

CLAYTON COUNTY  
ELKADER, IOWA

FINANCIAL REPORT

JUNE 30, 2007

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CLAYTON COUNTY

OFFICIALS

Name	Title	Term Expires
Larry Gibbs	Chairperson	January 2009
Wayne Bockenstedt	Vice-Chairperson	January 2011
Randy Keehner	Supervisor	January 2011
Dennis Freitag	County Auditor	January 2009
Linda Orr	County Treasurer	January 2011
Sue Meyer	County Recorder	January 2011
Robert Hamann	County Sheriff	January 2009
Kevin Clefisch	County Attorney	January 2011
Larry Hauser	County Assessor	January 2010
Rafe Koopman	County Engineer	

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## INDEPENDENT AUDITOR'S REPORT ON THE 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, 2007, 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.

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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. The County has not maintained a record of all equipment used within the County. U.S. generally accepted accounting principles require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the governmental activities of Clayton County, as of June 30, 2007, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Clayton County as of June 30, 2007, 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 February 15, 2008, 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 34 through 36, 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  
February 15, 2008

CLAYTON COUNTY  
ELKADER, IOWA

Management's Discussion and Analysis  
For the Fiscal Year Ending June 30, 2007

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, 2007. 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 1.29%, or approximately \$174,000, from fiscal 2006 to fiscal 2007. Property taxes increased approximately \$620,000, operating grants and contributions and capital grants and contributions decreased approximately \$126,000, and earnings on investments increased approximately \$100,000.
- Program expenses were 2.99%, or approximately \$396,000, less in fiscal 2007 than in fiscal 2006. Government services to the public services expense decreased approximately \$216,000, interest expense decreased approximately \$25,000, roads and transportation expenses decreased approximately \$560,000, and nonprogram services expenses increased approximately \$59,000.
- The County's net assets increased 2.05%, or approximately \$570,000, from June 30, 2006 to June 30, 2007.

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 nonmajor funds presented in total in a single column. For Clayton County, the general fund, MH/DD-special revenue fund, rural services-special revenue fund, and secondary roads-special revenue 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, and secondary roads-special revenue 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.

	2007	2006	Percent Change
Current and other assets	\$ 14,791	\$ 14,422	2.56%
Capital assets	11,801	11,564	2.05%
Total assets	26,592	25,986	2.33%
Long-term debt outstanding	3,213	3,453	-6.95%
Other liabilities	7,990	8,006	-0.20%
Total liabilities	11,203	11,459	-2.23%
Net assets			
Invested in capital assets	9,112	8,718	4.52%
Restricted	6,175	6,229	-0.87%
Unrestricted	102	(420)	-124.29%
Total net assets	\$ 15,389	\$ 14,527	5.93%

Clayton County's net assets for the governmental activities increased from fiscal 2006 to fiscal 2007, 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 \$522,000.

The following analysis shows the change in net assets for the year ending June 30, 2007:

	Changes in Net Assets of Governmental Activities (Expressed in Thousands)		
	2007	2006	Percent Change
<b>Revenues:</b>			
<b>Program revenue</b>			
Charges for service	\$ 630	\$ 596	5.70%
Operating grants	1,344	1,433	-6.21%
Capital grants	3,096	3,133	-1.18%
<b>General revenue</b>			
Property taxes	6,371	5,751	10.78%
Local option sales tax	750	711	5.49%
Penalty and interest on property taxes	49	44	11.36%
State tax credits	976	1,458	-33.06%
Rents	47	41	100.00%
Grants and contributions	57	-	0.00%
Unrestricted investment earnings	387	287	34.84%
Gain (loss) on sale of capital assets	(34)	25	
Other	25	45	-44.44%
<b>Total revenues</b>	<b>13,698</b>	<b>13,524</b>	<b>1.29%</b>
<b>Program expenses:</b>			
Public safety and legal services	2,115	1,925	9.87%
Physical health and social services	463	464	-0.22%
Mental health	2,080	1,844	12.80%
County environment and education	931	946	-1.59%
Roads and transportation	5,149	5,709	-9.81%
Government services to residents	508	724	-29.83%
Administration or general government	1,302	1,366	-4.69%
Non-program	172	113	52.21%
Interest	116	141	-17.73%
Capital projects	-	-	
<b>Total expenses</b>	<b>12,836</b>	<b>13,232</b>	<b>-2.99%</b>
<b>Increase in net assets</b>	<b>862</b>	<b>292</b>	<b>195.21%</b>
<b>Net assets beginning of year</b>	<b>14,527</b>	<b>14,235</b>	<b>2.05%</b>
<b>Net assets end of year</b>	<b>\$ 15,389</b>	<b>\$ 14,527</b>	<b>5.93%</b>

#### INDIVIDUAL FUND ANALYSIS

As the County completed the year, its governmental funds reported a combined fund balance of \$6,708,645, approximately \$256,000 increase of the 2006 fiscal year end balance of \$6,452,422.

- The general fund revenues increased 7.64% from prior year, whereas, the expenditures decreased by 3.70% from prior year. The ending fund balance showed an increase of 45.69% from the prior year of \$822,396 to \$1,198,160.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, revenues increased 3.49% from prior year, whereas, the expenditures increased by 12.80% from the prior year. The mental health fund balance at year end increased by \$41,000 over the prior year.
- Secondary roads fund revenues decreased approximately \$339,000 over the prior year. For the year, expenditures totaled \$5,681,388, a decrease of \$817,000. This decrease in revenues results in a decrease in the secondary roads fund ending balance of approximately \$277,000, or 4.918%.

- The rural services fund increased the ending fund balance approximately \$103,000 or 20.23%. The revenues increased by 1.52%, however, the expenditures decreased approximately by \$144,000 or 30.28%.

## 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 March and May 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 2007 fiscal year should have no impact on the 2007 fiscal year's budget.

