

**CLAY COUNTY
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005**

CLAY COUNTY

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CLAY COUNTY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Delmar R. Brockshus	Board of Supervisors	January 2009
Sylvia D. Schoer	Board of Supervisors	January 2009
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 2009
Lavon C. Montgomery	County Treasurer	January 2007
Shirley Goyette	County Recorder	January 2007
Randy Krukow	County Sheriff	January 2009
Michael L. Zenor	County Attorney	January 2007
John Lawson	County Assessor	January 2010

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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, 2005, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clay County at June 30, 2005 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 11, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 required supplementary information. We did not audit the information and express no opinion on it.

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, 2004 (which are not presented herein) and expressed unqualified opinions on the financial statements for the years ended June 30, 2003 and 2004 and a qualified opinion on the financial statements for the year ended June 30, 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 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Winter Stone & Co., LLP

January 11, 2006

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, 2005. 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.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 14.7 %, or \$1,649,142 from fiscal 2004 to fiscal 2005. Property tax increased \$80,303, charges for service increased \$15,502, operating grants, contributions and restricted interest decreased \$56,029, and capital grants, contributions and restricted interest increased \$1,290,415.
- Program expenses were 13.2% greater in fiscal 2005 than in fiscal 2004. Mental health, Administration, and Interest on long term debt decreased while expenses in areas of Public safety, Physical health, County environment, Roads and transportation, Governmental services, and Non-program increased creating a net increase of \$1,140,344.
- The County's net assets increased \$3,076,651 from June 30, 2004 to June 30, 2005. 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.

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.

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 FY2005 totaled \$13,126,591 compared to \$10,049,940 for FY2004. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities

	June 30,	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$11,396,135	\$10,159,539
Capital assets	<u>7,832,146</u>	<u>5,675,650</u>
Total assets	<u>19,228,281</u>	<u>15,835,189</u>
Long-term debt outstanding	560,569	677,073
Other liabilities	<u>5,541,121</u>	<u>5,108,176</u>
Total liabilities	<u>6,101,690</u>	<u>5,785,249</u>
Net assets:		
Invested in capital assets - net of related debt	7,396,850	5,130,649
Restricted for:		
Supplemental levy	125,350	70,364
Mental Health purposes	102,412	190,065
Secondary road purposes	2,971,252	2,497,860
Debt service	134,652	161,285
Other purposes	152,003	218,420
Unrestricted	<u>2,244,072</u>	<u>1,781,297</u>
Total net assets	<u>\$13,126,591</u>	<u>\$10,049,940</u>

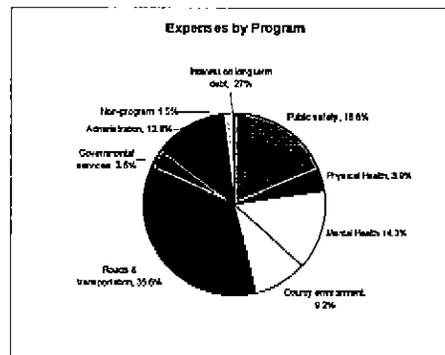
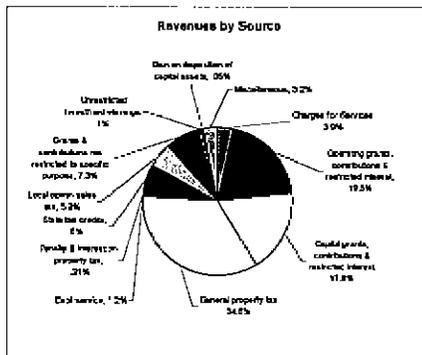
The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment) less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources 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 \$1,781,297 at June 30, 2004 to \$2,244,072 at the end of this year.

This increase of \$462,775 in unrestricted net assets was primarily a result of increases in local option sales tax funds, grants and contributions not restricted to specific purpose, and unrestricted investment earnings.

Changes in Net Assets of Clay County Governmental Type Activities

	June 30,	
	2005	2004
Program revenues:		
Charges for service	\$ 473,604	\$ 458,102
Operating grants, contributions, and restricted interest	2,513,606	2,569,635
Capital grants, contributions, and restricted interest	2,303,067	1,012,652
General revenues:		
Property tax:		
General purposes	4,448,352	4,600,870
Debt service	160,897	88,682
Penalty and interest on property tax	27,013	28,494
State tax credits	767,454	773,923
Local option sales tax	673,887	617,508
Grants and contributions not restricted to specific purpose ...	946,849	858,547
Unrestricted investment earnings	129,021	48,240
Loss on disposition of capital assets	6,940	(19,167)
Miscellaneous	408,648	172,710
Total revenues and special item	<u>12,859,338</u>	<u>11,210,196</u>
Program expenses:		
Public safety and legal service	1,815,307	1,707,602
Physical health and social services	382,948	344,561
Mental health	1,400,963	1,421,131
County environment and education	903,935	820,332
Roads and transportation	3,486,738	2,650,454
Governmental services to residents	355,249	346,177
Administration	1,252,381	1,285,968
Non-program	158,366	33,113
Interest on long-term debt	26,800	33,005
Total expenses	<u>9,782,687</u>	<u>8,642,343</u>
Change in net assets	3,076,651	2,567,853
Net assets - beginning of year	<u>10,049,940</u>	<u>7,482,087</u>
Net assets - end of year	<u>\$13,126,591</u>	<u>\$10,049,940</u>

(For illustrative purposes)



Clay County's net assets of governmental activities increased by \$3,076,651 during the year. Revenues for governmental activities increased by \$1,649,142 over the prior year, with property tax revenue down from the prior year by \$80,303 or 1.7 percent.

The County increased property tax rates for fiscal year 2005 by an average of 7.6 percent. Due to reduced assessed valuation, this increase resulted in approximately the same property tax revenue as in 2004. Based on a further reduction in the total assessed valuation, property tax revenue is budgeted to stay constant for fiscal year 2006 based on an anticipated tax rate increase of \$0.76 per 1000 of valuation in the next year.

The cost of all governmental activities this year was \$9,782,687 compared to \$8,642,343 last year. However, as shown in the Statement of Activities on page 13, the amount taxpayers ultimately financed for these activities was only \$4,492,410 because some of the cost was paid by those directly benefited from the programs (\$473,604) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,816,673). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2005 from \$4,040,389 to \$5,290,277 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 \$7,569,061 in taxes (some of which could only be used for certain programs) and 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 \$5,319,210, an increase of \$334,848 above last year's total of \$4,984,362. The increase in fund balance is primarily attributable to Secondary Road funds for bridge replacement and the receipt of Local option sales tax. 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 both increased slightly compared to the prior year. The ending fund balance showed a modest increase of \$58,597 from the prior year to \$747,267.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled \$1,400,963, a decrease of 1.4% from the prior year. The Mental Health Fund balance at year end decreased by \$87,430 over the prior year.
- Secondary Roads Fund expenditures increased by \$836,284 over the prior year. This increase in expenditures was offset by an increase in intergovernmental revenue resulting in a modest increase in the Secondary Roads Fund ending balance of \$3,237.

