

**CLAYTON COUNTY
ELKADER, IOWA**

FINANCIAL REPORT

JUNE 30, 2012

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CLAYTON COUNTY

OFFICIALS

Name	Title	Term Expires
Gary Bowden	Chairperson	January 2013
Larry Gibbs	Vice-Chairperson	January 2015
Ron McCartney	Supervisor	January 2015
Dennis Freitag	County Auditor	January 2013
Linda Orr	County Treasurer	January 2015
Sue Meyer	County Recorder	January 2015
Mike Tschirgi	County Sheriff	January 2013
Alan Heavens	County Attorney	January 2015
Andrew Loan	County Assessor	January 2018
Rafe Koopman	County Engineer	

**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

**To the Board of Supervisors
Clayton County
Elkader, Iowa**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clayton County as of and for the year ended June 30, 2012, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clayton County as of June 30, 2012, and the respective changes in financial position, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013, 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 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information, and funding progress for the retiree health plan on page 4 and pages 34 through 37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
March 25, 2013

**CLAYTON COUNTY
ELKADER, IOWA**

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2012**

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, 2012. 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 6.40%, or approximately \$991,000, from fiscal 2011 to fiscal 2012. Property taxes increased approximately \$120,000, operating grants and contributions increased approximately \$278,000, and capital grants and contributions increased approximately \$565,000, and earnings on investments decreased approximately \$16,000.
- Program expenses were 5.23%, or approximately \$738,000, more in fiscal 2012 than in fiscal 2011. Mental health expenses, county environment and education expenses and administration services expenses had significant increases from 2011.
- The County's net assets increased 19.60%, or approximately \$1,619,000, from June 30, 2011 to June 30, 2012.

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, mental health, rural services and secondary roads-special revenue funds are the most significant funds. The remaining statements provide financial information about activities for which Clayton County acts solely as an agent or custodian for the benefit of those outside of the government.

The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the County's budget for the year. Supplementary information provides detailed information about the nonmajor governmental and the individual fiduciary funds.

USING THE BASIC FINANCIAL STATEMENTS (Continued)

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 has governmental activities:

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

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial reports provide detailed information about the County's major funds. The County uses different funds in accordance with the Uniform Financial Accounting for Iowa County Governments to record its financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the general fund, mental health-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 debt service fund and 4) capital projects fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS (Continued)

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, E-911 service board are some examples.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets.

Condensed Statement of Net Assets (Expressed in Thousands)			
	2012	2011	Percent Change
Current and other assets	\$ 18,783	\$ 17,281	8.69%
Capital assets	19,043	14,802	28.65%
Total assets	<u>37,826</u>	<u>32,083</u>	<u>17.90%</u>
Long-term debt outstanding	3,380	2,813	20.16%
Other liabilities	9,955	8,792	13.23%
Total liabilities	<u>13,335</u>	<u>11,605</u>	<u>14.91%</u>
Net assets			
Invested in capital assets	16,145	12,451	29.67%
Restricted	6,472	6,886	-6.01%
Unrestricted	<u>1,874</u>	<u>1,141</u>	<u>64.24%</u>
Total net assets	<u>\$ 24,491</u>	<u>\$ 20,478</u>	<u>19.60%</u>

Clayton County's net assets for the governmental activities increased from fiscal 2011 to fiscal 2012, due to the recording of more capital assets. 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 \$733,000.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the change in net assets for the year ending June 30, 2012:

	Changes in Net Assets of Governmental Activities (Expressed in Thousands)		
	2012	2011	Percent Change
Revenues:			
Program revenue			
Charges for service	\$ 561	\$ 523	7.27%
Operating grants	5,057	4,779	5.82%
Capital grants	1,326	761	74.24%
General revenue			
Property taxes	7,381	7,261	1.65%
Local option sales tax	832	796	4.52%
Penalty and interest on property taxes	58	61	-4.92%
State tax credits	874	870	0.46%
Franchise tax	151	152	0.00%
Rents	47	48	-2.08%
Grants and contributions	12		
Unrestricted investment earnings	111	127	-12.60%
Gain (loss) on sale of capital assets	40	(196)	120.41%
Other	25	302	-91.72%
Total revenues	16,475	15,484	6.40%
Program expenses:			
Public safety and legal services	2,126	2,492	-14.69%
Physical health and social services	779	710	9.72%
Mental health	2,642	2,037	29.70%
County environment and education	1,233	1,118	10.29%
Roads and transportation	4,137	4,081	1.37%
Government services to residents	648	566	14.49%
Administration or general government	1,376	1,179	16.71%
Non-program	1,861	1,776	4.79%
Interest	54	159	-66.04%
Total expenses	14,856	14,118	5.23%
Increase in net assets	1,619	1,366	18.52%
Net assets beginning of year, restated	22,872	19,112	19.67%
Net assets end of year	\$ 24,491	\$ 20,478	19.60%

INDIVIDUAL FUND ANALYSIS

As the County completed the year, its governmental funds reported a combined fund balance of \$8,180,346, approximately \$86,000 increase of the 2011 fiscal year end balance of \$8,094,172.

- The general fund revenues increased 14.77% from prior year, and the expenditures increased by 3.99% from prior year. The ending fund balance showed an increase of 34.20% from the prior year of \$1,757,156 to \$2,358,055.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, revenues increased 2.83% from prior year, whereas, the expenditures increased by 29.73% from the prior year. The mental health fund balance at year end decreased by \$461,000 over the prior year, to a deficit of approximately of \$19,000.

INDIVIDUAL FUND ANALYSIS (Continued)

- The secondary roads fund revenues decreased 7.88% from prior year, whereas, the expenditures decreased by 12.88% from the prior year. The secondary roads fund balance at year end decreased by approximately \$204,000, or 3.92%.
- The rural services fund revenues increased by 4.08% from the prior year, and the expenditures increased by 25.22% from the prior year. The rural services fund balance at year end increased by approximately \$7,000, or 1.18%.

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 once. The amendment was made in 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 amendment made during the 2012 fiscal year should have no impact on the 2013 fiscal year's budget.

The following shows the original and amended budget for fiscal 2012 as well as the actual revenue and expenditures for the year:

	Budgetary Comparison Schedule			
	(Expressed in Thousands)			
	Budget Basis	Budget Amounts		Variance
	Original	Final		
REVENUES				
Property and other County tax	\$ 8,429	\$ 8,402	\$ 8,402	\$ 27
Interest and penalty on property tax	58	68	68	(10)
Intergovernmental	6,293	5,665	6,565	(272)
Licenses and permits	29	22	22	7
Charges for service	486	476	476	10
Use of money and property	188	258	258	(70)
Miscellaneous	822	513	513	309
Total revenues	\$ 16,305	\$ 15,404	\$ 16,304	\$ 1
EXPENDITURES				
Public safety and legal services	\$ 2,539	\$ 2,562	\$ 2,567	\$ 28
Physical health and social services	790	703	793	3
Mental health	2,214	2,129	2,282	68
County environment and education services	1,210	1,242	1,254	44
Roads and transportation	5,573	6,379	6,379	806
Governmental services to residents	611	666	666	55
Administrative services	1,377	1,293	1,383	6
Non-program	5	1	2	(3)
Debt service	271	254	271	-
Capital projects	1,494	1,417	2,756	1,262
Total expenditures	\$ 16,084	\$ 16,646	\$ 18,353	\$ 2,269

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, Clayton County had \$19,043,559 invested in a broad range of capital assets, including large road equipment, infrastructure and buildings for the governmental activities.

The County had depreciation expense of \$1,444,725 for fiscal year 2012 and total accumulated depreciation of \$11,009,566 as of June 30, 2012 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 \$3,380,000 in bonds and other debt compared to approximately \$2,753,000 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 \$65,076,994 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 an unemployment rate (6% in August 2012) which is relatively the same as the state's (5.9%) but lower than the national's (9.6%).
- Clayton County's per capita income is \$32,275 (2009) (ranking 85% from the top of all Iowa counties) with this factor improving in the last 10 years.
- Clayton County's percentage of population living in poverty is 12% (ranking 44th from the top of all Iowa counties).
- Clayton County has a moderately sized tax base of total taxable value of \$787,822,189 (.6% increase from prior year) and a total 100% assessed value of \$1,468,436,200 (7% growth from prior year).
- Clayton County received an A1 bond rating from Moody's Investor Service in September 2011 and again in January of 2012. Clayton County's debt capacity is currently at \$2,956,307 which is 4.3% of a maximum amount of \$68,356,901.

