CLAYTON COUNTY
ELKADER, IOWA

FINANCIAL REPORT

JUNE 30, 2006

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CLAYTON COUNTY

OFFICIALS

Name	Title	Term Expires
Neil Meyer	Chairperson	January 2007
Robert Walke	Vice-Chairperson	January 2007
Larry Gibbs	Supervisor	January 2009
Dennis Freitag	County Auditor	January 2009
Linda Orr	County Treasurer	January 2007
Sue Meyer	County Recorder	January 2007
Robert Hamann	County Sheriff	January 2009
Kevin Clefisch	County Attorney	January 2007
Larry Hauser	County Assessor	January 2010
Rafe Koopman	County Engineer	

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Supervisors
Clayton County
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clayton County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Clayton County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The County has not maintained a record of all equipment used within the County; therefore, the amount that should be recorded is not known and not recorded in the governmental activities. U.S. generally accepted accounting principles require that all capital assets, net depreciation, be reported in the governmental activities.

In our opinion, except for the effects on the financial statements of the omission of some capital assets, net depreciation which results in an incomplete presentation for the governmental activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities information of Clayton County as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Clayton County as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof 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 November 28, 2006 on our consideration of Clayton County's internal control over financial reporting and on 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.

The management's discussion and analysis and budgetary comparison information on page 4 and pages 33 through 35, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 28, 2006

CLAYTON COUNTY
ELKADER, IOWA

Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2006

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, 2006. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 2.05%, or approximately $291,000, from fiscal 2005 to fiscal 2006. Property taxes increased approximately $1,011,000, operating grants and contributions and capital grants and contributions decreased approximately $1,657,000, and earnings on investments increased approximately $94,000.

- Program expenses were 6.56%, or approximately $815,000, more in fiscal 2006 than in fiscal 2005. County public safety and legal services expense increased approximately $237,000, county environment and education expenses decreased approximately $206,000, roads and transportation expenses increased approximately $322,000, and government services to residents increased approximately $248,000.

- The County's net assets increased 14.36%, or approximately $1,824,000, from June 30, 2005 to June 30, 2006.

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 special revenue 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 is divided into two distinct kinds of 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.

Business-Type Activities: The County records their health insurance as an internal service fund.

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 basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These governmental funds includes: 1) the general fund, 2) the special revenue funds such as mental health, rural service, and secondary roads, 3) the capital projects fund and 4) the debt service 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 Fund

Proprietary fund accounts for the 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 requires financial statements to 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 an 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 are some examples.

The fiduciary funds required financial statements include a statement of fiduciary net assets.

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 analysis that follows focuses on the changes in the net assets.

Condensed Statement of Net Assets
(Expressed in Thousands)

	2006	2005	Percent Change
Current and other assets	$ 14,422	$ 16,859	-14.46%
Capital assets	11,564	6,643	74.08%
Total assets	25,986	23,502	10.57%
Long-term debt outstanding	3,453	3,844	-10.17%
Other liabilities	8,006	6,955	15.11%
Total liabilities	11,459	10,799	6.11%
Net assets			
Invested in capital assets	8,718	6,239	39.73%
Restricted	6,229	6,968	-10.61%
Unrestricted	(420)	(504)	-16.67%
Total net assets	$ 14,527	$ 12,703	14.36%

Clayton County's net assets for the governmental activities increased from fiscal 2005 to fiscal 2006, due to the recording of more capital assets and increase in revenues. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements-increased for the governmental activities approximately $84,000 or 16.67%.

The following analysis shows the change in net assets for the year ending June 30, 2006:

Changes in Net Assets of Governmental Activities (Expressed in Thousands)			
	2006	2005	Percent Change
Revenues:			
Program revenue			
Charges for service	$ 596	$ 606	-1.65%
Operating grants	1,433	4,793	-70.10%
Capital grants	3,133	1,430	119.09%
General revenue			
Property taxes	5,751	4,739	21.35%
Local option sales tax	711	888	-19.93%
Penalty and interest on property taxes	44	50	-12.00%
State tax credits	1,458	323	351.39%
Rents	41	-	100.00%
Grants and contributions	-	181	-100.00%
Unrestricted investment earnings	287	193	48.70%
Gain (loss) on sale of capital assets	25	-	
Other	45	97	-53.61%
Total revenues	13,524	13,300	1.68%
Program expenses:			
Public safety and legal services	1,925	1,689	13.97%
Physical health and social services	464	394	17.77%
Mental health	1,844	1,878	-1.81%
County environment and education	946	1,152	-17.88%
Roads and transportation	5,709	5,387	5.98%
Government services to residents	724	476	52.10%
Administration or general government	1,366	1,353	0.96%
Non-program	113	21	438.10%
Interest	141	67	110.45%
Capital projects	-	-	
Total expenses	13,232	12,417	6.56%
Increase in net assets	292	883	-66.93%
Net assets beginning of year	14,235	11,820	20.43%
Net assets end of year	$ 14,527	$ 12,703	14.36%

As the County completed the year, its governmental funds reported a combined fund balance of $6,452,421, approximately $3,476,000 decrease of the 2005 fiscal year end balance of $9,928,873.

- The general fund revenues increased 22% from prior year, whereas, the expenditures only increased by 16% from prior year. The ending fund balance showed a decrease of 27.59% from the prior year of $1,135,629 to $822,398.

- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, revenues increased 15% from prior year, whereas, the expenditures were consistent from the prior year. The mental health fund balance at year end increased by $200,000 over the prior year.

- Secondary roads fund revenues decreased approximately $328,000 over the prior year. For the year, expenditures totaled $6,498,727, an increase of $945,000. This increase in expenditures results in a decrease in the secondary roads fund ending balance of approximately $831,000, or 12.8%.

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 amended its budget twice. The amendments were made in August and June and resulted in an increase in general fund disbursements and revenues. However, this did not require an increase in taxes as the County received more intergovernmental revenues than originally projected.

The amendments made during the 2006 fiscal year should have no impact on the 2007 fiscal year's budget.

The following shows the original and amended budget for fiscal 2006 as well as the actual revenue and expenditures for the year:

Budgetary Comparison Schedule
(Expressed in Thousands)

	Budget Basis	Budget Amounts Original	Budget Amounts Final	Variance
REVENUES				
Property and other County tax	$ 6,428	$ 6,441	$ 6,441	$ (13)
Interest and penalty on property tax	43	46	45	(2)
Intergovernmental	6,000	4,709	5,607	393
Licenses and permits	19	22	22	(3)
Charges for service	433	385	434	(1)
Use of money and property	340	228	347	(7)
Miscellaneous	441	707	977	(536)
Total revenues	13,704	12,538	13,873	(169)
EXPENDITURES				
Public safety and legal services	1,793	1,994	2,062	269
Physical health and social services	460	485	490	30
Mental health	1,773	1,518	1,758	(15)
County environment and education services	993	941	957	(36)
Roads and transportation	4,924	5,109	5,109	185
Governmental services to residents	660	517	728	68
Administrative services	1,449	1,228	1,716	267
Non-program	-	1	1	1
Debt service	718	1,244	1,244	526
Capital project	3,637	2,703	3,675	38
Total expenditures	$ 16,407	$ 15,740	$ 17,740	$ 1,333

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, Clayton County had $11,564,399 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 $711,572 for fiscal year 2006 and total accumulated depreciation of $4,350,065 as of June 30, 2006 for the governmental activities. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Long-Term Liabilities

At year-end, the County had approximately $3,453,000 in bonds and other debt compared to approximately $3,844,000 last year. More detail is presented in Note 10 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this $49,684,818 limit.