BUDGETARY HIGHLIGHTS

Over the course of the year, Clay County amended its budget two (2) times. The first amendment was made in January 25, 2005 and resulted in an increase in budgeted disbursements of \$2,132,596 related to public safety court ordered juvenile detention services, physical health Well Water Grant spending, government services increased for the Recorder's E-Commerce Management; spending power moved from county environment to capital projects for secondary road bridges, conservation park construction and computer upgrade expense; and nonprogram current increased to reflect the Event Center pass thru loans. This amendment also reflected the increase in revenues totaling \$2,055,596 so that the net budget amendment resulted in a loss of ending fund balance equal to \$77,000.

The second amendment was made on May 24, 2005. This amendment increased the budgeted disbursements by \$293,195 to furnish new law enforcement school resource officer supplies, group foster care, increased chronic mental illness and mental retardation expense, increased voter registration and special election costs, administration expenditures for publication costs and building repairs, and start-up costs for the courthouse restoration project. This amendment also reflected an increase in revenues equaling \$266,023 resulting in a net loss of ending fund balances of \$27,172.

Even with these amendments, the County exceeded the budgeted amounts in the Nonprogram and Debt Service functions by \$68,875 for the year ended June 30, 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, Clay County had \$7,832,146 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 \$2,156,496 or 38 percent over last year.

Capital Assets of Governmental Activities at Year End

	June 30,	
	<u>2005</u>	<u>2004</u>
Land	\$ 65,215	\$ 65,215
Construction in progress	770,735	
Buildings and improvements	2,178,197	2,252,964
Equipment and vehicles	1,828,905	2,028,614
Infrastructure	<u>2,989,094</u>	<u>1,328,857</u>
Total	<u>\$ 7,832,146</u>	<u>\$ 5,675,650</u>

The County had depreciation expense of \$464,616 in FY05 and total accumulated depreciation of \$5,279,120 at June 30, 2005.

The County's amended fiscal year 2005 capital budget included \$2,907,440 for capital projects, principally for road and bridge repair and Courthouse restoration. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2005, Clay County had approximately \$560,569 in general obligation bonds and other debt outstanding compared to \$677,073 at June 30, 2004, as shown below.

	Outstanding Debt of Governmental Activities at Year End	
	June 30,	
	2005	2004
General obligation notes	\$ 435,296	\$ 545,001
Rural Community 2000 Program loan	16,273	32,072
Compensated absences	<u>109,000</u>	<u>100,000</u>
Total	<u>\$ 560,569</u>	<u>\$ 677,073</u>

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 2006 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 4.2 percent versus 3.3 percent a year ago. This compares with the State's unemployment rate of 4.5 percent and the national rate of 5.1 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 2005 compared with the national rate of 4.1 percent. Inflation has been modest here due in part to the slowing of the residential housing market and considering increases in energy prices in 2004-2005. The county's population growth has declined 1.2 percent from 1990 to 2000 in comparison to an increase of 5.4 percent in the State of Iowa.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$10.9 million, a decrease of 13 percent from the final 2005 budget. Decreased State funding in several of our current programs is expected to cause the decrease. Budgeted disbursements are expected to decrease by approximately \$224,000. A reduction in capital projects related to the restoration of the Clay County Courthouse represents the largest decrease.

If these estimates are realized, the County's budgetary cash operating balance is expected to decrease by \$640,000 by the close of 2006.

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 .

CLAY COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
ASSETS	
Cash and pooled investments	\$ 4,606,615
Receivables:	
Property tax:	
Delinquent	61,115
Succeeding year	4,949,000
Accounts	60,031
Accrued interest	10,986
Drainage assessments	1,058
Due from other governments	1,078,058
Inventories	603,895
Prepaid insurance	25,377
Capital assets - net of accumulated depreciation	<u>7,832,146</u>
TOTAL ASSETS	<u>19,228,281</u>
LIABILITIES	
Accounts payable	527,742
Salaries and benefits payable	48,000
Due to other governments	16,379
Deferred revenue:	
Succeeding year property tax	4,949,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation notes	151,955
Compensated absences	109,000
Rural Community 2000 program loan	16,273
Portion due or payable after one year:	
General obligation notes	<u>283,341</u>
TOTAL LIABILITIES	<u>6,101,690</u>
NET ASSETS	
Invested in capital assets - net of related debt	7,396,850
Restricted for:	
Supplemental levy purposes	125,350
Mental health purposes	102,412
Secondary roads purposes	2,971,252
Debt service	134,652
Other purposes	152,003
Unrestricted	<u>2,244,072</u>
TOTAL NET ASSETS	<u>\$13,126,591</u>

See Notes to Financial Statements

CLAY COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

		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	\$ 1,815,307				\$ (1,815,307)
Physical health and social services	382,948				(382,948)
Mental health	1,400,963				(1,400,963)
County environment and education	903,935	\$ 29,607			(874,328)
Roads and transportation	3,486,798	17,117	\$2,513,808	\$2,303,087	1,347,052
Governmental services to residents	355,249				(355,249)
Administration	1,252,381	426,880			(825,501)
Non-program	158,386				(158,386)
Interest on long-term debt	26,800				(26,800)
TOTAL	<u>\$ 9,782,687</u>	<u>\$473,604</u>	<u>\$2,513,808</u>	<u>\$2,303,087</u>	<u>(4,492,410)</u>
GENERAL REVENUES:					
Property and other county tax levied for:					
General purposes					4,448,352
Debt service					160,897
Penalty and interest on property tax					27,013
State tax credits					767,454
Local option sales tax					673,867
Grants and contributions not restricted to specific purpose					946,849
Unrestricted investment earnings					129,021
Gain (loss) on disposition of capital assets					6,940
Miscellaneous					408,648
TOTAL GENERAL REVENUES					<u>7,589,061</u>
Change in net assets					3,076,651
Net assets - beginning of year -					<u>10,049,940</u>
NET ASSETS - END OF YEAR					<u>\$13,126,591</u>