The following shows the original and amended budget for fiscal 2007 as well as the actual revenue and expenditures for the year:

	Budgetary Comparison Schedule			
	(Expressed in Thousands)			
	Budget Basis	Budget Amounts		Variance
	Original	Final		
<b>REVENUES</b>				
Property and other County tax	\$ 7,062	\$ 7,104	\$ 7,085	\$ (23)
Interest and penalty on property tax	50	46	47	3
Intergovernmental	5,596	5,688	5,623	(27)
Licenses and permits	23	20	22	1
Charges for service	394	554	581	(187)
Use of money and property	452	241	432	20
Miscellaneous	195	78	213	(18)
<b>Total revenues</b>	<b>13,772</b>	<b>13,731</b>	<b>14,003</b>	<b>(231)</b>
<b>EXPENDITURES</b>				
Public safety and legal services	2,038	2,179	2,271	233
Physical health and social services	472	475	513	41
Mental health	2,110	1,904	1,904	(206)
County environment and education services	945	990	990	45
Roads and transportation	5,075	5,103	5,253	178
Governmental services to residents	492	503	519	27
Administrative services	1,273	1,463	1,614	341
Non-program	-	1	1	1
Debt service	381	262	693	312
Capital project	771	1,090	1,097	326
<b>Total expenditures</b>	<b>\$ 13,557</b>	<b>\$ 13,970</b>	<b>\$ 14,855</b>	<b>\$ 1,298</b>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2007, Clayton County had \$11,801,160 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 \$774,825 for fiscal year 2007 and total accumulated depreciation of \$4,931,677 as of June 30, 2007 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 \$3,213,000 in bonds and other debt compared to approximately \$3,453,000 last year.

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 \$52,689,018 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 (7.4% in January of 2008)
- 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 2008 budget contains receipts totaling \$13,933,622 and disbursements totaling \$14,819,764 compared to the 2007 budget of \$14,205,280 in receipts and \$14,855,144 in disbursements.

<u>TAX RATE COMPARISON</u>	<u>FY2008</u>	<u>FY 2007</u>
County wide rate	\$7.24417	\$7.18265
Rural rate	\$10.49971	\$10.28398

Tax rates are expressed in dollars per \$1000 of taxable valuation.

### 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  
STATEMENT OF NET ASSETS  
June 30, 2007

	Governmental Activities
<b>ASSETS</b>	
Cash and pooled investments	\$ 7,232,593
Receivables	
Property tax	
Delinquent	3,395
Succeeding year	6,705,155
Interest and penalty on property tax	6,074
Accounts	102,176
Accrued interest	32,187
Due from other governments	241,617
Inventories	396,754
Prepaid expenses	70,591
Nondepreciable assets	458,794
Capital assets, net of accumulated depreciation	11,342,366
	11,342,366
Total assets	\$ 26,591,702
<b>LIABILITIES AND NET ASSETS</b>	
Accounts payable	\$ 843,415
Salaries and benefits payable	117,598
Accrued interest payable	24,474
Due to other governments	299,262
Deferred revenue	
Succeeding year property tax	6,705,155
Long-term liabilities	
Portion due within one year	
Bonds payable	336,877
Leases payable	17,371
Compensated absences	311,976
Portion due after one year	
Bonds payable	2,510,000
Leases payable	37,067
	11,203,195
Total liabilities	11,203,195
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	9,111,842
Restricted for	
Inventories	396,754
Rural service	609,183
Secondary roads	5,058,077
Other special revenue	29,688
Other purposes	80,734
Unrestricted	102,229
	15,388,507
Total net assets	15,388,507
Total liabilities and net assets	\$ 26,591,702

See Notes to Financial Statements.

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CLAYTON COUNTY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

Functions and Programs	Expenses	Charges for Services	Program Revenues Operating Grants
<b>Governmental activities</b>			
Public safety and legal services	\$ 2,114,528	\$ 90,023	\$ 55,487
Physical health and social services	463,291	24,705	195,690
Mental health	2,080,399	15,754	645,752
County environment and education	931,508	41,442	110,274
Roads and transportation	5,149,156	6,693	322,689
Government services to residents	507,817	308,600	14,113
Administrative services	1,301,762	-	-
Nonprogram	171,547	142,490	-
Long-term debt principal	199		
Long-term debt interest	116,090		
<b>Total governmental activities</b>	<b>\$ 12,836,297</b>	<b>\$ 629,707</b>	<b>\$ 1,344,005</b>
<b>General revenues</b>			
Property taxes levied for general purposes			
Penalty and interest on property taxes			
State tax credits			
Local option sales tax			
Franchise tax			
Rents			
Grants and contributions			
Unrestricted investment earnings			
Sale of fixed assets			
Transfer out			
Miscellaneous			
<b>Total general revenues</b>			
<b>Change in net assets</b>			
<b>Net assets, beginning of year</b>			
<b>Net assets end of year</b>			

See Notes to Financial Statements.

EXHIBIT B

Capital Grants	Net (Expense) Revenue and Changes in Net Assets
\$ 11,636	\$ (1,957,382)
-	(242,896)
-	(1,418,893)
-	(779,792)
3,084,356	(1,735,418)
-	(185,104)
-	(1,301,762)
-	(29,057)
	(199)
	(116,090)
\$ 3,095,992	(7,766,593)
	6,370,837
	49,488
	976,125
	750,389
	-
	46,752
	57,640
	386,653
	(33,684)
	(26,000)
	50,233
	8,628,433
	861,840
	14,526,667
	\$ 15,388,507

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CLAYTON COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
<b>ASSETS</b>				
Cash and pooled investments	\$ 874,617	\$ 115,026	\$ 603,319	\$ 5,500,918
Receivables				
Property tax				
Delinquent	2,096	460	613	-
Succeeding year	3,961,512	868,794	1,611,374	-
Interest and penalty on property tax	6,074	-	-	-
Accounts	67,232	3,800	110	2,772
Accrued interest	32,144	-	-	-
Due from other funds	371,142	-	-	6,053
Due from other governments	23,763	2,386	27,940	187,528
Prepaid expenditures	70,590	-	-	-
Inventories	-	-	11,343	385,411
<b>Total assets</b>	<b>\$ 5,409,170</b>	<b>\$ 990,466</b>	<b>\$ 2,254,699</b>	<b>\$ 6,082,682</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 113,274	\$ 87,552	\$ 21,156	\$ 560,099
Salaries and benefits payable	43,250	120	820	73,408
Due to other funds	5,286	300,412	823	-
Due to other governments	63,363	230,212	-	5,687
Deferred revenue				
Succeeding year property tax	3,961,512	868,794	1,611,374	-
Other	24,325	3,521	9,411	83,596
<b>Total liabilities</b>	<b>4,211,010</b>	<b>1,490,611</b>	<b>1,643,584</b>	<b>722,790</b>
<b>Fund balances</b>				
<b>Reserved for</b>				
<b>Other special revenue purposes</b>				
Inventories			11,343	385,411
Prepaid expenditures	70,590			
Other	10,144			
<b>Unreserved</b>				
General fund	1,117,426			
Special revenue funds		(500,145)	599,772	4,974,481
Debt service fund				
Capital projects fund				
<b>Total fund balances</b>	<b>1,198,160</b>	<b>(500,145)</b>	<b>611,115</b>	<b>5,359,892</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,409,170</b>	<b>\$ 990,466</b>	<b>\$ 2,254,699</b>	<b>\$ 6,082,682</b>

See Notes to Financial Statements.

