



**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR**

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**CLAY COUNTY, MISSISSIPPI**

**Audited Financial Statements and Special Reports  
For the Year Ended September 30, 2004**



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CLAY COUNTY

TABLE OF CONTENTS

FINANCIAL SECTION . . . . . 1

INDEPENDENT AUDITOR'S REPORT . . . . . 3

MANAGEMENT'S DISCUSSION AND ANALYSIS . . . . . 5

FINANCIAL STATEMENTS . . . . . 19

    Statement of Net Assets . . . . . 20

    Statement of Activities . . . . . 21

    Balance Sheet - Governmental Funds . . . . . 22

    Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets . . . . . 23

    Statement of Revenues, Expenditures and Changes in Fund Balances -  
        Governmental Funds . . . . . 24

    Reconciliation of the Statement of Revenues, Expenditures and Changes in  
        Fund Balances of Governmental Funds to the Statement of Activities . . . . . 25

    Statement of Net Assets - Proprietary Funds . . . . . 26

    Statement of Revenues, Expenses and Changes in Fund Net Assets -  
        Proprietary Funds . . . . . 27

    Statement of Cash Flows - Proprietary Funds . . . . . 28

    Statement of Fiduciary Assets and Liabilities . . . . . 29

    Notes to Financial Statements . . . . . 30

REQUIRED SUPPLEMENTARY INFORMATION . . . . . 47

    Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)

        General Fund . . . . . 48

        TVA Bridge Bond Fund . . . . . 49

    Notes to the Required Supplementary Information . . . . . 50

SPECIAL REPORTS . . . . . 51

    Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and  
        Other Matters Based on an Audit of the Financial Statements Performed in Accordance  
        with *Government Auditing Standards* . . . . . 53

    Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk  
        Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972)) . . . . . 55

SCHEDULE OF FINDINGS . . . . . 61



CLAY COUNTY

FINANCIAL SECTION

CLAY COUNTY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Members of the Board of Supervisors  
Clay County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Clay County, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the county's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Management did not maintain adequate subsidiary records documenting the aging of the accounts receivable for the solid waste accounts receivable included in the Proprietary Fund Type. Due to the nature of the county's records, we were unable to satisfy ourselves as to the fair presentation of the solid waste accounts receivable, net, reported in the business-type activities on the Statement of Net Assets and the Proprietary Fund Statement of Net Assets at \$506,105, as of September 30, 2004. Also, because of the nature of the accounts receivable records, we could not satisfy ourselves as to the accuracy of the amount reported as revenues in the business-type activities of the Statement of Activities and the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence to determine the net realizable value of the solid waste accounts receivable described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the Solid Waste Fund, an Enterprise Fund of Clay County, Mississippi, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund and the TVA Bridge Bond Fund and the aggregate remaining fund information of Clay County, Mississippi, as of September 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2006, on our consideration of Clay County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

February 22, 2006

CLAY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLAY C COUNTY

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**CLAY COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

***INTRODUCTION***

The discussion and analysis of Clay County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2004. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is a new element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

Clay County is located in the northeastern section of Mississippi. The population, according to the 2000 census, is 21,979. The local economic base is driven by manufacturing and agriculture primarily forest products, soybeans, and cotton.

***FINANCIAL HIGHLIGHTS***

Clay County is financially stable. The County has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Clay County continues to grow both economically and in population. This growth has allowed the County to maintain a steady increase in tax revenues without a significant tax increase. The County government's millage rate for year 1999 – 2000 was 50.0. The County government's millage rate for year 2003 – 2004 was 50.0. These figures should substantiate to the public the significant tax base growth that has occurred within Clay County without any tax increase. This percentage does not include School tax increases.

Total net assets increased by \$ 479,987 which represents a 2.60% increase from the prior fiscal year. The County's ending cash balance decreased by \$ 564,046, which represents an 11.54% decrease from the prior fiscal year.

The County had \$ 7,629,860 in total revenues. Tax revenues account for \$ 3,885,377 or 50.92% of total revenues. State revenues in the form of reimbursements, shared revenues, or grants, account for \$ 1,297,188 or 17% of total revenues.

The County had \$ 7,271,664 in total expenses, which represents a decrease of \$ 591,315 or 7.52% decrease from the prior fiscal year. Expenses in the amount of \$2,797,049 were offset by charges for services, grants, outside contributions or debt being issued. General revenues of \$4,832,811 were adequate to provide for the remainder of the expenses.

Among major funds, the General Fund had \$ 4,382,139 in revenues and \$ 4,636,478 in expenditures. The General Fund's fund balance decreased \$ 347,144 from the prior year.

Another major fund, the TVA Bridge Bond Fund had \$ 61,836 in revenues and \$ 305,940 in expenditures. The TVA Bridge Bond's fund balance decreased \$ 126,021 from the prior year.

Another major fund, the Solid Waste Fund had \$ 298,925 in total revenues and \$ 312,826 in expenses. The Solid Waste Fund's net assets decreased \$ 16,192 from the prior year.

Capital assets, net of accumulated depreciation, decreased \$ 413,802.

Long-term debt decreased by \$ 27,502.

## ***OVERVIEW OF THE FINANCIAL STATEMENTS***

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

**Figure 1 – Required Components of the County's Annual Report**

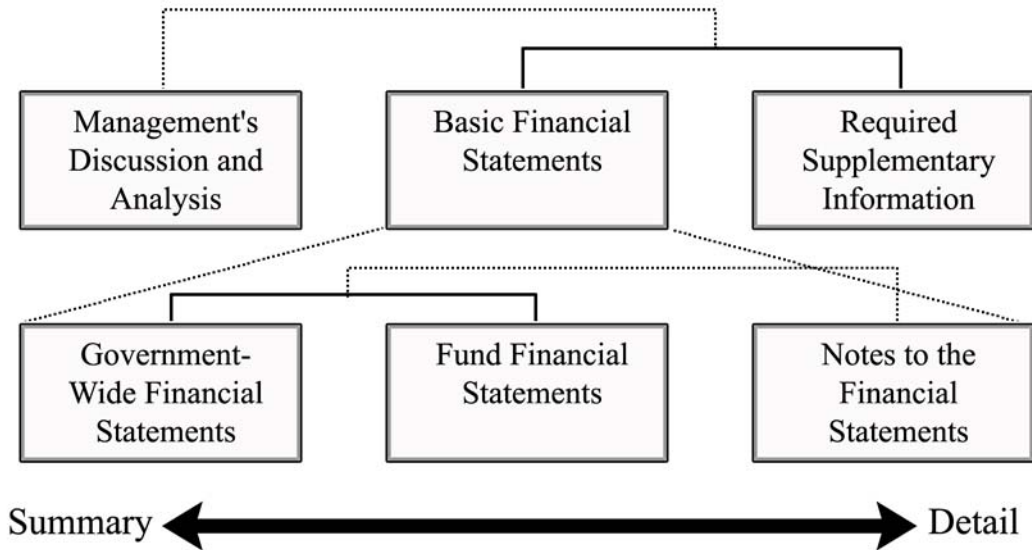


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the County's financial statements, including the portion of the County's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

