

CLAYTON COUNTY

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

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CLAYTON COUNTY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2005)		
Neil Meyer	Board of Supervisors	Jan. 2007
Robert Walke	Board of Supervisors	Jan. 2007
Larry Gibbs	Board of Supervisors	Jan. 2005
Dennis Freitag	County Auditor	Jan. 2005
Linda Orr	County Treasurer	Jan. 2007
Sue Meyer	County Recorder	Jan. 2007
Robert Hamann	County Sheriff	Jan. 2005
Kevin Clefisch	County Attorney	Jan. 2007
Larry Hauser	County Assessor	Jan. 2010
Rafe Koopman	County Engineer	
(After January 2005)		
Neil Meyer	Board of Supervisors	Jan. 2007
Robert Walke	Board of Supervisors	Jan. 2007
Larry Gibbs	Board of Supervisors	Jan. 2009
Dennis Freitag	County Auditor	Jan. 2009
Linda Orr	County Treasurer	Jan. 2007
Sue Meyer	County Recorder	Jan. 2007
Robert Hamann	County Sheriff	Jan. 2009
Kevin Clefisch	County Attorney	Jan. 2007
Larry Hauser	County Assessor	Jan. 2010
Rafe Koopman	County Engineer	

## INDEPENDENT AUDITOR'S REPORT

To the Officials of Clayton County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clayton 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. These basic financial statements are the responsibility of Clayton 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 and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 12 to the financial statements, management has not recorded a full listing of capital assets, including buildings, improvements, equipment and general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. U.S. generally accepted accounting principles require those capital assets be capitalized and depreciated, which would increase the assets and expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the omission of a full capital asset listing as discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the governmental activities of Clayton County as of June 30, 2005, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Clayton County at June 30, 2005 and the respective changes in financial position and cash flows, where applicable, 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 March 3, 2006 on our consideration of Clayton 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 7 through 12 and 52 through 54 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 Clayton 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 year ended June 30, 2004 (none of which are presented herein) and issued an adverse opinion on the governmental activities due to the omission of a complete capital asset listing. In addition, we issued a qualified opinion on the Major Fund, Secondary Roads because we were unable to observe the physical inventory to determine the accuracy of counts of items on hand at June 30, 2004. Finally, we issued an unqualified opinion on the Major Fund, General Fund, Major Fund, Mental Health Fund, Major fund, Rural Services Fund, and the aggregate remaining fund information. The financial statements for the two years ended June 30, 2003 (none of which are presented herein) were audited by other auditors. For the year ended June 30, 2003, those auditors issued a qualified opinion on the governmental activities of Clayton County due to the omission of a complete listing of capital assets and their related depreciation, and issued an unqualified opinion on each major fund and the aggregate remaining fund information. For the year ended June 30, 2002, those auditors issued qualified opinions on the general purpose financial statements due to the omission of the general fixed asset account group from those statements. 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.

Oskaloosa, Iowa  
March 3, 2006

**CLAYTON COUNTY  
ELKADER, IOWA**

**Management's Discussion and Analysis  
For the Fiscal Year Ending June 30, 2005**

Management of Clayton County provides this Management's Discussion and Analysis of Clayton County's annual 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.

The Management's Discussion and Analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Clayton County implemented this reporting standard for the fiscal year ending June 30, 2003.

**FINANCIAL HIGHLIGHTS**

Net assets of governmental activities as presented in the "Statement of Activities" increased by \$882,966, which represented a 7.4% increase from fiscal year 2004. Property taxes levied for general purposes of the County increased \$328,910. Program revenues from operating grants and contributions increased by \$618,520 or a 14.8% increase from the prior fiscal year while capital grants and contributions increased by \$1,373,368, or 2428.6%. This increase is mainly due to contributions from the state farm-to-market program. County program expenses in total were \$12,417,090 which represents a \$1,428,844 increase over fiscal year 2004. The roads and transportation program had the largest increase in expenses of \$712,404.

From the "Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds" General Fund revenues accounted for \$4,113,672 in revenue or 33.3% of all revenues. General Fund expenditures accounted for \$4,495,066 in expenditures or 35.1% of all expenditures. Secondary Roads-Special Revenue Fund revenues accounted for \$4,216,201 in revenue or 34% of all revenues. Secondary Roads-Special Revenue Fund expenditures accounted for \$5,288,707 in expenditures or 41.3% of all expenditures.

As the County completed the year, its governmental funds reported a combined fund balance of \$9,928,873, a \$2,685,977 increase over the 2004 fiscal year end balance of \$7,242,896. The County spent \$2,335,191 more than from the prior fiscal year of 2004.

- The General Fund received more revenues during fiscal year 2005 through property taxes and intergovernmental revenue than in 2004. The General Fund expenditures increased in all programs except in physical health and roads and transportation programs. The ending fund balance showed a 25% decrease from the prior year of \$1,499,662 to \$1,123,890.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled \$1,877,827, an increase of 3.6% from the prior year. The Mental Health Fund balance at year end decreased by \$91,407 to (\$746,333). The County has issued long term debt in order to fund this shortfall in the amount of \$500,000.
- Secondary Roads Fund expenditures increased by \$1,248,134 over the prior year, due principally to an increase in roadway maintenance and contracting out two road projects. The net change in fund balance was an increase of \$201,361 which represents a 4.1% increase over the prior year.

**USING THE BASIC FINANCIAL STATEMENTS**

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Clayton County as a financial whole, or as an entire operating entity.

The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Clayton County as a whole and present an overall view of the County's finances and a longer-term view of those 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 Clayton County's operations in more detail than the government-wide statements by providing information about the most significant funds with all other non-major funds presented in total in a single column. For Clayton County, the General Fund, MH/DD-Special Revenue Fund, Rural Services-Special Revenue Fund, Secondary Roads-Special Revenue Fund, and Capital Projects Fund are the most significant funds. The remaining statements provide financial information about activities for which Clayton County acts solely as an agent or custodian for the benefit of those outside of the government.

The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the County's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental and the individual fiduciary funds.

## **Reporting the County as a Whole**

### *The Statement of Net Assets and the Statement of Activities*

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 about the County as a whole and about its activities in a way that 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 event or 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.

In the statement of net assets and statement of activities, the County reports its operations as governmental activities:

**Governmental Activities:** Most of the County's programs and services are reported here, including public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration, interest on long-term debt and other non-program activities. Property tax, state tax credits and state and federal grants finance most of these activities.

## **REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS**

### *Fund Financial Statements*

Fund financial reports provide detailed information about the County's major funds. The County uses different funds in accordance with the Uniform Financial Accounting for Iowa County Governments to record its financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the General Fund, MH/DD-Special Revenue Fund, Rural Services-Special Revenue Fund, Secondary Roads-Special Revenue Fund, and Capital Projects Fund.

## Governmental Funds

Governmental funds account for most of the County's basis 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. These governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Mental Health, Rural Service, and Secondary Roads, 3) the Debt Service Fund, and 4) 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 statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The governmental funds required financial statements include a "Balance Sheet" and a "Statement of Revenues, Expenditures and Changes in Fund Balances".

## Proprietary Funds

Proprietary funds account for the partial self funded employee group health insurance-internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The proprietary fund required financial statements include a "Statement of Net Assets", a "Statement of Revenues, Expenses, and Changes in Net Assets" and a "Statement of Cash Flows".

## Fiduciary Funds

Fiduciary funds are used to report assets held in a trust or agency capacity for others and cannot be used to support the government's own programs. The County has agency funds that account for emergency management services, the county assessor, E911 Service Board for some examples.

The fiduciary funds required financial statements include a "Statement of Fiduciary Assets and Liabilities".

A summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following is a summary perspective of the "Statement of Net Assets" of the County as a whole. The County's net assets at the end of fiscal year 2004 totaled \$11,819,828 compared to the fiscal year 2005 total of net assets of \$12,702,794.