Other obligations include accrued vacation pay. More detailed information about the County's long-term liabilities is presented in Note 10 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 (8.5% in January of 2006)
- 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 2007 budget contains receipts totaling $13,730,890 and disbursements totaling $13,970,248 compared to the 2006 budget of $12,545,140 in receipts and $15,664,968 in disbursements.

TAX RATE COMPARISON	FY2007	FY 2006	FY 2005	FY 2004	FY 2003
County wide rate	$7.18265	$6.47214	$5.36864	$4.70024	$4.70026
Rural rate	$10.28398	$9.57347	$8.46997	$7.70571	$7.66034

Tax rates are expressed in dollars per $1000 of taxable valuation. The increase in tax rates are primarily due trying to increase fund balances to a higher level to prevent deficit balances.

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 County Auditor's Office, Clayton County, 111 High St NE, Elkader, IA 52043.

CLAYTON COUNTY

EXHIBIT A

STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities
ASSETS	
Cash and pooled investments	$ 6,921,114
Receivables	
Property tax	
Delinquent	5,652
Succeeding year	6,520,195
Interest and penalty on property tax	9,962
Accounts	54,266
Accrued interest	22,163
Due from other governments	438,277
Inventories	386,619
Prepaid expenses	63,427
Nondepreciable assets	3,147,841
Capital assets, net of accumulated depreciation	8,416,558
Total assets	$ 25,986,074
LIABILITIES AND NET ASSETS	
Accounts payable	$ 1,031,220
Salaries and benefits payable	115,150
Accrued interest payable	29,299
Due to other governments	310,800
Deferred revenue	
Succeeding year property tax	6,520,195
Long-term liabilities	
Portion due within one year	
Bonds payable	431,877
Leases payable	16,638
Compensated absences	274,790
Portion due after one year	
Bonds payable	2,675,000
Leases payable	54,438
Total liabilities	11,459,407
NET ASSETS	
Invested in capital assets, net of related debt	8,718,205
Restricted for	
Inventories	386,619
Rural service	507,243
Secondary roads	5,252,171
Other special revenue	13,692
Other purposes	68,806
Unrestricted	(420,069)
Total net assets	14,526,667
Total liabilities and net assets	$ 25,986,074

See Notes to Financial Statements.

EXHIBIT B

CLAYTON COUNTY

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions and Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Program Revenues: Capital Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities					
Public safety and legal services	$ 1,925,568	$ 97,476	$ 360,830	$ -	$ (1,467,262)
Physical health and social services	464,429	20,743	31,518	-	(412,168)
Mental health	1,843,548	14,615	76,582	-	(1,752,351)
County environment and education	945,588	42,571	116,616	-	(786,401)
Roads and transportation	5,708,643	16,575	657,170	3,132,981	(1,901,917)
Government services to residents	723,728	303,223	190,125	-	(230,380)
Administrative services	1,366,196	-	-	-	(1,366,196)
Nonprogram	113,422	100,669	-	-	(12,753)
Long-term debt interest	141,006				(141,006)
Total governmental activities	$ 13,232,128	$ 595,872	$ 1,432,841	$ 3,132,981	$ (8,070,434)
General revenues					
Property taxes levied for general purposes					5,750,807
Penalty and interest on property taxes					43,899
State tax credits					1,458,442
Local option sales tax					710,908
Franchise tax					-
Rents					40,714
Unrestricted investment earnings					286,662
Sale of fixed assets					25,097
Transfer out					(25,000)
Miscellaneous					70,445
Total general revenues					8,361,974
					291,540
Net assets, beginning of year, restated					14,235,127
Net assets end of year					$ 14,526,667

See Notes to Financial Statements.

EXHIBIT C

CLAYTON COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Special Revenue: Mental Health	Special Revenue: Rural Services	Special Revenue: Secondary Roads	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and pooled investments	$ 505,745	$ 106,549	$ 512,304	$ 5,385,785	$ 345,263	$ 36,593	$ 6,892,239
Receivables							
Property tax							
Delinquent	3,655	819	942	-		236	5,652
Succeeding year	3,877,551	868,795	1,511,374	-		262,475	6,520,195
Interest and penalty on property tax	9,962	-	-	-			9,962
Accounts	46,444	180	-	7,300		342	54,266
Accrued interest	22,145	-	-	-		18	22,163
Due from other funds	371,691	-	-	6,823			378,514
Due from other governments	65,703	1,366	16,935	354,273			438,277
Prepaid expenditures	63,427	-	-	-			63,427
Inventories	-	-	1,934	384,685			386,619
Total assets	$ 4,966,323	$ 977,709	$ 2,043,489	$ 6,138,866	$ 345,263	$ 299,664	$ 14,771,314
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	$ 130,829	$ 55,136	$ 21,981	$ 425,444	$ 285,381		$ 918,771
Salaries and benefits payable	43,159	239	749	71,003			115,150
Due to other funds	7,056	300,576	208	-		$ 70,674	378,514
Due to other governments	12,255	292,982	-	5,563			310,800
Deferred revenue							
Succeeding year property tax	3,877,551	868,795	1,511,374	-		262,475	6,520,195
Other	73,075	976	900	301		211	75,463
Compensated absences	-	-	-	-			-
Total liabilities	4,143,925	1,518,704	1,535,212	502,311	285,381	333,360	8,318,893
Fund balances							
Reserved for							
Other special revenue purposes						31,294	31,294
Inventories			1,934	384,685			386,619
Prepaid expenditures	63,427						63,427
Other	5,379						5,379
Unreserved							
General fund	753,592						753,592
Special revenue funds		(540,995)	506,343	5,251,870		(66,516)	5,150,702
Debt service fund						1,526	1,526
Capital projects fund					59,882		59,882
Total fund balances	822,398	(540,995)	508,277	5,636,555	59,882	(33,696)	6,452,421
Total liabilities and fund balances	$ 4,966,323	$ 977,709	$ 2,043,489	$ 6,138,866	$ 345,263	$ 299,664	$ 14,771,314

See Notes to Financial Statements.

CLAYTON COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

Reconciliation of governmental fund balances to net assets		
Total governmental fund balances	$	6,452,421
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds, net of accumulated depreciation of $ 4,350,065		11,564,399
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds		75,463
Internal service funds are used by management to charge the costs of 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.		(83,574)
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds		
Bonds payable		(3,106,877)
Leases payable		(71,076)
Compensated absences		(274,790)
Accrued interest		(29,299)
Net assets of governmental activities	$	14,526,667

Cash and pooled investments of governmental activities include the following reclassifications:		
Internal service fund cash at June 30, 2006	$	28,875

See Notes to Financial Statements.