**Figure 2 – Major Features of the County’s Government-Wide and Fund Financial Statements**

	<b>Government -Wide Financial Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	<b>Entire County government (except fiduciary funds)</b>	<b>All activities of the County that are not business-type or fiduciary in nature</b>	<b>Activities of the County that operate similar to private businesses</b>	<b>The County is the trustee or agent for someone else’s resources</b>
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>● <b>Statement of net assets</b></li> <li>● <b>Statement of activities</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Balance sheet</b></li> <li>● <b>Statement of revenues, expenditures and changes in fund balances</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Statement of net assets</b></li> <li>● <b>Statement of revenues, expenses and changes in net assets</b></li> <li>● <b>Statement of cash flows</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Statement of fiduciary assets and liabilities</b></li> </ul>
<b>Accounting basis and measurement focus</b>	<b>Accrual accounting and economic resources focus</b>	<b>Modified accrual accounting and current financial resources focus</b>	<b>Accrual accounting and economic resources focus</b>	<b>Accrual accounting and economic resources focus</b>
<b>Type of asset/liability information</b>	<b>All assets and liabilities, both financial and capital and short and long term</b>	<b>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included</b>	<b>All assets and liabilities, both financial and capital, and short and long term</b>	<b>All assets and liabilities, both short and long term</b>
<b>Type of inflow/outflow information</b>	<b>All revenues and expenses during year, regardless of when cash is received or paid</b>	<b>Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter</b>	<b>All revenues and expenses during year, regardless of when cash is received or paid</b>	<b>All revenues and expenses during year, regardless of when cash is received or paid</b>

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the County finances, in a manner similar to private-sector businesses.

The **statement of net assets** presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in 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 net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; education; economic development; and interest on long-term debt. The business-type activities of the County include the Solid Waste Department

The Government-wide Financial Statements can be found on pages 20 and 21 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue and debt service funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 23 and 25, respectively.

The County maintains individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 22 and 24 of this report.

**Proprietary funds** are maintained two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The County uses enterprise funds to account for the Solid Waste Fund.

Fund financial statements for the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Solid Waste Fund is considered to be a major fund of the County. The proprietary funds financial statements can be found on pages 26-28 of this report.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 29 of this report.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 30-46 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 48-50 of this report.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Assets** – Net assets may serve over time as a useful indicator of government’s financial position. In the case of Clay County, assets exceeded liabilities by \$18,910,599 as of September 30, 2004.

By far, the largest portion of the County’s net assets (67%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment and leased property under capital lease) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

The County’s financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the County’s net assets for the fiscal year ended September 30, 2004 and 2003.

	2004 Governmental Activities	2003 Governmental Activities	2004 Business Type Activities	2003 Business-Type Activities
Current assets	\$ 9,610,963	9,012,054	818,279	787,616
Capital assets, net	15,676,756	16,036,201	109,055	163,412
Total assets	<u>25,287,719</u>	<u>25,048,255</u>	<u>927,334</u>	<u>951,028</u>
Current liabilities	3,930,308	4,158,867	28,919	37,075
Long-term debt outstanding	3,344,573	3,372,729	654	
Total liabilities	<u>7,274,881</u>	<u>7,531,596</u>	<u>29,573</u>	<u>37,075</u>
Net assets:				
Invested in capital assets, net of related debt	12,482,277	15,279,172	109,055	163,412
Restricted	3,447,744	2,996,038	788,706	750,541*
Unrestricted	2,082,817	(758,551)		
Total net assets	<u>\$ 18,012,838</u>	<u>17,516,659</u>	<u>897,761</u>	<u>913,953</u>

\* This amount was reported as unrestricted in error in 2003.

The business-type activities consist of the collection and disposal of household garbage financed by a monthly fee of \$7.00 charged each household.

The following are significant current year transactions that have had an impact on the Statement of Net Assets:

- The county's fine receivable, net of allowance for uncollectible accounts, increased \$ 760,412. This material increase is mainly due to reporting the fine receivables for Circuit Court that were omitted in the prior year.
- The county's net assets, invested in capital assets, net of related debt did not actually decrease by \$ 2.7 million. In the prior year, the county mistakenly reported capital debt as non-capital. Therefore, this year an adjustment was made to make sure this debt was reported correctly.

**Changes in Net Assets** – Clay County's total revenues for the fiscal year ended September 30, 2004 was \$ 7,629,860. The total cost for all services provided was \$7,271,664. The increase in net assets was \$ 358,196. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2004 and 2003.

	Current Year <u>Amount</u>	Prior Year <u>Amount</u>
Revenues:		
Program revenues		
Charges for services	\$1,545,756	\$1,569,989
Operating grants & contributions	875,652	930,522
Capital grants & contributions	375,641	503,181
General revenues		
Property taxes	3,885,377	3,693,826
Road & bridge privilege taxes	222,015	218,285
Grants & contributions not restricted to specific programs	398,122	355,487
Unrestricted interest income	181,753	164,833
Other	<u>145,544</u>	<u>142,950</u>
Total Revenues	<u>7,629,860</u>	<u>7,579,073</u>

	Current Year <u>Amount</u>	Prior Year <u>Amount</u>
Expenses:		
General government	2,293,003	2,352,171
Public safety	2,032,240	1,581,431
Public works	1,969,388	2,407,698
Health and welfare	200,951	467,070
Culture & Recreation	74,908	68,493
Conservation of natural resources	51,223	49,915
Education	0	30,329
Economic development and assistance	158,398	414,129
Interest on long-term debt	178,367	197,805
Solid waste activities	313,186	293,938
Total Expenses	<u>7,271,664</u>	<u>7,862,979</u>
Increase in Net Assets	<u>\$358,196</u>	<u>(283,906)</u>

**Governmental Activities** – The following table presents the cost of the five major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare and Economic Development.

The table also shows each function’s net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on Clay County’s taxpayers by each of these functions.

	Total <u>Costs</u>	Net <u>Costs</u>
General Government	\$2,293,003	\$1,408,547
Public Safety	2,032,240	1,315,780
Public Works	1,969,388	1,190,092
Health & Welfare	200,951	169,687
Economic Development	158,398	46,776

### ***FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS***

**Governmental funds** – At the close of the fiscal year, Clay County’s governmental funds reported a combined fund balance of \$3,726,102, a decrease of \$ 60,455. The primary reasons for this decrease are highlighted in the analysis of governmental activities. In addition, others factors that affected the ending fund balance are as follows:

- The county’s expenditures exceeded its revenues by \$ 587,960. Although the county had a sufficient beginning cash balances in all funds to cover the expenditures, the net loss incurred due to the expenditures exceeding the revenues decreased the fund balance.

- The county did have other financing sources that offset the net change in fund balance. Some of these other financing sources were as follows: (1) the county issued long-term capital debt in the amount of \$ 404,864 (2) the county sold some capital assets for \$ 46,367 and (3) the county received lease principal payments in the amount of \$ 118,083.