	<u>Condensed Statement of Net Assets</u>		
	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2003</u>
Current & Other Assets	\$16,859,288	\$13,310,531	\$12,321,620
Capital Assets	<u>6,642,891</u>	<u>5,152,606</u>	<u>5,492,841</u>
Total Assets	\$23,502,179	\$18,463,137	\$17,814,461
Long-term debt outstanding	\$3,844,040	\$ 718,225	\$ 258,723
Other Liabilities	<u>6,955,345</u>	<u>5,925,084</u>	<u>5,676,032</u>
Total Liabilities	10,799,385	\$6,643,309	\$5,934,755
Net Assets			
Invested in capital assets, Net of related debt	\$6,239,237	\$ 5,152,606	\$5,492,841
Restricted	6,968,161	6,519,393	5,142,671
Unrestricted	<u>(504,604)</u>	<u>147,829</u>	<u>1,244,194</u>
Total Net Assets	12,702,794	\$11,819,828	\$11,879,706

The following analysis shows the change in net assets for the years ending June 30, 2005 through 2003:

**Changes in Net Assets of Governmental Activities**

Revenues:	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2003</u>
Program revenue			
Charges for service	\$605,593	\$ 809,180	\$ 467,384
Operating grants, contributions, and restricted interest	4,793,447	4,174,927	4,404,844
Capital grants, contributions, and restricted interest	1,429,917	56,549	2,173,938
General revenue			
Property taxes- General Purpose	4,739,287	4,410,377	4,459,314
For Debt Service	191		
Penalty & int. on property tax	50,438	47,322	45,126
State tax credits	322,934	298,756	1,050,470
Local option, hotel & gaming taxes	888,276	880,865	534,229
Grants and contributions not restricted to a specific purpose	180,564	64,127	94,538
Unrestricted investment earnings	193,060	134,605	176,961
Miscellaneous	96,349	51,660	64,548
Total Revenues	<u>\$13,300,056</u>	<u>\$10,928,368</u>	<u>\$13,471,352</u>
 Program expenses:			
Public Safety & Legal Services	1,688,498	1,619,257	1,482,241
Physical Health & Social Services	393,909	435,839	443,707
Mental Health, MR, DD	1,877,827	1,812,628	1,779,526
County Environment & Education	1,152,063	882,465	866,470
Roads & Transportation	5,386,820	4,674,416	5,234,384
Government Services to Residents	475,669	346,455	522,985
Administration	1,353,384	1,000,339	707,390
Non-program	21,540	0	35,934
Interest on long-term debt	67,470	0	0
Capital Projects	0	216,847	0
Total Expenses	<u>\$12,417,090</u>	<u>\$10,988,246</u>	<u>\$11,072,637</u>
 Change in net assets	882,966	(59,878)	2,398,715
 Net Assets Beginning of Year	11,819,828	11,879,706	9,480,991
 Net Assets End of Year	12,702,794	11,819,828	11,879,706*

\*restated

**BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis. Over the course of the year, the County did amend its operating budget by an increase to revenues and other sources of \$4,265,513 and to expenditures and other uses of \$2,070,754. No functional budget areas were exceeded at year end.

The following chart shows the final budget for fiscal 2005 as well as the actual receipts and disbursements for the year:

**Budgetary Comparison Schedule**

	<b><u>Actual</u></b>	<b><u>Budgeted</u></b>	<b><u>Variance</u></b>
<b>Receipts:</b>			
Property & other County tax	\$5,563,157	\$5,851,784	\$(288,627)
Penalty & Interest on Taxes	48,643	50,810	(2,167)
Intergovernmental	5,354,037	4,950,946	403,091
Licenses & Permits	15,005	15,100	(95)
Charges for Services	422,768	410,512	12,256
Use of Money & Property	270,099	238,635	31,464
Miscellaneous	<u>220,263</u>	<u>484,308</u>	<u>(264,045)</u>
Total Receipts	\$11,893,972	\$12,002,095	\$(108,123)
<b>Disbursements:</b>			
Public Safety and Legal Services	1,688,483	1,795,219	106,736
Physical Health & Social Services	395,769	477,024	81,255
Mental Health, MR, DD	1,867,829	1,905,094	37,265
County Environment and Education	950,903	1,016,827	65,924
Roads & Transportation	5,025,032	5,047,823	22,791
Government services to Residents	465,714	505,872	40,158
Administration	1,304,998	1,690,277	385,279
Non-program	21,450	22,750	1,300
Debt Service	327	730	403
Capital Projects	<u>832,943</u>	<u>2,373,393</u>	<u>1,540,450</u>
Total Disbursements	\$12,553,448	\$14,835,009	\$2,281,561

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2005, Clayton County had \$6,642,891 invested in a broad range of capital assets, including large road equipment, infrastructure and construction in progress for the governmental activities.

The County had depreciation expense of \$817,034 for fiscal year 2005 and total accumulated depreciation of \$5,099,962 as of June 30, 2005 for the governmental activities. The County had depreciation expense for fiscal year 2004 of \$820,754 and total accumulated depreciation of \$4,581,603 as of June 30, 2004. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

**Debt**

At year-end, the County had \$500,000 in long term debt in notes payable compared to \$400,000 last year in notes payable. The County does not have a general obligation bond rating currently. The county's general obligation debt at the end of the fiscal year was \$2,950,000. The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed valued of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this \$48,467,836 limit. Other obligations include leases payable of \$87,013 and accrued compensated absences of \$307,027. More detailed information about the County's long-term liabilities is presented in Note 7 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

At the time these financial statements were prepared and audited, the County was aware of several existing circumstances that could significantly affect its financial health in the future:

- Clayton County historically has a high winter season unemployment rate (11% in January of 2005)
- Clayton County is one of the lowest per capita income areas in the state
- Clayton County continues to work with a developer to build a \$130,000,000 development near McGregor which would include a hotel, water park, golf course and residential homes by tax increment financing

The fiscal year 2006 budget contains receipts totaling \$12,545,140 and disbursements totaling \$15,664,968 compared to the 2005 budget of \$12,002,095 in receipts and \$14,835,009 in disbursements.

<u>TAX RATE COMPARISON</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY2003</u>
County wide rate	\$6.47214	\$5.36864	\$4.70024	\$4.70026
Rural rate	\$9.57347	\$8.46997	\$7.70571	\$7.66034

Tax rates are expressed in dollars per \$1000 of taxable valuation. The tax rate for FY 2006 reflects a \$.36 levy for payment of debt on the new law enforcement center project and \$.73 levy for payment of the \$500,000 mental health funding note.

**CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Clayton 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 Clayton County Auditor Office, 111 High St-Courthouse, PO Box 416, Elkader, IA 52043-0416.

## Basic Financial Statements

CLAYTON COUNTY  
STATEMENT OF NET ASSETS  
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 9,586,623
Receivables:	
Property tax:	
Delinquent	4,082
Succeeding year	5,912,477
Interest and penalty on property tax	8,264
Accounts	76,328
Accrued interest	14,146
Due from other governments	890,743
Inventories	301,801
Prepaid expenses	64,824
Capital assets, net of accumulated depreciation (note 5)	<u>6,642,891</u>
 Total assets	 <u>23,502,179</u>
Liabilities	
Accounts payable	594,874
Salaries and benefits payable	112,151
Due to other governments (note 6)	231,800
Accrued interest payable	67,043
Reserve for claims incurred but not reported	37,000
Deferred revenue:	
Succeeding year property tax	5,912,477
Long-term liabilities (note 7):	
Portion due or payable within one year:	
Capital lease purchase agreements	15,937
General obligation County jail bonds	115,000
General obligation anticipation loan notes	500,000
Compensated absences	307,027
Portion due or payable after one year:	
Capital lease purchase agreements	71,076
General obligation County jail bonds	<u>2,835,000</u>
 Total liabilities	 <u>10,799,385</u>

CLAYTON COUNTY  
STATEMENT OF NET ASSETS  
June 30, 2005

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 6,239,237
Restricted for:	
Supplemental levy purposes	108,967
Rural services	220,827
Secondary roads	4,975,491
Other special revenue purposes	1,633,571
Jail room and board	29,305
Unrestricted	<u>(504,604)</u>
Total net assets	<u>\$ 12,702,794</u>

See notes to financial statements.

## CLAYTON COUNTY

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Governmental Activities:					
Public safety and legal services	\$ 1,688,498	\$ 92,558	\$ 7,103	\$ -	\$(1,588,837)
Physical health and social services	393,909	3,770	24,711	-	(365,428)
Mental health	1,877,827	25,235	912,746	-	(939,846)
County environment and education	1,152,063	74,253	154,208	-	(923,602)
Roads and transportation	5,386,820	22,214	3,694,315	1,429,917	(240,374)
Government services to residents	475,669	292,819	364	-	(182,486)
Administration	1,353,384	94,744	-	-	(1,258,640)
Non-program	21,450	-	-	-	(21,450)
Interest on long-term debt	67,470	-	-	-	(67,470)
Total	<u>\$ 12,417,090</u>	<u>\$ 605,593</u>	<u>\$ 4,793,447</u>	<u>\$ 1,429,917</u>	<u>\$(5,588,133)</u>
General Revenues:					
Property and other county tax levied for:					
General purposes					4,739,287
Debt service					191
Penalty and interest on property tax					50,438
State tax credits					322,934
Local option sales and services tax					664,248
Gaming Tax					214,549
Hotel/motel tax					9,479
Grants and contributions not restricted to a specific purpose					180,564
Unrestricted investment earnings					193,060
Miscellaneous					96,349
Total general revenues					<u>6,471,099</u>
Change in net assets					882,966
Net assets beginning of year					<u>11,819,828</u>
Net assets end of year					<u>\$ 12,702,794</u>

See notes to financial statements.