EXHIBIT D

CLAYTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General	Special Revenue: Mental Health	Special Revenue: Rural Services	Special Revenue: Secondary Roads	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES							
Property and other County tax	$3,318,217	$ 814,996	$1,496,892	$ 598,087		$ 267,376	$ 6,495,568
Interest and penalty on property tax	43,899	-	-	-			43,899
Intergovernmental	818,886	1,219,275	93,079	3,790,151		115	5,921,506
Licenses and permits	18,440	-	-	875			19,315
Charges for service	387,190	14,615	7,004	790		4,391	413,990
Use of money and property	302,515	-	-	1,000	$ 48,269	254	352,038
Fines, forfeitures and defaults	-	-	-	-			-
Miscellaneous	128,624	-	-	45,153		21,032	194,809
Total revenues	5,017,771	2,048,886	1,596,975	4,436,056	48,269	293,168	13,441,125
EXPENDITURES							
Current							
Public safety and legal services	1,851,966	-	72,921	-			1,924,887
Physical health and social services	465,120	-	-	-		-	465,120
Mental health	-	1,843,548	-	-			1,843,548
County environment and education services	576,318	-	351,404	1,209		15,567	944,498
Roads and transportation	-	-	51,829	5,404,696			5,456,525
Governmental services to residents	654,850	-	-	-		4,270	659,120
Administrative services	1,384,022	-	-	-			1,384,022
Non-program	-	-	-	-			-
Debt service	267,338					254,533	521,871
Capital project	-	-	-	1,092,822	2,621,746	3,515	3,718,083
Total expenditures	5,199,614	1,843,548	476,154	6,498,727	2,621,746	277,885	16,917,674
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(181,843)	205,338	1,120,821	(2,062,671)	(2,573,477)	15,283	(3,476,549)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	1,212,123		-	1,212,123
Proceeds from disposal of capital assets	5,736	-	-	19,361			25,097
Transfers out	(137,124)	-	(1,099,999)	-		-	(1,237,123)
	(131,388)	-	(1,099,999)	1,231,484	-	-	97
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(313,231)	205,338	20,822	(831,187)	(2,573,477)	15,283	(3,476,452)
FUND BALANCES, beginning of year	1,135,629	(746,333)	487,455	6,467,742	2,633,359	(48,979)	9,928,873
FUND BALANCES, end of year	$ 822,398	$ (540,995)	$ 508,277	$5,636,555	$ 59,882	$ (33,696)	$ 6,452,421

See Notes to Financial Statements.

CLAYTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of governmental funds to the Statement of Activities		
Net change in fund balances - total governmental funds		$ (3,476,452)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Depreciation	$ (711,572)	
Capital outlays	4,100,749	3,389,177
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		(18,223)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.		359,060
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		37,742
The internal service fund is used by management to charge the costs of employee health benefits to individual funds. The net revenue of the internal service fund is reported with governmental activities.		(32,001)
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.		
Compensated absences		32,237
Change in net assets of governmental activities		$ 291,540

See Notes to Financial Statements.

EXHIBIT E

CLAYTON COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2006

	Internal Service
ASSETS	
Cash and pooled investments	$ 28,875
Accrued interest receivable	-
Total assets	$ 28,875
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	$ 112,449
NET ASSETS	
Unrestricted	(83,574)
Total liabilities and net assets	$ 28,875

See Notes to Financial Statements.

EXHIBIT F

CLAYTON COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2006

	Internal Service
OPERATING REVENUES	
Charges for service	$ 323,658
OPERATING EXPENSES	
Insurance claims paid	169,742
Administrative fees	210,917
Total operating expenses	380,659
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(57,001)
OTHER FINANCING SOURCES (USES)	
Transfers in	25,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(32,001)
NET ASSETS, beginning of year	(51,573)
NET ASSETS, end of year	$ (83,574)

See Notes to Financial Statements.

EXHIBIT G

CLAYTON COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2006

	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from interfund services provided	$ 325,415
Cash payments to suppliers for services	(337,272)
Net cash used in operating activities	(11,857)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers in	25,000
Net cash provided by noncapital financing activities	25,000
Net increase in cash and cash equivalents	13,143
CASH and CASH EQUIVALENTS, beginning of year	15,732
CASH and CASH EQUIVALENTS, end of year	$ 28,875
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (57,001)
Adjustments to reconcile operating loss to net cash used in operating activities	
Decrease in accounts receivable	1,757
Increase in accounts payable	43,387
Net cash used in operating activities	$ (11,857)

See Notes to Financial Statements.

CLAYTON COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
June 30, 2006

ASSETS		
Cash and pooled investments		
County Treasurer	$	859,298
Other County officials		13,093
Receivables		
Property tax		
Delinquent		13,953
Succeeding year		13,751,824
Accounts		8,078
Accrued interest		116
Due from other governments		19,889
Prepaid insurance		775
Total assets	$	14,667,026
LIABILITIES		
Accounts payable	$	17,971
Salaries and benefits payable		573
Due to other governments		14,633,854
Trusts payable		13,093
Compensated absences		1,535
Total liabilities	$	14,667,026
NET ASSETS	$	None

See Notes to Financial Statements.

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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.

b. Significant Accounting Policies

Scope of Reporting Entity

For financial reporting purposes, Clayton County has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature of significance of their relationship with the County should be included in the financial statements as component units. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The County 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 Disaster Services Board, Clayton County Planning and Zoning Committee and Clayton County 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 agency funds of the County. The County Board of Supervisors also appoints a representative to the Winneshiek County Area Solid Waste Agency Board.

Government-wide Financial Statements

The statement of net assets and the statement of activities report information on all of the non-fiduciary activities of the County. Governmental activities are normally supported by property tax and intergovernmental revenues, or other non-exchange transactions. For the most part, the effect of interfund activity has been removed from these statements.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

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

Fund Financial Statements

Separate financial statements are provided for governmental, 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 internal service fund is presented in a single column on the face of the proprietary fund statements.

The funds of the financial reporting entity are described below:

Governmental

General Fund

The general fund accounts for all the financial resources of the County, except for those required to be accounted for by other funds. The revenues of the general fund are primarily derived from general property taxes, charges for services, licenses and permits, and certain revenues from state and federal sources. The expenditures of the general fund primarily relate to general administration, public safety and legal services, physical health and social services, county environment and education services, governmental services to residents and administrative services.

Special Revenue Funds

The special revenue funds are used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds. The funds in this category are rural services, secondary roads, and Mental Health/Development Disabilities (MH/DD) Services.

Capital Projects Fund

The capital projects fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Fund Types

Internal Service Fund

Internal service fund is utilized to account for the financing of health insurance provided to the employees of the various departments of the County.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

Fiduciary Fund Types

Agency Funds

The agency funds are used to account for assets held by the County in a trustee or custodial capacity for other entities, such as individual, or other governmental units.

Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

On the government-wide statement of net assets and the statement of activities, governmental activities are presented using the "economic resources" measurement focus as defined below in item b.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available spendable resources." Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

b. The proprietary fund statements are accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their statement of net assets. In reporting the financial activity on the Government-wide statements, the County applies all applicable GASB pronouncements. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the County has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The government-wide and proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized as earned, and expenses are recognized when incurred. Property tax is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

Revenues susceptible to accrual under the modified accrual basis of accounting are property tax, intergovernmental revenue (shared revenues, grants and reimbursements from other governments), and charges for service and interest revenue. Revenues from licenses and permits, fines and forfeitures, refunds and reimbursements and other miscellaneous sources are generally recognized when received in cash as they are generally not measurable until actually received.

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

Assets, Liabilities and Fund Equity

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

Cash Management and Investments

The County Treasurer maintains one primary demand deposit account through which the majority of the County's cash resources are processed.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Cash Management and Investments (Continued)

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. All of the investments carried in the financial statements, which consist of bank time deposits and bank certificates of deposit, are stated at cost. Cost approximates market value for investments at June 30, 2006.

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 taxes in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy 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 and will not be recognized as revenue until the year for which it is levied.

Interfund Transactions

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, 2006, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Most of the interfund transactions have been eliminated on the government-wide 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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

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. The costs of inventory items are recorded as expenditures in the governmental fund types when used. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Prepaid Expenditures

Payments made for insurance for a future period beyond June 30, 2006 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.