The General Fund is the principal operating fund of the County. The decrease in the fund balance of the General Fund for the fiscal year was \$ 347,144. This decrease includes a prior period adjustment of \$175,033.

**Business-type funds** – Revenues from the County’s Solid Waste Fund decreased by 12% to \$ 298,925 and expenses increased by 6.4% to \$312,826.

### ***BUDGETARY HIGHLIGHTS OF MAJOR FUNDS***

Over the course of the year, Clay County amended its annual operating budget at the end of the fiscal year. Significant budget amendments are explained as follows:

- The budgeted revenues and expenditures were amended to agree with the actual revenues and expenditures that existed at the end of the year.

A schedule showing the original and final budget amounts compared to the County's actual financial activity for the General Fund and other major funds is provided in this report as required supplementary information.

### ***CAPITAL ASSETS AND DEBT ADMINISTRATION***

- **Capital Assets** – As of September 30, 2004, Clay County’s total capital assets were \$38,772,548. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment and leased property under capital lease. This amount represents a decrease from the previous year of \$ 78,331.

Total accumulated depreciation as of September 30, 2004 was \$22,986,737 including \$648,373 of depreciation expense for the year. The balance of total net capital asset’s was \$15,785,811 at year-end.

Additional information on Clay County’s capital assets can be found in note 6 on pages 39 and 40 of this report.

**Debt Administration** – At September 30, 2004, Clay County had \$3,345,227 in long-term debt outstanding. This includes general obligation bonds, obligations under capital lease and other loans. Of this debt, \$450,696 is due within one year.

In the past year, the County issued \$125,000 of five year notes to purchase a new volunteer fire truck. Additionally, the county entered into several lease purchase contracts. These lease agreements are as follows:

- The Sheriff's Department entered into general obligation lease purchase agreement in the amount of \$80,803 to purchase four (4) new sheriff vehicles
- District two entered into a general obligation lease purchase agreement in the amount of \$ 20,087 to purchase a 2004 Ford 250 ¾ ton truck
- District three entered into two (2) general obligation lease purchase agreements for the following:
  - 1) 2004 Sierra pickup truck for \$15,699.82
  - 2) Backhoe for \$ 51,274
- District four entered into a general obligation lease purchase agreement in the amount of \$112,000 to purchase a motor grader

Clay County maintains an "A-" bond rating from Standard and Poors. The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. As of September 30, 2004, the amount of outstanding debt was equal to 2.16% of the latest property assessments.

Additional information on Clay County's long-term debt can be found in note 9 on pages 42-44 of this report.

### ***CURRENT AND FUTURE ITEMS OF IMPACT***

Clay County is planning no major capital projects.

There is currently an expansion in progress by a local industry. This expansion will mean an additional thirty to forty good paying jobs and construction jobs as well. The industrial expansion will increase the tax base with new personal property being added to the tax rolls.

A new industry will be locating in Clay County in the upcoming months and will employ over three hundred employees.

The budget for the next fiscal year reflected an increase of \$ 149,200 in revenues and a decrease of \$ 553,137 in expenses. This is expected to increase the County's net assets.

Clay County has an unemployment rate of 11.2% versus 11.6% a year ago.

## ***CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Clay County Chancery Clerk's office at P.O. Box 815 or 205 Court Street, West Point, Mississippi 39773 or by phone (662) 494-3124.

CLAY COUNTY

FINANCIAL STATEMENTS

CLAY COUNTY  
Statement of Net Assets  
September 30, 2004

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash	\$ 4,029,462	295,346	4,324,808
Accrued interest receivable	702		702
Property tax receivable	3,182,548		3,182,548
Accounts receivable (net of allowance for uncollectibles of \$425,161)		506,105	506,105
Fines receivable (net of allowance for uncollectibles of \$3,943,612)	908,756		908,756
Capital leases receivable	1,267,206		1,267,206
Intergovernmental receivables	198,664		198,664
Other receivables	23,625	16,828	40,453
Capital assets, net	15,676,756	109,055	15,785,811
<b>Total Assets</b>	<b>25,287,719</b>	<b>927,334</b>	<b>26,215,053</b>
<b>LIABILITIES</b>			
Claims payable	251,964	15,037	267,001
Claims and judgments payable	37,406		37,406
Amounts held in custody for others	9,532		9,532
Intergovernmental payables	264,855		264,855
Deferred revenue	3,366,551	13,882	3,380,433
Long-term liabilities			
Due within one year:			
Capital debt	418,696		418,696
Non-capital debt	32,000	654	32,654
Due in more than one year:			
Capital debt	2,775,783		2,775,783
Non-capital debt	118,094		118,094
<b>Total Liabilities</b>	<b>7,274,881</b>	<b>29,573</b>	<b>7,304,454</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	12,482,277	109,055	12,591,332
Restricted:			
Expendable:			
Debt service	220,614		220,614
Public safety	535,047		535,047
Public works	1,254,536	788,706	2,043,242
Culture and recreation	27,983		27,983
Economic development	1,377,140		1,377,140
Unemployment compensation	32,424		32,424
Unrestricted	2,082,817		2,082,817
<b>Total Net Assets</b>	<b>\$ 18,012,838</b>	<b>897,761</b>	<b>18,910,599</b>

The notes to the financial statements are an integral part of this statement.

CLAY COUNTY  
Statement of Activities  
For the Year Ended September 30, 2004

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,293,003	773,957	60,499	50,000	(1,408,547)		(1,408,547)
Public safety	2,032,240	497,848	216,612	2,000	(1,315,780)		(1,315,780)
Public works	1,969,388		565,829	213,467	(1,190,092)		(1,190,092)
Health and welfare	200,951		31,264		(169,687)		(169,687)
Culture and recreation	74,908				(74,908)		(74,908)
Conservation of natural resources	51,223				(51,223)		(51,223)
Economic development and assistance	158,398		1,448	110,174	(46,776)		(46,776)
Interest on long-term debt	178,367				(178,367)		(178,367)
Total Governmental Activities	<u>6,958,478</u>	<u>1,271,805</u>	<u>875,652</u>	<u>375,641</u>	<u>(4,435,380)</u>	<u>0</u>	<u>(4,435,380)</u>
Business-type activities:							
Solid waste	313,186	273,951				(39,235)	(39,235)
Total	<u>\$ 7,271,664</u>	<u>1,545,756</u>	<u>875,652</u>	<u>375,641</u>	<u>(4,435,380)</u>	<u>(39,235)</u>	<u>(4,474,615)</u>
General revenues:							
Property taxes					\$ 3,885,377		3,885,377
Road & bridge privilege taxes					222,015		222,015
Grants and contributions not restricted to specific programs					381,260	16,862	398,122
Unrestricted interest income					173,641	8,112	181,753
Miscellaneous					145,184	360	145,544
Total General Revenues					<u>4,807,477</u>	<u>25,334</u>	<u>4,832,811</u>
Changes in Net Assets					<u>372,097</u>	<u>(13,901)</u>	<u>358,196</u>
Net Assets - Beginning					17,516,659	913,953	18,430,612
Prior period adjustment					124,082	(2,291)	121,791
Net Assets - Beginning, as restated					<u>17,640,741</u>	<u>911,662</u>	<u>18,552,403</u>
Net Assets - Ending					<u>\$ 18,012,838</u>	<u>897,761</u>	<u>18,910,599</u>

The notes to the financial statements are an integral part of this statement.