See Notes to Financial Statements

CLAY COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

ASSETS

	Special Revenue				
	General	Mental Health	Rural Services	Local Option Sales Tax	Secondary Roads
Cash and pooled investments	\$ 684,658	\$245,725	\$ 44,017	\$1,477,496	\$1,698,735
Receivables:					
Property tax:					
Delinquent	58,540	824	1,123		
Succeeding year	3,085,000	373,000	1,214,000		
Accounts	46,803	7,722	3		
Accrued interest	10,259				
Drainage assessments					
Due from other governments	49,402		2,756	104,560	921,340
Inventories					603,895
Prepaid insurance	10,151				15,226
TOTAL ASSETS	<u>\$3,924,813</u>	<u>\$627,271</u>	<u>\$1,261,899</u>	<u>\$1,582,056</u>	<u>\$3,239,196</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:					
Accounts payable	\$ 43,911	\$145,589	\$ 924		\$ 164,944
Salaries and benefits payable					48,000
Due to other governments	10,109	6,270			
Deferred revenue:					
Succeeding year property tax	3,085,000	373,000	1,214,000		
Other	58,526	824	1,121		473,647
TOTAL LIABILITIES	<u>3,177,546</u>	<u>525,683</u>	<u>1,216,045</u>		<u>686,591</u>
FUND BALANCES:					
Reserved for:					
Supplemental levy purposes	125,350				
Debt service					
LOSST Bonds					
Drainage warrants					
Unreserved, reported in:					
General fund	621,917				
Special revenue funds:					
Designated for specific purpose				\$ 100,000	
Undesignated		101,588	45,854	1,482,056	2,552,605
Capital projects fund					
TOTAL FUND BALANCES	<u>747,267</u>	<u>101,588</u>	<u>45,854</u>	<u>1,582,056</u>	<u>2,552,605</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$3,924,813</u>	<u>\$627,271</u>	<u>\$1,261,899</u>	<u>\$1,582,056</u>	<u>\$3,239,196</u>

See Notes to Financial Statements

Nonmajor Governmental Funds	Total
5455,984	\$ 4,606,615
628	61,115
297,000	4,949,000
5,503	60,031
727	10,986
1,058	1,058
	1,078,058
	603,895
	<u>25,377</u>
<u>\$760,900</u>	<u>\$11,396,135</u>

\$172,374	\$ 527,742
	48,000
	16,379
297,000	4,949,000
<u>1,686</u>	<u>535,804</u>
<u>471,060</u>	<u>6,076,925</u>

	125,350
169,055	169,055
51,563	51,563
134,652	134,652
	621,917
	100,000
92,446	4,274,549
<u>(157,876)</u>	<u>(157,876)</u>
<u>289,840</u>	<u>5,319,210</u>
<u>\$760,900</u>	<u>\$11,396,135</u>

See Notes to Financial Statements

CLAY COUNTY
 RECONCILIATION OF THE BALANCE SHEET -
 GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2005

Total governmental fund balances (page 15)	\$ 5,319,210
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$13,111,266 and the accumulated depreciation is \$5,279,120.	7,832,146
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	535,804
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.	<u>(560,569)</u>
 NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 12)	 <u>\$13,126,591</u>

See Notes to Financial Statements

CLAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Special Revenue			Secondary Roads
		Mental Health	Rural Services	Local Option Sales Tax	
REVENUES:					
Property and other County tax	\$2,900,092	\$ 382,521	\$1,170,583	\$ 673,887	
Interest and penalty on property tax	27,013				
Intergovernmental	604,209	809,575	165,532		\$2,988,937
Licenses and permits	4,508				2,035
Charges for service	349,032		1,950		1,874
Use of money and property	122,616				15,143
Fines, forfeitures and defaults	21,174				
Miscellaneous	13,438	121,437	3		39,707
TOTAL REVENUES	<u>4,042,082</u>	<u>1,313,533</u>	<u>1,338,068</u>	<u>673,887</u>	<u>3,047,796</u>
EXPENDITURES:					
Operating:					
Public safety and legal services	1,528,260		275,924		
Physical health and social services	382,948				
Mental health		1,400,963			
County environment and education services	473,489		204,132	31,000	
Roads and transportation					2,754,290
Governmental services to residents	328,146				
Administration	1,122,851				
Non-program	16,761				
Debt service				38,936	
Capital projects					1,268,085
TOTAL EXPENDITURES	<u>3,852,455</u>	<u>1,400,963</u>	<u>480,056</u>	<u>69,936</u>	<u>4,022,375</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>189,627</u>	<u>(87,430)</u>	<u>858,012</u>	<u>603,951</u>	<u>(974,579)</u>
OTHER FINANCING SOURCES (USES):					
Sale of capital assets	6,940				
Operating transfers in (out)	(137,970)		(868,940)	(142,954)	977,816
General obligation note issued					
TOTAL OTHER FINANCING SOURCES (USES)	<u>(131,030)</u>		<u>(868,940)</u>	<u>(142,954)</u>	<u>977,816</u>
NET CHANGE IN FUND BALANCES	58,597	(87,430)	(10,928)	460,997	3,237
FUND BALANCES - BEGINNING OF YEAR	<u>688,670</u>	<u>189,018</u>	<u>56,782</u>	<u>1,121,059</u>	<u>2,549,368</u>
FUND BALANCES - END OF YEAR	<u>\$ 747,267</u>	<u>\$ 101,588</u>	<u>\$ 45,854</u>	<u>\$1,582,056</u>	<u>\$2,552,605</u>

See Notes to Financial Statements

Nonmajor Governmental Funds	Total
\$ 160,897	\$ 5,287,980
	27,013
19,610	4,587,863
	6,543
43,822	396,778
68,088	205,847
	21,174
<u>496,346</u>	<u>670,931</u>
<u>788,763</u>	<u>11,204,129</u>
7,704	1,811,888
	382,948
	1,400,963
90,072	798,693
	2,754,290
23,987	352,133
	1,122,851
431,605	448,366
221,607	260,543
<u>400,461</u>	<u>1,668,546</u>
<u>1,175,436</u>	<u>11,001,221</u>
<u>(386,673)</u>	<u>202,908</u>
	6,940
172,048	
<u>125,000</u>	<u>125,000</u>
<u>297,048</u>	<u>131,940</u>
(89,625)	334,848
<u>379,455</u>	<u>4,984,362</u>
<u>\$ 289,840</u>	<u>\$ 5,319,210</u>

See Notes to Financial Statements

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, 2005

Net change in fund balances - total governmental funds (page 18) \$ 334,848

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		1,151,646
Capital assets contributed by the Iowa Department of Transportation		1,469,466
Depreciation expense		(464,616)

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	\$ (4,844)	
Grant revenue	<u>473,647</u>	468,803

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	(125,000)	
Repaid	<u>250,504</u>	125,504

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		<u>(9,000)</u>
----------------------------	--	----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 13) \$3,076,651

CLAY COUNTY
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 JUNE 30, 2005

ASSETS

Cash and pooled investments:	
County Treasurer	\$ 701,211
Other County officials	55,809
Property tax receivable:	
Delinquent	34,460
Succeeding year	14,869,000
Due from other governments	35,974
Accrued interest	<u>181</u>
TOTAL ASSETS	<u>15,696,635</u>

LIABILITIES

Accounts payable	8,504
Due to other governments	15,643,773
Trusts payable	<u>44,358</u>
TOTAL LIABILITIES	<u>15,696,635</u>

NET ASSETS	\$ <u>0</u>
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CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

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 County 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, contributions, and interest 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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

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 becomes 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, 2003 assessed property valuations, is for the tax accrual period July 1, 2004 through June 30, 2005, and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2004.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

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:

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

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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Fund Equity - Continued

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, 2005. 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.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the non-program and debt service functions, and disbursements in a certain department exceeded the amount appropriated.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2005 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 investments in the Iowa Public Agency Investment Trust (IPAIT) which are valued at an amortized cost of \$1,418,983 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk - The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the County.