EXHIBIT C

Nonmajor Governmental Funds	Total Governmental Funds
\$ 133,635	\$ 7,227,515
226	3,395
263,475	6,705,155
635	6,074
43	74,549
	32,187
	377,195
	241,617
	70,590
	396,754
<u>\$ 398,014</u>	<u>\$ 15,135,031</u>
\$ 24,023	\$ 806,104
70,674	117,598
263,475	377,195
219	299,262
<u>358,391</u>	<u>6,705,155</u>
	<u>121,072</u>
58,288	8,426,386
(60,134)	58,288
1,350	396,754
40,119	70,590
	10,144
	1,117,426
39,623	5,013,974
<u>\$ 398,014</u>	<u>1,350</u>
	<u>40,119</u>
	<u>6,708,645</u>
<u>\$ 398,014</u>	<u>\$ 15,135,031</u>

CLAYTON COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 6,708,645
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 \$ 4,931,677	11,801,161
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds	121,072
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.	(4,606)
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	(2,846,877)
Leases payable	(54,438)
Compensated absences	(311,976)
Accrued interest	(24,474)
Net assets of governmental activities	<u>\$ 15,388,507</u>
Cash and pooled investments of governmental activities include the following reclassifications:	
Internal service fund cash at June 30, 2007	<u>\$ 5,078</u>

See Notes to Financial Statements.

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CLAYTON COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
<b>REVENUES</b>				
Property and other County tax	\$ 3,839,150	\$ 814,863	\$ 1,525,413	\$ 630,518
Interest and penalty on property tax	49,488	-	-	-
Intergovernmental	535,595	1,289,832	89,153	3,407,046
Licenses and permits	21,020	-	-	1,030
Charges for service	382,837	15,754	6,760	660
Use of money and property	454,135	-	-	1,463
Fines, forfeitures and defaults	-	-	-	-
Miscellaneous	118,848	-	-	56,470
<b>Total revenues</b>	<b>5,401,073</b>	<b>2,120,449</b>	<b>1,621,326</b>	<b>4,097,187</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
Public safety and legal services	2,011,683	-	-	-
Physical health and social services	462,652	-	-	-
Mental health	-	2,079,599	800	-
County environment and education services	606,780	-	331,152	1,876
Roads and transportation	-	-	-	5,246,380
Governmental services to residents	490,213	-	-	-
Administrative services	1,316,777	-	-	-
Non-program	-	-	-	-
Debt service	119,439	-	-	-
Capital project	-	-	-	433,132
<b>Total expenditures</b>	<b>5,007,544</b>	<b>2,079,599</b>	<b>331,952</b>	<b>5,681,388</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>393,529</b>	<b>40,850</b>	<b>1,289,374</b>	<b>(1,584,201)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	1,186,537
Proceeds from disposal of capital assets	8,235	-	-	121,000
Transfers out	(26,000)	-	(1,186,537)	-
	(17,765)	-	(1,186,537)	1,307,537
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>375,764</b>	<b>40,850</b>	<b>102,837</b>	<b>(276,664)</b>
<b>FUND BALANCES, beginning of year</b>	<b>822,396</b>	<b>(540,995)</b>	<b>508,278</b>	<b>5,636,556</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 1,198,160</b>	<b>\$ (500,145)</b>	<b>\$ 611,115</b>	<b>\$ 5,359,892</b>

See Notes to Financial Statements.

EXHIBIT D

Nonmajor Governmental Funds	Total Governmental Funds
\$ 265,671	\$ 7,075,615
	49,488
29,673	5,351,299
	22,050
4,117	410,128
4,635	460,233
	-
25,590	200,908
<u>329,686</u>	<u>13,569,721</u>
	2,011,683
-	462,652
-	2,080,399
15,990	955,798
	5,246,380
-	490,213
	1,316,777
	-
261,675	381,114
38,585	471,717
<u>316,250</u>	<u>13,416,733</u>
<u>13,436</u>	<u>152,988</u>
-	1,186,537
-	129,235
-	(1,212,537)
-	103,235
13,436	256,223
26,187	6,452,422
<u>\$ 39,623</u>	<u>\$ 6,708,645</u>

CLAYTON COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

<b>Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of governmental funds to the Statement of Activities</b>		
Net change in fund balances - total governmental funds	\$	256,223
<b>Amounts reported for governmental activities in the Statement of Activities are different because:</b>		
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	\$ (774,825)	
Capital outlays	1,174,505	399,680
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	(21,857)	
Other	67,466	45,609
The net effect of disposal of capital assets		(162,919)
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.		276,638
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.		4,827
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.		78,968
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		(37,186)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>861,840</b>

See Notes to Financial Statements.

CLAYTON COUNTY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2007

		Internal Service
<b>ASSETS</b>		
Cash and pooled investments	\$	5,078
Accounts receivable		27,627
Accrued interest receivable		-
		-
Total assets	\$	32,705
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$	37,311
		37,311
<b>NET ASSETS</b>		
Unrestricted		(4,606)
		(4,606)
Total liabilities and net assets	\$	32,705

See Notes to Financial Statements.

CLAYTON COUNTY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 For the Year Ended June 30, 2007

	<u>Internal Service</u>
OPERATING REVENUES	
Charges for service	\$ 444,292
OPERATING EXPENSES	
Insurance claims paid	181,745
Administrative fees	209,579
Total operating expenses	<u>391,324</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>52,968</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	<u>26,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	78,968
NET ASSETS, beginning of year	<u>(83,574)</u>
NET ASSETS, end of year	<u>\$ (4,606)</u>

See Notes to Financial Statements.