The upcoming fiscal year 2013 budget contains receipts totaling \$17,518,331 and disbursements totaling \$19,356,309 compared to the 2012 budget of \$15,422,665 in receipts and \$16,646,343 in disbursements. The total estimated cash fund balance on June 30, 2013 is \$5,078,187.

<u>TAX RATE COMPARISON</u>	<u>FY 2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>
County wide rate	\$7.23528	\$7.34907	\$7.33970	\$7.41686
Rural rate	\$10.49082	\$10.71972	\$10.71035	10.78751

Tax rates are expressed in dollars per \$1,000 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, 2012

	Governmental Activities
ASSETS	
Cash and pooled investments	\$ 9,426,362
Receivables	
Property tax	
Delinquent	5,885
Succeeding year	7,573,634
Interest and penalty on property tax	6,745
Accounts	530,124
Notes	
Short-term	12,796
Accrued interest	8,101
Due from other governments	593,550
Inventories	427,443
Prepaid expenses	105,535
Notes receivable	
Long-term	92,288
Nondepreciable capital assets	304,209
Capital assets, net of accumulated depreciation	18,739,350
Total assets	\$ 37,826,022
LIABILITIES AND NET ASSETS	
Accounts payable	\$ 1,420,717
Salaries and benefits payable	74,333
Accrued interest payable	9,462
Due to other governments	794,272
Deferred revenue	
Succeeding year property tax	7,573,634
Long-term liabilities	
Portion due within one year	
Bonds payable	259,000
Leases payable	20,530
Compensated absences	382,366
Portion due after one year	
Bonds payable	2,697,307
Leases payable	21,354
Net OPEB obligation	82,223
Total liabilities	13,335,198
NET ASSETS	
Invested in capital assets, net of related debt	16,145,270
Restricted for	
Inventories	427,443
Mental health	596
Rural services	641,509
Secondary roads	4,675,467
Debt service	14,698
Other special revenue	122,908
Capital projects	63,244
Other purposes	525,702
Unrestricted	1,873,987
Total net assets	24,490,824
Total liabilities and net assets	\$ 37,826,022

See Notes to Financial Statements.

CLAYTON COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions and Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants	Capital Grants	
Governmental activities					
Public safety and legal services	\$ 2,126,218	\$ 144,785	\$ 21,382		\$ (1,960,051)
Physical health and social services	778,917	15,690	178,046		(585,181)
Mental health	2,642,322	12,667	746,740		(1,882,915)
County environment and education	1,233,160	48,912	533,489	\$ 1,067,485	416,726
Roads and transportation	4,137,043	5,524	3,517,659	128,312	(485,548)
Government services to residents	648,348	308,297	20,750		(319,301)
Administrative services	1,376,646	25,387	39,133		(1,312,126)
Non-program	1,750,158			130,592	(1,619,566)
Depreciation (unallocated)	110,779				(110,779)
Long-term debt interest and fees	54,027				(54,027)
Total governmental activities	\$ 14,857,618	\$ 561,262	\$ 5,057,199	\$ 1,326,389	(7,912,768)
General revenues					
Property taxes levied for general purposes					7,381,043
Penalty and interest on property taxes					58,305
State tax credits					873,234
Local option sales tax					832,329
Franchise tax					150,579
Rents					47,210
Grants and contributions					12,115
Unrestricted investment earnings					110,648
Gain on sale of fixed assets					40,378
Miscellaneous					25,334
Total general revenues					9,531,175
Change in net assets					1,618,407
Net assets, beginning of year, restated					22,872,417
Net assets end of year					\$ 24,490,824

See Notes to Financial Statements.

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CLAYTON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
ASSETS				
Cash and pooled investments	\$ 2,298,733	\$ 725,844	\$ 656,355	\$ 5,063,362
Receivables				
Property tax				
Delinquent	3,498	650	1,335	
Succeeding year	4,585,990	852,296	1,818,594	
Interest and penalty on property tax	6,745			
Accounts	521,738	6,500	519	1,015
Accrued interest	7,475			
Notes				105,084
Due from other funds	71,300		21,354	1,183
Due from other governments	179,353		19,390	356,998
Prepaid expenditures	105,535			
Inventories			19,359	408,084
Total assets	\$ 7,780,367	\$ 1,585,290	\$ 2,536,906	\$ 5,935,726
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 124,214	\$ 61,311	\$ 29,215	\$ 804,002
Salaries and benefits payable	32,323		514	41,496
Due to other funds	21,600	359	937	267
Due to other governments	69,875	690,177	26,778	6,410
Deferred revenue				
Succeeding year property tax	4,585,990	852,296	1,818,594	
Other	588,310	596	1,185	92,288
Total liabilities	5,422,312	1,604,739	1,877,223	944,463
Fund balances (deficit)				
Nonspendable	105,535		19,359	408,084
Restricted	420,167		640,324	4,583,179
Unassigned	1,832,353	(19,449)		
Total fund balances	2,358,055	(19,449)	659,683	4,991,263
Total liabilities and fund balances	\$ 7,780,367	\$ 1,585,290	\$ 2,536,906	\$ 5,935,726

See Notes to Financial Statements.

EXHIBIT C

Nonmajor Governmental Funds	Total Governmental Funds
\$ 682,068	\$ 9,426,362
402	5,885
316,754	7,573,634
	6,745
352	530,124
626	8,101
	105,084
	93,837
37,809	593,550
	105,535
	427,443
<u>\$ 1,038,011</u>	<u>\$ 18,876,300</u>
\$ 401,975	\$ 1,420,717
	74,333
70,674	93,837
1,032	794,272
316,754	7,573,634
56,782	739,161
<u>847,217</u>	<u>10,695,954</u>
	532,978
253,610	5,897,280
(62,816)	1,750,088
<u>190,794</u>	<u>8,180,346</u>
<u>\$ 1,038,011</u>	<u>\$ 18,876,300</u>

CLAYTON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 8,180,346
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 \$ 11,009,566	19,043,559
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds	739,161
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	(2,956,307)
Leases payable	(41,884)
Compensated absences	(382,366)
OPEB obligation	(82,223)
Accrued interest	(9,462)
	(3,852,242)
Net assets of governmental activities	\$ 24,490,824

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, 2012

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
REVENUES				
Property and other County tax	\$ 4,631,533	\$ 829,620	\$ 1,762,783	
Local option sales tax			126,557	\$ 717,156
Interest and penalty on property tax	58,305			
Intergovernmental	460,704	1,337,090	74,297	3,791,476
Licenses and permits	19,596			5,480
Charges for service	469,125	12,669	6,649	643
Use of money and property	182,246			
Miscellaneous	632,407	1,145	3,387	41,955
Total revenues	6,453,916	2,180,524	1,973,673	4,556,710
EXPENDITURES				
Current				
Public safety and legal services	2,476,708		75,876	
Physical health and social services	784,213		21,979	
Mental health		2,642,322		
County environment and education services	636,577		465,103	4,224
Roads and transportation				5,926,244
Governmental services to residents	622,163			
Administrative services	1,359,825			
Non-program	2,198		3,000	
Debt service				
Capital projects	114,165			244,860
Total expenditures	5,995,849	2,642,322	565,958	6,175,328
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	458,067	(461,798)	1,407,715	(1,618,618)
OTHER FINANCING SOURCES (USES)				
Transfers in				1,400,000
Proceeds from disposal of capital assets	142,832			14,824
Transfers out			(1,400,000)	
Proceeds from general obligation bonds				
	142,832	-	(1,400,000)	1,414,824
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	600,899	(461,798)	7,715	(203,794)
FUND BALANCES, beginning of year	1,757,156	442,349	651,968	5,195,057
FUND BALANCES, (deficit) end of year	\$ 2,358,055	\$ (19,449)	\$ 659,683	\$ 4,991,263

See Notes to Financial Statements.