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CLAYTON COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash and pooled investments	\$ 468,922	\$ 26,522	\$ 225,983	\$ 4,439,368
Receivables:				
Property tax:				
Delinquent	2,440	642	797	-
Succeeding year	3,303,742	868,795	1,484,576	-
Interest and penalty on property tax	8,264	-	-	-
Accounts	65,593	5,228	1,201	2,045
Accrued interest	14,086	-	-	-
Due from other funds (note 3)	651,529	-	-	2,670
Due from other governments	66,643	-	-	692,620
Inventories	-	-	9,273	292,528
Prepaid expenses	64,824	-	-	-
	\$ 4,646,043	\$ 901,187	\$ 1,721,830	\$ 5,429,231
Total assets				

<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,822,940	\$ 1,587,156	\$ 9,570,891
-	203	4,082
-	255,364	5,912,477
-	-	8,264
-	505	74,572
-	60	14,146
-	-	654,199
-	131,480	890,743
-	-	301,801
-	-	64,824
<u>\$ 2,822,940</u>	<u>\$ 1,974,768</u>	<u>\$ 17,495,999</u>

CLAYTON COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

	Special Revenue			
General	Mental Health	Rural Services	Secondary Roads	
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 158,954	\$ 85,920	\$ 11,887	\$ 182,408
Salaries and benefits payable	37,179	18	687	74,267
Due to other funds (note 3)	2,448	500,483	222	-
Due to other governments (note 6)	9,660	191,903	-	30,237
Deferred revenue:				
Succeeding year property tax	3,303,742	868,795	1,484,576	-
Other	10,170	401	569	43,472
Total liabilities	3,522,153	1,647,520	1,497,941	330,384
 Fund balance:				
Reserved for:				
Inventories	-	-	9,273	292,528
Supplemental levy purposes	115,785	-	-	-
Debt service	-	-	-	-
Jail room and board	29,305	-	-	-
Unreserved, reported in:				
General fund	978,800	-	-	-
Special revenue funds	-	(746,333)	214,616	4,806,319
Capital projects fund	-	-	-	-
Total fund balances	1,123,890	(746,333)	223,889	5,098,847
 Total liabilities and fund balances	\$ 4,646,043	\$ 901,187	\$ 1,721,830	\$ 5,429,231

See notes to financial statements.

<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 109,209	\$ 14,435	\$ 562,813
-	-	112,151
80,372	70,674	654,199
-	-	231,800
-	255,364	5,912,477
-	39,074	93,686
<u>189,581</u>	<u>379,547</u>	<u>7,567,126</u>
-	-	301,801
-	-	115,785
-	724	724
-	-	29,305
-	-	978,800
-	1,594,497	5,869,099
2,633,359	-	2,633,359
<u>2,633,359</u>	<u>1,595,221</u>	<u>9,928,873</u>
<u>\$ 2,822,940</u>	<u>\$ 1,974,768</u>	<u>\$ 17,495,999</u>

## CLAYTON COUNTY

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balances of governmental funds	\$ 9,928,873
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. The cost of assets is \$11,742,853 and the accumulated depreciation is \$5,099,962.	6,642,891
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	93,686
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The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets.	(51,573)
--	----------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(67,043)
--	----------

Long-term liabilities, including capital leases, bonds payable, anticipation notes and compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,844,040)</u>
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Net assets of governmental activities	<u>\$ 12,702,794</u>
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See notes to financial statements.

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CLAYTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 Year Ended June 30, 2005

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
<b>Revenues:</b>				
Property and other County tax	\$ 2,798,046	\$ 789,547	\$ 1,372,085	\$ -
Interest and penalty on property tax	48,689	-	-	-
Intergovernmental	484,742	966,638	94,585	4,153,829
Licenses and permits	14,540	-	-	1,185
Charges for service	374,935	30,195	7,647	765
Use of money and property	223,860	-	-	500
Miscellaneous	168,860	40	14,245	59,922
<b>Total revenues</b>	<b>4,113,672</b>	<b>1,786,420</b>	<b>1,488,562</b>	<b>4,216,201</b>
<b>Expenditures:</b>				
<b>Operating:</b>				
Public safety and legal services	1,678,593	-	-	-
Physical health and social services	393,738	-	-	-
Mental health	-	1,877,827	-	-
County environment and education	600,243	-	334,136	1,232
Roads and transportation	106,812	-	-	5,012,733
Government services to residents	418,648	-	-	-
Administration	1,275,582	-	-	-
Non-program	21,450	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	274,742
<b>Total expenditures</b>	<b>4,495,066</b>	<b>1,877,827</b>	<b>334,136</b>	<b>5,288,707</b>
Excess (deficiency) of revenues over (under) expenditures	(381,394)	(91,407)	1,154,426	(1,072,506)
<b>Other financing sources (uses):</b>				
Sale of capital assets	328	-	-	-
Interfund transfers in (note 4)	-	-	-	1,167,089
Interfund transfers out (note 4)	(94,706)	-	(1,072,383)	-
Execution of capital lease	-	-	-	106,778
General obligation bonds issued	-	-	-	-
General obligation notes issued	100,000	-	-	-
<b>Total other financing sources (uses)</b>	<b>5,622</b>	<b>-</b>	<b>(1,072,383)</b>	<b>1,273,867</b>

	Capital Projects	Nonmajor Governmental Funds	Total
\$	-	\$ 648,073	\$ 5,607,751
	-	-	48,689
	-	11,215	5,711,009
	-	-	15,725
	-	4,659	418,201
	37,452	1,782	263,594
	-	29,706	272,773
	<u>37,452</u>	<u>695,435</u>	<u>12,337,742</u>
	-	-	1,678,593
	-	-	393,738
	-	-	1,877,827
	-	759	936,370
	-	-	5,119,545
	-	50,099	468,747
	-	70,674	1,346,256
	-	-	21,450
	100	327	427
	353,993	337,183	965,918
	<u>354,093</u>	<u>459,042</u>	<u>12,808,871</u>
	<u>(316,641)</u>	<u>236,393</u>	<u>(471,129)</u>
	-	-	328
	-	-	1,167,089
	-	-	(1,167,089)
	-	-	106,778
	2,950,000	-	2,950,000
	-	-	100,000
	<u>2,950,000</u>	<u>-</u>	<u>3,157,106</u>

CLAYTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 Year Ended June 30, 2005

		<u>Special Revenue</u>		
	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>
Net change in fund balances	\$ (375,772)	\$ (91,407)	\$ 82,043	\$ 201,361
Fund balances beginning of year	<u>1,499,662</u>	<u>(654,926)</u>	<u>141,846</u>	<u>4,897,486</u>
Fund balances end of year	<u>\$ 1,123,890</u>	<u>\$ (746,333)</u>	<u>\$ 223,889</u>	<u>\$ 5,098,847</u>

See notes to financial statements.

<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 2,633,359	\$ 236,393	\$ 2,685,977
-	1,358,828	7,242,896
<u>\$ 2,633,359</u>	<u>\$ 1,595,221</u>	<u>\$ 9,928,873</u>

CLAYTON 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 \$ 2,685,977

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. The amount of capital outlays and  
depreciation expense in the current year are as follows:

Capital outlays	\$ 1,327,450	
Capital assets contributed by the Iowa Department of Transportation	979,869	
Depreciation expense	<u>(817,034)</u>	1,490,285

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	936	
Other	<u>(18,819)</u>	(17,883)

Proceeds from the issuance of long-term obligations provide current  
financial resources to governmental funds, but issuing debt increases  
long-term liabilities in the statement of net assets. (3,156,778)

Repayment of bond principal is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the statement of net  
assets. 19,765

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	11,198	
Interest on long-term debt	<u>(67,043)</u>	(55,845)

The Internal Service Fund is used by management to charge the costs of  
employee health benefits to individual funds. The change in net assets  
of the Internal Service Fund is reported with governmental activities. (82,555)

Change in net assets of governmental activities \$ 882,966

See notes to financial statements.

CLAYTON COUNTY  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 June 30, 2005

	<u>Internal Service - Employee Group Health</u>
Assets	
Cash and cash equivalents	\$ 15,732
Accounts receivable	<u>1,756</u>
Total assets	<u>17,488</u>
Liabilities	
Accounts payable	32,061
Reserve for claims incurred but not reported	<u>37,000</u>
Total liabilities	<u>69,061</u>
Net Assets	
Unrestricted	<u><u>\$ (51,573)</u></u>

See notes to financial statements.

CLAYTON COUNTY  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 Year Ended June 30, 2005

	<u>Internal Service - Employee Group Health</u>
Operating revenues:	
Reimbursements from operating funds	\$ 146,536
Stop-loss recoveries	<u>82,043</u>
Total operating revenues	<u>228,579</u>
Operating expenses:	
Medical claims	<u>311,134</u>
Operating loss	(82,555)
Net assets beginning of year	<u>30,982</u>
Net assets end of year	<u><u>\$ (51,573)</u></u>

See notes to financial statements.