CLAYTON COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended June 30, 2007

	Internal Service
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from interfund services provided	\$ 626,244
Cash payments to suppliers for services	(676,041)
Net cash used in operating activities	(49,797)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating transfers in	26,000
Net cash provided by noncapital financing activities	26,000
Net decrease in cash and cash equivalents	(23,797)
CASH and CASH EQUIVALENTS, beginning of year	28,875
CASH and CASH EQUIVALENTS, end of year	\$ 5,078
<b>Reconciliation of operating income to net cash used in operating activities</b>	
Operating income	\$ 52,968
Adjustments to reconcile operating income to net cash used in operating activities	
Decrease (increase) in accounts receivable	(27,627)
Increase (decrease) in accounts payable	(75,138)
Net cash used in operating activities	\$ (49,797)

See Notes to Financial Statements.

CLAYTON COUNTY  
STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
June 30, 2007

<b>ASSETS</b>	
Cash and pooled investments	
County Treasurer	\$ 889,984
Other County officials	21,660
Receivables	
Property tax	
Delinquent	8,130
Succeeding year	13,869,276
Accounts	17,438
Accrued interest	160
Due from other governments	4,065
Prepaid insurance	768
<b>Total assets</b>	<b>14,811,481</b>
<b>LIABILITIES</b>	
Accounts payable	36,475
Salaries and benefits payable	248
Due to other governments	14,757,335
Trusts payable	17,120
Compensated absences	303
<b>Total liabilities</b>	<b>14,811,481</b>
<b>NET ASSETS</b>	<b>\$ None</b>

See Notes to Financial Statements.

# CLAYTON COUNTY

## NOTES TO FINANCIAL STATEMENTS

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### 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 supported by property tax and intergovernmental revenues, or other non-exchange transactions are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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.

*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, and administrative expenses. 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 financial statements:

*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, 2007.

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, 2007, 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, 2007 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. However, effective for the year ended June 30, 2007, the County is required to report retroactively general infrastructure assets acquired or significantly improved after June 30, 1980. The County has not reported all their infrastructure assets retroactively to July 1980 so they are not in compliance.

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

b. Significant Accounting Policies (Continued)

*Assets, Liabilities and Fund Equity (Continued)*

*Due to Other Governments*

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

*Trusts Payable*

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

*Deferred Revenue*

In the fund financial statements certain revenues are measurable 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:

<u>Years of Service</u>	<u>Vacation Days Earned per Month</u>
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, 2007 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, 2007 is \$311,976.

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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2006.

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, 2007 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 \$10,822, pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to credit risk categorization.

NOTES TO FINANCIAL STATEMENTS

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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 maturities longer than 397 days but the maturities shall be consistent with the needs and use of the County.

*Credit Risk*

The investment in Iowa Public Agency Investment Trust is unrated.

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2007:

Governmental	
General fund	
Department of Human Service reimbursement	\$ 4,745
Violence Against Woman Grant	2,093
Hotel/motel	2,976
Liquor license	980
Well testing grant	2,423
Payment in lieu of taxes	6,049
Juvenile Justice care reimbursement	1,037
Substance Abuse Grant	2,500
Other	960
	23,763
Special revenue	
Mental health fund	
Other	2,386
	2,386
Rural service fund	
Local option sales tax	26,793
Other	1,147
	27,940
Secondary roads fund	
Local option sales tax	151,826
Other	35,702
	187,528
Total governmental	\$ 241,617

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
<b>Governmental activities</b>				
Construction in progress	\$ 2,719,257		\$ (2,719,257)	\$ None
Infrastructure in progress	428,584	\$ 458,794	(428,584)	458,794
	<u>3,147,841</u>	<u>458,794</u>	<u>(3,147,841)</u>	<u>458,794</u>
<b>Capital assets being depreciated</b>				
Buildings		2,823,570		2,823,570
Equipment	7,084,280	412,833	(356,132)	7,140,981
Infrastructure	5,682,343	627,149		6,309,492
	<u>12,766,623</u>	<u>3,863,552</u>	<u>(356,132)</u>	<u>16,274,043</u>
<b>Less accumulated depreciation</b>				
Building		94,119		94,119
Equipment	3,733,226	447,669	(193,213)	3,987,682
Infrastructure	616,839	233,037		849,876
	<u>4,350,065</u>	<u>774,825</u>	<u>(193,213)</u>	<u>4,931,677</u>
<b>Total capital assets being depreciated, net</b>	<u>8,416,558</u>	<u>3,088,727</u>	<u>(162,919)</u>	<u>11,342,366</u>
<b>Governmental activities</b>				
Capital assets, net	<u>\$ 11,564,399</u>	<u>\$ 3,547,521</u>	<u>\$ (3,310,760)</u>	<u>\$ 11,801,160</u>

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

<b>Governmental activities</b>	
Public safety and legal services	\$ 92,019
Roads and transportation	<u>682,806</u>
	<u>\$ 774,825</u>

NOTES TO FINANCIAL STATEMENTS

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	\$	63,363
Special revenue fund			
Mental health	Services		230,212
Secondary roads	Services		5,687
			235,899
Total governmental		\$	299,262
Fiduciary			
Agency			
County Assessor	Collections	\$	278,209
Schools			9,774,847
Area schools			437,934
Corporations			3,021,527
Townships			418,203
Auto license and use tax			348,263
Agricultural Extension Education			167,938
County offices			4,540
Other			305,874
Total for agency funds		\$	14,757,335

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, 2007, 2006, and 2005 were \$241,586 \$226,903, and \$223,683, 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, 2006.

NOTES TO FINANCIAL STATEMENTS

8. Construction, Purchase and Other Commitments

The total outstanding construction and purchase commitments of the County at June 30, 2007 amount to \$599,421.

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, 2007 totaled \$494,070.

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, 2007.