EXHIBIT D

Nonmajor Governmental Funds	Total Governmental Funds
\$ 367,090	\$ 7,591,026
	843,713
	58,305
518,455	6,182,022
	25,076
4,665	493,751
4,285	186,531
146,401	825,295
<u>1,040,896</u>	<u>16,205,719</u>
	2,552,584
	806,192
	2,642,322
120,331	1,226,235
	5,926,244
6,250	628,413
	1,359,825
	5,198
280,228	280,228
1,385,935	1,744,960
<u>1,792,744</u>	<u>17,172,201</u>
<u>(751,848)</u>	<u>(966,482)</u>
	1,400,000
	157,656
	(1,400,000)
895,000	895,000
<u>895,000</u>	<u>1,052,656</u>
143,152	86,174
47,642	8,094,172
<u>\$ 190,794</u>	<u>\$ 8,180,346</u>

CLAYTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities		
Net change in fund balances - total governmental funds	\$	86,174
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Depreciation	\$ (1,444,725)	
Capital outlays	<u>3,515,395</u>	2,070,670
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	(56,088)	
Other	<u>321,643</u>	265,555
The net effect of disposal of capital assets		(152,905)
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Current year repayments exceeded issues, as follows:		
Issued	(895,000)	
Repaid	<u>247,735</u>	(647,265)
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.		
		(1,799)
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.		
OPEB obligation		(21,965)
Compensated absences		<u>19,942</u>
Change in net assets of governmental activities	\$	<u>1,618,407</u>

See Notes to Financial Statements.

CLAYTON COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
June 30, 2012

ASSETS	
Cash and pooled investments	
County Treasurer	\$ 1,244,289
Other County officials	23,924
Receivables	
Property tax	
Delinquent	11,906
Succeeding year	16,620,551
Accounts	4,389
Accrued interest	27
Due from other governments	32,845
Prepaid insurance	810
	<hr/>
Total assets	17,938,741
	<hr/>
LIABILITIES	
Accounts payable	4,576
Due to other governments	17,903,777
Trusts payable	15,111
Compensated absences	15,277
	<hr/>
Total liabilities	17,938,741
	<hr/>
NET ASSETS	\$ None
	<hr/> <hr/>

See Notes to Financial Statements.

CLAYTON COUNTY

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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

b. Significant Accounting Policies

Scope of Reporting Entity

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

Jointly Governed Organizations

The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Disaster Services Board, Clayton County Planning and Zoning Committee and Clayton County E-911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in agency funds of the County. The County Board of Supervisors also appoints a representative to the Winneshiek County Area Solid Waste Agency Board.

Government-wide Financial Statements

The statement of net assets and the statement of activities report information on all of the non-fiduciary activities of the County. Governmental activities are 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 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 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 restricted or committed for expenditure for specified purposes other than debt service or capital projects. The major funds in this category are rural services, secondary roads, and Mental Health/Development Disabilities (MH/DD) Services.

Debt Service Fund

The debt service fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the County's general long-term debt.

Capital Projects Funds

The capital projects funds are used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

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. 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.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used. 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.

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.

The government-wide statements are prepared 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.

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 and compensated absences, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

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

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

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.

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications—committed, assigned and then unassigned fund balances.

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.

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, 2012.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

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 or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both government-wide and fund financial statements 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, 2012, 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.

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 nonspendable fund balance which indicates that they are not available to liquidate current obligations.

Prepaid Expenditures

Payments made for insurance for a future period beyond June 30, 2012 are recorded as prepaid insurance. The fund balances in the governmental fund types have been recorded as nonspendable for the prepaid expenditures recorded in those funds. This reflects the amount of net assets not currently available for expenditure.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Capital Assets

Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 1980, 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

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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Long-term Obligations

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

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

Compensated Absences

County employees receive vacation leave at the following rates:

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

*Secondary road employees only

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, 2012 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, 2012 is \$382,366.

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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Fund Balance

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable

Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted

Amounts restricted to specific purposes when constraints place on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned

All amounts not included in other classifications.

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.

Unrestricted net assets represent the difference between assets and liabilities that are not restricted and can be used for future obligations of the County.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. Expenditures for the year ended June 30, 2012 exceeded the certified budget amount in the non-program service area.

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2011.

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

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

b. Significant Accounting Policies (Continued)

Revenues, Expenditures and Expenses (Continued)

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, 2012 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.

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) to 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.

NOTES TO FINANCIAL STATEMENTS

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2012:

Governmental	
General fund	
Hotel/motel tax	\$ 3,557
Bureau Outdoor Recreation	10,027
Department of Health reimbursement	2,714
Federal Emergency Management Grant	134,623
Public Health Grant	9,334
Other	<u>19,098</u>
	<u>179,353</u>
Special revenue	
Rural service fund	
Local option sales tax	<u>19,390</u>
Secondary roads fund	
Local option sales tax	109,880
Road use tax	239,678
Other	<u>7,440</u>
	<u>356,998</u>
Nonmajor governmental	
RISE Ltd contribution	<u>37,809</u>
Total governmental	<u><u>\$ 593,550</u></u>

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Governmental activities				
Land	\$ 432,041		\$ 127,832	\$ 304,209
Capital assets being depreciated				
Buildings	5,612,864	\$ 21,760		5,634,624
Equipment	8,519,933	761,451	109,523	9,171,861
Infrastructure	12,210,247	2,732,184		14,942,431
Total capital assets being depreciated	26,343,044	3,515,395	109,523	29,748,916
Less accumulated depreciation				
Building	2,101,927	181,868		2,283,795
Equipment	4,851,449	639,266	84,450	5,406,265
Infrastructure	2,695,915	623,591		3,319,506
Total accumulated depreciation	9,649,291	1,444,725	84,450	11,009,566
Total capital assets being depreciated, net	16,693,753	2,070,670	25,073	18,739,350
Governmental activities				
Capital assets, net	\$ 17,125,794	\$ 2,070,670	\$ 152,905	\$ 19,043,559

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

Governmental activities	
Public safety and legal services	\$ 181,864
Physical health and social services	4,072
County environment and education services	2,621
Roads and transportation	1,116,699
Governmental services to resident	15,535
Administrative services	13,155
Depreciation (unallocated)	110,779
	\$ 1,444,725

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.

NOTES TO FINANCIAL STATEMENTS

5. Due to Other Governments (Continued)

A summary of amounts due to other governments is shown below as follows:

Governmental			
General fund	Services	\$	69,875
Special revenue fund			
Mental health	Services		690,177
Rural service	Services		26,778
Secondary roads	Services		6,410
			723,365
Nonmajor governmental	Services		1,032
Total governmental		\$	794,272
Fiduciary			
Agency			
County Assessor	Collections	\$	855,960
Schools			11,483,173
Area schools			812,200
Corporations			3,577,017
Townships			423,925
Auto license and use tax			441,702
Agricultural Extension Education			190,091
County offices			8,813
Other			110,896
Total for agency funds		\$	17,903,777

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 5.38%, 4.50%, and 4.30% of their annual covered salary and the County is required to contribute 8.07%, 6.95%, 6.65% of annual covered payroll for the years ended June 30 2012, 2011, and 2010 respectively. 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, 2012, 2011, and 2010 were \$385,699, \$336,671, and \$318,520, 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 29 participants in the plan for the plan year ended December 31, 2011.

8. Construction, Purchase and Other Commitments

The total outstanding construction and purchase commitments of the County at June 30, 2012 amount to \$2,868,823 and commitments to be reimbursed is \$1,216,962.

The Board of Supervisors has agreed to provide Scenic Acres financial support for the period July 1, 2012 through June 30, 2013. Financial support for the year ended June 30, 2012 totaled \$587,448.