CLAYTON COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2005

	<u>Internal Service - Employee Group Health</u>
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 146,536
Cash received from stop-loss recoveries	80,566
Cash payments to suppliers for services	<u>(292,517)</u>
Net cash used in operating activities	<u>(65,415)</u>
Cash flows from non-capital financing activities	
Cash received from interfund loan	37,000
Cash payments to repay interfund loan	<u>(37,000)</u>
	<u>-</u>
Net decrease in cash and cash equivalents	(65,415)
Cash and cash equivalents at beginning of year	<u>81,147</u>
Cash and cash equivalents at end of year	<u>\$ 15,732</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (82,555)
Adjustments to reconcile operating loss to net cash used in operating activities:	
(Increase) in accounts receivable	(1,477)
(Decrease) in accounts payable	(18,383)
Increase in reserve for claims incurred but not reported	<u>37,000</u>
Net cash used in operating activities	<u>\$ (65,415)</u>

See notes to financial statements.

CLAYTON COUNTY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
June 30, 2005

Assets	
Cash and pooled investments:	
County Treasurer	\$ 823,378
Other County officials	28,425
Receivables:	
Property tax:	
Delinquent	11,596
Succeeding year	13,562,644
Accounts	25,645
Accrued interest	50
Due from other governments	2,354
Prepaid insurance	<u>782</u>
Total assets	<u>\$ 14,454,874</u>
Liabilities	
Accounts payable	\$ 32,765
Salaries and benefits payable	521
Due to other governments (note 6)	14,401,349
Trusts payable	17,763
Compensated absences	<u>2,476</u>
Total liabilities	<u>\$ 14,454,874</u>

See notes to financial statements.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 1. Summary of Significant Accounting Policies

Clayton 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 principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Clayton County has included all funds, organizations, 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. The County has no component units which the Governmental Accounting Standards Board criteria.

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: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Public Safety Commission and Clayton County Joint E-911 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 the Agency Funds of the County.

Joint Venture – The County is a participant in the Winneshiek County Area Solid Waste Agency. The County appoints a member to the agency board and is guaranteed access to the landfill so long as it is a member. The agency board sets tonnage fee rates which are charged to contracted haulers who are responsible for garbage collection and billing and collecting from local residents. Audited financial statements of Winneshiek County Area Solid Waste Agency are available at the Agency's office located at 2000 140<sup>th</sup> Avenue, Decorah, Iowa 52101.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. 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 attributable 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, which 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 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 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, proprietary, and fiduciary funds, even though the latter are 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.

The County reports the following major governmental funds:

The General Fund is the main 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 to fund mental health, mental retardation, and developmental disabilities services.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Special Revenue (continued):

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the County reports the following funds:

Proprietary Fund - An Internal Service Fund is used to account for the financing of health insurance provided to the employees of the various departments of the County.

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. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property 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.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. 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 proprietary fund of the County applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's internal service fund are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – 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. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% 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.

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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.

Prepaid Expenditures – Payments made for insurance for a future period beyond June 30, 2005 are recorded as prepaid insurance. The fund balances in the governmental fund types have been reserved for the prepaid expenditures recorded in those funds. This reflects the amount of net assets not currently available for expenditure.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include 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. 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.

Asset Class	Amount
Infrastructure	\$ 50,000
Land, buildings and improvements	5,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50
Improvements other than buildings	10-50
Infrastructure	30-50
Equipment	5-15

The County is applying the transition rules on infrastructure and is only reporting the infrastructure that was put into service during and after the fiscal year ending June 30, 2003, the year of implementation of GASB Statement number 34. The County has until June 30, 2007 to report all the infrastructure assets retroactively to July, 1980.

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

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

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means 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 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 unspent grant proceeds, the succeeding year property tax receivable, delinquent property tax receivables 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 and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is recorded in the governmental fund financial statements only for employees that 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, Rural Services and Secondary Roads Funds.

County employees receive vacation leave at the following rates:

<u>Years of Service</u>	<u>Vacation Days Earned per Month</u>
After 1	0.42
2-9	0.83
10-16	1.25
17*	1.67

\* Secondary Road and Sheriff's employees only

Employees may accumulate up to 20 days vacation and carry over up to five (5) days each year. Sick leave accrues at the rate of two days per month and employees may accumulate up to 90 days sick leave. These accumulations are not recognized as expenditures by the County until used. The County's policy generally prohibits payoff of accumulated sick leave at termination of employment. However, if the employee retires with IPERS eligibility and has at least 10 years of continuous service, 30% of the total amount accumulated is paid. Also, after 90 days of sick leave has been accumulated, sick leave may be converted to a maximum of 5 vacation days on a sliding scale. In accordance with GASB Statement 16, the County has accrued the liability for accrued vacation leave in the accompanying financial statements. In the fund financial statements, governmental funds report only the compensated absences liability payable from expendable available financial resources. The County's approximate maximum liability for accrued vacation pay at June 30, 2005 is \$307,027.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

In accordance with Code of Iowa Chapter 509A.13, the County provides post-employment health care benefits. Employees retiring before attaining sixty-five years of age may continue participation in the plan at their own expense until the employee attains sixty-five years of age.

Long-term Liabilities – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances – 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the ten County functions. However, disbursements in certain departments exceeded the amounts appropriated prior to being amended.

Note 2. Cash and Pooled Investments

Except as noted below, 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. The chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. However, the County's depository limit was exceeded by \$1,441,985 prior to year end at Luana Savings Bank and by \$1,739 at year end at People's State Bank.

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.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 2. Cash and Pooled Investments (continued)

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,794,521 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 Iowa Public Agency Investment Trust is unrated.

Note 3. Due from and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue:	
	Mental Health	\$ 500,483
	Tax Increment Financing	70,674
	Capital Projects - County Jail	80,372
Special Revenue:		
Secondary Roads	General	2,448
	Special Revenue:	
	Rural Services	<u>222</u>
Total		<u>\$ 654,199</u>

These balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

CLAYTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2005

Note 4. 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>
Special Revenue: Secondary Roads	General	\$ 94,706
	Special Revenue: Rural Services	<u>1,072,383</u>
		<u>\$ 1,167,089</u>

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

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 5. Capital Assets

A summary of capital assets activity for the year ended June 30, 2005 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 70,684	\$ 343,912	\$ 317,085	\$ 97,511
Capital assets being depreciated:				
Machinery and equipment	6,255,182	718,411	298,675	6,674,918
Infrastructure	3,408,343	1,562,081	-	4,970,424
Total capital assets being depreciated	<u>9,663,525</u>	<u>2,280,492</u>	<u>298,675</u>	<u>11,645,342</u>
Less accumulated depreciation for:				
Machinery and equipment	4,373,102	620,825	298,675	4,695,252
Infrastructure	208,501	196,209	-	404,710
Total accumulated depreciation	<u>4,581,603</u>	<u>817,034</u>	<u>298,675</u>	<u>5,099,962</u>
Total capital assets being depreciated, net	<u>5,081,922</u>	<u>1,463,458</u>	<u>-</u>	<u>6,545,380</u>
Governmental activities capital assets, net	<u>\$ 5,152,606</u>	<u>\$ 1,807,370</u>	<u>\$ 317,085</u>	<u>\$ 6,642,891</u>

The County has equipment purchased through a capital lease purchase agreement totaling \$106,778.

Depreciation expense was charged to the following functions:

Governmental activities:	
Roads and transportation	\$ <u>817,034</u>

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 6. Due to Other Governments

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

<u>Fund</u>	<u>Description</u>	<u>Services and Collections</u>	<u>Delinquent and Succeeding Year Property Taxes</u>	<u>Total</u>
General	Services	\$ 9,660	\$ -	\$ 9,660
Special Revenue:				
Mental Health	Services	191,903	-	191,903
Secondary Roads	Services	30,237	-	30,237
		<u>222,140</u>	<u>-</u>	<u>222,140</u>
Total for governmental funds		\$ <u>231,800</u>	\$ <u>-</u>	\$ <u>231,800</u>
Agency:				
County Assessor	Collections	\$ 141,124	\$ 322,031	\$ 463,155
Schools		202,517	9,478,961	9,681,478
Area Schools		8,530	413,318	421,848
Corporations		68,588	2,840,680	2,909,268
Townships		7,145	371,351	378,496
Auto license and use tax		327,419	-	327,419
All Other		71,786	147,899	219,685
Total for agency funds		\$ <u>827,109</u>	\$ <u>13,574,240</u>	\$ <u>14,401,349</u>

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 7. Long-Term Liabilities

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

	Capital Lease Purchase Agreements	General Obligation County Jail Bonds	General Obligation Anticipation Note	Compensated Absences	Total
Balance beginning of year	\$ -	\$ -	\$ 400,000	\$ 318,225	\$ 718,225
Increases	106,778	2,950,000	100,000	307,027	3,463,805
Decreases	19,765	-	-	318,225	337,990
Balance end of year	<u>\$ 87,013</u>	<u>\$ 2,950,000</u>	<u>\$ 500,000</u>	<u>\$ 307,027</u>	<u>\$ 3,844,040</u>
Due within one year	<u>\$ 15,937</u>	<u>\$ 115,000</u>	<u>\$ 500,000</u>	<u>\$ 307,027</u>	<u>\$ 937,964</u>

Capital Lease Purchase Agreements

The County has entered into a capital lease purchase agreement to lease a tractor and mower with historical costs of \$63,778 and \$43,000, respectively, and annual amortization of \$19,765. The following is a schedule of the future minimum lease payments, including interest at 4.399% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2005:

Year Ending June 30,	Total
2006	\$ 19,765
2007	19,765
2008	19,765
2009	19,765
2010	<u>19,765</u>
Total minimum lease payments	98,825
Less amount representing interest	<u>(11,812)</u>
Present value of net minimum lease payments	<u>\$ 87,013</u>

Payments under capital lease purchase agreements for the year ended June 30, 2005 totaled \$19,765.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 7. Long-Term Liabilities (continued)

Bonds Payable

During the year ended June 30, 2005, the County issued \$2,950,000 in general obligation County jail bonds with interest rates ranging from 2.5% to 4.2%. The proceeds will be used to construct and equip a new County jail.