9. Leases

As of June 30, 2007, Clayton County was renting various county owned properties 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, 2007 was as follows:

	Balance June 30, 2006	Issued	(Paid)	Balance June 30, 2007	Amounts Due Within One Year
<b>Governmental activities</b>					
<b>General Obligation Bonds</b>					
Anticipation note	\$ 271,877		\$ (100,000)	\$ 171,877	\$ 171,877
County jail bonds	2,835,000		(160,000)	2,675,000	165,000
<b>Total bonds</b>	<b>3,106,877</b>	<b>\$ None</b>	<b>(260,000)</b>	<b>2,846,877</b>	<b>336,877</b>
<b>Other liabilities</b>					
Leases payable	71,076		(16,638)	54,438	17,371
Compensated absences	274,790	311,976	(274,790)	311,976	311,976
<b>Total other liabilities</b>	<b>345,866</b>	<b>311,976</b>	<b>(291,428)</b>	<b>366,414</b>	<b>329,347</b>
<b>Governmental activities</b>					
<b>Long-term liabilities</b>	<b>\$ 3,452,743</b>	<b>\$ 311,976</b>	<b>\$ (551,428)</b>	<b>\$ 3,213,291</b>	<b>\$ 666,224</b>

**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 3.0% to 4.2% and matures from June 2008 to June 2020.

In June of 2007 the County refinanced General Obligation Anticipation Notes worth \$171,877. The note bears an interest rate of 7.15% per annum from July 1, 2007, to its maturity.

NOTES TO FINANCIAL STATEMENTS

10. Long-term Debt Obligations (Continued)

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, 2007.

Year ending June 30,		
2008	\$	19,766
2009		19,766
2010		19,765
		19,765
	\$	59,297
Minimum lease payments	\$	59,297
Less amount representing interest		(4,859)
Present value of minimum lease payments	\$	54,438

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
2008	\$ 336,877	\$ 109,764
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
	\$ 2,846,877	\$ 781,782

At June 30, 2007, the debt issued by the County did not exceed its legal debt margin compiled as follows:

Total assessed valuation		\$ 1,053,780,354
Debt limit – 5% of total assessed valuation	\$	52,689,018
Debt applicable to debt limit		
General obligation bonded debt outstanding		(2,846,877)
Housing Facilities Revenue Bonds		(1,013,063)
Other debt		(54,438)
Legal debt margin	\$	48,774,640

NOTES TO FINANCIAL STATEMENTS

10. Long-term Debt Obligations (Continued)

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, 2007 the balance outstanding was \$1,013,063.

11. Due to/from Other Funds

As of June 30, 2007, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 371,142	\$ 5,286
Special revenue funds		
Mental health		300,412
Rural services		823
Secondary roads	6,053	
Nonmajor governmental funds		70,674
	\$ 377,195	\$ 377,195

12. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

	Transfers In	Transfers Out
General fund		\$ 26,000
Special revenue		
Rural services		1,186,537
Secondary roads	\$ 1,186,537	
Internal service	26,000	
	\$ 1,212,537	\$ 1,212,537

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.

NOTES TO FINANCIAL STATEMENTS

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13. Fund Equity

The government-wide statement of net assets reports \$6,174,436 of restricted net assets, of which \$6,093,702 is restricted by enabling legislation. The amounts restricted at June 30, 2007 are as follows:

Restricted net assets			
General fund			
Forfeiture	\$	10,144	
Prepaid expenditures		70,590	\$ 80,734
Special revenue fund			
Inventories		396,754	
Rural services		609,183	
Secondary roads		5,058,077	
Nonmajor governmental funds		29,688	6,093,702
			\$ 6,174,436

The amounts reserved at June 30, 2007 are as follows:

Reserved fund balances			
General fund			
Prepaid expenditures	\$	70,590	
Forfeiture		10,144	\$ 80,734
Special revenue fund			
Rural services			
Inventories		11,343	
Secondary roads			
Inventories		385,411	
Nonmajor governmental funds		58,288	455,042
			\$ 535,776

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 was 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 140<sup>th</sup> Avenue, Decorah, IA 52101.

15. Contingent Liabilities

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, 2007 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 whose 556 members include 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, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2007 were \$139,555.

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 \$3,000,000 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.

16. Risk Management (Continued)

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, 2007, no liability has been recorded in the County's financial statements. As of June 30, 2007, 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 and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

17. Employee Health Insurance Plan

Clayton County was partially self-insured for health insurance coverage. The plan was funded by both employee and County contributions and was through May 31, 2007, administered through a service agreement with Employee Group Services, LTD. The agreement is subject to automatic renewal provisions. The County assumed 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, 2007 was \$148,900.

Amounts payable from the health insurance fund at June 30, 2007 total \$37,311 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.

NOTES TO FINANCIAL STATEMENTS

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17. Employee Health Insurance Plan (Continued)

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

	2007	2006
Beginning liability	\$ 112,449	\$ 69,061
Claims and changes in estimates	106,610	433,048
Claim payments	(181,748)	(389,660)
Ending liability	\$ 37,311	\$ 112,449

18. Fund Balance Deficits

The tax increment financing nonmajor special revenue fund has a deficit fund balance as of June 30, 2007. 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, 2007. 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, 2007. The County plans to eliminate this deficit by increasing charges and lowering expenses.

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CLAYTON COUNTY  
 BUDGETARY COMPARISON SCHEDULE  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
 June 30, 2007

	Actual	Less Amounts not Budgeted	Budget Basis
<b>REVENUES</b>			
Property and other County tax	\$ 7,061,942		\$ 7,061,942
Interest and penalty on property tax	49,783		49,783
Intergovernmental	5,595,922		5,595,922
Licenses and permits	22,955		22,955
Charges for service	394,152		394,152
Use of money and property	452,279		452,279
Miscellaneous	205,594	\$ 10,143	195,451
<b>Total revenues</b>	<b>13,782,627</b>	<b>10,143</b>	<b>13,772,484</b>
<b>EXPENDITURES</b>			
Public safety and legal services	2,038,134		2,038,134
Physical health and social services	472,106		472,106
Mental health	2,110,235		2,110,235
County environment and education services	944,273		944,273
Roads and transportation	5,075,002		5,075,002
Governmental services to residents	492,309		492,309
Administrative services	1,273,205		1,273,205
Non-program	-		-
Debt service	381,114		381,114
Capital project	770,708		770,708
<b>Total expenditures</b>	<b>13,557,086</b>	<b>-</b>	<b>13,557,086</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>225,541</b>	<b>10,143</b>	<b>215,398</b>
<b>OTHER FINANCING SOURCES, NET</b>	<b>109,735</b>		<b>109,735</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>335,276</b>	<b>10,143</b>	<b>325,133</b>
<b>BALANCE, beginning of year</b>	<b>6,892,239</b>		<b>6,892,239</b>
<b>BALANCE, end of year</b>	<b>\$ 7,227,515</b>	<b>\$ 10,143</b>	<b>\$ 7,217,372</b>