The County has entered into five tax increment financing (TIF) arrangements:

- 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.
- The Diamond Eagle Village Urban Renewal Area which calls for payments of property tax revenues from property valuation increases in the TIF area to be made to the developer as revenues are available until June 1, 2016. Total payments to the developer are not to exceed \$430,000.
- The Mining Urban Renewal Area which requires payments of 75% of the incremental tax collected by the County until June 1, 2016, and the payments should not exceed \$2,000,000.
- The Clayton County Recycling Urban Renewal Area which calls for payments of property tax revenues from property valuation increases in the TIF area to be made to the Company as revenues are available until June 1, 2017, with payments not exceeding \$250,000.
- Clayton County Ethanol Urban Renewal Area which calls for payments of property tax revenues from property valuation increases in the TIF area to be made to the Company as revenues are available until January 1, 2019, with payments not exceeding \$1,485,740.
- Payments of \$59,320, \$11,647 and \$49,364 were made under the Diamond Eagle Village, Recycling, and Mining Urban Renewal Areas respectively for the fiscal year ended June 30, 2012.

9. Leases

As of June 30, 2012, 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.

NOTES TO FINANCIAL STATEMENTS

10. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Issued	(Paid)	Balance June 30, 2012	Amounts Due Within One Year
Governmental activities					
General Obligation Bonds					
Sewer improvement bond	\$ 234,307		\$ (13,000)	\$ 221,307	\$ 14,000
County building improvement bonds	None	\$ 895,000		895,000	30,000
County refunding bonds	2,055,000		(215,000)	1,840,000	215,000
Total bonds	2,289,307	895,000	(228,000)	2,956,307	259,000
Other liabilities					
Leases payable	61,619		(19,735)	41,884	20,530
Compensated absences	402,308	382,366	(402,308)	382,366	382,366
Total other liabilities	463,927	382,366	(422,043)	424,250	402,896
Governmental activities					
Long-term liabilities	\$ 2,753,234	\$ 1,277,366	\$ (650,043)	\$ 3,380,557	\$ 661,896

General Obligation Bonds

On May 13, 2010 the County approved the issuance of General Obligation Sewer Improvement Bonds in an amount not to exceed \$327,000. As of June 30, 2012 an amount of \$247,307 had been issued. The proceeds of these bonds were used to finance construction improvements to certain sanitary sewer treatment facilities for the County Jail and the County Care Center. The issue of bonds bears interest of 3.0% and matures from June 2012 to June 2026.

On October 1, 2010 the County issued \$2,295,000 of General Obligation Refunding Bonds. The proceeds of these bonds were used to pay off the General Obligation County Jail Bonds. The issue of bonds bears interest ranging from 1.0% to 2.55% and matures from May 2012 to May 2020.

On February 1, 2012 the County issued \$895,000 of General Obligation County Building Improvement Bonds. The proceeds of these bonds were used to renovate the County building. The issue of bonds bears interest ranging from 2.0% to 2.15% and matures from June 2013 to June 2027.

NOTES TO FINANCIAL STATEMENTS

10. Long-term Debt Obligations (Continued)

Capital Leases

In February 2011, the County entered into capital leases purchase agreements to lease one tractor with mowers with historical cost of \$100,879. The lease bears interest at 3.95% 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, 2012.

Year ending June 30,		
2013	\$	21,852
2014		<u>21,852</u>
Minimum lease payments		43,704
Less amount representing interest		<u>(1,820)</u>
Present value of minimum lease payments	\$	<u>41,884</u>

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
2013	\$ 259,000	\$ 69,775
2014	279,000	59,617
2015	284,000	55,877
2016	290,000	51,597
2017	295,000	46,473
2018-2022	1,109,000	134,781
2023-2027	<u>440,307</u>	<u>43,789</u>
	<u>\$ 2,956,307</u>	<u>\$ 461,909</u>

At June 30, 2012, the debt issued by the County did not exceed its legal debt margin compiled as follows:

Total assessed valuation	<u>\$ 1,367,138,015</u>
Debt limit – 5% of total assessed valuation	\$ 68,356,901
Debt applicable to debt limit	
General obligation bonded debt outstanding	(2,956,307)
Other debt	<u>(323,600)</u>
Legal debt margin	<u>\$ 65,076,994</u>

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, 2012 the balance outstanding was \$281,716.

11. Other Postemployment Benefits (OPEB)

Plan Description

The County operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 109 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy

The contribution requirements of plan members are established and may be amended by the County. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$	51,836
Interest on net OPEB obligation		2,410
Adjustment to annual required contribution		<u>(2,303)</u>
Annual OPEB cost		51,943
Contributions made		<u>29,978</u>
Increase in net OPEB obligation		21,965
Net OPEB obligation beginning of year		<u>60,258</u>
Net OPEB obligation end of year	\$	<u><u>82,223</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

11. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

For the year ended June 30, 2012, the County contributed \$29,978 to the medical plan. Plan members eligible for benefits contributed \$63,122, or 68% of the premium costs.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 51,836	34.9%	\$ 33,726
June 30, 2011	\$ 51,896	48.9%	\$ 60,258
June 30, 2012	\$ 51,943	57.7%	\$ 82,223

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$466,467, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$466,467. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,329,675 and the ratio of the UAAL to covered payroll was 10.8%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

As of July 1, 2009, actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the County's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching 5% ultimate trend rate.

Mortality rates are from RP-2000 Combined Mortality Table projected to 2011 using Scale AA.

NOTES TO FINANCIAL STATEMENTS

12. Due to/from Other Funds

As of June 30, 2012, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 71,300	\$ 21,600
Special revenue funds		
Mental health		359
Rural services	21,354	937
Secondary roads	1,183	267
Nonmajor governmental funds		70,674
	\$ 93,837	\$ 93,837

13. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

	Transfers In	Transfers Out
Special revenue		
Rural services		\$ 1,400,000
Secondary roads	\$ 1,400,000	
	\$ 1,400,000	\$ 1,400,000

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 rural services fund to secondary roads fund was to help pay for expenses incurred during the year.

NOTES TO FINANCIAL STATEMENTS

14. Fund Equity

The government-wide statement of net assets reports \$6,471,567 of restricted net assets, of which \$6,338,350 is restricted by enabling legislation. The amounts restricted at June 30, 2012 are as follows:

Restricted net assets			
General fund			
Forfeiture	\$	2,939	
Prepaid expenditures		105,535	
County Conservation Land Acquisition		417,228	\$ 525,702
<hr/>			
Special revenue fund			
Inventories		427,443	
Mental health		596	
Rural services		641,509	
Secondary roads		4,675,467	5,745,015
<hr/>			
Nonmajor governmental funds			200,850
			<hr/>
			\$ 6,471,567
			<hr/> <hr/>

The governmental fund balances as of June 30, 2012 are as follows:

Nonspendable			
General fund			
	\$		105,535
Special revenue fund			
Rural service			19,359
Secondary roads			408,084
			<hr/>
			\$ 532,978
			<hr/> <hr/>
Restricted			
General fund			
	\$		420,167
Special revenue fund			
Rural service			640,324
Secondary roads			4,583,179
REAP			106,456
Recorder's records management			16,452
Capital projects fund			
Communications infrastructure			6,846
County building			99,902
Debt service			23,954
			<hr/>
			\$ 5,897,280
			<hr/> <hr/>

15. Joint Venture

The County is a participant in the Winneshiek County Area Solid Waste Agency (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 140th Avenue, Decorah, IA 52101.

16. 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, 2012 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.

17. 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 663 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 150 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.

17. Risk Management (Continued)

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the pool for the year ended June 30, 2012 were \$152,539.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

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, 2012, no liability has been recorded in the County's financial statements. As of June 30, 2012, 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 casualty 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.

18. Fund Balance Deficits

The mental health special revenue fund has a deficit fund balance as of June 30, 2012. The County plans to eliminate this deficit through property taxes received and decreasing expenses.

The tax increment financing nonmajor special revenue fund has a deficit fund balance as of June 30, 2012. The County plans to eliminate this deficit through property taxes received from the land in the area.