CLAY COUNTY  
Balance Sheet - Governmental Funds  
September 30, 2004

Exhibit 3

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	TVA Bridge Bond Fund		
<b>ASSETS</b>				
Cash	\$ 1,749,343	271,354	2,008,765	4,029,462
Accrued interest receivable	702			702
Property tax receivable	2,141,001		1,041,547	3,182,548
Fines receivable (net of allowance for uncollectibles of \$3,943,612)	908,756			908,756
Capital lease receivable		1,267,206		1,267,206
Intergovernmental receivables	180,060		18,604	198,664
Other receivables	5,840		15,811	21,651
Due from other funds	5,862		44,639	50,501
Advances to other funds	100		133,224	133,324
Total Assets	<u>\$ 4,991,664</u>	<u>1,538,560</u>	<u>3,262,590</u>	<u>9,792,814</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Claims payable	\$ 133,196		118,768	251,964
Amounts held in custody for others	9,532			9,532
Intergovernmental payables	214,914			214,914
Due to other funds	39,439		9,088	48,527
Advances from other funds	183,165		100	183,265
Deferred revenue	3,049,757	1,267,206	1,041,547	5,358,510
Total Liabilities	<u>3,630,003</u>	<u>1,267,206</u>	<u>1,169,503</u>	<u>6,066,712</u>
Fund balances:				
Reserved for:				
Debt service			177,134	177,134
Economic development		271,354		271,354
Advances	100		133,224	133,324
Unemployment compensation			32,424	32,424
Unreserved, reported in:				
General Fund	1,361,561			1,361,561
Special Revenue Funds			1,750,305	1,750,305
Total Fund Balances	<u>1,361,661</u>	<u>271,354</u>	<u>2,093,087</u>	<u>3,726,102</u>
Total Liabilities and Fund Balances	<u>\$ 4,991,664</u>	<u>1,538,560</u>	<u>3,262,590</u>	<u>9,792,814</u>

The notes to the financial statements are an integral part of this statement.

CLAY COUNTY  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
 September 30, 2004

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,726,102
Amounts reported for governmental services in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$22,760,566.	15,676,756
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	908,756
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(3,344,573)
Capital lease receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,083,203
Claims and judgments payable are not due and payable in the current-period and, therefore, are not reported in the funds.	<u>(37,406)</u>
Total Net Assets - Governmental Activities	<u>\$ 18,012,838</u>

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2004

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	TVA Bridge Bond Fund		
<b>REVENUES</b>				
Property taxes	\$ 2,475,332		1,410,045	3,885,377
Road and bridge privilege taxes			222,015	222,015
Licenses, commissions and other revenue	274,925		7,943	282,868
Fines and forfeitures	189,956			189,956
Intergovernmental revenues	920,021		712,532	1,632,553
Charges for services	421,679		53,392	475,071
Interest income	66,245	61,836	45,560	173,641
Miscellaneous revenues	33,981		97,003	130,984
Total Revenues	<u>4,382,139</u>	<u>61,836</u>	<u>2,548,490</u>	<u>6,992,465</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,241,107		13,756	2,254,863
Public safety	1,885,044		196,079	2,081,123
Public works	241,714		1,656,464	1,898,178
Health and welfare	200,951			200,951
Culture and recreation			74,908	74,908
Conservation of natural resources	51,223			51,223
Economic development and assistance	12,150	305,940	123,308	441,398
Debt service:				
Principal	4,217		395,197	399,414
Interest	72		178,295	178,367
Total Expenditures	<u>4,636,478</u>	<u>305,940</u>	<u>2,638,007</u>	<u>7,580,425</u>
Excess of Revenues over (under) Expenditures	<u>(254,339)</u>	<u>(244,104)</u>	<u>(89,517)</u>	<u>(587,960)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued	80,803		324,061	404,864
Proceeds from sale of capital assets	1,425		44,942	46,367
Transfers in			35,339	35,339
Transfers out			(35,339)	(35,339)
Lease principal payments		118,083		118,083
Total Other Financing Sources and Uses	<u>82,228</u>	<u>118,083</u>	<u>369,003</u>	<u>569,314</u>
Net Changes in Fund Balances	<u>(172,111)</u>	<u>(126,021)</u>	<u>279,486</u>	<u>(18,646)</u>
Fund Balances - Beginning	1,708,805	397,375	1,680,377	3,786,557
Prior period adjustment	(175,033)		133,224	(41,809)
Fund Balances - Beginning, as restated	<u>1,533,772</u>	<u>397,375</u>	<u>1,813,601</u>	<u>3,744,748</u>
Fund Balances - Ending	<u>\$ 1,361,661</u>	<u>271,354</u>	<u>2,093,087</u>	<u>3,726,102</u>

The notes to the financial statements are an integral part of this statement.

## CLAY COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2004

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (18,646)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$826,118 exceeded depreciation of \$597,433 in the current period.	228,685
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$11,848, the proceeds from the sale of \$46,367 in the current period and the new capital lease receivable of \$283,000.	(317,519)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	323,910
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$404,864 exceeded debt repayments of \$399,414.	(5,450)
The revenue from the principal portion of the new capital lease receivable is deferred under the modified accrual basis, but is recognized under the full accrual basis of accounting.	283,000
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated absences	(22,094)
Claims and judgments payable	18,294
In the statement of activities, only interest income from payments received on capital leases are reported, whereas in the governmental funds, both principal and interest payments received increase financial resources. Thus, the change in net assets differs from change in fund balances by the principal collections on the capital leases.	<u>(118,083)</u>
Change in Net Assets of Governmental Activities	<u>\$ 372,097</u>

The notes to the financial statements are an integral part of this statement.

CLAY COUNTY  
Statement of Net Assets - Proprietary Fund  
September 30, 2004

Exhibit 5

	Business-type Activities - Enterprise Fund <u>Solid Waste Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 295,346
Accounts receivable (net of allowance for uncollectibles of \$425,161)	506,105
Other receivables	16,828
Total Current Assets	<u>818,279</u>
Noncurrent assets:	
Capital assets, net	109,055
Total Noncurrent Assets	<u>109,055</u>
Total Assets	<u>927,334</u>
<b>LIABILITIES</b>	
Current liabilities:	
Claims payable	15,037
Deferred revenue	13,882
Total Current Liabilities	<u>28,919</u>
Noncurrent liabilities:	
Non-capital debt:	
Compensated absences payable	654
Total Noncurrent Liabilities	<u>654</u>
<b>NET ASSETS</b>	
Invested in capital assets	109,055
Restricted for public works	788,706
Total Net Assets	<u>\$ 897,761</u>

The notes to the financial statements are an integral part of this statement.