Capital Assets

Capital assets, which include property, equipment and vehicles, and infrastructure assets, are reported on the government-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. 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:

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

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

Buildings and improvements	25-50
Land improvements	10-50
Equipment	3-50
Vehicles	5-15
Infrastructure, road network	10-65

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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Trusts Payable

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

Deferred Revenue

In the fund financial statements certain revenues are measurable, however, they are not available. Deferred revenue 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 as well as delinquent property tax receivables and other receivables not collected within sixty days after year end. Deferred revenue on the statement of net assets consist of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

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.

Compensated Absences

County employees receive vacation leave at the following rates:

Years of Service	Vacation Days Earned per Month
After 1	.42
2-7	.83
8-16	1.25
17*	1.67

*Secondary road employees only

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Compensated Absences (Continued)

Employees may accumulate up to 20 days vacation and carryover up to five 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, except if the employee retires after age 62 and with at least 8 years of continuous service, 30% is paid. Consequently, no liability for accumulated sick leave at June 30, 2006 has been determined or presented since management has determined it to be immaterial. 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. A liability is recorded in the government wide and fiduciary fund financial statements. The County's approximate maximum liability for accrued vacation pay at June 30, 2006 is $274,790.

In accordance with the 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.

Fund Balance

In the governmental fund financial statements, reservation of fund balances are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Reserved fund balances are used first when an expenditure is incurred for purposes for both reserved and unreserved fund balances.

Net Assets

Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consists of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets are used first when an expense is incurred for purposes for both restricted and unrestricted net assets.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Revenues, Expenditures and Expenses

Property tax revenue recognized in the governmental funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

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

Local option sales tax revenue is allocated 85% to secondary roads and 15% to rural services special revenue funds. Gaming tax revenues are deposited in the general fund by the County.

Federal and state grants, primarily capital grants, are recorded as revenue when the expenditures for the purpose of the grant have been incurred. Substantially all other shared revenues are recorded during the period when received from the collecting authority, the State of Iowa.

Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments

The County's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. In addition, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of $316,799, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

2. Deposits and Investments (Continued)

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 the needs and use of the County.

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2006:

Governmental	
General Fund	
Department of Human Service reimbursement	$ 3,816
Substance abuse	2,500
Community Development Block Grant	48,277
Payment in lieu of taxes	6,088
Well testing grant	3,615
Other	1,407
	65,703
Special Revenue	
Mental health fund	
Other	1,366
Rural service fund	
Local option sales tax	15,773
Other	1,162
	16,935
Secondary roads fund	
Local option sales tax	89,383
Road construction reimbursement	256,519
Other	8,371
	354,273
Total governmental	$ 438,277

4. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities				
Construction in progress	$ 97,511	$2,621,746		$ 2,719,257
Infrastructure in progress		428,584		428,584
	97,511	3,050,330	$ None	3,147,841
Capital assets being depreciated				
Equipment	7,028,376	338,500	(282,596)	7,084,280
Infrastructure	4,970,424	711,919		5,682,343
Total capital assets being depreciated	11,998,800	1,050,419	(282,596)	12,766,623
Less accumulated depreciation				
Equipment	3,516,379	499,443	(282,596)	3,733,226
Infrastructure	404,710	212,129		616,839
Total accumulated depreciation	3,921,089	711,572	(282,596)	4,350,065
Total capital assets being depreciated, net	8,077,711	338,847	None	8,416,558
Governmental activities Capital assets, net	$ 8,175,222	$3,389,177	$ None	$11,564,399

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

Governmental activities	
Roads and transportation	$ 652,493
Governmental services to residents	59,079
	$ 711,572

5. 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:

Governmental	
General Fund	
Services	$ 12,255
Special Revenue	
Services	
Mental Health	292,982
Secondary Roads	5,563
	298,545
Total governmental	$ 310,800

5. Due to Other Governments (Continued)

Fiduciary Agency Collections	
County Assessor	$ 310,063
Schools	9,812,752
Area schools	433,730
Corporations	2,964,563
Townships	411,973
Auto license and use tax	330,849
Agricultural Extension Education	154,045
Other	215,879
Total for agency funds	$14,633,854

6. 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were $226,903, $223,683, and $204,679, respectively, equal to the required contributions for each year.

7. Cafeteria Plan

The County sponsors a Section 125 cafeteria plan. The benefits available under the plan are health insurance and day care. Participants may elect salary reduction to cover family health insurance, non-covered medical and dental expenses and day care. There were 36 participants in the plan for the plan year ended December 31, 2005.

8. Construction, Purchase and Other Commitments

The total outstanding construction and purchase commitments of the County at June 30, 2006 amount to $558,681.

The Board of Supervisors has agreed to provide Scenic Acres financial support for the period July 1, 2006 through June 30, 2007. Financial support for the year ended June 30, 2006 totaled $479,182.

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 property tax revenues from property valuation increases in the TIF area to be made to the developer as 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, 2006.

9. Leases

As of June 30, 2006, Clayton County was renting various County owned property to other parties under operating leases. The leases vary in term but are typically short-term in nature.

10. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Issued	(Paid)	Balance June 30, 2006	Amounts Due Within One Year
Governmental activities					
General Obligation Bonds					
Anticipation note	$ 500,000		$ (228,123)	$ 271,877	$ 271,877
County jail bonds	2,950,000		(115,000)	2,835,000	160,000
Total bonds	3,450,000	$ None	(343,123)	3,106,877	431,877
Other liabilities					
Leases payable	87,013		(15,937)	71,076	16,638
Compensated absences	307,027	274,790	(307,027)	274,790	274,790
Total other liabilities	394,040	274,790	(322,964)	345,866	291,428
Governmental activities Long-term liabilities	$3,844,040	$ 274,790	$ (666,087)	$3,452,743	$ 723,305

General Obligation Bonds

On December 15, 2004 the County issued $2,950,000 of General Obligation County Jail Bonds. The proceeds of these bonds were used to finance construction of the new jail. The issue of bonds bears interest ranging from 2.5% to 4.2% and matures from June 2007 to June 2020.

In June of 2006 the County refinanced General Obligation Anticipation Notes worth $271,877. The note bears an interest rate of 4.875% per annum from July 1, 2006, to its maturity.

Capital Lease

In January 2005, the County entered into a capital lease purchase agreement to lease a tractor and mower with historical costs of $63,778 and $43,000, respectively. The lease bears interest at 4.399% per year. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2006.

Year ending June 30,	
2007	$ 19,765
2008	19,765
2009	19,765
2010	19,765
	$ 79,060
Minimum lease payments	$ 79,060
Less amount representing interest	7,984
Present value of minimum lease payments	$ 71,076

10. Long-term Debt Obligations (Continued)

A summary of the principal and interest maturities by type of debt is as follows:

Year ending June 30,	Governmental Activities General Obligation Bonds Principal	Interest
2007	$ 431,877	$ 120,914
2008	165,000	97,475
2009	170,000	92,525
2010	175,000	87,425
2011	185,000	81,738
2012-2016	1,020,000	309,780
2017-2020	960,000	100,550
	$ 3,106,877	$ 890,407

At June 30, 2006, the debt issued by the County did not exceed its legal debt margin compiled as follows:

Total assessed valuation	$ 993,696,357
Debt limit - 5% of total assessed valuation	$ 49,684,818
Debt applicable to debt limit	
General obligation bonded debt outstanding	(3,106,877)
Housing Facilities Revenue Bonds	(1,083,502)
Other debt	(71,076)
Legal debt margin	$ 45,423,363

Housing Facilities Revenue Bonds

In 1993, the County participated in Housing Facilities Revenue Bonds, Series 1993 (G&G Living Centers, Inc. Project) issued for the purpose of acquiring land, constructing and furnishing six group homes and an activity center for the intermediate care of mentally handicapped individuals. The bonds are secured by the property financed and are payable solely from revenues generated by the Center. The County or any political subdivision thereof, is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2006 the balance outstanding was $1,083,502.