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Final	
\$ 7,103,648	\$ 7,085,408	\$ (23,466)
45,500	46,860	2,923
5,688,257	5,622,792	(26,870)
19,700	22,000	955
554,106	581,106	(186,954)
240,889	431,889	20,390
78,790	212,625	(17,174)
<u>13,730,890</u>	<u>14,002,680</u>	<u>(230,196)</u>
2,179,122	2,270,722	232,588
474,338	512,738	40,632
1,904,122	1,904,122	(206,113)
989,572	990,322	46,049
5,103,450	5,253,450	178,448
503,328	519,078	26,769
1,462,541	1,613,937	340,732
1,300	1,300	1,300
262,475	692,475	311,361
1,090,000	1,097,000	326,292
<u>13,970,248</u>	<u>14,855,144</u>	<u>1,298,058</u>
(239,358)	(852,464)	1,067,862
<u>2,200</u>	<u>202,600</u>	<u>(92,865)</u>
(237,158)	(649,864)	974,997
<u>4,781,097</u>	<u>5,733,036</u>	<u>1,159,203</u>
<u>\$ 4,543,939</u>	<u>\$ 5,083,172</u>	<u>\$ 2,134,200</u>

CLAYTON COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGET TO GAAP RECONCILIATION  
 For the Year Ended June 30, 2007

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 13,782,627	\$ (212,906)	\$ 13,569,721
Expenditures	13,557,086	(140,353)	13,416,733
Net	225,541	(72,553)	152,988
Other financing sources, net	109,735	(6,500)	103,235
Beginning fund balance	6,892,239	(439,817)	6,452,422
Ending fund balance	\$ 7,227,515	\$ (518,870)	\$ 6,708,645

See Notes to Required Supplementary Information.

CLAYTON COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2007

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 \$984,896. 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, 2007, disbursements exceeded the amount budgeted in the mental health function.

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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 fund 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, 2007, taken as a whole.

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 ending June 30, 2006 presented on page 44, none of which are presented herein. We expressed a qualified opinion on the governmental activities for the 2006 fiscal year due to the omission of certain capital assets, net depreciation. We expressed unqualified opinions on each major fund and aggregate remaining fund information for the 2006 fiscal year. The basic financial statements of Clayton County for the years ended June 30, 2005 and 2004 presented on page 44, 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. In our opinion, the information set forth in the required supplementary information for each of the three years in the period ended June 30, 2006, appearing on page 44, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
February 15, 2008

CLAYTON COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2007

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and pooled investments	\$ 69,110	\$ 1,343	\$ 63,182	\$ 133,635
Receivables				
Property tax				
Delinquent	91	135		226
Succeeding year		263,475		263,475
Accounts	635	-		635
Accrued interest	43	-		43
Due from other funds	-	-		-
Due from other governments	-	-		-
	<u>\$ 69,879</u>	<u>\$ 264,953</u>	<u>\$ 63,182</u>	<u>\$ 398,014</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 960		\$ 23,063	\$ 24,023
Due to other funds	70,674			70,674
Deferred revenue				
Succeeding year property tax		\$ 263,475		263,475
Other	91	128		219
	<u>71,725</u>	<u>263,603</u>	<u>23,063</u>	<u>358,391</u>
Fund balances				
Reserved for				
Special revenue funds	58,288			58,288
Debt service		1,350		1,350
Unreserved	(60,134)		40,119	(20,015)
	<u>(1,846)</u>	<u>1,350</u>	<u>40,119</u>	<u>39,623</u>
Total liabilities and fund balances	<u>\$ 69,879</u>	<u>\$ 264,953</u>	<u>\$ 63,182</u>	<u>\$ 398,014</u>

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2007

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Property and other County tax	\$ 18,912	\$ 246,759		\$ 265,671
Intergovernmental	14,933	14,740		29,673
Charges for service	4,117			4,117
Use of money and property	406		\$ 4,229	4,635
Miscellaneous	25,590			25,590
	<u>63,958</u>	<u>261,499</u>	<u>4,229</u>	<u>329,686</u>
<b>Total revenues</b>				
<b>EXPENDITURES</b>				
<b>Current</b>				
Physical health and social services	-			-
Mental health	-			-
County environment and education services	15,990			15,990
Governmental services to residents	-			-
Capital project	14,592		23,993	38,585
Debt service		261,675		261,675
	<u>30,582</u>	<u>261,675</u>	<u>23,993</u>	<u>316,250</u>
<b>Total expenditures</b>				
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>33,376</b>	<b>(176)</b>	<b>(19,764)</b>	<b>13,436</b>
<b>FUND BALANCES, beginning of year</b>	<b>(35,222)</b>	<b>1,526</b>	<b>59,883</b>	<b>26,187</b>
<b>FUND BALANCES, end of year</b>	<b>\$ (1,846)</b>	<b>\$ 1,350</b>	<b>\$ 40,119</b>	<b>\$ 39,623</b>

See Independent Auditor's Report on the Supplementary Information.

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CLAYTON COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
June 30, 2007

	REAP Grant	Recorder's Records Management	Tax Increment Financing	Conservation Land Acquisition
<b>ASSETS</b>				
Cash and pooled investments	\$ 21,784	\$ 7,459	\$ 10,413	\$ 29,327
Receivables				
Property tax				
Delinquent			91	
Succeeding year			-	
Accounts		402		233
Accrued interest	38	5		
Due from other funds				
Due from other governments				
<b>Total assets</b>	<u>\$ 21,822</u>	<u>\$ 7,866</u>	<u>\$ 10,504</u>	<u>\$ 29,560</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable				\$ 960
Due to other funds			\$ 70,674	
Deferred revenue			91	
<b>Total liabilities</b>	<u>\$ -</u>	<u>\$ -</u>	<u>70,765</u>	<u>960</u>
<b>Fund balances</b>				
Reserved	21,822	7,866		28,600
Unreserved			(60,261)	
<b>Total fund balances</b>	<u>21,822</u>	<u>7,866</u>	<u>(60,261)</u>	<u>28,600</u>
<b>Total liabilities and fund balances</b>	<u>\$ 21,822</u>	<u>\$ 7,866</u>	<u>\$ 10,504</u>	<u>\$ 29,560</u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 3

