284,504	250,705	84,876
BALANCE - END OF YEAR	$	$ 51,135	$ 21,646	$

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Schedule 4

Agency Funds						
Agricultural Extension Education	County Assessor	Special Appraiser	Assessor's FICA Fund	Schools	Area Schools	Corporations
$151,239	$251,492	$ 89,888	$20,106	$9,035,790	$547,336	$4,516,425
145,921	193,436	45,564	19,522	8,682,735	526,815	4,266,776
7,908	10,483	2,470	1,058	468,770	28,561	185,095
	139					
	20,632					
153,829	224,690	48,034	20,580	9,151,505	555,376	4,451,871
148,146	238,577	40,175	20,631	9,459,965	602,949	4,871,629
148,146	238,577	40,175	20,631	9,459,965	602,949	4,871,629
$156,922	$237,605	$ 97,747	$20,055	$8,727,330	$499,763	$4,096,667

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CLAY COUNTY
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES - Continued
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Agency Funds			
	Townships	City Special Assessments	Auto License and Use Tax	Lost Island Sanitary Sewer District
BALANCE - BEGINNING OF YEAR	$157,860	$ 3,397	$ 317,104	$ 3,178
ADDITIONS:				
Property and other County tax	152,576			2,600
911 surcharge				
State tax credits	8,877			89
Office fees and collections				
Auto licenses, use tax, and postage ...			3,926,918	
Assessments		151,960		
Trusts				
Transfers from other funds				
Miscellaneous				
TOTAL ADDITIONS	161,453	151,960	3,926,918	2,689
DEDUCTIONS:				
Agency Remittances:				
To other funds				
To other governments	154,065	139,170	3,870,424	2,808
Trusts paid out				
TOTAL DEDUCTIONS	154,065	139,170	3,870,424	2,808
BALANCE - END OF YEAR	$165,248	$ 16,187	$ 373,598	$ 3,059

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Schedule 4

Tax Sale Redemption	Joint Disaster Services	E-911	Property Tax Agency	Recorder's Electronic Fee	Emergency Medical Services	Total
	$29,276	$222,124	$72,910			$15,510,741
			75,632			14,111,577
		129,167				129,167
			182	$22,792		736,285
						358,992
						3,926,918
						151,960
$45,141						202,961
						20,632
	56,822	22,820			$10,022	174,540
45,141	56,822	151,987	75,814	22,792	10,022	19,813,032
						241,232
	61,015		79,895			19,805,565
45,141		263,143		22,792		595,112
45,141	61,015	263,143	79,895	22,792		20,641,909
$	$25,083	$110,968	$68,829	$	$10,022	$14,681,864

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Schedule 5

CLAY COUNTY
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2004	2003	2002	2001
REVENUES:				
Property and other County tax	$ 5,291,261	$4,651,547	$4,401,899	$4,328,026
Interest and penalty on property tax	28,494	47,451	30,024	26,197
Intergovernmental	4,741,475	4,366,951	4,173,982	4,170,321
Licenses and permits	5,388	5,107	3,934	6,270
Charges for service	378,746	404,678	317,188	272,055
Use of money and property	127,596	153,331	163,003	316,520
Fines, forfeitures and defaults	15,505	9,773	10,296	7,248
Miscellaneous	151,817	201,445	191,111	435,970
TOTAL	$10,740,282	$9,840,283	$9,291,437	$9,562,607
EXPENDITURES:				
Operating:				
Public safety and legal services	$ 1,706,287	$1,859,980		
Physical health and social services	344,561	349,172		
Mental health	1,421,131	1,287,707		
County environment and education	781,853	681,777		
Roads and transportation	2,685,991	2,886,546		
Governmental services to residents	336,247	313,372		
Administration	1,162,373	1,038,899		
Non-program	33,113	25,213		
Debt service	600,663	187,108		
Capital projects	723,718	447,746		
TOTAL	$ 9,795,937	$9,077,520	*	*

* Not available

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Officials of Clay County:

We have audited the general purpose financial statements of Clay County, Iowa, as of and for the year ended June 30, 2004 and have issued our report thereon dated January 23, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 misstatement, 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*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have not been resolved.

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 opinion 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

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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 Part I of the accompanying Schedule of Findings.