11. Due to/from Other Funds

As of June 30, 2006, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	$ 371,691	$ 7,056
Special Revenue Funds		
Mental health		300,576
Rural services		208
Secondary roads	6,823	
Nonmajor governmental funds		70,674
	$ 378,514	$ 378,514

12. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

	Transfers In	Transfers Out
General Fund		$ 137,124
Special Revenue		
Rural services		1,099,999
Secondary roads	$ 1,212,123	
Internal Service	25,000	
Total	$ 1,237,123	$ 1,237,123

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. Transfer from the general fund to internal service fund was to help pay for expenses incurred during the year.

13. Fund Equity

The amounts restricted at June 30, 2006 are as follows:

Restricted Net Assets	
General Fund	
Forfeiture	$ 5,379
Prepaid expenditures	63,427
	68,806
Special Revenue Fund	
Rural services	509,177
Secondary roads	5,636,856
Nonmajor governmental funds	13,692
	6,159,725
	$ 6,228,531

The amounts reserved at June 30, 2006 are as follows:

Reserved fund balances	
General fund	
Prepaid expenditures	$ 63,427
Forfeiture	5,379
	68,806
Special revenue fund	
Rural services	
Inventories	1,934
Secondary roads	
Inventories	384,685
Nonmajor governmental funds	31,294
	417,913
	$ 486,719

14. Joint Venture

The County is a participant in the Winneshiek County Area Solid Waste Agency. The County has agreed to guarantee revenue to the agency from County residents. The guarantee equals base year usage by County residents as a percentage of all base year usage sufficient to fund $2,000,000 of bonded indebtedness amortized over 12 years. The guarantee is in effect until 2003. The County also guarantees revenue to cover expenses incurred to close the landfill and any other expenses incurred after closure. 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 140th Avenue, Decorah, IA 52101.

15. Contingencies

The County participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the County may be required to reimburse the grantor government. As of June 30, 2006 significant amounts of grant expenditures have not been audited by granting authorities but the County believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the County.

The County has certain contingent liabilities resulting from litigation and claims incident to the ordinary course of business. Management believes that the probable resolution of such contingencies will not materially affect the financial position or results of operations of the County.

16. 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. 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.

16. Risk Management (Continued)

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.

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, 2006 were $126,351.

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 $350,000 per claim. Claims exceeding $350,000 are reinsured in an amount not to exceed $2,650,000 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, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, 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 claim 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, the farm, the boiler and employee blanket bond. The County assumes liability for any deductibles and claims in excess of coverage limitations. The County assumes responsibility for workers compensation and employee blanket bond claims in excess of $500,000 and $100,000, respectively. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

17. 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 limitation 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 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 Self-Funded Insurance Fund as an Internal Service Fund. The County's contribution to the fund for the year ended June 30, 2006 was $163,226.

Amounts payable from the health insurance fund at June 30, 2006 total $112,449 which is for incurred but unpaid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims, and to establish a reserve for catastrophic losses. 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. Settlements have not exceeded the stop-loss coverage in any of the past three years. An analysis of claims activity in the internal service fund follows:

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

	2006	2005
Beginning liability	$ 69,061	$ 50,444
Claims and changes in estimates	433,048	311,134
Claim payments	(389,660)	(292,517)
Ending liability	$ 112,449	$ 69,061

18. Restatement

Beginning net assets were restated due to correction of recording capital assets of $353,458 in the governmental funds that were not reported in the prior year. Beginning net assets were also restated to account for a decrease in accumulated depreciation of $1,178,873.

19. Fund Balance Deficits

The Tax Increment Financing nonmajor special revenue fund has a deficit fund balance as of June 30, 2006. The County plans to eliminate this deficit through property taxes received from the land in the area. The Employee Health Insurance-internal service fund has a deficit fund balance as of June 30, 2006. The County plans to eliminate this deficit through increasing the County contributions. The mental health special revenue fund has a deficit fund balance as of June 30, 2006. The County plans to eliminate this deficit by increasing charges and lowering expenses.

CLAYTON COUNTY

BUDGETARY COMPARISON SCHEDULE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
June 30, 2006

	Actual	Less Amounts not Budgeted	Budget Basis	Budget Amounts Original	Budget Amounts Final	Final to Actual Variance-Positive (Negative)
REVENUES						
Property and other County tax	$ 6,427,622		$ 6,427,622	$ 6,440,758	$ 6,440,858	$ (13,236)
Interest and penalty on property tax	43,667		43,667	45,375	45,375	(1,708)
Intergovernmental	6,000,066		6,000,066	4,709,212	5,606,853	393,213
Licenses and permits	18,585		18,585	22,322	22,322	(3,737)
Charges for service	433,245		433,245	385,357	433,457	(212)
Use of money and property	339,892		339,892	228,341	347,436	(7,544)
Miscellaneous	446,713	$ 5,379	441,334	706,575	977,230	(535,896)
Total revenues	13,709,790	5,379	13,704,411	12,537,940	13,873,531	(169,120)
EXPENDITURES						
Public safety and legal services	1,793,024		1,793,024	1,994,014	2,062,063	269,039
Physical health and social services	459,622		459,622	485,043	490,474	30,852
Mental health	1,772,939		1,772,939	1,517,859	1,757,859	(15,080)
County environment and education services	993,329		993,329	940,704	956,432	(36,897)
Roads and transportation	4,924,071		4,924,071	5,108,550	5,108,550	184,479
Governmental services to residents	659,721		659,721	517,416	727,986	68,265
Administrative services	1,448,810		1,448,810	1,227,696	1,716,133	267,323
Non-program	-		-	1,300	1,300	1,300
Debt service	718,444		718,444	1,244,254	1,244,254	525,810
Capital project	3,637,076		3,637,076	2,703,132	3,674,942	37,866
Total expenditures	16,407,036	-	16,407,036	15,739,968	17,739,993	1,332,957
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,697,246)	5,379	(2,702,625)	(3,202,028)	(3,866,462)	1,163,837
OTHER FINANCING SOURCES, NET	18,597		18,597	7,200	12,877	5,720
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(2,678,649)	5,379	(2,684,028)	(3,194,828)	(3,853,585)	1,169,557
BALANCE, beginning of year	9,570,888		9,570,888	7,975,925	9,586,621	(15,733)
BALANCE, end of year	$ 6,892,239	$ 5,379	$ 6,886,860	$ 4,781,097	$ 5,733,036	$ 1,153,824

See Notes to Required Supplementary Information.

CLAYTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

For the Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	$ 13,709,790	$ (268,665)	$ 13,441,125
Expenditures	16,407,036	510,638	16,917,674
Net	(2,697,246)	(779,303)	(3,476,549)
Other financing sources, net	18,597	(18,500)	97
Beginning fund balance	9,570,888	357,985	9,928,873
Ending fund balance	$ 6,892,239	$ (439,818)	$ 6,452,421

See Notes to Required Supplementary Information.