The RISE building nonmajor capital projects fund has a deficit fund balance as of June 30, 2012. The County plans to eliminate this deficit through reimbursements from RISE, Ltd for the project.

19. New Governmental Accounting Standards Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued six statements not yet implemented by the County. The statements which might impact the County are as follows:

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*; issued November 2010, will be effective for the fiscal year ending June 30, 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; issued December 2010, will be effective for the fiscal year ending June 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011, will be effective for the fiscal year ending June 30, 2013. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65, *Items Previously Classified as Assets and Liabilities*, issued March 2012, will be effective for the fiscal year ending June 30, 2014. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflow of resources, and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement 66, *Technical Corrections – 2012*, an amendment of GASB Statements 10 and 62, issued March 2012, effective for the fiscal year ending June 30, 2014. The objective of this statement is to improve accounting and financial reporting for governmental entities by resolving conflicting guidance in GASB Statements 54 and 62, on risk financing activities and operating leases.

GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012, will be effective for the fiscal year ended June 30, 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions which are provided by other entities.

The County's management has not yet determined the effect these statements will have on the County's financial statements.

20. Subsequent Events

Subsequent events were evaluated through March 25, 2013, which is the date the financial statements were available to be issued.

21. Restatement

Net assets invested in capital assets, net of related debt was restated due to the County gathering capital asset information in the amount of \$2,324,056.

CLAYTON COUNTY
 BUDGETARY COMPARISON SCHEDULE
 STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 June 30, 2012

	Actual	Budget Amounts		Final to Actual Variance-Positive (Negative)
		Original	Final	
REVENUES				
Property and other County tax	\$ 8,429,133	\$ 8,402,413	\$ 8,402,413	\$ 26,720
Interest and penalty on property tax	58,305	68,409	68,409	(10,104)
Intergovernmental	6,292,853	5,664,681	6,564,681	(271,828)
Licenses and permits	28,615	21,660	21,660	6,955
Charges for service	486,463	476,090	476,090	10,373
Use of money and property	187,476	258,090	258,090	(70,614)
Miscellaneous	822,183	512,986	512,986	309,197
Total revenues	16,305,028	15,404,329	16,304,329	699
EXPENDITURES				
Public safety and legal services	2,539,192	2,561,947	2,567,117	27,925
Physical health and social services	790,240	702,600	793,469	3,229
Mental health	2,214,086	2,128,541	2,282,041	67,955
County environment and education services	1,209,520	1,242,404	1,254,404	44,884
Roads and transportation	5,572,802	6,379,372	6,379,372	806,570
Governmental services to residents	610,735	665,780	665,780	55,045
Administrative services	1,377,060	1,293,095	1,383,095	6,035
Non-program	5,198	1,300	2,200	(2,998)
Debt service	271,322	253,804	271,337	15
Capital projects	1,493,854	1,417,500	2,754,266	1,260,412
Total expenditures	16,084,009	16,646,343	18,353,081	2,269,072
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	221,019	(1,242,014)	(2,048,752)	2,269,771
OTHER FINANCING SOURCES, NET	1,058,165	11,000	911,510	146,655
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,279,184	(1,231,014)	(1,137,242)	2,416,426
BALANCE, beginning of year	8,147,178	6,585,046	8,147,178	-
BALANCE, end of year	\$ 9,426,362	\$ 5,354,032	\$ 7,009,936	\$ 2,416,426

See Notes to Required Supplementary Information.

CLAYTON COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 For the Year Ended June 30, 2012

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 16,305,028	\$ (99,309)	\$ 16,205,719
Expenditures	16,084,009	1,088,192	17,172,201
Net	221,019	(1,187,501)	(966,482)
Other financing sources, net	1,058,165	(5,509)	1,052,656
Beginning fund balance	8,147,178	(53,006)	8,094,172
Ending fund balance	\$ 9,426,362	\$ (1,246,016)	\$ 8,180,346

See Notes to Required Supplementary Information.

CLAYTON COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2012

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, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, and capital projects 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, one budget amendment increased budgeted disbursements by \$1,706,738. 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, 2012, disbursements exceeded the amounts budgeted in the non-program function.

CLAYTON COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 (in thousands)

Fiscal Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 466	\$ 466	0.0%	\$ 4,319	10.8%
2011	July 1, 2009	-	\$ 466	\$ 466	0.0%	\$ 4,267	10.9%
2012	July 1, 2009	-	\$ 466	\$ 466	0.0%	\$ 4,330	10.8%

See Note 11 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION

To the Board of Supervisors
Clayton County
Elkader, Iowa

We have audited the financial statements of Clayton County as of and for the year ended June 30, 2012, and our report thereon dated March 25, 2013, which expressed an unqualified opinion on the financial statements, appears on pages 2 through 3. Our audit was performed for the purpose of forming opinions on such financial statements as a whole. The supplementary information on Schedules 1 through 9 for 2012 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the financial statements. The supplementary information on Schedules 1 through 9 for 2012 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

We also have previously audited, in accordance with U.S. generally accepted auditing standards, the financial statements of Clayton County as of and for the years ending June 30, 2003 and 2006 through 2011, (none of which are presented herein), and we expressed an adverse opinion on the governmental activities for the 2006 through 2010 fiscal years due to the omission of certain capital assets, net depreciation. We expressed unqualified opinion on governmental activities for the 2011 fiscal year. We expressed unqualified opinions on each major fund and aggregate remaining fund information for the 2006 through 2011 fiscal years. We expressed a qualified opinion on the governmental activities for the 2003 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 2003 fiscal year. Those audits were conducted for purposes of forming an opinion on the financial statements as a whole. The comparative schedule of revenues by source and expenditures by function (Schedule 9) information for fiscal years 2003 to 2011 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2003 and 2006 through 2011 financial statements. The information has been subjected to the auditing procedures applied in the audits of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information set forth in the supplementary information for the periods ended June 30, 2003 and 2006 through 2011, appearing on Schedule 9, is fairly stated, in all material respects in relation to the financial statements from which it has been derived.

The financial statements of Clayton County for the years ended June 30, 2004 and 2005, 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 on those financial statements due to the omission of a full capital asset listing. They expressed an unqualified opinion on those financial statements of each major fund and the aggregate remaining fund information. Their report, as of the same date, on the supplemental information for 2004 and 2005 presented on Schedule 9 stated in their opinion, such information was fairly stated in all material respects in relation to the financial statements for which it has been derived.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
March 25, 2013

CLAYTON COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Special Revenue	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
ASSETS				
Cash and pooled investments	\$ 130,587	\$ 527,545	\$ 23,936	\$ 682,068
Receivables				
Property tax				
Delinquent	178		224	402
Succeeding year			316,754	316,754
Accounts	352			352
Accrued interest	62	564		626
Due from other governments		37,809		37,809
Total assets	<u>\$ 131,179</u>	<u>\$ 565,918</u>	<u>\$ 340,914</u>	<u>\$ 1,038,011</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable		\$ 401,975		\$ 401,975
Due to other funds	\$ 70,674			70,674
Due to other governments		1,032		1,032
Deferred revenue				
Succeeding year property tax			\$ 316,754	316,754
Other	178	56,398	206	56,782
Total liabilities	<u>70,852</u>	<u>459,405</u>	<u>316,960</u>	<u>847,217</u>
Fund balances (deficit)				
Restricted	122,908	106,748	23,954	253,610
Unassigned	(62,581)	(235)		(62,816)
Total fund balances	<u>60,327</u>	<u>106,513</u>	<u>23,954</u>	<u>190,794</u>
Total liabilities and fund balances	<u>\$ 131,179</u>	<u>\$ 565,918</u>	<u>\$ 340,914</u>	<u>\$ 1,038,011</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, 2012