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, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved, except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Clay County and other parties to whom Clay County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winton, Stout + Co., LLP

January 23, 2005

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CLAY COUNTY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-04 Segregation of Duties - During our evaluation of the system of internal accounting control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the County Auditor and County Treasurer should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances.

Response - While the size of our staff has a limiting effect on our ability to have complete segregation of duties, we will strive to segregate where possible and insure review of those areas where complete segregation is impossible.

Conclusion - Response accepted.

I-B-04 Authorized Account Signer - During our audit, we noted the former County Recorder was still listed as an authorized signer on two bank accounts maintained by the County Recorder's Office.

Recommendation - We recommend new signature cards be completed for these two bank accounts with current authorized office employees listed.

Response - We will complete new signature cards for these accounts to include only authorized employees of the Recorder's Office.

Conclusion - Response accepted.

I-C-04 Check Endorsement - During our audit, we noted one check received from a state agency which was endorsed and directly applied against a bank loan rather than being deposited into a bank account.

Recommendation - We recommend all payments received be deposited into a bank account. Subsequent related expenditures should be made by county warrant, subject to the normal approval process.

Response - We will deposit all payments received.

Conclusion - Response accepted.

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Part I: Findings Related to the Financial Statements

Reportable Conditions:

I-D-04 Assessor Cellular Phone Charges - During our audit, we noted the documentation submitted by the County Assessor for payment of cellular phone charges included only the total amount due with the detail listing of calls and charges omitted.

Recommendation - We recommend complete details supporting charges billed to the County Assessor's Office be received by the Auditor's Office prior to issuing payment for the charges.

Response - The Auditor's Office will require complete details of charges be submitted by the Assessor's Office prior to payment being made for the charges.

Conclusion - Response accepted.

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Part II: Other Findings Related to Required Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004, except for the Clay County Recorder balances at one bank which exceeded the maximum authorized amount of $20,000 by approximately $30,000 during the year.

Recommendation - A new resolution in amounts sufficient to cover anticipated balances at all approved depositories for all offices should be adopted by the Board.

Response - The Board of Supervisors will increase the maximum authorized deposit amounts for the Clay County Recorder's Office.

Conclusion - Response accepted.

II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the debt service function. Also, disbursements in the nonprogram function area exceeded the amounts budgeted prior to the budget amendment.

Recommendation - The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget when required.

Conclusion - Response accepted.

II-C-04 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

II-E-04 Business Transactions - No business transactions between the County and County officials or employees were noted.

II-F-04 Bond Coverage - Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to insure that the coverage is adequate for current operations.

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Part II: Other Findings Related to Required Statutory Reporting - Continued

II-G-04 Board Minutes - During our audit, we noted certain manually prepared disbursements are listed and approved by the Board but are not included in the published expenditures listing. We also noted the affidavits of publication received from one newspaper are not being notarized.

Recommendation - All County expenditures should be included in the published expenditures listing. The County should also obtain notarization of affidavits of publication from all newspapers.

Response - We will include all expenditures in the published expenditures listing. We will also attempt to obtain notarization for all affidavits of publication.

Conclusion - Response accepted.

II-H-04 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy.

II-I-04 Resource Enhancement and Protection Certification - The County did not dedicate property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa and did not receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

II-J-04 County Extension Office - The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in the government-wide financial statements.

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

II-K-04 Economic Development - During the year ended June 30, 2004, the County paid $23,500 for economic development which may not be an appropriate expenditure of public funds since the public benefits to be derived were not clearly documented.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises that the governing body should evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

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Part II: Other Findings Related to Required Statutory Reporting - Continued

II-K-04 Recommendation - The Board should evaluate and document the public purpose served by economic development expenditures before authorizing payments and should require documentation of how the funds were used to accomplish economic development activities.

Response - We will evaluate economic expenditures made and obtain the necessary documentation for economic development expenditures considered in the future.

Conclusion - Response accepted.

II-L-04 Bond Funds - The resolution authorizing issuance of $1,415,000 Local Option Sales and Services Tax (LOSST) Revenue Bonds calls for the establishment and funding of a LOSST Bond Sinking Fund and a LOSST Bond Reserve Fund. The required deposits to these funds have not been made as of June 30, 2004.

Recommendation - We recommend the applicable deposits into the required funds be made in order to comply with bond requirements.

Response - We will transfer the required balances into these funds.

Conclusion - Response accepted.