CLAYTON COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2006

The 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 agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, nonprogram, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, and debt service fund. 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, the budget amendment increased budgeted disbursements by $2,000,025. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office, by the County Agricultural Extension Council; for the County Assessor, by the County Conference Board; and 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, 2006, disbursements exceeded the amounts budgeted in the mental health and county environment and education services functions.

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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Supervisors
Clayton County
Elkader, Iowa

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clayton County's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects on the information on the governmental activities explained in the third paragraph of our report on page 2, such information is fairly stated in all material respects, in relation to the basic financial statements as of and for the year ended June 30, 2006, taken as a whole.

The basic financial statements of Clayton County for the years ended June 30, 2005 and 2004 presented on page 43, none of which are presented herein, were audited by other auditors whose report dated March 3, 2006, expressed an adverse opinion on the governmental activities financial statements due to the omission of a full capital asset listing. They expressed an unqualified opinion on the 2004 and 2005 financial statements of each major fund and the aggregate remaining fund information. We have previously audited, in accordance with U.S. generally accepted auditing standards, the basic financial statements of Clayton County as of and for the year ended June 30, 2003 and the general purpose financial statements as of and for the year ending June 30, 2002 (none of which is presented herein). We expressed a qualified opinion on the 2003 governmental activities financial statements due to the omission of a full capital asset listing. We expressed an unqualified opinion on the 2003 financial statements of each major fund and the aggregate remaining fund information. We expressed a qualified opinion on the 2002 general purpose financial statements due to the omission of the general fixed asset account group. In our opinion, the information set forth in the required supplementary information for each of the four years in the period ended June 30, 2005, appearing on page 43, is fairly stated, in all material respects in relation to the basic and general purpose financial statements from which it has been derived.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 28, 2006

CLAYTON COUNTY

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	$ 35,092	$ 1,501	$ 36,593
Receivables			
Property tax			
Delinquent		236	236
Succeeding year		262,475	262,475
Accounts	342	-	342
Accrued interest	18	-	18
Due from other funds	-	-	-
Due from other governments	-	-	-
Total assets	$ 35,452	$ 264,212	$ 299,664
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	$ 70,674		$ 70,674
Deferred revenue			
Succeeding year property tax		$ 262,475	262,475
Other	-	211	211
Total liabilities	70,674	262,686	333,360
Fund balances			
Reserved for			
Special revenue funds	31,294		31,294
Debt service		1,526	1,526
Unreserved	(66,516)		(66,516)
Total fund balances	(35,222)	1,526	(33,696)
Total liabilities and fund balances	$ 35,452	$ 264,212	$ 299,664

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 2

[redacted]

[redacted] UES, EXPENDITURES
[redacted] BALANCES
[redacted] AL FUNDS
[redacted] ne 30, 2006

	Special Revenue	Debt Service	Total Nonmajor Governmental Funds
REVENUES			
Property and other County tax	$ 12,041	$ 255,335	$ 267,376
Intergovernmental	115		115
Charges for service	4,391		4,391
Use of money and property	254		254
Miscellaneous	21,032		21,032
Total revenues	37,833	255,335	293,168
EXPENDITURES			
Current			
Physical health and social services			-
County environment and education services	15,567		15,567
Governmental services to residents	4,270		4,270
Capital project	3,515		3,515
Debt service		254,533	254,533
Total expenditures	23,352	254,533	277,885
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EX[redacted]	14,481	802	15,283
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers (out)	-	-	-
	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANC[redacted] OVER (UNDER) EXPENDITURES AND OTHER FINANCING [redacted]	14,481	802	15,283
FUND BALANCES, beginning of year	(49,703)	724	(48,979)
FUND BALANCES, end of year	$ (35,222)	$ 1,526	$ (33,696)

See Independent Auditor's Report on the Supplem[redacted] Information.

CLAYTON COUNTY

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2006

	REAP Grant	Recorder's Records Management	Tax Increment Financing	Conservation Land Acquisition	County Recorder's Electronic Transaction Fee	Total Nonmajor Special Revenue Funds
ASSETS						
Cash and pooled investments	$ 9,971	$ 3,361	$ 4,033	$ 17,602	$ 125	$ 35,092
Receivables						
Accounts		342				342
Accrued interest	16	2				18
Due from other funds						-
Due from other governments						-
Total assets	$ 9,987	$ 3,705	$ 4,033	$ 17,602	$ 125	$ 35,452
LIABILITIES AND FUND BALANCES						
Liabilities						
Due to other funds			$ 70,674			$ 70,674
Deferred revenue						-
Total liabilities	$ -	$ -	70,674	$ -	$ -	70,674
Fund balances						
Reserved	9,987	3,705		17,602	-	31,294
Unreserved			(66,641)		125	(66,516)
Total fund balances	9,987	3,705	(66,641)	17,602	125	(35,222)
Total liabilities and fund balances	$ 9,987	$ 3,705	$ 4,033	$ 17,602	$ 125	$ 35,452

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 4

CLAYTON COUNTY

COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2006

	REAP Grant	Recorder's Records Management	Tax Increment Financing	Conservation Land Acquisition	County Recorder's Electronic Transaction Fee	Total Nonmajor Special Revenue Funds
REVENUES						
Property and other County tax			$ 12,041			$ 12,041
Intergovernmental	$ 115					115
Charges for service		$ 4,391				4,391
Use of money and property		51			$ 203	254
Miscellaneous				$ 21,032		21,032
Total revenues	115	4,442	12,041	21,032	203	37,833
EXPENDITURES						
Current						
Physical health and social services						-
County environment and education services	1,413	3,325	10,829			15,567
Governmental services to residents					4,270	4,270
Capital project				3,515		3,515
Total expenditures	1,413	3,325	10,829	3,515	4,270	23,352
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,298)	1,117	1,212	17,517	(4,067)	14,481
OTHER FINANCING SOURCES						
Transfers in						-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(1,298)	1,117	1,212	17,517	(4,067)	14,481
FUND BALANCES, beginning of year	11,285	2,588	(67,853)	85	4,192	(49,703)
FUND BALANCES, end of year	$ 9,987	$ 3,705	$ (66,641)	$ 17,602	$ 125	$ (35,222)

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 5

CLAYTON COUNTY

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2006

	County Offices	Agricultural Extension Education	Assessor	Schools	Area Schools	Corporations	Townships	Auto License and Use Tax	Other	Total
ASSETS										
Cash and pooled investments										
County Treasurer		$ 2,846	$104,533	$ 185,933	$ 8,089	$ 58,550	$ 7,039	$ 330,849	$ 161,459	$ 859,298
Other County officials	$13,093								-	13,093
Receivables										
Property tax										
Delinquent		142	196	8,884	401	4,084	205		41	13,953
Succeeding year		151,057	208,032	9,617,935	425,240	2,901,929	404,729		42,902	13,751,824
Accounts									8,078	8,078
Accrued interest									116	116
Due from other governments									19,889	19,889
Prepaid insurance									775	775
Total assets	$13,093	$ 154,045	$312,761	$9,812,752	$ 433,730	$ 2,964,563	$ 411,973	$ 330,849	$ 233,260	$14,667,026
LIABILITIES										
Accounts payable			$ 590						$ 17,381	$ 17,971
Salaries and benefits payable			573						-	573
Due to other governments	$ -	$ 154,045	310,063	$9,812,752	$ 433,730	$ 2,964,563	$ 411,973	$ 330,849	215,879	14,633,854
Trusts payable	13,093								-	13,093
Accrued compensated absences			1,535						-	1,535
Total liabilities	$13,093	$ 154,045	$312,761	$9,812,752	$ 433,730	$ 2,964,563	$ 411,973	$ 330,849	$ 233,260	$14,667,026