	Special Revenue	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
REVENUES				
Property and other County tax	\$ 122,596		\$ 244,494	\$ 367,090
Intergovernmental	12,749	\$ 496,054	9,652	518,455
Charges for service	4,665			4,665
Use of money and property	731	3,554		4,285
Miscellaneous		143,702	2,699	146,401
Total revenues	140,741	643,310	256,845	1,040,896
EXPENDITURES				
Current				
County environment and education services	120,331			120,331
Governmental services to residents	6,250			6,250
Debt service		8,906	271,322	280,228
Capital projects		1,385,935		1,385,935
Total expenditures	126,581	1,394,841	271,322	1,792,744
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	14,160	(751,531)	(14,477)	(751,848)
OTHER FINANCING SOURCES				
Proceeds from general obligation bonds		895,000		895,000
	-	895,000	-	895,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	14,160	143,469	(14,477)	143,152
FUND BALANCES, (deficit) beginning of year	46,167	(36,956)	38,431	47,642
FUND BALANCES, end of year	\$ 60,327	\$ 106,513	\$ 23,954	\$ 190,794

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2012

	REAP Grant	Recorder's Records Management	Tax Increment Financing	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 106,399	\$ 16,095	\$ 8,093	\$ 130,587
Receivables				
Property tax				
Delinquent			178	178
Accounts		352		352
Accrued interest	57	5		62
	<u>57</u>	<u>5</u>		<u>62</u>
Total assets	\$ 106,456	\$ 16,452	\$ 8,271	\$ 131,179
	<u>\$ 106,456</u>	<u>\$ 16,452</u>	<u>\$ 8,271</u>	<u>\$ 131,179</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to other funds			\$ 70,674	\$ 70,674
Deferred revenue			178	178
			<u>178</u>	<u>178</u>
Total liabilities	\$ -	\$ -	70,852	70,852
	<u>\$ -</u>	<u>\$ -</u>	<u>70,852</u>	<u>70,852</u>
Fund balances (deficit)				
Restricted	106,456	16,452		122,908
Unassigned			(62,581)	(62,581)
	<u>106,456</u>	<u>16,452</u>	<u>(62,581)</u>	<u>60,327</u>
Total fund balances	106,456	16,452	(62,581)	60,327
	<u>106,456</u>	<u>16,452</u>	<u>(62,581)</u>	<u>60,327</u>
Total liabilities and fund balances	\$ 106,456	\$ 16,452	\$ 8,271	\$ 131,179
	<u>\$ 106,456</u>	<u>\$ 16,452</u>	<u>\$ 8,271</u>	<u>\$ 131,179</u>

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2012

	REAP Grant	Recorder's Records Management	Tax Increment Financing	Total Nonmajor Special Revenue Funds
REVENUES				
Property and other County tax			\$ 122,596	\$ 122,596
Intergovernmental	\$ 12,115		634	12,749
Charges for service		\$ 4,665		4,665
Use of money and property	641	90		731
Total revenues	12,756	4,755	123,230	140,741
EXPENDITURES				
Current				
County environment and education services			120,331	120,331
Governmental services to residents		6,250		6,250
Total expenditures	-	6,250	120,331	126,581
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	12,756	(1,495)	2,899	14,160
FUND BALANCES, (deficit) beginning of year	93,700	17,947	(65,480)	46,167
FUND BALANCES, (deficit) end of year	\$ 106,456	\$ 16,452	\$ (62,581)	\$ 60,327

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
June 30, 2012

	RISE Building	Communications Infrastructure	County Building	Total Nonmajor Capital Projects Funds
ASSETS				
Cash and pooled investments	\$ 51,028	\$ 6,621	\$ 469,896	\$ 527,545
Receivables				
Accrued interest		225	339	564
Due from other governments	37,809			37,809
Total assets	\$ 88,837	\$ 6,846	\$ 470,235	\$ 565,918
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 31,788		\$ 370,187	\$ 401,975
Due to other governments	886		146	1,032
Deferred revenue	56,398			56,398
Total liabilities	89,072	\$ -	370,333	459,405
Fund balances (deficit)				
Restricted		6,846	99,902	106,748
Unassigned	(235)			(235)
Total fund balances	(235)	6,846	99,902	106,513
Total liabilities and fund balances	\$ 88,837	\$ 6,846	\$ 470,235	\$ 565,918

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUNDS
 For the Year Ended June 30, 2012

	RISE Building	Communications Infrastructure	County Building	Total Nonmajor Capital Projects Funds
REVENUES				
Intergovernmental		\$ 496,054		\$ 496,054
Use of money and property		747	\$ 2,807	3,554
Miscellaneous	\$ 74,194	55,500	14,008	143,702
Total revenues	74,194	552,301	16,815	643,310
EXPENDITURES				
Debt service			8,906	8,906
Capital projects	74,429	508,499	803,007	1,385,935
Total expenditures	74,429	508,499	811,913	1,394,841
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(235)	43,802	(795,098)	(751,531)
OTHER FINANCING SOURCES				
Proceeds from general obligation bonds			895,000	895,000
	-	-	895,000	895,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(235)	43,802	99,902	143,469
FUND BALANCES, beginning of year	-	(36,956)	-	(36,956)
FUND BALANCES, end of year	\$ (235)	\$ 6,846	\$ 99,902	\$ 106,513

See Independent Auditor's Report on the Supplementary Information.

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CLAYTON COUNTY
 COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 June 30, 2012

	County Offices	Agricultural Extension Education	Assessor	Schools
ASSETS				
Cash and pooled investments				
County Treasurer		\$ 2,977	\$ 455,738	\$ 181,342
Other County officials	\$ 23,924			
Receivables				
Property tax				
Delinquent		143	315	8,163
Succeeding year		186,971	412,337	11,293,668
Accounts			62	
Accrued interest				
Due from other governments				
Prepaid insurance				
Total assets	<u>\$ 23,924</u>	<u>\$ 190,091</u>	<u>\$ 868,452</u>	<u>\$ 11,483,173</u>
LIABILITIES				
Accounts payable			\$ 836	
Due to other governments	\$ 8,813	\$ 190,091	855,960	\$ 11,483,173
Trusts payable	15,111			
Accrued compensated absences			11,656	
Total liabilities	<u>\$ 23,924</u>	<u>\$ 190,091</u>	<u>\$ 868,452</u>	<u>\$ 11,483,173</u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 7

Area Schools	Corporations	Townships	Auto License and Use Tax	Other	Total
\$ 13,630	\$ 65,784	\$ 5,457	\$ 441,702	\$ 77,659	\$ 1,244,289 23,924
580	2,465	238		2	11,906
797,990	3,508,768	418,230		2,587	16,620,551
				4,327	4,389
				27	27
				32,845	32,845
				810	810
<u>\$ 812,200</u>	<u>\$ 3,577,017</u>	<u>\$ 423,925</u>	<u>\$ 441,702</u>	<u>\$ 118,257</u>	<u>\$ 17,938,741</u>
\$ 812,200	\$ 3,577,017	\$ 423,925	\$ 441,702	\$ 3,740	\$ 4,576
				110,896	17,903,777
					15,111
				3,621	15,277
<u>\$ 812,200</u>	<u>\$ 3,577,017</u>	<u>\$ 423,925</u>	<u>\$ 441,702</u>	<u>\$ 118,257</u>	<u>\$ 17,938,741</u>

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CLAYTON COUNTY
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 For the Year Ended June 30, 2012

	County Offices	Agricultural Extension Education	Assessor	Schools
ASSETS AND LIABILITIES				
BALANCE, beginning of year	\$ 21,347	\$ 188,202	\$ 741,200	\$ 11,356,512
ADDITIONS				
Property and other County tax		180,005	396,646	10,869,097
State tax credits		7,311	16,472	445,973
Intergovernmental				
Office fees and collections	427,351			
Auto license, use tax and postage				
E-911 telephone surcharges				
Assessments				
Trusts	90,828			
Interest on investments				
Miscellaneous			818	
Total additions	518,179	187,316	413,936	11,315,070
DEDUCTIONS				
Agency remittances				
To other funds	257,131			
To other governments	154,791		286,684	11,188,409
Trusts paid out	103,680			
Miscellaneous		185,427		
Total deductions	515,602	185,427	286,684	11,188,409
BALANCE, end of year	\$ 23,924	\$ 190,091	\$ 868,452	\$ 11,483,173