## CLAY COUNTY

Exhibit 6

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund  
For the Year Ended September 30, 2004

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
Operating Revenues	
Charges for services	\$ 273,951
Total Operating Revenues	<u>273,951</u>
Operating Expenses	
Personal services	113,281
Contractual services	111,130
Materials and supplies	31,848
Depreciation expense	50,940
Indirect administrative cost	4,861
Total Operating Expenses	<u>312,060</u>
Operating Income (Loss)	<u>(38,109)</u>
Nonoperating Revenues (Expenses)	
Interest income	8,112
Nonoperating grants	16,862
Gain (loss) on sale of capital assets	(766)
Net Nonoperating Revenue (Expenses)	<u>24,208</u>
Changes in Net Assets	<u>(13,901)</u>
Net Assets - Beginning	913,953
Prior period adjustment	(2,291)
Net Assets - Beginning, as restated	<u>911,662</u>
Net Assets - Ending	<u>\$ 897,761</u>

The notes to the financial statements are an integral part of this statement.

CLAY COUNTY  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended September 30, 2004

Exhibit 7

	Business-type Activities - <u>Enterprise Fund</u> Solid Waste <u>Fund</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 235,548
Payments to suppliers	(146,571)
Payments to employees	(118,064)
Payments to General Fund for indirect costs	(4,861)
Net Cash Provided (Used) by Operating Activities	<u>(33,948)</u>
Cash Flows From Noncapital Financing Activities	
Nonoperating grants received	16,862
Cash paid to other funds:	
Interfund loan repayments	(15,196)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,666</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	360
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>360</u>
Cash Flows From Investing Activities	
Interest on investments	8,112
Net Cash Provided (Used) by Investing Activities	<u>8,112</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(23,810)
Cash and Cash Equivalents at Beginning of Year	<u>319,156</u>
Cash and Cash Equivalents at End of Year	<u>\$ 295,346</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (38,109)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	50,940
Provision for uncollectible accounts	(38,710)
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	16,261
(Increase) decrease in other receivables	(16,828)
Increase (decrease) in claims payable	(9,030)
Increase (decrease) in compensated absences liability	654
Increase (decrease) in deferred revenue	874
Total Adjustments	<u>4,161</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (33,948)</u>

The notes to the financial statements are an integral part of this statement.

CLAY COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2004

Exhibit 8

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ 95,030
Other receivables	90
Advances to other funds	<u>49,941</u>
Total Assets	<u>\$ 145,061</u>
<b>LIABILITIES</b>	
Amounts held in custody for others	\$ 8,065
Other liabilities	14,086
Intergovernmental payables	120,936
Due to other funds	<u>1,974</u>
Total Liabilities	<u>\$ 145,061</u>

The notes to the financial statements are an integral part of this statement.

## CLAY COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

#### (1) Summary of Significant Accounting Policies.

##### A. Financial Reporting Entity.

Clay County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Clay County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county. There are no outside organizations that should be included as component units of the county's reporting entity.

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the county legal entity and therefore are reported as part of the financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

##### B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities and fund financial statements, which provide a detailed level of financial information.

##### Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which are generally financed through taxes, intergovernmental revenues and other nonexchange revenues are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Assets presents the financial condition of the governmental activities and business-type activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the county.

## CLAY COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

#### Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

#### C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

The county's Proprietary Fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Funds:

General Fund - This fund is used to account for all activities of the general government for which a separate fund has not been established.

TVA Bridge Bond Fund - This fund is used to account for monies from specific revenue sources that are restricted for economic development.

The county reports the following major Proprietary Fund:

Solid Waste Fund - This fund is used to account for the county's activities of disposal of solid waste within the county.

## CLAY COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

Additionally, the county reports the following fund types:

#### GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Debt Service Funds - These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

#### PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the county has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

#### FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the county, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

#### D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2001 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 2002 by the Office of the State Auditor.

#### E. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the county may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the county did not invest in any governmental securities during the fiscal year.

#### F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

## CLAY COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

#### G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statement. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Clay County meets this criteria, but has elected to report infrastructure retroactively. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are reported in the financial statements. General infrastructure assets also include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the county's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds.

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

\* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

I. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Assets.

J. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvements of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved.

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

## CLAY COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

#### K. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

#### L. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

#### M. Compensated Absences.

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and Proprietary Funds financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

(2) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Governmental Activities:

Exhibit 2 - Statement of Activities.

<u>Explanation</u>	<u>Amount</u>
Adjustment to record intergovernmental receivable omitted in error in prior year	\$ 8,132
Adjustment to record intergovernmental payable omitted in error in prior year	(49,941)
Adjustment to record prior year Circuit Clerk fines receivable, net	436,502
Adjustments to correct errors made in capital assets, net of accumulated depreciation in the prior year	<u>(270,611)</u>
Total prior period adjustment for governmental activities	<u>\$ 124,082</u>

Business-type Activities:

Exhibit 2 - Statement of Activities and Exhibit 6 - Statement of Revenues, Expenses, and Changes in Fund Net Assets.

<u>Explanation</u>	<u>Amount</u>
Adjustment to correct errors in capital assets, net of accumulated depreciation in the prior year	\$ <u>(2,291)</u>
Total prior period adjustment	<u>\$ (2,291)</u>

Governmental Funds:

Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances.

General Fund:

<u>Explanation</u>	<u>Amount</u>
Adjustment to record intergovernmental receivable omitted in error in prior year	\$ 8,132
Adjustment to record interfund payables omitted in error in prior	<u>(183,165)</u>
Total prior period adjustment	<u>\$ (175,033)</u>

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

Other Governmental Funds:

<u>Explanation</u>	<u>Amount</u>
Adjustment to record interfund receivables omitted in error in prior year	\$ <u>133,224</u>
Total prior period adjustment	\$ <u><u>133,224</u></u>

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2004, was \$4,419,838, and the bank balance was \$4,587,683. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2004:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 3,888
General	Agency Funds	1,974
Other Governmental Funds	General	39,439
Other Governmental Funds	Other Governmental Funds	<u>5,200</u>
Total		\$ <u><u>50,501</u></u>

The Other Governmental Funds payables represent monies borrowed due to debt service funds not having sufficient funds to pay semi-annual bond and interest payments. The Agency Funds payables represent interest to be transferred to General Fund. All other amounts listed are the tax revenue and court revenue collected but not settled until October, 2004. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from/to Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 100
Other Governmental Funds	General	133,224
Agency Funds	General	<u>49,941</u>
Total		\$ <u><u>183,265</u></u>

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

The amount payable to the General Fund represents a loan to open a separate bank account for a federal program. All other amounts listed are for taxes settled in error in prior years to the General Fund. These amounts are not expected to be repaid within one year.