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY

COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2006

	County Offices	Agricultural Extension Education	Assessor	Schools	Area Schools	Corporations	Townships	Auto License and Use Tax	Other	Total
ASSETS AND LIABILITIES										
BALANCE, beginning of year	$28,425	$ 3,073	$ 96,490	$ 209,420	$ 8,835	$ 72,460	$ 7,314	$ 341,331	$ 124,882	$ 892,230
ADDITIONS										
Property and other County tax		136,379	191,036	8,888,530	387,577	3,568,079	308,588		116,606	13,596,795
State tax credits		8,889	12,452	581,531	25,263	201,903	20,323		7,400	857,761
Intergovernmental									49,275	49,275
Drivers license fees									-	-
Office fees and collections	367,525								4,391	371,916
Auto license, use tax and postage								4,050,914	-	4,050,914
E-911 telephone surcharges									146,980	146,980
Assessments	-								23,961	23,961
Trusts	170,382								1,742,082	1,912,464
Interest on investments									362	362
Miscellaneous	-		5,538						33,140	38,678
Total additions	537,907	145,268	209,026	9,470,061	412,840	3,769,982	328,911	4,050,914	2,124,197	21,049,106
DEDUCTIONS										
Agency remittances										
To other funds	235,014							140,410		375,424
To other governments	151,334	145,353	240,787	9,484,664	413,185	3,779,808	328,981	3,920,986	301,250	18,766,348
Trusts paid out	166,891								1,717,471	1,884,362
Miscellaneous									-	-
Total deductions	553,239	145,353	240,787	9,484,664	413,185	3,779,808	328,981	4,061,396	2,018,721	21,026,134
OTHER FINANCING SOURCES (USES)										
Operating transfers in (out)			40,000						(40,000)	-
BALANCE, end of year	$13,093	$ 2,988	$104,729	$ 194,817	$ 8,490	$ 62,634	$ 7,244	$ 330,849	$ 190,358	$ 915,202

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY

COMPARATIVE SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
Years Ended June 30,

	Modified Accrual				
	2006	2005	2004	2003	2002
REVENUES					
Property and other County tax	$ 6,495,568	$ 5,607,751	$ 5,260,956	$ 4,993,907	$ 5,041,985
Interest and penalty on property tax	43,899	48,689	47,322	45,126	45,882
Intergovernmental	5,921,506	5,711,009	4,708,685	5,437,760	5,242,771
Licenses and permits	19,315	15,725	17,447	13,800	18,079
Charges for service	413,990	418,201	402,004	361,882	340,872
Use of money and property	352,038	263,594	203,814	246,456	368,924
Fines, forfeitures and defaults	-	-	-	-	3,167
Miscellaneous	194,809	272,773	196,190	104,586	249,837
Total revenues	$ 13,441,125	$ 12,337,742	$ 10,836,418	$ 11,203,517	$ 11,311,517
EXPENDITURES					
Current					
Public safety and legal services	$ 1,924,887	$ 1,678,593	$ 1,593,078	$ 1,477,321	$ 1,372,028
Physical health and social services	465,120	393,738	433,711	446,171	554,568
Mental health	1,843,548	1,877,827	1,812,628	1,779,526	1,803,128
County environment and education services	944,498	936,370	869,523	846,556	711,861
Roads and transportation	5,456,525	5,119,545	4,183,964	5,457,772	4,820,657
Governmental services to residents	659,120	468,747	332,604	484,483	430,278
Administrative services	1,384,022	1,346,256	960,641	847,223	984,985
Non-program	-	21,450	-	-	-
Debt service	521,871	427	-		-
Capital projects	3,718,083	965,918	287,531	195,319	1,486,311
Total expenditures	$ 16,917,674	$ 12,808,871	$ 10,473,680	$ 11,534,371	$ 12,163,816

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Section I: Summary of the Independent Auditor's Results	Yes	No	None Reported
Financial Statements			
Type of auditor's report issued: qualified.			
Internal control over financial reporting:			
♦ Material weakness(es) identified?		X	
♦ Reportable condition(s) identified that are not considered to be material weaknesses?	X		
♦ Noncompliance material to financial statements noted?		X	
Federal Awards			
Internal control over major programs:			
♦ Material weakness (es) identified?		X	
♦ Reportable condition(s) identified that are not considered to be material weakness(es)?	X		
Type of auditor's report issued on compliance for major programs: unqualified.			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?		X	
Identification of major programs			
CFDA Number 14.228, Community Development Block Grants\State's Program			
CFDA Number 20.205, Highway Planning and Construction			
Dollar threshold used to distinguish between Type A and Type B programs: $300,000			
Auditee qualified as low-risk auditee?		X	

Section II: Findings Related to the Financial Statements

06-1 Segregation of Duties

One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Bank deposits are prepared by the same person who opens the bank statement. Disbursements and checks are prepared by one person.

Recommendation

While we do recognize that the County is not large enough to permit a segregation of duties for an effective internal control structure, we believe that it is important that the Board be aware that the condition does exist.

Response and Corrective Action Planned

We segregate duties in our offices as much as possible, and will strive to improve internal controls where possible.

Conclusion

Response accepted.

CLAYTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Section III: Findings and Questioned Costs for Federal Awards

Instances of noncompliance - None
Reportable condition -
CFDA Number 14.228, Community Development Block Grants/State's Program
Federal Award Year: 2006
U.S. Department of Housing and Urban Development
Passed through Iowa Department of Economic Development

See 06-1 above

CFDA Number 20.205, Highway Planning and Construction
Federal Award Year: 2006
U.S. Department of Transportation
Passed through Iowa Department of Transportation

See 06-1 above

Section IV: Other Findings Related to Required Statutory Reporting

See management letter dated November 28, 2006

Section V: Summary of Prior Federal Audit Findings and Questioned Costs

Comment Reference	Comment Title	Status	Explanation
05-1	Segregation of duties	Not Corrected	The County has a limited staff and segregates duties to the best of their abilities.

CLAYTON COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Grantor/Program	CFDA Number	Grant Number	Program Expenditures
Direct			
U.S. Department of Agriculture			
Conservation Reserve Program	10.069		$ 6,707
U.S. Department of Interior			
Payments in Lieu of Taxes	15.226		6,028
Indirect			
U.S. Department of Agriculture			
Passed through Iowa Department of Human Services			
State Administrative Matching Grants for Food Stamp Program	10.561	LAE Reimbursement	2,743
U.S. Department of Defense			
Passed through Iowa Office of Treasurer			
Payments to States in Lieu of Real Estate Taxes	12.112		16,157
U.S. Department of Housing and Urban Development			
Passed through Iowa Department of Economic Development			
Community Development Block Grants/State's Program	14.228	02-CF-020	233,491
		04-OT-009	123,280
			356,771
U.S. Department of Transportation			
Passed through Iowa Department of Transportation			
Highway Planning and Construction	20.205	BROS-CO22(37)--8J-22	151,965
		BROS-CO22(39)--8J-22	104,554
			256,519
Passed through Iowa Department of Public Safety			
Alcohol Traffic Safety and Drunk Driving			
Prevention Incentive Grants	20.601	PAP 05-163, Task 13	4,400
Safety Incentive Grants for Use of Seatbelts	20.604	06-157, Task 39	3,950
Sub-total Department of Transportation			264,869
U.S. Election Assistance Commission			
Passed through Iowa Secretary of State			
Help America Vote Act Requirements Payments	90.401	06-HAVA-22-100	169,580
U.S. Department of Health and Human Services			
Passed through Iowa Secretary of State			
Voting Access for Individuals with Disabilities, Grants to States	93.617	06-HAVA-22-001 to 011	4,298