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 8

Area Schools	Corporations	Townships	Auto License and Use Tax	Other	Total
\$ 877,568	\$ 3,609,114	\$ 371,821	\$ 404,783	\$ 97,975	\$ 17,668,522
763,310	4,760,218	404,572		2,493	17,376,341
33,522	162,096	14,135		99	679,608
				113,304	113,304
				4,670	432,021
			5,119,663		5,119,663
				122,645	122,645
				77,649	77,649
				354,249	445,077
				136	136
				8,630	9,448
796,832	4,922,314	418,707	5,119,663	683,875	24,375,892
			164,572		421,703
862,200	4,954,411	366,603	4,918,172	303,525	23,034,795
				360,068	463,748
					185,427
862,200	4,954,411	366,603	5,082,744	663,593	24,105,673
\$ 812,200	\$ 3,577,017	\$ 423,925	\$ 441,702	\$ 118,257	\$ 17,938,741

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

	Modified Accrual			
	2012	2011	2010	2009
REVENUES				
Property and other County tax	\$ 7,591,026	\$ 7,245,804	\$ 7,334,091	\$ 6,889,139
Local option sales tax	843,713	799,311	757,554	754,109
Interest and penalty on property tax	58,305	61,456	67,966	59,696
Intergovernmental	6,182,022	6,211,679	5,786,977	6,275,189
Licenses and permits	25,076	28,821	25,016	19,530
Charges for service	493,751	459,559	410,048	436,973
Use of money and property	186,531	199,179	237,504	291,767
Miscellaneous	825,295	341,518	320,860	532,312
Total revenues	\$ 16,205,719	\$ 15,347,327	\$ 14,940,016	\$ 15,258,715
EXPENDITURES				
Current				
Public safety and legal services	\$ 2,552,584	\$ 2,405,900	\$ 2,309,534	\$ 2,365,778
Physical health and social services	806,192	711,096	646,262	514,874
Mental health	2,642,322	2,036,736	1,739,497	1,916,038
County environment and education services	1,226,235	1,146,629	1,161,472	1,268,648
Roads and transportation	5,926,244	5,809,303	5,525,699	5,888,540
Governmental services to residents	628,413	570,900	579,033	747,167
Administrative services	1,359,825	1,475,580	1,145,171	1,393,428
Non-program	5,198			2,862
Debt service	280,228	2,583,486	272,575	310,892
Capital projects	1,744,960	1,672,088	660,444	63,373
Total expenditures	\$ 17,172,201	\$ 18,411,718	\$ 14,039,687	\$ 14,471,600

See Independent Auditor's Report on the Supplementary Information.

Modified Accrual					
2008	2007	2006	2005	2004	2003
\$ 6,576,576	\$ 6,325,226	\$ 5,784,660	\$ 4,943,503	\$ 4,599,498	\$ 4,459,678
770,396	750,389	710,908	664,248	661,458	534,229
52,580	49,488	43,899	48,689	47,322	45,126
5,537,232	5,351,299	5,921,506	5,711,009	4,708,685	5,437,760
18,535	22,050	19,315	15,725	17,447	13,800
421,437	410,128	413,990	418,201	402,004	361,882
428,900	460,233	352,038	263,594	203,814	246,456
293,388	200,908	194,809	272,773	196,190	104,586
<u>\$ 14,099,044</u>	<u>\$ 13,569,721</u>	<u>\$ 13,441,125</u>	<u>\$ 12,337,742</u>	<u>\$ 10,836,418</u>	<u>\$ 11,203,517</u>
\$ 2,270,690	\$ 2,011,683	\$ 1,924,887	\$ 1,678,593	\$ 1,593,078	\$ 1,477,321
594,488	462,652	465,120	393,738	433,711	446,171
2,073,207	2,080,399	1,843,548	1,877,827	1,812,628	1,779,526
1,006,284	955,798	944,498	936,370	869,523	846,556
5,128,981	5,246,380	5,456,525	5,119,545	4,183,964	5,457,772
517,393	490,213	659,120	468,747	332,604	484,483
1,289,303	1,316,777	1,384,022	1,346,256	960,641	847,223
12,234			21,450		
467,818	381,114	521,871	427		
1,136,963	471,717	3,718,083	965,918	287,531	195,319
<u>\$ 14,497,361</u>	<u>\$ 13,416,733</u>	<u>\$ 16,917,674</u>	<u>\$ 12,808,871</u>	<u>\$ 10,473,680</u>	<u>\$ 11,534,371</u>

CLAYTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 97.044-Assistance to Firefighters Grant
 - CFDA Number 97.036-Disaster Grants-Public Assistance
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Clayton County did not qualify as a low-risk auditee.

CLAYTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks training in governmental accounting standards to appropriately fulfill these responsibilities, which is a common situation in small entities.

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.

Recommendation

The County Auditor office personnel should continue to obtain training in governmental accounting and reporting when possible.

Response and Corrective Action Planned

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

II-B-12 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.

Recommendation

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

Response and Corrective Action Planned

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

CLAYTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 97.044-Assistance to Firefighters Grant
Federal Award Year: 2012
U.S. Department of Homeland Security

CFDA Number 97.036-Disaster Grants-Public Assistance
U.S. Department of Homeland Security
Passed through the Iowa Department of Public Defense

See II-A-12 and II-B-12 above.

Part IV: Other Findings Related to Required Statutory Reporting:

See management letter dated March 25, 2013

Part V: Summary of Prior Federal Audit Findings and Questions Costs

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>Explanation</u>
II-A-11	Financial report preparation	Not corrected	Management does not have the necessary training to prepare year-end financial statements.
II-B-11	Overlapping duties	Not corrected	The County has limited staff and segregates duties to the best of their abilities.

CLAYTON COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2012

Grantor/Program	CFDA Number	Grant Number	Program Expenditures
Direct			
U.S. Department of Agriculture Conservation Reserve Program	10.069		\$ 3,079
U.S. Department of Interior Payments in Lieu of Taxes	15.226		<u>10,382</u>
U.S. Department of Homeland Security Assistance to Firefighters Grant	97.044	EMW-2010-FR-00115 EMW-2011-FR-00050	297,056 <u>198,998</u> <u>496,054</u>
Indirect			
U.S. Department of Agriculture Passed through Iowa Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	LAE Reimbursement	<u>3,673</u>
U.S. Department of Defense Passed through Iowa Office of Treasurer Payments to States in Lieu of Real Estate Taxes	12.112		<u>103</u>
U.S. Housing and Urban Development Passed through Iowa Economic Development Authority Community Development Block Grants	14.228	11-CF-003 08-DRIFWP-205	37,809 <u>24,900</u> <u>62,709</u>
U.S. Department of Justice Passed through Helping Services of Northeast Iowa, Inc Enforcing Underage Drinking Laws Program	16.727		<u>2,675</u>
Passed through Iowa Department of Public Safety Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	PAP 12-410, Task 17	<u>9,847</u>
U.S. Department of Health and Human Services Passed through Iowa Department of Public Health Public Health Emergency Preparedness	93.069	5881 BT22 5881 BT322 5882 BT22	4,074 <u>27,761</u> <u>14,070</u> <u>45,905</u>
Passed through Iowa Department of Human Services Social Services Block Grant	93.667 93.667	22-001 LAE Reimbursement	73,972 <u>1,177</u> <u>75,149</u>
Human Services Administrative Reimbursements			
Refugee and Entrant Assistance - State Administered Programs	93.566	LAE Reimbursement	7
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	LAE Reimbursement	814
Foster Care - Title IV-E	93.658	LAE Reimbursement	1,340
Adoption Assistance	93.659	LAE Reimbursement	392
State Children's Insurance Program	93.767	LAE Reimbursement	13
Medical Assistance Program	93.778	LAE Reimbursement	<u>3,451</u> <u>6,017</u>
Sub-total U.S. Department of Health and Human Services			<u>127,071</u>

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Grantor/Program	CFDA Number	Grant Number	Program Expenditures
Indirect (Continued)			
U.S. Department of Homeland Security			
Passed through Iowa Department of Public Defense			
Public Assistance Grants	97.036	FEMA DR 1763-IA FEMA DR 1930-IA	\$ 144,361 80,988 <u>225,349</u>
Hazard Mitigation Grant	97.039	DR-1763-005-01	<u>4,119</u>
Emergency Management Performance Grants	97.042	EMPG-11-PT-22 EMPG-12-PT-22	19,054 <u>22,184</u> <u>41,238</u>
Sub-total U.S. Department of Homeland Security			<u>270,706</u>
Total Federal Financial Assistance			<u>\$ 986,299</u>

See Independent Auditor's Report on the Supplementary Information.