Credit Risk - The investment in IPAIT is unrated.

Concentration of Credit Risk - The County places a five percent limit on the amount that may be invested in the securities of a single issuer. The County places a ten percent limit on the amount that may be invested in prime bankers' acceptances and commercial paper or other short-term corporate debt.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 50,000
Special Revenue: Secondary Roads	General Special Revenue: Rural Services	108,876 868,940
Local Option Sales Tax	General Capital Projects	50,000 1,454
LOSST Bond	Special Revenue: Local Option Sales Tax	66,240
Capital Projects	General Special Revenue: Local Option Sales Tax Conservation Land Acquisition Trust	29,094 78,168 <u>10,000</u>
		<u>\$1,262,772</u>

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

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of year	<u>Increases</u>	<u>Decreases</u>	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 65,215			\$ 65,215
Construction in progress		<u>\$ 770,735</u>		<u>770,735</u>
Total capital assets not being depreciated	<u>65,215</u>	<u>770,735</u>		<u>835,950</u>
Capital assets being depreciated:				
Buildings	3,420,528			3,420,528
Machinery and equipment	5,666,727	128,836	\$ 5,953	5,789,610
Infrastructure	<u>1,343,637</u>	<u>1,721,541</u>		<u>3,065,178</u>
Total capital assets being depreciated	<u>10,430,892</u>	<u>1,850,377</u>	<u>5,953</u>	<u>12,275,316</u>
Less accumulated depreciation for:				
Buildings	1,167,564	74,767		1,242,331
Machinery and equipment	3,638,113	328,545	5,953	3,960,705
Infrastructure	<u>14,780</u>	<u>61,304</u>		<u>76,084</u>
Total accumulated depreciation	<u>4,820,457</u>	<u>464,616</u>	<u>5,953</u>	<u>5,279,120</u>
Total capital assets being depreciated - net	<u>5,610,435</u>	<u>1,385,761</u>		<u>6,996,196</u>
Governmental activities capital assets - net	<u>\$ 5,675,650</u>	<u>\$ 2,156,496</u>	<u>\$ _____</u>	<u>\$ 7,832,146</u>

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

Governmental activities:	
Public safety and legal services	\$ 39,314
County environment and education	40,510
Roads and transportation	298,916
Governmental services to residents	8,417
Administration	<u>77,459</u>
Total depreciation expense - governmental activities	<u>\$ 464,616</u>

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

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:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	\$ 10,109
Special Revenue: Mental Health	Services	<u>6,270</u>
TOTAL FOR GOVERNMENTAL FUNDS		<u>\$ 16,379</u>

Trust and agency:		
Agricultural extension education	Collections	\$ 163,101
County assessor	Collections	243,349
Special appraiser	Collections	112,761
Schools	Collections	9,371,301
Area schools	Collections	544,721
Corporations	Collections	4,430,792
Townships	Collections	166,641
Auto license and use tax	Collections	358,916
All others	Collections	<u>252,191</u>
TOTAL FOR TRUST AND AGENCY FUNDS		<u>\$15,643,773</u>

6. CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	General Obligation Notes	Compensated Absences	Rural Community 2000 Program Loan	Total
Balance beginning of year	\$545,001	\$100,000	\$32,072	\$677,073
Increases	125,000	9,000		134,000
Decreases	<u>(234,705)</u>	<u> </u>	<u>(15,799)</u>	<u>(250,504)</u>
Balance end of year	<u>\$435,296</u>	<u>\$109,000</u>	<u>\$16,273</u>	<u>\$560,569</u>
Due within one year	<u>\$151,955</u>	<u>\$109,000</u>	<u>\$16,273</u>	<u>\$277,228</u>

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

6. CHANGES IN LONG-TERM LIABILITIES - Continued

Notes Payable

A summary of the County's June 30, 2005 general obligation notes payable is as follows:

Year Ending June 30,	Rates	Principal	Interest	Total
2006	3.00% - 4.74%	\$151,995	\$ 16,907	\$168,902
2007	3.00% - 4.74%	156,391	11,240	167,631
2008	3.00% - 4.74%	82,021	5,400	87,421
2009	4.74%	<u>44,889</u>	<u>2,098</u>	<u>46,987</u>
Total		<u>\$435,296</u>	<u>\$ 35,645</u>	<u>\$470,941</u>

During the year ended June 30, 2005, the County issued \$125,000 in new general obligation notes and retired \$234,705 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, 2005 was \$16,273. This amount is due from the Clay County Rural Water Association.

Principal balances of the loan mature as follows:

2006	<u>\$ 16,273</u>
------------	------------------

Clay County Regional Events Center Conduit Debt Obligations

During the year ended June 30, 2005, the County issued \$2,000,000 in Local Option Sales and Services Tax Revenue Bonds for the purpose of constructing and furnishing the Clay County Regional Events Center at the Clay County Fairgrounds. Of the total advanced, \$1,415,000 was used to pay off a similar bond which had been issued in fiscal 2004. The bonds are not a general obligation of the County but are 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 bonds will be repaid in annual installments ranging from \$55,000 to \$120,000, including interest at rates ranging from 1.13% to 4.39% beginning June 1, 2005 through June 1, 2029. Bonds totaling \$1,945,000 remained outstanding at June 30, 2005.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

6. CHANGES IN LONG-TERM LIABILITIES - Continued

Clay County Regional Events Center Conduit Debt Obligations - Continued

The bond issued does 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 or the related financing documents.

St. Luke Homes and Services, Inc. Conduit Debt Obligation

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.

The bond issued does 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 or the related financing documents.

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, 2005 are 8.535% and 8.535%, respectively. For the year ended June 30, 2004, the contribution rates for law enforcement employees and the County were 4.99% and 7.48%, respectively, and for the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$202,054, \$197,241, and \$191,249, 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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

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 509 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.