A summary of the County's June 30, 2005, general obligation County jail bonded indebtedness is as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	2.50 %	\$ 115,000	\$ 139,133	\$ 254,133
2007	2.50	160,000	101,475	261,475
2008	3.00	165,000	97,475	262,475
2009	3.00	170,000	92,525	262,525
2010	3.25	175,000	87,425	262,425
2011	3.25	185,000	81,738	266,738
2012	3.40	190,000	75,725	265,725
2013	3.50	195,000	69,265	264,265
2014	3.60	205,000	62,440	267,440
2015	3.70	210,000	55,060	265,060
2016	3.80	220,000	47,290	267,290
2017	3.90	225,000	38,930	263,930
2018	4.00	235,000	30,155	265,155
2019	4.10	245,000	20,755	265,755
2020	4.20	255,000	10,710	265,710
		<u>\$ 2,950,000</u>	<u>\$ 1,010,101</u>	<u>\$ 3,960,101</u>

Anticipation Note Payable

During the year ended June 30, 2005, the County issued a \$100,000 general obligation anticipation note with an interest rate of 2.875% for the purpose of funding mental health services.

A summary of the County's June 30, 2005, general obligation anticipation note indebtedness is as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	2.875 %	\$ 500,000	\$ 14,375	\$ 514,375

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 8. 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, P.O. 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 7.48%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$223,683, \$204,679 and \$199,486, respectively, equal to the required contributions for each year.

Note 9. Risk Management

Clayton 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 member 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 \$127,225.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 9. Risk Management (continued)

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 June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

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

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Employee Health Insurance Plan

Clayton County is partially self-insured for health insurance coverage. The plan is funded by both employee and County contributions and is administered through a service agreement with Employee Group Services, LTD. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitations of \$15,000 and \$1,000,000 overall annually. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the County's Health fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Employees Group Services, LTD from the County's health fund. The County records the plan assets and related liabilities of the Self-Funded Insurance Fund as an Internal Service Fund. The County's contribution to the fund for the year ended June 30, 2005 was \$146,536.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 9. Risk Management (continued)

Employee Health Insurance Plan (continued)

A liability has been established based on the requirements of Government Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The County also includes a liability for claims incurred but not reported in accordance with Financial Accounting Standards Board Statement number 5. This liability is determined actuarially and was \$37,000 at June 30, 2005.

An analysis of claims activity in the internal service fund follows:

	<u>2004</u>	<u>2005</u>
Beginning liability	\$ 32,049	\$ 50,444
Claims and changes in estimates	214,223	311,134
Claim payments	<u>(195,828)</u>	<u>(292,517)</u>
Ending liability	<u>\$ 50,444</u>	<u>\$ 69,061</u>

Note 10. Construction and Other Commitments

The County has entered into contracts totaling \$2,847,891 for road and bridge projects and construction of a new jail. As of June 30, 2005, costs of \$97,511 have been incurred against the contracts. The balance remaining at June 30, 2005 of \$2,750,380 will be paid as work on the projects progresses.

The County has agreed to provide Scenic Acres financial support for the period July 1, 2005 through June 30, 2006. Financial support for the year ended June 30, 2005 totaled \$554,809.

The County has entered into two tax increment financing (TIF) arrangements. One agreement for the River Bluff Urban Renewal Area requires quarterly payments of 50% of the hotel/motel tax collected by the County to River Bluff. Property tax revenues from property valuation increases in the TIF area will be used to retire a \$20,000,000 revenue bond to be issued by the County. Another agreement for the Diamond Eagle Village Urban Renewal Area call for payments of the property tax revenues from property valuation increases in the TIF area to be made to the developer as the revenues are available over the next ten years. Total payments to the developer are not to exceed \$430,000. No payments were made under these agreements for the fiscal year ended June 30, 2005.

Note 11. Financial Condition

The Special Revenue Fund, Tax Increment Financing, reported within the nonmajor governmental funds, had a deficit fund balance of \$67,853 at June 30, 2005. Also, the County's Major Fund, Special Revenue Mental Health had a deficit fund balance of \$746,333 at June 30, 2005. In addition, the County's governmental activities had deficit unrestricted net assets of \$504,604 at June 30, 2005. The County's Internal Service Fund also had deficit net assets of \$51,573 at June 30, 2005.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

Note 12. Capital Assets

The County does not have a complete listing of buildings, improvements and equipment, and the related depreciation, as required by accounting principles generally accepted in the United States of America. This was required by the County's implementation date of June 30, 2003, for Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Capital assets are required to be included in the governmental activities of the County. The County has until June 30, 2007 to report the general infrastructure assets of the County (such as bridges and road networks), which must include all infrastructure added since July, 1980.

Note 13. Subsequent Events

In July, 2005 the County refinanced the \$500,000 general obligation anticipation note which was due July 1, 2005. The County made a \$50,000 payment on the original note in July, 2005. The refinancing agreement has a face value of \$450,000 and bears an annual percentage rate of 4.875.

In September, 2005 the County issued a \$20,000,000 Urban Renewal Tax Increment Revenue Bond for the River Bluff Urban Renewal Area. The bond is payable solely from incremental property tax revenues generated from the River Bluff Urban Renewal Area and bears an interest rate of 8% per annum.

Required Supplementary Information

CLAYTON 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

	Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
<b>RECEIPTS:</b>				
Property and other County tax	\$ 5,563,157	\$ 5,448,328	\$ 5,851,784	\$ (288,627)
Interest and penalty on property tax	48,643	50,810	50,810	(2,167)
Intergovernmental	5,354,037	4,569,452	4,950,946	403,091
Licenses and permits	15,005	15,100	15,100	(95)
Charges for service	422,768	347,722	410,512	12,256
Use of money and property	270,099	80,990	238,635	31,464
Miscellaneous	220,263	225,050	484,308	(264,045)
Total receipts	<u>11,893,972</u>	<u>10,737,452</u>	<u>12,002,095</u>	<u>(108,123)</u>
<b>DISBURSEMENTS:</b>				
Public safety and legal services	1,688,483	1,765,116	1,795,219	106,736
Physical health and social services	395,769	476,954	477,024	81,255
Mental health	1,867,829	1,623,194	1,905,094	37,265
County environment and education	950,903	892,466	1,016,827	65,924
Roads and transportation	5,025,032	5,375,950	5,047,823	22,791
Government services to residents	465,714	400,237	505,872	40,158
Administration	1,304,998	1,128,263	1,690,277	385,279
Non-program	21,450	1,300	22,750	1,300
Debt service	327	-	730	403
Capital projects	832,943	1,100,775	2,373,393	1,540,450
Total disbursements	<u>12,553,448</u>	<u>12,764,255</u>	<u>14,835,009</u>	<u>2,281,561</u>
Excess (deficiency) of receipts over (under) disbursements	(659,476)	(2,026,803)	(2,832,914)	2,173,438
Other financing sources, net	<u>3,157,974</u>	<u>15,700</u>	<u>3,066,570</u>	<u>91,404</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,498,498	(2,011,103)	233,656	2,264,842
Balance beginning of year	<u>7,072,393</u>	<u>3,841,591</u>	<u>7,153,558</u>	<u>(81,165)</u>
Balance end of year	<u>\$ 9,570,891</u>	<u>\$ 1,830,488</u>	<u>\$ 7,387,214</u>	<u>\$ 2,183,677</u>

See accompanying independent auditor's report.

CLAYTON COUNTY

Budgetary Comparison Schedule – Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year Ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 11,893,972	\$ 443,770	\$ 12,337,742
Expenditures	12,553,448	255,423	12,808,871
Net	(659,476)	188,347	(471,129)
Other financing sources	3,157,974	(868)	3,157,106
Beginning fund balances	7,072,393	170,503	7,242,896
Ending fund balances	<u>\$ 9,570,891</u>	<u>\$ 357,982</u>	<u>\$ 9,928,873</u>

See accompanying independent auditor's report.

CLAYTON COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental 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 ten major classes of expenditures known as functions, not by fund or fund type. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government 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 \$2,070,754. These 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 E-911 System by the Joint E-911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the ten County functions. However, disbursements in certain departments exceeded the amounts appropriated prior to being amended.