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Other Governmental Funds	Other Governmental Funds	\$ <u>35,339</u>

The principal purposes of interfund transfers were to provide funds for grant matches and to transfer funds for debt service payments. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2004, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tag credit	\$ 84,102
Reimbursement for prisoners	56,562
Motor vehicle license tax	18,882
Reimbursement from the City of West Point	15,987
Motor vehicle fuel tax	15,679
Gas severance tax	2,875
Reimbursement, welfare	2,284
Harvest permits	1,074
Timber severance tax	564
Oil severance tax	520
Reimbursement for MESC	<u>135</u>
Total Governmental Activities	\$ <u>198,664</u>

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2004:

Governmental activities:

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments *	Balance Sept. 30, 2004
<u>Non-depreciable capital assets:</u>					
Land	\$ 206,407	0	0	0	206,407
<u>Depreciable capital assets:</u>					
Infrastructure	28,752,206	55,440		(5,078)	28,802,568
Buildings	4,701,292			(190,623)	4,510,669
Mobile equipment	4,127,784	192,756	96,530	(77,995)	4,146,015
Furniture and equipment	232,368	283,000	288,074	5,074	232,368
Leased property under capital leases	495,596	294,922		(251,223)	539,295
Total depreciable capital assets	<u>38,309,246</u>	<u>826,118</u>	<u>384,604</u>	<u>(519,845)</u>	<u>38,230,915</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	17,352,900	154,259		(5,078)	17,502,081
Buildings	2,246,474	45,213		(17,637)	2,274,050
Mobile equipment	2,631,626	312,436	62,062	(208,821)	2,673,179
Furniture and equipment	97,579	23,078	5,023	55,387	171,021
Leased property under capital leases	150,873	62,447		(73,085)	140,235
Total accumulated depreciation	<u>22,479,452</u>	<u>597,433</u>	<u>67,085</u>	<u>(249,234)</u>	<u>22,760,566</u>
Total depreciable capital assets, net	<u>15,829,794</u>	<u>228,685</u>	<u>317,519</u>	<u>(270,611)</u>	<u>15,470,349</u>
Governmental activities capital assets, net	<u>\$ 16,036,201</u>	<u>228,685</u>	<u>317,519</u>	<u>(270,611)</u>	<u>15,676,756</u>

Business-type activities:

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments *	Balance Sept. 30, 2004
<u>Depreciable capital assets:</u>					
Mobile equipment	\$ 313,076		11,261	11,261	313,076
Furniture and equipment	22,150				22,150
Total depreciable capital assets	<u>335,226</u>	<u>0</u>	<u>11,261</u>	<u>11,261</u>	<u>335,226</u>

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments *	Balance Sept. 30, 2004
<u>Less accumulated depreciation for:</u>					
Mobile equipment	163,270	46,953	10,135	10,135	210,223
Furniture and equipment	8,544	3,987		3,417	15,948
Total accumulated depreciation	<u>171,814</u>	<u>50,940</u>	<u>10,135</u>	<u>13,552</u>	<u>226,171</u>
Business-type activities capital assets, net	\$ <u>163,412</u>	<u>(50,940)</u>	<u>1,126</u>	<u>(2,291)</u>	<u>109,055</u>

\* Adjustments were made to correct prior year errors.

Depreciation expense was charged to the following functions:

	Amount
<u>Governmental Activities:</u>	
General government	\$ 50,252
Public safety	157,563
Public works	<u>389,618</u>
Total governmental activities depreciation expense	\$ <u>597,433</u>
<u>Business-type activities:</u>	
Solid waste	\$ <u>50,940</u>

(7) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$500,000 for law enforcement, fire fighters and road construction personnel and \$400,000 for all other employees for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2004, to January 1, 2005. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

The county finances its exposure to risk of loss relating to employee health and accident coverage through the Mississippi Public Entity Employee Benefit Trust, a public entity risk pool. The pool is a claims-servicing organization with the county retaining the risk of loss on all claims to which the county is exposed. Premium payments to the pool are determined on an actuarial basis. The county purchases commercial insurance to cover all claims in excess of premium contributions. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Changes in the balances of claims liabilities during the year are as follows:

Unpaid Claims, Beginning of Fiscal Year	\$ 55,700
Plus: Incurred Claims (Including IBNRs)	507,544
Less: Claims Payments	<u>525,838</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 37,406</u>

(8) Capital Leases.

As Lessor:

The county leases the following property with varying terms and options as of September 30, 2004:

<u>Class of Property</u>	<u>Amount</u>
Industrial facilities	<u>\$ 1,957,630</u>

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2004, are as follows:

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 260,209	36,283
2006	228,869	27,873
2007	64,828	22,584
2008	67,469	19,943
2009	68,362	17,195
2010-2014	272,963	52,759
2015-2019	<u>120,503</u>	<u>7,366</u>
Total	<u>\$ 1,083,203</u>	<u>184,003</u>

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2004:

<u>Class of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 539,295
Less: Accumulated depreciation	<u>140,235</u>
Leased Property Under Capital Leases	<u>\$ 399,060</u>

The following is a schedule by years of the total payments due as of September 30, 2004:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 119,696	10,113
2006	111,483	5,338
2007	64,616	2,305
2008	18,056	754
2009	<u>14,628</u>	<u>199</u>
Total	<u>\$ 328,479</u>	<u>18,709</u>

(9) Long-term Debt.

Debt outstanding as of September 30, 2004, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General Obligation Bonds:			
District 5 road 2000 issue	\$ 220,000	5.00/6.00%	10/15
District 1 road	405,000	4.80/5.40%	12/12
District 4 road	115,000	5.00/5.25%	07/08
District 4 road 2000 issue	250,000	5.20/7.00%	12/15
District 3 road 2000 issue	440,000	5.50/7.50%	08/20
District 2 road - Series 2000	455,000	5.25/5.625%	12/20
Courthouse remodeling	340,000	4.60/6.25%	06/11
County building	<u>330,000</u>	5.05/5.25%	09/14
Total General Obligation Bonds	<u>\$ 2,555,000</u>		

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<b>B. Capital Leases:</b>			
4 Sheriff's vehicles	\$ 80,803	3.01%	01/07
Kobelco excavator	1,463	6.10%	10/04
Mack truck	7,891	5.10%	04/06
Caterpillar motor grader	60,663	5.50%	06/06
Caterpillar motor grader	94,023	3.28%	3/07
2004 Sierra pickup	14,481	3.09%	4/09
Caterpillar backhoe	49,689	3.09%	7/09
Ford F-250 pickup	19,466	3.12%	7/09
Total Capital Leases	<u>\$ 328,479</u>		
<b>C. Other Loans:</b>			
Volunteer fire truck	\$ 24,000	4.95%	05/06
Volunteer fire station and trucks	162,000	4.25%	03/07
County building drainage	128,000	4.25%	04/08
Volunteer fire truck	125,000	1.35/2.60%	11/08
Total Other Loans	<u>\$ 439,000</u>		

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities:

Year Ending September 30	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2005	\$ 208,000	136,333	123,000	16,183
2006	228,000	124,088	123,000	11,516
2007	228,000	112,346	111,000	6,825
2008	238,000	100,721	57,000	2,644
2009	208,000	88,625	25,000	650
2010 - 2014	925,000	279,285		
2015 - 2019	400,000	94,808		
2020 - 2024	120,000	6,925		
Total	<u>\$ 2,555,000</u>	<u>943,131</u>	<u>439,000</u>	<u>37,818</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2004, the amount of outstanding debt was equal to 2.16% of the latest property assessments.