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, 2005 were \$113,757.

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 \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage 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, 2005, no liability has been recorded in the County's financial statements. As of

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS - Continued

8. RISK MANAGEMENT - Continued

June 30, 2005, settled claims have not exceeded the risk pool or reinsurance 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 and employee blanket bond in the amount of \$1,000,000 and \$20,000, respectively. 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. DEFICIT BALANCE

At June 30, 2005, the Capital Projects Fund had a deficit balance of \$157,876. The deficit balance is the result of project costs incurred in excess of available funds. This deficit will be eliminated upon receipt of general obligation courthouse restoration note proceeds.

10. CONSTRUCTION COMMITMENTS

The County has entered into construction contracts totaling approximately \$1,274,000 for roadway paving and bridge replacement. As of June 30, 2005, approximately \$909,000 had been incurred against the contracts. The balance remaining at June 30, 2005 of approximately \$365,000 will be paid as work on the projects progresses. The County expects to be reimbursed approximately \$874,000 from state and Federal sources as part of agreements to complete various roadway paving and bridge replacement projects.

The County has also entered into contracts totaling approximately \$1,086,000 for Courthouse restoration. As of June 30, 2005, costs of approximately \$208,000 on the project had been incurred. The \$878,000 balance remaining on the project at June 30, 2005 will be paid as work on the project progresses.

11. SUBSEQUENT EVENT

During July 2005, the County issued a \$1,300,000 general obligation courthouse restoration note to pay the cost of courthouse restoration construction contracts. The note is payable from a continuing annual levy of taxes against all taxable property of the County.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2005

	<u>Actual</u>	<u>Less Funds not Required to be Budgeted</u>
RECEIPTS:		
Property and other County tax	\$ 5,276,636	
Interest and penalty on property tax	27,053	
Intergovernmental	4,343,883	
Licenses and permits	6,543	
Charges for service	416,812	
Use of money and property	226,038	\$ 36,409
Miscellaneous	<u>804,472</u>	
TOTAL RECEIPTS	<u>11,101,437</u>	<u>36,409</u>
DISBURSEMENTS:		
Public safety and legal services	1,799,252	
Physical health and social services	386,304	
Mental health	1,377,069	
County environment and education services	836,022	
Roads and transportation	3,037,861	
Governmental services to residents	353,072	
Administration	1,197,326	
Non-program	448,368	22,738
Debt service	260,541	
Capital projects	<u>1,379,032</u>	
TOTAL DISBURSEMENTS	<u>11,074,847</u>	<u>22,738</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	26,590	13,671
OTHER FINANCING SOURCES - NET	<u>125,000</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	151,590	13,671
BALANCE - BEGINNING OF YEAR	<u>4,455,025</u>	<u>120,730</u>
BALANCE - END OF YEAR	<u>\$ 4,606,615</u>	<u>\$134,401</u>

See Accompanying Independent Auditors' Report

Net	Budgeted Amounts		Final to Actual Variance
	Original	Final	
\$ 5,276,636	\$ 5,227,668	\$ 5,233,232	\$ 43,404
27,053	34,100	34,100	(7,047)
4,343,883	4,434,638	5,287,897	(944,014)
6,543	5,478	66,823	(60,280)
416,812	361,989	369,616	47,196
189,629	118,568	153,105	36,524
804,472	103,274	1,462,561	(658,089)
<u>11,065,028</u>	<u>10,285,715</u>	<u>12,607,334</u>	<u>(1,542,306)</u>
1,799,252	1,899,338	1,947,599	148,347
386,304	370,727	416,512	30,208
1,377,069	1,409,407	1,529,407	152,338
836,022	820,404	838,236	2,214
3,037,861	3,453,600	3,453,600	415,739
353,072	334,416	383,222	30,150
1,197,326	1,297,840	1,306,230	108,904
425,630	16,761	356,761	(68,869)
260,541	260,535	260,535	(6)
<u>1,379,032</u>	<u>1,110,720</u>	<u>2,907,440</u>	<u>1,528,408</u>
<u>11,052,109</u>	<u>10,973,748</u>	<u>13,399,542</u>	<u>2,347,433</u>
12,919	(688,033)	(792,208)	805,127
<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u> </u>
137,919	(563,033)	(667,208)	<u>\$ 805,127</u>
<u>4,334,295</u>	<u>3,362,517</u>	<u>3,362,517</u>	
<u>\$ 4,472,214</u>	<u>\$ 2,799,484</u>	<u>\$ 2,695,309</u>	

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CLAY COUNTY
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$11,101,437	\$102,692	\$11,204,129
Expenditures	<u>11,074,847</u>	<u>(73,626)</u>	<u>11,001,221</u>
Net	26,590	176,318	202,908
Other financing sources	125,000	6,940	131,940
Beginning fund balances	<u>4,455,025</u>	<u>529,337</u>	<u>4,984,362</u>
 ENDING FUND BALANCE	 <u>\$4,606,615</u>	 <u>\$712,595</u>	 <u>\$5,319,210</u>

See Accompanying Independent Auditors' Report

CLAY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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 services, roads and transportation, governmental services to residents, administration, 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, and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$2,425,794. The budget amendments are 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, 2005, disbursements exceeded the amounts budgeted in the non-program and debt service functions and disbursements in a certain department exceeded the amount appropriated.

OTHER SUPPLEMENTARY INFORMATION

CLAY COUNTY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

ASSETS

	<u>Debt</u> <u>Service</u>	<u>Capital</u> <u>Projects</u>	<u>County</u> <u>Sheriff</u>	<u>LOSST</u> <u>Bond</u>
CASH AND POOLED INVESTMENTS	\$165,920	\$ 8,083	\$13,370	\$51,314
RECEIVABLES:				
Property tax:				
Delinquent	628			
Succeeding year	297,000			
Accounts	2,951			
Accrued interest	184		3	249
Drainage assessments				
TOTAL ASSETS	<u>\$466,683</u>	<u>\$ 8,083</u>	<u>\$13,373</u>	<u>\$51,563</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:				
Accounts payable		\$165,959		
Deferred revenue:				
Succeeding year property tax	\$297,000			
Other	628			
TOTAL LIABILITIES	<u>297,628</u>	<u>165,959</u>		
FUND BALANCES:				
Fund balances:				
Reserved for debt service	169,055			
Reserved for payment of LOSST Bonds				\$51,563
Reserved for drainage warrants				
Unreserved		(157,876)	\$13,373	
TOTAL FUND EQUITY	<u>169,055</u>	<u>(157,876)</u>	<u>13,373</u>	<u>51,563</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$466,683</u>	<u>\$ 8,083</u>	<u>\$13,373</u>	<u>\$51,563</u>