See Independent Auditor's Report on the Schedule of Federal Awards

CLAYTON COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Grantor/Program	CFDA Number	Grant Number	Program Expenditures
Indirect (Continued)			
U.S. Department of Health and Human Services (Continued)			
Passed through Iowa Department of Human Services			
Social Services Block Grant	93.667	22-001	$ 76,582
	93.667	LAE Reimbursement	2,105
			78,687
Other Federal Financial Assistance			
Human Services Administrative Reimbursements			
Temporary Assistance for Needy Families	93.558	LAE Reimbursement	3,315
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	LAE Reimbursement	791
Foster Care - Title IV-E	93.658	LAE Reimbursement	1,704
Adoption Assistance	93.659	LAE Reimbursement	421
Medical Assistance Program	93.778	LAE Reimbursement	4,386
			10,617
Sub-total Department of Health and Human Services			93,602
U.S. Department of Homeland Security			
Passed through Iowa Department of Public Defense			
Hazard Mitigation Grant	97.039	1518-0001	12,351
Emergency Management Performance Grants	97.042	EMPG Reimbursement	16,039
			28,390
Total Federal Financial Assistance			$ 944,847

See Independent Auditor's Report on the Schedule of Federal Awards.

CLAYTON COUNTY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Note 1. Basis of Presentation

The accompanying 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 in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

To the Board of Supervisors
Clayton County
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clayton County as of and for the year ended June 30, 2006, which collectively comprise Clayton County's basic financial statements and have issued our report thereon dated November 28, 2006. The report on governmental activities was qualified because of the omission of certain capital assets, net 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 initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Item 06-1. The reportable condition was unresolved from the prior year.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that we have to management of Clayton County in a separate letter dated November 28, 2006.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 28, 2006

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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 Board of Supervisors
Clayton County
Elkader, Iowa

Compliance

We have audited the compliance of Clayton County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Clayton County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clayton County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on 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, 2006.

Internal Control Over Compliance

The management of Clayton County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Clayton County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs at Item 06-1. The reportable condition was unresolved from the prior year.

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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clayton County, as of and for the year ended June 30, 2006, and have issued our report thereon dated November 28, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Clayton County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 28, 2006

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MANAGEMENT LETTER

To the Board of Supervisors
Clayton County
Elkader, Iowa

In planning and performing our audit of the financial statements of Clayton County for the year ended June 30, 2006, we considered the County's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on the internal controls.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the County's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 through 9 below are compliance comments required by the Iowa Auditor of State. A separate report dated November 28, 2006, contains our report on reportable conditions in the County's internal controls. This letter does not affect our report dated November 28, 2006 on the basic financial statements of Clayton County. Comments 1, 11, 12, and 13 are unresolved comments from the prior year. All other prior year statutory comments have been resolved. These comments are not intended to and do not constitute legal opinions.

1. Certified Budget

   As of June 30, 2006, four departments exceeded appropriations. County expenditures during the year ended June 30, 2006 exceeded the amount budgeted in the mental health and county environment and education services functional areas. The budget was also amended after May 31, 2006.

   Recommendation

   We recommend that the budget be amended before expenditures exceed the appropriations and budget in all areas to comply with Chapter 331.435 of the Code of Iowa. The budget should also be amended prior to May 31 as required by Chapter 331.435 of the Code of Iowa.

   Response

   We will try to comply in the future.

   Conclusion

   Response accepted.

2. Questionable Expenditures

   We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

3. Travel Expense

   No expenditures of County money for travel expenses of spouses of County officials and/or employees were noted.

4. Business Transactions

We noted no business transactions between the County and County officials and/or employees for the year ended June 30, 2006.

5. Bond Coverage

Surety bond coverage of County officials and employees is in accordance with statutory provisions.

6. Board Minutes

No transactions were found that we believe should have been approved in the Board minutes but were not. The minutes were published as required by Chapter 349.18 of the Code of Iowa and Attorney General's Opinions dated December 10, 1985, December 31, 1986 and May 2, 1989.

7. 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).

8. County Extension Office

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

Disbursements during the year ended June 30, 2006 for the County Extension Office did not exceed the amount budgeted.

The surety bond covering the Treasurer of the County Extension Council was in compliance with statutory provisions.

9. Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

10. Property and Equipment Records

A partial record of the County's capital assets is maintained by individual offices. Property journal totals have not been summarized, nor has reconciliation been performed to balance additions and deletions to the general ledger.

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 fixed assets records. Management may want to consider the employment of an outside consulting firm to maintain its property records.

Response

We will look into hiring an outside consulting firm to maintain our property records.

Conclusion

Response accepted.

11. Fund Balance Deficits

Upon review of monthly fund balances, we noticed that the general basic fund, MH/DD special revenue fund, and debt service fund had a fund balance deficit during the year. 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 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.

Response

Our fund balances are extremely low. In the FY07 and FY08 budgets we are attempting to raise them to solve this problem.

Conclusion

Response accepted.

12. Code of Ordinances

The County has not compiled the Code of County Ordinances within five years of the previous compilation. The County needs to compile the Code of County Ordinance in effect 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 the County Ordinances.

Response

We are in the process of doing this.

Conclusion

Response accepted.

13. Various Reports

The Treasurer's annual report has been published as required by Chapter 349.16(3) of the Code of Iowa but the warrants outstanding were incorrect.

Recommendation

We recommend that reports be reviewed prior to release so that published reports are accurate.

Response

We will comply in the future. That report was an inadvertent error.

Conclusion

Response accepted.

14. Disbursements

During our audit, we noticed one item that was not in compliance with Board policy. There were ten invoices that were paid without being approved by the Board of Supervisors. There were also nine warrants that were issued without invoices. We also noticed that the Sheriff's Department and the extension office had checks that were outstanding over a year.

Recommendation

We recommend that all invoices be reviewed and approval documented before being paid. The County should investigate the old outstanding checks and take the appropriate actions to resolve them.

Response

We will pay closer attention to approval of claims. Sheriff office and Extension office will investigate outstanding checks. There are some claims that no invoice is provided to us but we still owe the bill.

Conclusion

Response accepted.

15. Transfers

During our audit, we noted that general fund transfers to secondary roads special revenue fund exceeded the maximum amount allowed under Chapter 331.429 of the Code of Iowa.

Recommendation

We recommend that the County review transfers to make sure they do not exceed the maximum allowable amount before authorization.

Response

Error was made in calculation, we will comply in the future.

Conclusion

Response accepted.

16. Fund Balance Deficits

The Tax Increment financing nonmajor special revenue fund, the mental health special revenue fund, the Employee Health Insurance-internal proprietary fund had deficit fund balances as of June 30, 2006.

Recommendation

We recommend that the Supervisors approve loans from other funds to cover the expenses until the property tax is received. The Board of Supervisors should determine the manner in which the deficits will be eliminated.

Response

We are addressing this problem in our FY07 and FY08 budgets.

Conclusion

Response accepted.

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

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Clayton County during the course of our examination.

Should you have any questions concerning these or other matters, we shall be pleased to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 28, 2006