Other Supplementary Information

CLAYTON COUNTY  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2005

	Special Revenue			
	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhancement and Protection	Conservation Land Acquisition
Assets				
Cash and pooled investments	\$ 2,162	\$ 4,153	\$ 12,596	\$ 5,137
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Accounts	414	-	-	91
Accrued interest	12	39	9	-
Due from other governments	-	-	-	-
Total assets	\$ 2,588	\$ 4,192	\$ 12,605	\$ 5,228
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 1,320	\$ 5,143
Due to other funds	-	-	-	-
Deferred revenue:				
Succeeding year property tax	-	-	-	-
Other	-	-	-	-
Total liabilities	-	-	1,320	5,143
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Unreserved	2,588	4,192	11,285	85
Total fund equity	2,588	4,192	11,285	85
Total liabilities and fund equity	\$ 2,588	\$ 4,192	\$ 12,605	\$ 5,228

See accompanying independent auditor's report.

<u>Sheriff Drug Forfeiture</u>	<u>Local Option Sales and Services Tax Rural Development</u>	<u>Local Option Sales and Services Tax Secondary Roads</u>	<u>Tax Increment Financing</u>	<u>Debt Service</u>	<u>Total</u>
\$ 11,739	\$ 249,944	\$ 1,297,950	\$ 2,821	\$ 654	\$ 1,587,156
-	-	-	11	192	203
-	-	-	-	255,364	255,364
-	-	-	-	-	505
-	-	-	-	-	60
-	19,722	111,758	-	-	131,480
<u>\$ 11,739</u>	<u>\$ 269,666</u>	<u>\$ 1,409,708</u>	<u>\$ 2,832</u>	<u>\$ 256,210</u>	<u>\$ 1,974,768</u>
\$ -	\$ 259	\$ 7,713	\$ -	\$ -	\$ 14,435
-	-	-	70,674	-	70,674
-	-	-	-	255,364	255,364
-	5,841	33,100	11	122	39,074
-	6,100	40,813	70,685	255,486	379,547
-	-	-	-	724	724
11,739	263,566	1,368,895	(67,853)	-	1,594,497
11,739	263,566	1,368,895	(67,853)	724	1,595,221
<u>\$ 11,739</u>	<u>\$ 269,666</u>	<u>\$ 1,409,708</u>	<u>\$ 2,832</u>	<u>\$ 256,210</u>	<u>\$ 1,974,768</u>

CLAYTON COUNTY

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	Special Revenue			
	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhancement and Protection	Conservation Land Acquisition
Revenues:				
Property and other County tax	\$ -	\$ -	\$ -	-
Intergovernmental	-	-	11,215	-
Charges for service	4,567	-	-	92
Use of money and property	146	345	248	-
Miscellaneous	-	-	-	27,883
Total revenues	<u>4,713</u>	<u>345</u>	<u>11,463</u>	<u>27,975</u>
Expenditures:				
Operating:				
County environment and education	-	-	-	-
Government services to residents	17,000	33,099	-	-
Administration	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	34,726	37,330
Total expenditures	<u>17,000</u>	<u>33,099</u>	<u>34,726</u>	<u>37,330</u>
Excess (deficiency) of revenues over (under) expenditures	(12,287)	(32,754)	(23,263)	(9,355)
Fund balances beginning of year	<u>14,875</u>	<u>36,946</u>	<u>34,548</u>	<u>9,440</u>
Fund balances end of year	<u>\$ 2,588</u>	<u>\$ 4,192</u>	<u>\$ 11,285</u>	<u>\$ 85</u>

See accompanying independent auditor's report.

Sheriff Drug Forfeiture	Local Option Sales and Services Tax Rural Development	Local Option Sales and Services Tax Secondary Roads	Tax Increment Financing	Debt Service	Total
\$ -	\$ 96,778	\$ 548,404	\$ 2,821	\$ 70	\$ 648,073
-	-	-	-	-	11,215
-	-	-	-	-	4,659
62	-	-	-	981	1,782
1,823	-	-	-	-	29,706
<u>1,885</u>	<u>96,778</u>	<u>548,404</u>	<u>2,821</u>	<u>1,051</u>	<u>695,435</u>
-	759	-	-	-	759
-	-	-	-	-	50,099
-	-	-	70,674	-	70,674
-	-	-	-	327	327
-	-	265,127	-	-	337,183
<u>-</u>	<u>759</u>	<u>265,127</u>	<u>70,674</u>	<u>327</u>	<u>459,042</u>
1,885	96,019	283,277	(67,853)	724	236,393
<u>9,854</u>	<u>167,547</u>	<u>1,085,618</u>	<u>-</u>	<u>-</u>	<u>1,358,828</u>
<u>\$ 11,739</u>	<u>\$ 263,566</u>	<u>\$ 1,368,895</u>	<u>\$ (67,853)</u>	<u>\$ 724</u>	<u>\$ 1,595,221</u>

CLAYTON COUNTY

COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS

June 30, 2005

	<u>County Auditor</u>	<u>County Recorder</u>	<u>County Sheriff</u>	<u>Agricultural Extension Education</u>
<b>ASSETS</b>				
Cash and pooled investments:				
County Treasurer	\$ -	\$ -	\$ -	2,966
Other County officials	719	20,214	7,492	-
Receivables:				
Property tax:				
Delinquent	-	-	-	107
Succeeding year	-	-	-	145,060
Accounts	-	-	-	-
Accrued interest	-	-	-	-
Due from other governments	-	-	-	-
Prepaid insurance	-	-	-	-
	<hr/>			
Total assets	<u>\$ 719</u>	<u>\$ 20,214</u>	<u>\$ 7,492</u>	<u>\$ 148,133</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 14,038	\$ -	-
Salaries and benefits payable	-	-	-	-
Due to other governments	-	5,600	-	148,133
Trusts payable	719	576	7,492	-
Compensated absences	-	-	-	-
	<hr/>			
Total liabilities	<u>\$ 719</u>	<u>\$ 20,214</u>	<u>\$ 7,492</u>	<u>\$ 148,133</u>

<u>Assessor</u>	<u>Emergency Management</u>	<u>Schools</u>	<u>Area Schools</u>	<u>Corporations</u>	<u>Townships</u>	<u>City Special Assessments</u>
\$ 144,917	\$ 15,199	\$ 202,517	\$ 8,530	\$ 68,588	\$ 7,145	\$ 1,238
-	-	-	-	-	-	-
238	-	6,903	305	3,872	169	-
321,793	-	9,472,058	413,013	2,836,808	371,182	-
1,696	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 468,644</u>	<u>\$ 15,199</u>	<u>\$ 9,681,478</u>	<u>\$ 421,848</u>	<u>\$ 2,909,268</u>	<u>\$ 378,496</u>	<u>\$ 1,238</u>
\$ 3,308	\$ 62	\$ -	\$ -	\$ -	\$ -	\$ -
521	-	-	-	-	-	-
463,155	14,321	9,681,478	421,848	2,909,268	378,496	1,238
-	-	-	-	-	-	-
1,660	816	-	-	-	-	-
<u>\$ 468,644</u>	<u>\$ 15,199</u>	<u>\$ 9,681,478</u>	<u>\$ 421,848</u>	<u>\$ 2,909,268</u>	<u>\$ 378,496</u>	<u>\$ 1,238</u>

CLAYTON COUNTY

COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS

June 30, 2005

	<u>Auto License and Use Tax</u>	<u>Brucellosis and Tuberculosis Eradication</u>	<u>E-911 Governmental</u>	<u>E-911 Surcharge</u>
<b>ASSETS</b>				
Cash and pooled investments:				
County Treasurer	\$ 341,331	\$ 57	\$ 16,184	\$ 5,286
Other County officials	-	-	-	-
Receivables:				
Property tax:				
Delinquent	-	2	-	-
Succeeding year	-	2,730	-	-
Accounts	-	-	-	23,535
Accrued interest	-	-	25	25
Due from other governments	-	-	-	2,354
Prepaid insurance	-	-	-	782
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 341,331</u>	<u>\$ 2,789</u>	<u>\$ 16,209</u>	<u>\$ 31,982</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 13,912	\$ -	\$ -	\$ 1,445
Salaries and benefits payable	-	-	-	-
Due to other governments	327,419	2,789	16,209	30,537
Trusts payable	-	-	-	-
Compensated absences	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>\$ 341,331</u>	<u>\$ 2,789</u>	<u>\$ 16,209</u>	<u>\$ 31,982</u>

<u>Tax Sale</u>	<u>Recorder's Electronic Transaction Fees</u>	<u>Total</u>
\$ 8,976	\$ 444	\$ 823,378
-	-	28,425
-	-	11,596
-	-	13,562,644
-	414	25,645
-	-	50
-	-	2,354
-	-	782
<u>\$ 8,976</u>	<u>\$ 858</u>	<u>\$ 14,454,874</u>
\$ -	\$ -	\$ 32,765
-	-	521
-	858	14,401,349
8,976	-	17,763
-	-	2,476
<u>\$ 8,976</u>	<u>\$ 858</u>	<u>\$ 14,454,874</u>