County Recorder's Electronic Transaction Fee	Total Nonmajor Special Revenue Funds
\$ 127	\$ 69,110
	91
	-
	635
	43
	-
	-
<u>\$ 127</u>	<u>\$ 69,879</u>
	\$ 960
	70,674
	91
<u>\$ -</u>	<u>71,725</u>
	58,288
- 127	(60,134)
<u>127</u>	<u>(1,846)</u>
<u>\$ 127</u>	<u>\$ 69,879</u>

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CLAYTON COUNTY  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 For the Year Ended June 30, 2007

	REAP Grant	Recorder's Records Management	Tax Increment Financing	Conservation Land Acquisition
<b>REVENUES</b>				
Property and other County tax			\$ 18,912	
Intergovernmental	\$ 14,095		838	
Charges for service		\$ 4,117		
Use of money and property	360	44		
Miscellaneous				\$ 25,590
<b>Total revenues</b>	<b>14,455</b>	<b>4,161</b>	<b>19,750</b>	<b>25,590</b>
<b>EXPENDITURES</b>				
Current				
Physical health and social services				
Mental health			-	
County environment and education services	2,620		13,370	
Governmental services to residents				
Capital project				14,592
<b>Total expenditures</b>	<b>2,620</b>	<b>-</b>	<b>13,370</b>	<b>14,592</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>11,835</b>	<b>4,161</b>	<b>6,380</b>	<b>10,998</b>
<b>FUND BALANCES, beginning of year</b>	<b>9,987</b>	<b>3,705</b>	<b>(66,641)</b>	<b>17,602</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 21,822</b>	<b>\$ 7,866</b>	<b>\$ (60,261)</b>	<b>\$ 28,600</b>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 4

County Recorder's Electronic Transaction Fee	Total Nonmajor Special Revenue Funds
	\$ 18,912
	14,933
	4,117
\$ 2	406
	25,590
<u>2</u>	<u>63,958</u>
	-
	-
	15,990
-	-
	14,592
<u>-</u>	<u>30,582</u>
2	33,376
125	(35,222)
<u>\$ 127</u>	<u>\$ (1,846)</u>

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CLAYTON COUNTY  
 COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUNDS  
 June 30, 2007

	County Offices	Agricultural Extension Education	Assessor	Schools
<b>ASSETS</b>				
Cash and pooled investments				
County Treasurer		\$ 2,843	\$ 49,165	\$ 182,314
Other County officials	\$ 21,660			
Receivables				
Property tax				
Delinquent		87	122	4,995
Succeeding year		165,008	229,726	9,587,538
Accounts			407	
Accrued interest				
Due from other governments				
Prepaid insurance				
<b>Total assets</b>	<b>\$ 21,660</b>	<b>\$ 167,938</b>	<b>\$ 279,420</b>	<b>\$ 9,774,847</b>
<b>LIABILITIES</b>				
Accounts payable			\$ 660	
Salaries and benefits payable			248	
Due to other governments	\$ 4,540	\$ 167,938	278,209	\$ 9,774,847
Trusts payable	17,120			
Accrued compensated absences			303	
<b>Total liabilities</b>	<b>\$ 21,660</b>	<b>\$ 167,938</b>	<b>\$ 279,420</b>	<b>\$ 9,774,847</b>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 5

Area Schools	Corporations	Townships	Auto License and Use Tax	Other	Total
\$ 8,004	\$ 55,106	\$ 7,122	\$ 348,263	\$ 237,167	\$ 889,984
				-	21,660
227	2,519	137		43	8,130
429,703	2,963,902	410,944		82,455	13,869,276
				17,031	17,438
				160	160
				4,065	4,065
				768	768
<u>\$ 437,934</u>	<u>\$ 3,021,527</u>	<u>\$ 418,203</u>	<u>\$ 348,263</u>	<u>\$ 341,689</u>	<u>\$ 14,811,481</u>
				\$ 35,815	\$ 36,475
				-	248
\$ 437,934	\$ 3,021,527	\$ 418,203	\$ 348,263	305,874	14,757,335
				-	17,120
				-	303
<u>\$ 437,934</u>	<u>\$ 3,021,527</u>	<u>\$ 418,203</u>	<u>\$ 348,263</u>	<u>\$ 341,689</u>	<u>\$ 14,811,481</u>

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CLAYTON COUNTY  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUNDS  
 For the Year Ended June 30, 2007

	County Offices	Agricultural Extension Education	Assessor	Schools
ASSETS AND LIABILITIES				
BALANCE, beginning of year	\$ 13,093	\$ 2,988	\$ 104,729	\$ 194,817
ADDITIONS				
Property and other County tax		141,625	195,115	9,013,611
State tax credits		8,664	11,932	553,210
Intergovernmental				
Drivers license fees				
Office fees and collections	443,555			
Auto license, use tax and postage				
E-911 telephone surcharges				
Assessments	-			
Trusts	347,526			
Interest on investments				
Miscellaneous	27		2,723	
Total additions	791,108	150,289	209,770	9,566,821
DEDUCTIONS				
Agency remittances				
To other funds	223,901			
To other governments	216,108	150,347	264,805	9,574,329
Trusts paid out	342,532			
Miscellaneous	-			
Total deductions	782,541	150,347	264,805	9,574,329
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)				
BALANCE, end of year	\$ 21,660	\$ 2,930	\$ 49,694	\$ 187,309

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 6

Area Schools	Corporations	Townships	Auto License and Use Tax	Other	Total
\$ 8,490	\$ 62,634	\$ 7,244	\$ 330,849	\$ 190,358	\$ 915,202
398,668	3,773,734	329,865		46,249	13,898,867
24,390	195,290	20,282		2,558	816,326
				56,558	56,558
				-	-
				4,116	447,671
			3,980,868	-	3,980,868
				156,771	156,771
				67,449	67,449
				1,888,194	2,235,720
				553	553
				14,526	17,276
423,058	3,969,024	350,147	3,980,868	2,236,974	21,678,059
			117,762		341,663
423,317	3,974,033	350,132	3,845,692	321,870	19,120,633
				1,846,228	2,188,760
				-	-
423,317	3,974,033	350,132	3,963,454	2,168,098	21,651,056
					-
\$ 8,231	\$ 57,625	\$ 7,259	\$ 348,263	\$ 259,234	\$ 942,205