See Accompanying Independent Auditors' Report

Special Revenue					
Courthouse Restoration	Resource Enhancement and Protection	County Recorder's Records Management	Drainage Districts	Conservation Land Acquisition Trust	Total
\$ 4,871	\$ 25,518	\$ 31,940	\$134,401	\$ 20,567	\$ 455,984
					628
					297,000
	29	1,110		1,442	5,503
		11	251		727
			<u>1,058</u>		<u>1,058</u>
<u>\$ 4,871</u>	<u>\$ 25,547</u>	<u>\$ 33,061</u>	<u>\$135,710</u>	<u>\$ 22,009</u>	<u>\$ 760,900</u>
	\$ 39			\$ 6,376	\$ 172,374
					297,000
			\$ 1,058		1,886
	<u>39</u>		<u>1,058</u>	<u>6,376</u>	<u>471,060</u>
					169,055
					51,563
			134,652		134,652
<u>\$ 4,871</u>	<u>25,508</u>	<u>\$ 33,061</u>		<u>15,633</u>	<u>(65,430)</u>
<u>4,871</u>	<u>25,508</u>	<u>33,061</u>	<u>134,652</u>	<u>15,633</u>	<u>289,840</u>
<u>\$ 4,871</u>	<u>\$ 25,547</u>	<u>\$ 33,061</u>	<u>\$135,710</u>	<u>\$ 22,009</u>	<u>\$ 760,900</u>

See Accompanying Independent Auditors' Report

CLAY COUNTY
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Debt Service	Capital Projects	County Sheriff	LOSST Bond
REVENUES:				
Property tax	\$160,897			
Intergovernmental	8,704			
Charges for service				
Use of money and property	59,776		\$ 36	\$ 1,382
Miscellaneous	<u>290,000</u>	<u>\$ 1,738</u>	<u>21,041</u>	<u>152,809</u>
TOTAL REVENUES	<u>519,377</u>	<u>1,738</u>	<u>21,077</u>	<u>154,191</u>
EXPENDITURES:				
Operating:				
Public safety and legal services			7,704	
County environment and education services				50,000
Governmental services to residents				
Non-program	290,000			118,868
Debt service	221,607			
Capital projects		<u>400,461</u>		
TOTAL EXPENDITURES	<u>511,607</u>	<u>400,461</u>	<u>7,704</u>	<u>168,868</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>7,770</u>	<u>(398,723)</u>	<u>13,373</u>	<u>(14,677)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)		115,808		66,240
General obligation note issued		<u>125,000</u>		
TOTAL OTHER FINANCING SOURCES (USES)		<u>240,808</u>		<u>66,240</u>
NET CHANGE IN FUND BALANCES	7,770	(157,915)	13,373	51,563
FUND BALANCES - BEGINNING OF YEAR	<u>161,285</u>	<u>39</u>		
FUND BALANCES - END OF YEAR	<u>\$169,055</u>	<u>\$(157,876)</u>	<u>\$13,373</u>	<u>\$51,563</u>

See Accompanying Independent Auditors' Report

<u>Special Revenue</u>					
<u>Courthouse Restoration</u>	<u>Resource Enhancement and Protection</u>	<u>County Recorder's Records Management</u>	<u>Drainage Districts</u>	<u>Conservation Land Acquisition Trust</u>	<u>Total</u>
	\$ 10,906				\$ 160,897
	273	\$ 18,322	\$ 6,445	\$ 19,055	19,610
		294	2,220	4,107	43,822
<u>\$ 35</u>			<u>27,880</u>	<u>2,843</u>	<u>68,088</u>
<u>35</u>	<u>11,179</u>	<u>18,616</u>	<u>36,545</u>	<u>26,005</u>	<u>788,763</u>
					7,704
	11,440			28,632	90,072
		23,987			23,987
			22,737		431,605
					221,607
					<u>400,461</u>
	<u>11,440</u>	<u>23,987</u>	<u>22,737</u>	<u>28,632</u>	<u>1,175,436</u>
<u>35</u>	<u>(261)</u>	<u>(5,371)</u>	<u>13,808</u>	<u>(2,627)</u>	<u>(386,673)</u>
				(10,000)	172,048
					<u>125,000</u>
				(10,000)	297,048
35	(261)	(5,371)	13,808	(12,627)	(89,625)
<u>4,836</u>	<u>25,769</u>	<u>38,432</u>	<u>120,844</u>	<u>28,260</u>	<u>379,465</u>
<u>\$ 4,871</u>	<u>\$ 25,508</u>	<u>\$ 33,061</u>	<u>\$134,652</u>	<u>\$ 15,633</u>	<u>\$ 289,840</u>

See Accompanying Independent Auditors' Report

CLAY COUNTY
 COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 JUNE 30, 2005

	County Offices		Agricultural
ASSETS	County Recorder	County Sheriff	Extension Education
CASH AND POOLED INVESTMENTS:			
County Treasurer			\$ 1,762
Other County officials	\$ 45,866	\$ 9,943	
RECEIVABLES:			
Property tax:			
Delinquent			339
Succeeding year			161,000
Due from other governments			
Accrued interest			
TOTAL ASSETS	<u>\$ 45,866</u>	<u>\$ 9,943</u>	<u>\$163,101</u>
LIABILITIES			
LIABILITIES:			
Accounts payable			
Due to other governments	\$ 11,451		\$163,101
Trusts payable	<u>34,415</u>	<u>\$ 9,943</u>	<u> </u>
TOTAL LIABILITIES	<u>\$ 45,866</u>	<u>\$ 9,943</u>	<u>\$163,101</u>

See Accompanying Independent Auditors' Report

Agency Funds

<u>County Assessor</u>	<u>Special Appraiser</u>	<u>Assessor's FICA Fund</u>	<u>Schools</u>	<u>Area Schools</u>	<u>Corporations</u>	<u>Townships</u>
\$ 57,215	\$ 27,769		\$ 94,107	\$ 5,596	\$ 34,789	\$ 2,482
390 186,000	179 86,000	\$ 43 21,000	19,194 9,258,000	1,125 538,000	13,003 4,383,000	159 164,000
<u>\$243,605</u>	<u>\$113,948</u>	<u>\$ 21,043</u>	<u>\$9,371,301</u>	<u>\$544,721</u>	<u>\$4,430,792</u>	<u>\$166,641</u>
\$ 256 243,349	\$ 1,187 112,761	\$ 21,043	\$9,371,301	\$544,721	\$4,430,792	\$166,641
<u>\$243,605</u>	<u>\$113,948</u>	<u>\$ 21,043</u>	<u>\$9,371,301</u>	<u>\$544,721</u>	<u>\$4,430,792</u>	<u>\$166,641</u>