CLAYTON COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUNDS  
 Year Ended June 30, 2005

	County Offices			Agricultural Extension Education
	County Auditor	County Recorder	County Sheriff	
<b>ASSETS AND LIABILITIES</b>				
Balances beginning of year	\$ 719	\$ 13,131	\$ 5,226	\$ 141,762
Additions:				
Property and other County tax	-	-	-	136,297
State tax credits	-	-	-	8,892
E-911 surcharge	-	-	-	-
Reimbursements from other governments	-	-	-	-
Office fees and collections	887	288,898	69,203	-
Auto licenses, use tax, driver licenses, and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	11	2,385	170,413	-
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
Total additions	898	291,283	239,616	145,189
Deductions:				
Agency Remittance:				
To other funds	887	126,233	69,167	-
To other governments	-	156,158	36	138,818
Trusts paid out	11	1,809	168,147	-
Total deductions	898	284,200	237,350	138,818
Balances end of year	\$ 719	\$ 20,214	\$ 7,492	\$ 148,133

<u>Assessor</u>	<u>Emergency Management</u>	<u>Schools</u>	<u>Area Schools</u>	<u>Corporations</u>	<u>Townships</u>	<u>City Special Assessments</u>
\$ 490,324	\$ 40,250	\$ 9,683,740	\$ 426,505	\$ 2,791,588	\$ 356,060	\$ 5,247
303,719	-	8,858,464	369,147	3,612,591	320,206	-
17,862	-	606,965	25,567	204,818	20,185	-
-	-	-	-	-	-	-
-	41,524	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	24,096
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6,216	5,176	-	-	-	-	-
<u>327,797</u>	<u>46,700</u>	<u>9,465,429</u>	<u>394,714</u>	<u>3,817,409</u>	<u>340,391</u>	<u>24,096</u>
-	-	-	-	-	-	-
349,477	71,751	9,467,691	399,371	3,699,729	317,955	28,105
-	-	-	-	-	-	-
<u>349,477</u>	<u>71,751</u>	<u>9,467,691</u>	<u>399,371</u>	<u>3,699,729</u>	<u>317,955</u>	<u>28,105</u>
\$ <u>468,644</u>	\$ <u>15,199</u>	\$ <u>9,681,478</u>	\$ <u>421,848</u>	\$ <u>2,909,268</u>	\$ <u>378,496</u>	\$ <u>1,238</u>

CLAYTON COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUNDS  
 Year Ended June 30, 2005

	Auto License and Use Tax	Brucellosis and Tuberculosis Eradication	E-911 Governmental	E-911 Surcharge
<b>ASSETS AND LIABILITIES</b>				
Balances beginning of year	\$ 308,554	\$ 2,854	\$ 16,072	\$ 27,225
Additions:				
Property and other County tax	-	2,429	-	-
State tax credits	-	171	-	-
E-911 surcharge	-	-	-	123,562
Reimbursements from other governments	-	-	-	-
Office fees and collections	-	-	-	-
Auto licenses, use tax, driver licenses, and postage	3,927,187	-	-	-
Assessments	-	-	-	-
Trusts	-	-	-	-
Interest on investments	-	-	127	86
Miscellaneous	-	-	10	4,404
Total additions	<u>3,927,187</u>	<u>2,600</u>	<u>137</u>	<u>128,052</u>
Deductions:				
Agency Remittance:				
To other funds	163,995	-	-	-
To other governments	3,730,415	2,665	-	123,295
Trusts paid out	-	-	-	-
Total deductions	<u>3,894,410</u>	<u>2,665</u>	<u>-</u>	<u>123,295</u>
Balances end of year	<u>\$ 341,331</u>	<u>\$ 2,789</u>	<u>\$ 16,209</u>	<u>\$ 31,982</u>

See accompanying independent auditor's report.

<u>Tax Sale</u>	<u>Recorder's Electronic Transaction Fees</u>	<u>Total</u>
\$ 12,802	\$ 1,835	\$ 14,323,894
-	-	13,602,853
-	-	884,460
-	-	123,562
-	-	41,524
-	-	358,988
-	-	3,927,187
-	-	24,096
404,051	-	576,860
-	5	218
-	4,567	20,373
<u>404,051</u>	<u>4,572</u>	<u>19,560,121</u>
-	-	360,282
-	5,549	18,491,015
407,877	-	577,844
<u>407,877</u>	<u>5,549</u>	<u>19,429,141</u>
<u>\$ 8,976</u>	<u>\$ 858</u>	<u>\$ 14,454,874</u>

## CLAYTON COUNTY

## SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2005	2004	2003	2002
<b>Revenues:</b>				
Property and other County tax	\$ 5,607,751	\$ 5,260,956	\$ 4,993,907	\$ 5,041,985
Interest and penalty on property tax	48,689	47,322	45,126	45,882
Intergovernmental	5,711,009	4,708,685	5,437,760	5,242,771
Licenses and permits	15,725	17,447	13,800	18,079
Charges for service	418,201	402,004	361,882	340,872
Use of money and property	263,594	203,814	246,456	368,924
Fines, forfeitures and defaults	-	-	-	3,167
Miscellaneous	272,773	196,190	104,586	249,837
<b>Total</b>	<b>\$ 12,337,742</b>	<b>\$ 10,836,418</b>	<b>\$ 11,203,517</b>	<b>\$ 11,311,517</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Public safety and legal services	\$ 1,678,593	\$ 1,593,078	\$ 1,477,321	\$ 1,372,028
Physical health and social services	393,738	433,711	446,171	554,568
Mental health	1,877,827	1,812,628	1,779,526	1,803,128
County environment and education services	936,370	869,523	846,556	711,861
Roads and transportation	5,119,545	4,183,964	5,457,772	4,820,657
Governmental services to residents	468,747	332,604	484,483	430,278
Administrative services	1,346,256	960,641	847,223	984,985
Non-program	21,450	-	-	-
Debt service	427	-	-	-
Capital projects	965,918	287,531	195,319	1,486,311
<b>Total</b>	<b>\$ 12,808,871</b>	<b>\$ 10,473,680</b>	<b>\$ 11,534,371</b>	<b>\$ 12,163,816</b>

See accompanying independent auditor's report.

CLAYTON COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2005

Grantor/Program	CFDA Number	Grant Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for			
Food Stamp Program	10.561	FY 05	\$ <u>2,983</u>
Department of Housing and Economic Development:			
Iowa Department of Economic Development:			
Community Development Block Grant	14.228	02-CF-020-01	<u>166,509</u>
Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS22(38)	<u>184,922</u>
Department of Public Safety:			
Iowa Department of Public Safety:			
Alcohol Traffic Safety and Drunk Driving			
Prevention Incentive Grants	20.601	04-157, Task 34	<u>3,450</u>
Department of Health and Human Services:			
Iowa Department of Human Services:			
Social Services Block Grant	93.667	FY 05	<u>78,494</u>
Human Services Administrative Reimbursements:			
Medical Assistance Program	93.778	FY 05	4,283
Social Services Block Grant	93.667	FY 05	2,613
Temporary Assistance for Needy Families	93.558	FY 05	3,979
Foster Care - Title IV - E	93.658	FY 05	2,084
Refugee and Entrant Assistance State			
Administered Program	93.566	FY 05	5
Adoption Assistance	93.659	FY 05	486
Child Care Mandatory and Matching Funds of the			
Child Care and Development Fund	93.596	FY 05	<u>778</u>
			<u>14,228</u>

CLAYTON COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2005

Grantor/Program	CFDA Number	Grant Number	Program Expenditures
Indirect (continued):			
Department of Homeland Security:			
Iowa Department of Public Defense:			
Public Assistance Grants	97.036	DRIA 1518	\$ <u>575,131</u>
Hazard Mitigation Grant	97.039	FO94-22-00	<u>2,073</u>
Emergency Management Performance Grant	97.042	FY 05	<u>9,000</u>
State Domestic Preparedness Equipment Support Program	97.004	FY 03	4,996
State Domestic Preparedness Equipment Support Program	97.004	FY 04	<u>7,766</u>
			<u>12,762</u>
			\$ <u><u>1,049,552</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Clayton County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with 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 auditor's report.

INDEPENDENT AUDITOR'S 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 Clayton County:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clayton County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated March 3, 2006. The report on governmental activities was adverse due to the omission of a complete listing of capital assets and related depreciation. 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 Clayton 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clayton County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part 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, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clayton 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, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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 Clayton County and other parties to whom Clayton 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 Clayton 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.

Oskaloosa, Iowa  
March 3, 2006

INDEPENDENT AUDITOR'S 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 Clayton County:

Compliance

We have audited the compliance of Clayton 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. Clayton 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 Clayton County's management. Our responsibility is to express an opinion on Clayton 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 Clayton 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 Clayton County's compliance with those requirements.

In our opinion, Clayton 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 Clayton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants agreements applicable to federal programs. In planning and performing our audit, we considered Clayton 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.