CLAYTON COUNTY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Note 1. **Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Clayton County under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Clayton County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Clayton County.

Note 2. **Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

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

To the Board of Supervisors
Clayton County
Elkader, Iowa

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clayton County as of and for the year ended June 30, 2012, which collectively comprise Clayton County's basic financial statements and have issued our report thereon dated March 25, 2013. 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

Management of Clayton County is responsible for establishing and maintaining effective 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items II-A-12 and II-B-12 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 March 25, 2013.

Clayton County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Clayton County's responses and, accordingly, we express no opinion on them.

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
March 25, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Supervisors
Clayton County
Elkader, Iowa

Compliance

We have audited Clayton County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Clayton County's major federal programs for the year ended June 30, 2012. Clayton County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Clayton County's management. Our responsibility is to express an opinion on Clayton County's compliance based on our audit.

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

In our opinion, Clayton County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Clayton County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Clayton County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items II-A-12 and II-B-12. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Clayton County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Clayton County's responses and, accordingly, we express no opinion on them.

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
March 25, 2013

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, 2012, 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 10 below are compliance comments required by the Iowa Auditor of State. A separate report dated March 25, 2013, contains our report on significant deficiencies in the County's internal control. This letter does not affect our report dated March 25, 2013 on the financial statements of Clayton County. Comments 1, 11, 12, 13, 14, and 15 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

In April 2012, the County increased department appropriations which increased the published budget without a hearing prior to the increase and without publishing the amended budget until May 2012 which is not in compliance with Chapter 331.434 of the Code of Iowa. There were two departments which exceeded appropriations prior to budget amendment. Expenditures for the year ended June 30, 2012 exceeded the certified budget amount in the non-program service area.

Recommendation

We recommend the County not amend appropriations to increase the published budget prior to having a public hearing and publish the amended budget after the amendment to comply with Chapter 331.434 of the Code of Iowa. 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. The certified budget should have been amended in accordance with Chapter 334.434 of the Code of Iowa before expenditures were allowed to exceed budget.

Response

Under Chapter 331.434(6) it states that "increases and decreases in appropriation do not require a budget amendment..... as long as each class of proposed expenditures contained in the budget summary published under Subsection 3 of this section is not increased." It was not the Board and Auditor's intention at the time of appropriation change to increase or decrease the budget by class amounts as they were not being exceeded at that time. Future increases and decreases in appropriations or a budget amendment would also adjust appropriations or budgeted amounts. This is my interpretation of the Code Section and intent. I will seek further guidance for this 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, 2012.

5. Bond Coverage

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

6. Board Minutes

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. During our audit, we noted some Board minutes not approved by the Board of Supervisors or published in a timely manner.

Recommendation

We recommend all Board minutes be approved by the Board of Supervisors and published in the County approved newspaper in a timely manner.

Response

I am aware of the code requirement and more compliance will be attempted in the future.

Conclusion

Response accepted.

7. Deposits and Investments

A resolution naming official depository banks has been approved by the Board. The maximum deposit amounts stated in the resolution for the accounts held by the Treasurer's office at Central State Bank were exceeded during the year ended June 30, 2012.

Recommendation

We recommend depository amounts be monitored to prevent exceeding the resolution. The Board should reconsider the amount that is necessary to be set for the depository resolution.

Response

The Board approved maximum deposit limits will be adjusted in order to remain at an acceptable amount.

Conclusion

Response accepted.

8. 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). However, the Certification of County Conservation report was not filed by the October 1, 2012 due date.

Recommendation

We recommend the County file the Certification of County Conservation report by the due date of October 1st.

Response

The report was inadvertently not completed on time but when prompted was filed and REAP funding was not jeopardized.

Conclusion

Response accepted.

9. County Assessor - 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.

10. 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 financial statements.

Disbursements during the year ended June 30, 2012 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.

11. Infrastructure and Capital Asset Records

The County is in the process of gathering information to record the County's infrastructure and capital assets. Each individual office has a partial list of infrastructure and capital assets. Infrastructure and capital asset journal totals have not been summarized, nor has reconciliation been performed to balance additions and deletions to the general ledger.

Recommendation

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

Response

The inventory and information gathering is nearly complete. We anticipate reporting cost of all assets and depreciation on FY2013 annual report.

Conclusion

Response accepted.

12. Disbursements

During our audit, we noted the Sheriff Office's cashbook reconciliation included outstanding checks over two years old. We also noted of the disbursements tested, one disbursement was submitted and approved by the same person and another disbursement didn't have an invoice.

Recommendation

Checks outstanding for two or more years should be filed with the State Treasurer's office. See http://www.greatiowatreasurehunt.com/compliance_reporting/pdffiles/2007_holder_manual.pdf for instructions. The person submitting an invoice for payment shouldn't be the same person who approves the invoices for payment.

Response

We will contact individuals and either reissue checks or turn over to state agency. We will strengthen procedures for approving disbursements.

Conclusion

Response accepted.

13. Credit Card Policy

The County doesn't have a written credit card policy for the Conservation department.

Recommendation

We recommend the County implement a credit card policy for all departments who use credit cards to purchase supplies.

Response

The Board will adopt a written credit card policy immediately. The Auditor placed on the Supervisors agenda on April 4, 2012, discussion of several sample policies for several subjects including credit card usage. The Board took no action on any of the policies.

Conclusion

Response accepted.

14. Treasurer Report

The Treasurer's semi-annual report ending June 30, 2012 was not published as of November 19, 2012 as required by Chapter 349.16(3) of the Code of Iowa.

Recommendation

We recommend the Treasurer's semi-annual report be published.

Response

The Treasurer semi-annual report for June 30, 2012 was compiled and filed with the Board. The County Auditor did not follow through on its publication due to a question on handling of jail debt service trust funds held with Bankers Trust (what the funds were and whether to include in the report). It has since been published.

Conclusion

Response accepted.

15. Property Taxes

During our audit of property tax calculations, it was noted the incorrect percentage was used in calculating the homestead credit. The error resulted in the County receiving too much from the state for homestead credit. We noted Elk township collected more property tax than what was certified by the Department of Management. When testing the TIF, we were unable to determine the amount of TIF certified for the City of Elkader. It also appears the City of McGregor was paid too much in TIF collections.

Recommendation

We recommend records for property taxes and TIF should be kept in an orderly manner and reviewed to verify they are calculated properly and documentation can be followed.

Response

The usage of the incorrect percentage calculating homestead credit was an inadvertent error. The percentage is dictated by the Iowa Department of Revenue and changes each year with the funding level and amount of claims submitted. The prior year's percentage was used by mistake. As to the TIF problems, the County Auditor has been conducting sessions with the individual City Clerk-Administrators to try to work out problems with administration of TIF districts and monies. He has not met with Elkader so far. McGregor has met with the County Auditor to work out the problems for future years. No overpayment of outstanding debt has occurred only individual year apportioning.

Conclusion

Response accepted.

16. Fund Balance Deficits

Upon review of monthly fund balances, we noted the 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

The opposite side of this issue would have been default on payment of bond principal and interest. That is not a desirable action to occur. The situation should not have arisen, but that is how and why it was handled that way. The County Auditor has seen to it that the FY13 tax levy for jail bond debt service exceeded the amount in the schedule prepared when the bonds were refinanced so this situation does not keep recurring.

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
March 25, 2013