See Accompanying Independent Auditors' Report

CLAY COUNTY
 COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES - Continued
 AGENCY FUNDS
 JUNE 30, 2005

ASSETS	Agency Funds			
	<u>City Special Assessments</u>	<u>Auto License and Use Tax</u>	<u>Lost Island Sanitary Sewer District</u>	<u>Joint Disaster Services</u>
CASH AND POOLED INVESTMENTS:				
County Treasurer	\$ 11,927	\$358,916	\$ 32	\$ 14,779
Other County officials				
RECEIVABLES:				
Property tax:				
Delinquent			22	
Succeeding year			3,000	
Due from other governments				7,758
Accrued interest				
 TOTAL ASSETS	 <u>\$ 11,927</u>	 <u>\$358,916</u>	 <u>\$ 3,054</u>	 <u>\$ 22,537</u>
 LIABILITIES				
LIABILITIES:				
Accounts payable				\$ 2,833
Due to other governments	\$ 11,927	\$358,916	\$ 3,054	19,704
Trusts payable				
 TOTAL LIABILITIES	 <u>\$ 11,927</u>	 <u>\$358,916</u>	 <u>\$ 3,054</u>	 <u>\$ 22,537</u>

Schedule 3

<u>E-911</u>	<u>Property Tax Agency</u>	<u>Emergency Medical Services</u>	<u>Total</u>
\$ 68,403	\$ 2,668	\$ 20,766	\$ 701,211 55,809
	6		34,460
	69,000		14,869,000
23,099		5,117	35,974
<u>154</u>	<u> </u>	<u>27</u>	<u>181</u>
<u>\$ 91,656</u>	<u>\$ 71,674</u>	<u>\$ 25,910</u>	<u>\$15,696,635</u>
\$ 1,211		\$ 3,017	\$ 8,504
90,445	\$ 71,674	22,893	15,643,773
<u> </u>	<u> </u>	<u> </u>	<u>44,358</u>
<u>\$ 91,656</u>	<u>\$ 71,674</u>	<u>\$ 25,910</u>	<u>\$15,696,635</u>

See Accompanying Independent Auditors' Report

CLAY COUNTY
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 YEAR ENDED JUNE 30, 2005

	County Offices			Employee Cafeteria Plan
	County Auditor	County Recorder	County Sheriff	
BALANCE - BEGINNING OF YEAR	<u> </u>	<u>\$ 51,135</u>	<u>\$ 21,646</u>	<u> </u>
ADDITIONS:				
Property and other County tax				
911 surcharge				
State tax credits				
Office fees and collections	\$ 1,254	289,776	79,305	
Auto licenses, use tax, and postage				
Assessments				
Trusts			261,895	
Transfers from other funds				
Miscellaneous				\$ 81,666
TOTAL ADDITIONS	<u>1,254</u>	<u>289,776</u>	<u>341,200</u>	<u>81,666</u>
DEDUCTIONS:				
Agency Remittances:				
To other funds	1,254	137,666	96,917	
To other governments		157,379		
Trusts paid out			255,986	81,666
TOTAL DEDUCTIONS	<u>1,254</u>	<u>295,045</u>	<u>352,903</u>	<u>81,666</u>
BALANCE - END OF YEAR	<u>\$</u>	<u>\$ 45,866</u>	<u>\$ 9,943</u>	<u>\$</u>

See Accompanying Independent Auditors' Report
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Agency Funds						
<u>Agricultural Extension Education</u>	<u>County Assessor</u>	<u>Special Appraiser</u>	<u>Assessor's FICA Fund</u>	<u>Schools</u>	<u>Area Schools</u>	<u>Corporations</u>
<u>\$156,922</u>	<u>\$237,605</u>	<u>\$ 97,747</u>	<u>\$ 20,055</u>	<u>\$8,727,330</u>	<u>\$499,763</u>	<u>\$4,096,667</u>
151,260	180,186	37,980	19,838	8,393,288	480,334	4,207,249
8,286	9,870 182	2,080	1,087	449,532	26,311	199,362
	20,925					
<u>159,546</u>	<u>211,163</u>	<u>40,060</u>	<u>20,925</u>	<u>8,842,820</u>	<u>506,645</u>	<u>4,406,611</u>
153,367	205,163	23,859	19,937	8,198,849	461,687	4,072,486
<u>153,367</u>	<u>205,163</u>	<u>23,859</u>	<u>19,937</u>	<u>8,198,849</u>	<u>461,687</u>	<u>4,072,486</u>
<u>\$163,101</u>	<u>\$243,605</u>	<u>\$113,948</u>	<u>\$ 21,043</u>	<u>\$9,371,301</u>	<u>\$544,721</u>	<u>\$4,430,792</u>

See Accompanying Independent Auditors' Report

CLAY COUNTY
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 Continued
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005

	Agency Funds			
	Townships	City Special Assessments	Auto License and Use Tax	Lost Island Sanitary Sewer District
BALANCE - BEGINNING OF YEAR	<u>\$165,248</u>	<u>\$ 16,187</u>	<u>\$ 373,598</u>	<u>\$ 3,059</u>
ADDITIONS:				
Property and other County tax	158,576			2,484
911 surcharge				
State tax credits	9,904			92
Office fees and collections				
Auto licenses, use tax, and postage ...			3,911,653	
Assessments		295,471		
Trusts				
Transfers from other funds				
Miscellaneous				
TOTAL ADDITIONS	<u>168,480</u>	<u>295,471</u>	<u>3,911,653</u>	<u>2,576</u>
DEDUCTIONS:				
Agency Remittances:				
To other funds				
To other governments	167,087	299,731	3,926,335	2,581
Trusts paid out				
TOTAL DEDUCTIONS	<u>167,087</u>	<u>299,731</u>	<u>3,926,335</u>	<u>2,581</u>
BALANCE - END OF YEAR	<u>\$166,641</u>	<u>\$ 11,927</u>	<u>\$ 358,916</u>	<u>\$ 3,054</u>