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 Clayton County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements.

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 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. We noted no material weaknesses during the course of our audit.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clayton County and other parties to whom Clayton 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.

Oskaloosa, Iowa  
March 3, 2006

CLAYTON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) An adverse opinion was issued on the County's governmental activities due to the omission of a complete capital asset listing. An unqualified opinion was issued on all other opinion unites.
- (b) Reportable conditions in internal control over financial reporting were 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) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (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 97.036 Public Assistance Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Clayton County did not qualify as a low-risk auditee.

CLAYTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties

Comment – During our review of the internal control structure, 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. We noted that generally one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	<u>Applicable Offices</u>
(1) All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.	Ag Extension, Recorder, Sheriff, Treasurer
(2) Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks or handle or record cash.	Ag Extension, Recorder, Sheriff Treasurer
(3) Checks or warrants should be signed by an individual who does not otherwise participate in the preparation of the checks or warrants. Prior to signing, the checks or warrants and the supporting documentation should be reviewed for propriety. After signing, the checks or warrants should be mailed without allowing them to return to individuals who prepare the checks or warrants or approve vouchers for payment.	Ag Extension, Auditor, Recorder, Sheriff

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by the initials or signature of the reviewer and the date of the review.

CLAYTON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements (continued):

REPORTABLE CONDITIONS (continued):

II-A-05 Segregation of Duties (continued)

Responses –

Ag Extension – We will review procedures and try to make any necessary changes to improve internal control.

County Auditor – We will review procedures and try to make any necessary changes to improve internal control.

County Recorder – We will review procedures and try to make any necessary changes to improve internal control.

County Sheriff – We will review procedures and try to make any necessary changes to improve internal control.

County Treasurer – We will review procedures and try to make any necessary changes to improve internal control.

Conclusion – Responses accepted.

CLAYTON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

CLAYTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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 of Supervisors. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005, by the County Sheriff at People’s State Bank by \$1,739 and by the County Treasurer at the Luana Savings Bank by \$1,441,985. The Sheriff’s account at Peoples State Bank was also over the maximum deposit amount by \$1,739 at year end.

Recommendation – The County should update the depository resolution to cover all anticipated deposits. The limit should be increased as necessary to cover any anticipated increase in deposits.

Response – Sheriff – We updated our depository resolution in September, 2005 to cover all deposits.

Response – Treasurer – We updated our depository resolution in September, 2005 to cover all deposits.

Conclusion – Response accepted.

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted in any of the ten County functions. However, disbursements exceeded budgeted amounts in the County Emergency Management Agency. Also, disbursements in certain departments exceeded the amounts appropriated.

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 service area budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We will amend the budget when required and appropriations will be watched more closely by the departments.

Conclusion – Response accepted.

IV-C-05 Questionable Expenditures – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

However, we noted one expenditure of 40 tested in the amount of \$100.75 for lodging that was paid from a credit card statement only with no further support documentation.

Recommendation – The County should require full documentation for all disbursements such as invoices, receipts, mileage logs or other supporting items.

Response – This was an oversight on this disbursement. We will require full support documentation for all future disbursements.

Conclusion – Response accepted.

CLAYTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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 reviewed periodically to insure that the coverage remains 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 – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County’s investment policy were noted.
- IV-I-05 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to 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 Exhibits A or B.

Disbursements during the year ended June 30, 2005 for the County Extension Office did not exceed the amount budgeted.

The Board Treasurer’s bond covered the amount required by Chapter 176A.14(5) of the Code of Iowa.

We noted that the County Extension Office sometimes writes checks for supplies when the supplies are ordered rather than waiting for the invoice to be received. The checks are then reconciled to the invoice received. We noted two disbursements made without the supporting documentation and one disbursement made with only partial support. We also noted that five invoices were paid with duplicate checks but the original checks were not voided.

Recommendation – No disbursements should be made prior to receiving an invoice. This helps to avoid errors in disbursements and double payments for some orders. All disbursements should require full supporting documentation such as invoices, receipts, mileage records or other items. Any check that is reported lost or misplaced should be immediately voided prior to the issuance of a replacement check.

Response – We will no longer make disbursements at the time we place an order. We will also avoid making any disbursements without full and adequate support documentation. Finally, we will void any check we replace prior to issuing the replacement.

Conclusion – Response accepted.

CLAYTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting (continued):

- IV-K-05 Internal Service Fund – We noted that no interest revenue was allocated to the Internal Service Fund, Employee Group Health as required by Chapter 336.301(12) of the Code of Iowa.

Recommendation – Interest revenue should properly be allocated to the Internal Service Fund in the future as required.

Response – This was an oversight for this year. We will properly allocate interest to the Internal Service Fund in the future.

Conclusion – Response accepted.

- IV-L-05 Sheriff Inmate Room and Board Collections – We noted that the County is not tracking the special inmate room and board collection in separate accounts in accordance with Chapter 356.7(5) of the Code of Iowa.

Recommendation – The County should establish separate revenue accounts for the 40% general County share which can be spent for any General Fund purpose and the 60% law enforcement and jail portion which can only be spent for law enforcement purposes noted in Chapter 356.7(5) of the Code of Iowa. The revenues and expenditures for the 60% portion should be identified by a project number so these revenues and expenditures can be tracked throughout the year. The Sheriff and Board of Supervisors should develop a plan for the use of these funds. These expenditures should be recorded in a separate departmental budget established for this purpose which is separate from the Sheriff's operating departmental budget.

Response – We will review our process for recording these funds and set up the appropriate accounts and departmental budget. The Sheriff and the Board of Supervisors will develop a plan for the proper use of these funds.

Conclusion – Response accepted.

- IV-M-05 Financial Condition – Upon review of monthly fund balances, we noticed that the Internal Service, Employee Group Health, Special Revenue, Mental Health, and Special Revenue, Tax Increment Financing Funds had fund balance deficits during the year. In addition, the Mental Health major fund had a deficit fund balance of \$746,333, the Tax Increment Financing nonmajor fund had a deficit balance of \$67,853, the governmental activities had deficit unrestricted net assets of \$504,604, and the Employee Group Health Fund had deficit net assets of \$51,573 at June 30, 2005. In accordance with Chapter 331.476 of the Code of Iowa, no official should issue a warrant, execute a contract, or allow a claim, which would result in expenditures to exceed revenue collected during the fiscal year plus any unexpended balance from prior year.

Recommendation – We recommend the County expenditures not exceed the revenues collected during the fiscal year plus unexpended balances from prior year in the individual funds. The County would then be in compliance with Chapter 331.476 of the Code of Iowa. The County should investigate alternatives to return the Mental Health Fund to a healthy financial position.

CLAYTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting (continued):

IV-M-05 Fund Balance/Net Assets Deficits (continued)

Response – The Tax Increment Financing fund deficit is due to timing differences between expenditures and the related revenues and should be corrected in the near future. Our self-funded insurance fund had several large claims this year, variations which are expected from year to year. We will look at various alternatives to resolve this situation. The net assets deficit in our governmental activities is related to the large Mental Health Fund deficit. We are investigating alternatives to returning the Mental Health Fund to a sound condition.

Conclusion – Response acknowledged. However, the Mental Health Fund deficit expanded this year by approximately 14 percent. We feel this situation should be addressed in the near future to avoid further subsidization by other County activities.

IV-N-05 Code of Ordinances – The County has not compiled the Code of County Ordinances within five years of the previous compilation. The compilation must be made at least once every five years to be in compliance with Chapter 331.302(9) of the Code of Iowa.

Recommendation – We recommend that the County compile a Code of County Ordinances.

Response – We currently are in process of compiling the Code of County Ordinances.

Conclusion – Response accepted.

IV-O-05 Property and Equipment Records – A partial record of the County’s fixed assets is maintained by individual offices. Property journal totals have not been summarized, nor has a reconciliation been performed to balance additions and deletions to the general ledger. The County also does not calculate depreciation expense and accumulated depreciation for any assets reported.

Recommendation – We recommend that complete property and equipment records be developed. In addition, to facilitate the proper insurance, maintenance and safeguarding of these assets, an inventory of all property and equipment should be taken at least once each year and checked against the capital assets records. Management may want to consider the employment of an outside consulting firm to maintain its property records.

Response – Management is aware of this problem and will look into the cost of an outside firm, if budget allows.

Conclusion – Response accepted.

CLAYTON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting (continued):

IV-P-05 Vehicle Usage – The County provides vehicles for certain employees but does not have a policy regarding vehicle usage.

Recommendation – The District should adopt a vehicle use policy which addresses the following areas:

- 1) Incidental personnel use
- 2) Commuting
- 3) Assignment of vehicles
- 4) Documentation required
- 5) Restricted vehicles use
- 6) Reimbursement by employees for personal time
- 7) Additional compensation for employees
- 8) Public purpose served
- 9) Any other relevant area

These areas should take recordkeeping, taxation, and public purpose requirements into consideration.

Response – We approved a new policy in January 2006.

Conclusion – Response accepted.

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