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

	Modified Accrual			
	2007	2006	2005	2004
<b>REVENUES</b>				
Property and other County tax	\$ 7,075,615	\$ 6,495,568	\$ 5,607,751	\$ 5,260,956
Interest and penalty on property tax	49,488	43,899	48,689	47,322
Intergovernmental	5,351,299	5,921,506	5,711,009	4,708,685
Licenses and permits	22,050	19,315	15,725	17,447
Charges for service	410,128	413,990	418,201	402,004
Use of money and property	460,233	352,038	263,594	203,814
Fines, forfeitures and defaults	-	-	-	-
Miscellaneous	200,908	194,809	272,773	196,190
<b>Total revenues</b>	<b>\$ 13,569,721</b>	<b>\$ 13,441,125</b>	<b>\$ 12,337,742</b>	<b>\$ 10,836,418</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
Public safety and legal services	\$ 2,011,683	\$ 1,924,887	\$ 1,678,593	\$ 1,593,078
Physical health and social services	462,652	465,120	393,738	433,711
Mental health	2,080,399	1,843,548	1,877,827	1,812,628
County environment and education services	955,798	944,498	936,370	869,523
Roads and transportation	5,246,380	5,456,525	5,119,545	4,183,964
Governmental services to residents	490,213	659,120	468,747	332,604
Administrative services	1,316,777	1,384,022	1,346,256	960,641
Non-program	-	-	21,450	-
Debt service	381,114	521,871	427	-
Capital projects	471,717	3,718,083	965,918	287,531
<b>Total expenditures</b>	<b>\$ 13,416,733</b>	<b>\$ 16,917,674</b>	<b>\$ 12,808,871</b>	<b>\$ 10,473,680</b>

See Independent Auditor's Report on the Supplementary Information.

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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 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, 2007, which collectively comprise Clayton County's basic financial statements and have issued our report thereon dated February 15, 2008. We did not express an opinion on the governmental activities because the County has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets and certain capital assets, net depreciation. Except as discussed in the preceding sentence, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clayton County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clayton County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

1. Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess expertise in preparing year-end financial statements, including footnote disclosures. As is common in small entities, management has the knowledge of accounting principles and the ability to review the financial statements and footnote disclosures for errors, they presently lack the training to prepare the year-end financial statements and footnote disclosures on their own.

Obtaining additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

2. Overlapping Duties

The County's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the County is not large enough to permit a segregation of duties for effective internal controls, we believe that it is important that the Board be aware that this condition does exist.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies 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 matters that we reported to management of Clayton County in a separate letter dated February 15, 2008.

Clayton County's response to the findings identified in our audit is described above. We did not audit Clayton County's response and, accordingly, we express no opinion on it.

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  
February 15, 2008

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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, 2007, 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 internal control.

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 February 15, 2008, contains our report on significant deficiencies in the County's internal controls. This letter does not affect our report dated February 15, 2008 on the basic financial statements of Clayton County. Comments 1, 10, 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. We did not audit the County's responses and, accordingly, we express no opinion on them.

1. Certified Budget

As of June 30, 2007, four departments exceeded appropriations. County expenditures during the year ended June 30, 2007 exceeded the amount budgeted in the mental health functional area. There were some appropriations the Board approved that were not reported on the department appropriation report or not in the department that the Board approved.

Recommendation

We recommend 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. Also, all appropriations the Board approves be reported on the department appropriation report and in the department itself.

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, 2007.

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, 2007 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 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.

10. Property and Equipment Records (Continued)

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 the general basic fund, MH/DD special revenue fund, emergency management, agency fund, and jail bond 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 FY08 and FY09 budgets we are attempting to raise them to solve this problem.

Conclusion

Response accepted.

12. Disbursements

During our audit, we noticed one item was not in compliance with Board policy. There were twenty-three invoices that were paid without being approved by the Board of Supervisors. The Sheriff Office's cashbook reconciliation included outstanding checks over three years old.

Recommendation

We recommend all invoices be reviewed and approval documented before being paid. Checks outstanding for three or more years should be filed with State Treasurer's office. See [http://www.greatiowatreasurehunt.com/compliance\\_reporting/pdf/2007\\_holder\\_manual.pdf](http://www.greatiowatreasurehunt.com/compliance_reporting/pdf/2007_holder_manual.pdf) for instructions.

Response

We will pay closer attention to approval of claims.

Conclusion

Response accepted.

13. Fund Balance Deficits

The tax increment financing nonmajor special revenue fund, the joint disaster-agency fund, the mental health special revenue fund, and the employee health insurance-internal service fund had deficit fund balances as of June 30, 2007.

Recommendation

We recommend 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 FY08 and FY09 budgets.

Conclusion

Response accepted.

14. Capital Assets Search

While observing capital assets, one asset did not have an identification tag attached to the asset.

Recommendation

We recommend all assets have an identification tag attached to each asset.

Response

When the capital asset inventory is done we will attach identification tags to the assets.

Conclusion

Response accepted.

15. Receivables

During subsequent search of receivables, we noted the receipt numbering ended at 5850 and began at 3867. When we inquired about this item, the County Treasurer stated that a group of receipts was found and was using them up. That sequence would end at 4823. We reviewed prior year subsequent search and noted that the whole sequence numbers have been used once already. The County Treasurer stated that receipts were ordered and then they discovered additional receipt forms in a box in the office.

Recommendation

We recommend no receipt number or warrant number be used more than once and all blank ones are kept in an area so they don't get misplaced.

Response

We have purchased a new software package that automatically does the numbering of receipts and warrants. With this system no number will be used more than once.

Conclusion

Response accepted.

16. Budge Line Items

The Emergency Management Commission, County Assessor, and E-911 Board had several line items that exceeded the budget FY07.

Recommendation

We recommend that no line items exceed the budgeted amount.

Response

Under Iowa law budgeted line items can be exceeded as long as the total budget is not exceeded. If the total budget was to be exceeded we would need to prepare a budget amendment.

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  
February 15, 2008