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2004:

	Balance Oct. 1, 2003	Additions	Reductions	Adjustment *	Balance Sept. 30, 2004	Amount within one year
<b>Governmental Activities:</b>						
Compensated absences	\$	22,094			22,094	
Claims and judgments	55,700			(55,700)	0	
General obligation bonds	2,777,000		222,000		2,555,000	208,000
Capital leases	128,029	279,864	79,414		328,479	119,696
Other loans	412,000	125,000	98,000		439,000	123,000
<b>Total</b>	<b>\$ 3,372,729</b>	<b>426,958</b>	<b>399,414</b>	<b>(55,700)</b>	<b>3,344,573</b>	<b>450,696</b>
<b>Business-type Activities:</b>						
Compensated absences	\$	654			654	
<b>Total</b>	<b>\$ 0</b>	<b>654</b>	<b>0</b>	<b>0</b>	<b>654</b>	<b>0</b>

\* This adjustment is to correct a prior year error.

(10) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2004:

Fund	Deficit Amount
CDBG ADA Handicap Project	\$ 6,633
District 4 Road Bond & Interest - 1993 Issue	1,219
District 3 Shed Bond & Interest	2,952

(11) Contingencies.

**Federal Grants** - The county has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

**Litigation** - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings. However, the county's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the county.

## CLAY COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

(12) Joint Venture.

The county participates in the following joint venture:

Clay County is a participant with the Counties of Choctaw, Lowndes, Noxubee, Oktibbeha, Webster and Winston and also the Cities of Columbus, Louisville, Starkville, Macon, Eupora, West Point and Ackerman in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Golden Triangle Solid Waste Management Authority. The joint venture was created to provide solid waste disposal services for the applicable area and is governed by a 38-member board, of which Clay County appoints one member. Clay County did not appropriate funds to the organization in fiscal year 2004. The user governments will be billed based on the amount of solid waste from each government. Complete financial statements for the Golden Triangle Regional Solid Waste Management Authority can be obtained from Golden Triangle Planning and Development District, Post Office Box 828, Starkville, Mississippi 39760-0828.

(13) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

East Mississippi Community College operates in a district composed of the Counties of Clay, Kemper, Lauderdale, Lowndes, Noxubee and Oktibbeha. The Clay County Board of Supervisors appoints two of the 12 members of the college board of trustees. The county appropriated \$405,278, for maintenance and support of the college in fiscal year 2004.

Golden Triangle Planning and Development District provides services for the Counties of Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston. The Clay County Board of Supervisors appoints four of the 28 members of the board of directors. The county appropriated \$12,150 for support of the district in fiscal year 2004.

The Tombigbee Regional Library System operates in a district composed of the Counties of Choctaw, Clay, Monroe and Webster. The Clay County Board of Supervisors appoints one of the five members of the board of directors. The county appropriated \$62,431 to the library during fiscal year 2004.

Community Counseling Services operates in a district composed of the Counties of Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston. The Clay County Board of Supervisors appoints one of the seven members of the board of commissioners. The county appropriated \$24,000 for support of the organization in fiscal year 2004.

Prairie Opportunity, Inc., operates in a district composed of the Counties of Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston. The Clay County Board of Supervisors appoints one of the 21 board members. One board member from each of the counties must come from the private sector (recipient of services), and one member from each county must come from the community. These 14 board members are not appointed by the county Board of Supervisors. The counties generally provide no financial support to the organization.

The Mississippi Regional Housing Authority IV operates in a district composed of the Counties of Carroll, Choctaw, Clay, Grenada, Lowndes, Montgomery, Oktibbeha, Webster and Winston. The Clay County Board of Supervisors appoints one of the nine board members. The counties generally provide no financial support to the organization.

Tri-County Narcotics Task Force operates in a district composed of the Counties of Clay, Neshoba, Oktibbeha and Winston. The Clay County Board of Supervisors appoints one the members of the board of directors. The county appropriated \$20,000 for support of the Task Force in fiscal year 2004.

CLAY COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

(14) Defined Benefit Pension Plan.

Plan Description. Clay County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi ( PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2004, 2003 and 2002 were \$212,006, \$178,766 and \$183,775, respectively, equal to the required contributions for each year.

(15) Subsequent Events.

Subsequent to September 30, 2004, Clay County issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
03/07/05	3.39%	\$ 47,772	Lease purchase	Ad valorem taxes
12/08/05	3.94%	9,400	Lease purchase	Ad valorem taxes

CLAY COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

CLAY COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 2,483,215	2,451,506	2,451,506	
Licenses, commissions and other revenue	237,600	289,920	289,920	
Fines and forfeitures	243,000	190,320	190,320	
Intergovernmental revenues	757,894	1,312,539	1,312,539	
Charges for services	100	690	690	
Interest income	60,500	63,878	63,878	
Miscellaneous revenues	2,650	33,223	33,223	
Total Revenues	<u>3,784,959</u>	<u>4,342,076</u>	<u>4,342,076</u>	<u>0</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,043,233	2,348,223	2,348,223	
Public safety	1,627,966	1,966,734	1,966,734	
Public works	60,000	214,950	214,950	
Health and welfare	169,430	201,815	201,815	
Conservation of natural resources	53,383	53,219	53,219	
Economic development and assistance	16,200	12,150	12,150	
Debt service:				
Principal	4,216	6,913	6,913	
Interest	72	412	412	
Total Expenditures	<u>3,974,500</u>	<u>4,804,416</u>	<u>4,804,416</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(189,541)</u>	<u>(462,340)</u>	<u>(462,340)</u>	<u>0</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued		80,803	80,803	
Proceeds from sale of capital assets		3,206	3,206	
Transfers in	200,000	4,861	4,861	
Total Other Financing Sources and Uses	<u>200,000</u>	<u>88,870</u>	<u>88,870</u>	<u>0</u>
Net Change in Fund Balance	10,459	(373,470)	(373,470)	0
Fund Balances - Beginning		<u>1,965,626</u>	<u>1,965,626</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 10,459</u>	<u>1,592,156</u>	<u>1,592,156</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

CLAY COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 TVA Bridge Bond Fund  
 For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Interest income	\$ 47,039	41,695	41,695	
Miscellaneous revenues	<u>102,688</u>	<u>105,225</u>	<u>105,225</u>	
Total Revenues	<u>149,727</u>	<u>146,920</u>	<u>146,920</u>	<u>0</u>
<b>EXPENDITURES</b>				
Current:				
Economic development and assistance	<u>25,000</u>	<u>275,024</u>	<u>275,024</u>	
Total Expenditures	<u>25,000</u>	<u>275,024</u>	<u>275,024</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>124,727</u>	<u>(128,104)</u>	<u>(128,104)</u>	<u>0</u>
Net Change in Fund Balance	124,727	(128,104)	(128,104)	0
Fund Balances - Beginning	<u>                    </u>	<u>397,375</u>	<u>397,375</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 124,727</u>	<u>269,271</u>	<u>269,271</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