<u>Tax Sale Redemption</u>	<u>Joint Disaster Services</u>	<u>E-911</u>	<u>Property Tax Agency</u>	<u>Recorder's Electronic Fee</u>	<u>Emergency Medical Services</u>	<u>Total</u>
<u> </u>	<u>\$25,083</u>	<u>\$110,968</u>	<u>\$ 68,829</u>	<u> </u>	<u>\$10,022</u>	<u>\$14,681,864</u>
			72,634			13,703,829
		131,148	1,147	\$ 6,132		131,148
						713,803
						370,517
						3,911,853
						295,471
\$64,058						325,953
						20,925
	<u>53,028</u>	<u>17,189</u>			<u>43,045</u>	<u>194,928</u>
<u>64,058</u>	<u>53,028</u>	<u>148,337</u>	<u>73,781</u>	<u>6,132</u>	<u>43,045</u>	<u>19,668,227</u>
						235,837
	55,574		70,936			17,814,971
<u>64,058</u>		<u>167,649</u>		<u>6,132</u>	<u>27,157</u>	<u>602,648</u>
<u>64,058</u>	<u>55,574</u>	<u>167,649</u>	<u>70,936</u>	<u>6,132</u>	<u>27,157</u>	<u>18,653,456</u>
<u>\$ </u>	<u>\$22,537</u>	<u>\$ 91,656</u>	<u>\$ 71,674</u>	<u>\$ </u>	<u>\$25,910</u>	<u>\$15,696,635</u>

See Accompanying Independent Auditors' Report

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

	Modified Accrual Basis			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
REVENUES:				
Property and other County tax	\$ 5,287,980	\$ 5,291,261	\$4,651,547	\$4,401,899
Interest and penalty on property tax ...	27,013	28,494	47,451	30,024
Intergovernmental	4,587,863	4,741,475	4,366,951	4,173,982
Licenses and permits	6,543	5,388	5,107	3,934
Charges for service	396,778	378,746	404,678	317,188
Use of money and property	205,847	127,596	153,331	163,003
Fines, forfeitures and defaults	21,174	15,505	9,773	10,296
Miscellaneous	<u>670,931</u>	<u>151,817</u>	<u>201,445</u>	<u>191,111</u>
TOTAL	<u>\$11,204,129</u>	<u>\$10,740,282</u>	<u>\$9,840,283</u>	<u>\$9,291,437</u>
EXPENDITURES:				
Operating:				
Public safety and legal services	\$ 1,811,888	\$ 1,706,287	\$1,859,980	
Physical health and social services .	382,948	344,561	349,172	
Mental health	1,400,963	1,421,131	1,287,707	
County environment and education services	798,693	781,853	681,777	
Roads and transportation	2,754,290	2,685,991	2,886,546	
Governmental services to residents	352,133	336,247	313,372	
Administration	1,122,851	1,162,373	1,038,899	
Non-program	448,366	33,113	25,213	
Debt service	260,543	600,663	187,108	
Capital projects	<u>1,668,546</u>	<u>723,718</u>	<u>447,746</u>	
TOTAL	<u>\$11,001,221</u>	<u>\$ 9,795,937</u>	<u>\$9,077,520</u>	*

* Not available

See Accompanying Independent Auditors' Report

CLAY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Program Expenditures</u>
Direct:		
Department of Justice:		
Bulletproof vest partnership program	16.607	\$ 735
Total Direct		<u>735</u>
Indirect:		
U.S. Department of Agriculture:		
Iowa Department of Human Services:		
Human Services administrative reimbursement:		
State administrative matching grants for food stamp program	10.561	<u>5,924</u>
U.S. Department of Transportation:		
Iowa Department of Transportation:		
Highway planning and construction	20.205	<u>396,140</u>
Iowa Department of Public Safety:		
Safety incentive grants for use of seatbelts	20.604	<u>4,179</u>
Iowa Homeland Security and Emergency Management Division:		
Hazardous Material Emergency Preparedness	20.703	<u>11,035</u>
U.S. Department of Health and Human Services:		
Iowa Department of Human Services:		
Human Services administrative reimbursements:		
Temporary assistance for needy families	93.558	<u>8,064</u>
Refugee and entrant assistance - state administered programs	93.566	<u>22</u>
Child care mandatory and matching funds of the child care		
and development fund	93.596	<u>1,591</u>
Foster care - Title IV-E	93.658	<u>4,137</u>
Adoption assistance	93.659	<u>968</u>
Medical assistance program	93.778	<u>8,607</u>
Social services block grant	93.667	5,003
Social services block grant	93.667	<u>68,661</u>
		<u>73,664</u>
Child support enforcement	93.563	<u>187,456</u>
U.S. Department of Homeland Security:		
Iowa Department of Public Defense:		
Iowa Homeland Security and Emergency Management Division:		
Public Assistance Grants	97.036	<u>437,461</u>
Emergency Management Performance Grant	97.042	<u>17,930</u>
Total Indirect		<u>1,157,178</u>
TOTAL		<u>\$1,157,913</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Clay County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditors' Report

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

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, 2005, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated January 11, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clay County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clay County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above, item II-A-05, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2005 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.

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, including federal awarding agencies and pass-through entities. 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 Clay 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.

Winkler, Staw + Co., LLP

January 11, 2006

WINTHER, STAVE & Co., LLP
Certified Public Accountants

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

To the Officials of Clay County:

Compliance

We have audited the compliance of Clay County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Clay County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of Clay County's management. Our responsibility is to express an opinion on Clay County's compliance based on our audit.

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

In our opinion, Clay County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Clay County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered Clay County's internal control over compliance with requirements that could have a

direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Clay County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above, item III-A-05, is a material weakness.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Winters, Stov + Co., LLP

January 11, 2006

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditors' Results

- a. An unqualified opinion was issued on the financial statements.
- b. A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- e. An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. Major programs were as follows:
 - CFDA Number 20.205 – Highway planning and construction
 - CFDA Number 97.036 – Public Assistance Grants
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. Clay County did not qualify as a low-risk auditee.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were reported.

Reportable Condition:

II-A-05 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.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2005

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Condition:

All Federal programs listed in the Schedule of Expenditures of Federal Awards

III-A-05 Segregation of Duties over Federal Revenue - Custody, record-keeping, and reconciling functions for revenues, including those related to federal programs are not adequately segregated. See item II-A-05.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-05 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, 2005, except for the Clay County Recorder balances at one bank which exceeded the maximum authorized amount of \$20,000 by approximately \$24,000 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.

IV-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the nonprogram and debt service functions. Disbursements during the year ended June 30, 2005 also exceeded the amounts budgeted for E-911 and the Emergency Management Commission. In addition, disbursements in one department exceeded the amount appropriated. We also noted certain items in the published budget did not correctly present the adopted budget.

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.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Published budget information should be reviewed carefully to make sure it accurately presents the adopted budget.

Response - We will amend the budget when required and appropriations will be watched more closely. We will also review published budget information more carefully to make sure it accurately presents the adopted budget.

Conclusion - Response accepted.

IV-C-05 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.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2005

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

IV-D-05 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-05 Business Transactions - No business transactions between the County and County officials or employees were noted.

IV-F-05 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.

IV-G-05 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-05 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.

IV-I-05 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).

IV-J-05 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, 2005 for the County Extension Office did not exceed the amount budgeted.