CLAY COUNTY

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2004

A. Budgetary Information.

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedules are presented for the General Fund and the major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and the major Special Revenue Fund:

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>TVA Bridge Bond Fund</u>
Budget (Cash Basis)	\$ (373,470)	(128,104)
Increase (Decrease)		
Net adjustments for revenue accruals	1,062,665	
Net adjustments for expenditure accruals	<u>(861,306)</u>	<u>2,083</u>
GAAP Basis	<u>\$ (172,111)</u>	<u>(126,021)</u>

CLAY COUNTY

SPECIAL REPORTS

CLAY COUNTY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Members of the Board of Supervisors  
Clay County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Clay County, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the county's basic financial statements and have issued our report thereon dated February 22, 2006. The auditor's report on the business-type activities and Solid Waste Fund is qualified because management did not maintain adequate subsidiary records documenting the aging of the accounts receivable for the solid waste accounts receivable included in the Proprietary Fund Type. Except for the limitations related to the qualified opinion, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clay County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clay County, Mississippi's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 04-1 and 04-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition 04-1 described above to be a material weakness.

Compliance and Other Matters

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

However, we noted certain instances of noncompliance which we have reported to the management of Clay County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules dated February 22, 2006, included within this document.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

February 22, 2006



# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM, INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES (REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))

Members of the Board of Supervisors  
Clay County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Clay County, Mississippi, as of and for the year ended September 30, 2004. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of Clay County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Clay County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

### Purchase Clerk.

#### 1. Finding

Sections 31-7-103 and 31-7-109, Miss. Code Ann. (1972), require purchase requisitions, purchase orders and receiving reports to accompany all claims for payment. As reported in the prior year's audit report, some purchase transaction documents appear to have been prepared after the fact as indicated by the dates on the documents.

### Recommendation

The Purchase Clerk should ensure that the required purchase documents are issued in their proper time sequence.

### Purchase Clerk's Response

This problem has been corrected. Since this problem, the Board of Supervisors has appointed Ginger Allen as Requisition Clerk.

Inventory Control Clerk.

## 2. Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to establish and maintain an inventory system. We noted the following deficiencies in the inventory system:

- a. Audit tests revealed that some capital outlay expenditures were not added as additions to the capital asset records. Some dirt roads were paved during the fiscal year, but were not added to the capital assets inventory.
- b. Some items on inventory were not tagged or marked with the county's name and the assigned asset number.
- c. Another item should have been deleted from inventory, but had not been removed.

### Recommendation

The Inventory Control Clerk should establish adequate control procedures to properly maintain accurate capital asset records. The Inventory Control Clerk should review the capital outlay expenditures monthly to determine additions to capital assets and make sure items are tagged with their appropriate asset number.

### Inventory Control Clerk's Response

- a. These roads were paved and upgraded without the Inventory Clerk's knowledge. The proper paperwork (Road/Bridge Improvement Report for Projects) was not filled out or turned in by the respective supervisors. This GASB 34 process is new to all of us and we will make sure that all parties understand the importance of proper reporting.
- b. These items were marked at one time, but are so old the markings have faded. We will remark the items not marked.
- c. The problem has been proper depreciation for some assets and this is a learning process that will be corrected as we become accustomed to the new software for fixed assets.

In our opinion, because of the noncompliance referred to in the preceding paragraph, Clay County, Mississippi, did not comply, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

Clay County's purchasing system was not in compliance with state laws governing central purchasing for fiscal year 2004. The system was retested and as of February 15, 2005, Clay County was in compliance with the central purchasing system.

The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned study and evaluation of the purchasing system and, in our opinion, is fairly presented when considered in relation to that study and evaluation.

This report is intended for use in evaluating the central purchasing system and inventory control system of Clay County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

February 22, 2006

CLAY COUNTY  
Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2004

Schedule 1

Our test results did not identify any purchases from other than the lowest bidder.

CLAY COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2004

Schedule 2

Our test results did not identify any emergency purchases.

CLAY COUNTY  
Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2004

Schedule 3

Our test results did not identify any purchases made noncompetitively from a sole source.

CLAY COUNTY

SCHEDULE OF FINDINGS

CLAY COUNTY

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CLAY COUNTY

Schedule of Findings  
For the Year Ended September 30, 2004

Section 1: Summary of Auditor's Results

*Financial Statements:*

- |    |  |             |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements:                         |             |
|    | Governmental activities  | Unqualified |
|    | Business-type activities   | Qualified   |
|    | General Fund   | Unqualified |
|    | TVA Bridge Bond Fund   | Unqualified |
|    | Solid Waste Fund   | Qualified   |
|    | Aggregate remaining fund information   | Unqualified |
| 2. | Internal control over financial reporting:   |             |
|    | a. Material weakness identified?   | Yes         |
|    | b. Reportable condition identified that is not considered to be a material weakness? | Yes         |
| 3. | Noncompliance material to the financial statements?                                  | No          |

Section 2: Financial Statement Findings

Board of Supervisors.

04-1. Finding

As reported in the last four years' audit reports, control procedures were not in place to allow for the preparation of a detailed aged accounts receivable schedule for the solid waste fees. Therefore, the Independent Auditor's Report on the financial statements of the business-type activities and the Solid Waste Fund is qualified because we were unable to properly evaluate the reasonableness of the allowance for doubtful accounts.

Recommendation

The Board of Supervisors should ensure that control procedures are in place to allow for the preparation of a detailed aged accounts receivable schedule for solid waste fees to properly report the accounts receivable due to the county at net realizable value in the financial statements.

Board of Supervisors' Response

The Board of Supervisors will make adjustments in the detailed aging of accounts receivable for the Solid Waste Collection Fund.

CLAY COUNTY

Schedule of Findings  
For the Year Ended September 30, 2004

Inventory Control Clerk.

04-2. Finding

We noted the following deficiencies in control procedures over capital assets:

- a. Audit tests revealed that some capital outlay expenditures were not added as additions to the capital asset records. Some dirt roads were paved during the fiscal year and were not added to the capital assets inventory.
- b. Some items on inventory were not tagged or marked with the county's name and the assigned asset number.
- c. Another item should have been deleted from inventory, but had not been removed.

Recommendation

The Inventory Control Clerk should establish adequate control procedures to properly maintain accurate capital assets records.

Inventory Control Clerk's Response

- a. These roads were paved and upgraded without the Inventory Clerk's knowledge. The proper paperwork (Road/Bridge Improvement Report for Projects) was not filled out or turned in by the respective supervisors. This GASB 34 process is new to all of us and we will make sure that all parties understand the importance of proper reporting.
- b. These items were marked at one time, but are so old the markings have faded. We will remark the items not marked.
- c. The problem has been proper depreciation for some assets and this is a learning process that will be corrected as we become accustomed to the new software for fixed assets.