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CLAY COUNTY, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
AND SPECIAL REPORTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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FINANCIAL SECTION

J.E. VANCE & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

825 JEFFERSON STREET
POST OFFICE BOX 1280
TUPELO, MISSISSIPPI 38802

(662) 842-2123
FACSIMILE (662) 841-6809
E-MAIL: jev@jevance.com

INDEPENDENT AUDITORS' 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, 2006, 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.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Clay County, Mississippi, as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows 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 January 25, 2008, 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 Schedule 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clay County, Mississippi's basic financial statements.

Tupelo, Mississippi
January 25, 2008

A handwritten signature in cursive script that reads "J. E. Vance & Company". The signature is written in black ink and is positioned to the right of the typed date.

**CLAY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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, 2006. 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 an 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 in June 1999. Certain comparative information between the current year and the prior year is required to be presented.

Clay County is located in the northern portion of Mississippi. The population, according to the 2000 census, is 21,979. The local economic base is driven primarily 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 the year 1999 – 2004 was 50.0. The county government's millage rate for the years ending 2005 and 2006 were 48.65 and 49.50. 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 increase.

Total net assets decreased \$328,222, which represents a 2% decrease from the prior fiscal year.

The County had \$7,390,870 in total revenues during the current fiscal year compared to \$6,964,967 during fiscal year 2005. Property tax revenues account for \$4,143,546 and \$3,957,997 or 56% and 57% of total revenues during fiscal years ended 2006 and 2005 respectively. State and federal revenues in the form of reimbursements, shared revenue, or grants accounted for \$1,110,969 and \$1,263,326 or 15% and 18% of total revenues during fiscal years ended 2006 and 2005 respectively. Total expenses amounted to \$7,712,894 during 2006 and \$7,272,312 during 2005.

Among major funds, the General Fund had \$4,530,854 in revenues and \$4,987,513 in expenditures. The General Fund's fund balance decreased \$453,455 over the prior year.

The TVA Bridge Bond Fund had \$46,955 in revenues and \$27,083 in expenditures. The fund balance increased \$119,738 over the prior year.

Capital assets, net of accumulated depreciation, decreased by \$414,251.

Long-term debt decreased by \$436,436.

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

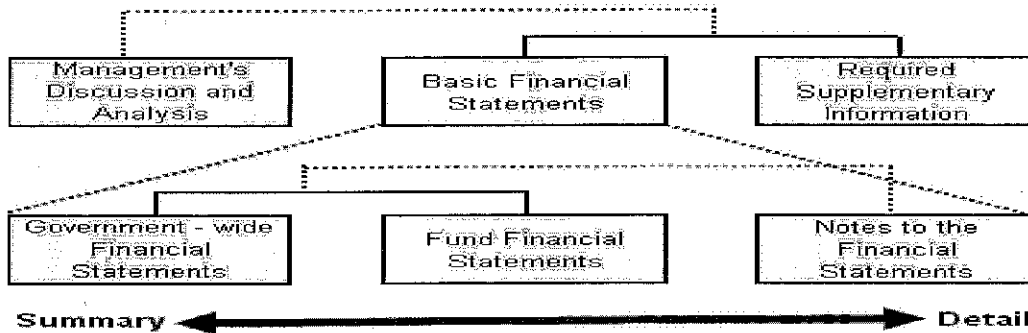


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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

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

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; economic development; and interest on long-term debt. The business-type activities of the County include the Solid Waste Department.

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, debt service, and capital projects 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 20 and 22, 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 19 and 21 of this report.

Proprietary funds—Services for which Clay County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The County has only one type of proprietary funds—enterprise funds. The County’s enterprise funds are the same as its business-type activities yet provide more detail and additional information, such as cash flows. The measurement focus of proprietary funds is upon determination of net income, financial position and change in financial position. These funds are maintained on the accrual basis of accounting. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows are all required statements.

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 26 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 27-48 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 50-53 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets—Net assets may serve over time as a useful indicator of the government’s financial position. In the case of Clay County, assets exceeded liabilities by \$18,272,493 as of September 30, 2006.

A large portion of the County's net assets, 12,457,068 or 68%, 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, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Assets:		
Current Assets	\$ 10,167,274	\$ 10,616,719
Capital Assets, net	14,862,432	15,276,683
Total Assets	25,029,705	25,893,402
 Liabilities:		
Current Liabilities	4,246,127	4,345,165
Long-term Liabilities	2,511,086	2,947,522
Total Liabilities	6,757,213	7,292,687
 Net Assets:		
Invested in Capital Assets, net of related debt	12,457,068	12,455,912
Restricted	4,493,702	4,470,367
Unrestricted	1,321,723	1,674,436
Total Net Assets	\$ 18,272,493	\$ 18,600,715

Changes in Net Assets—Clay County’s total revenues for the fiscal year ended September 30, 2006 were \$7,390,870. The total cost for all services provided was \$7,712,894. The decrease in net assets was \$328,222. The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Revenues:		
Program Revenues		
Charges for services	\$ 1,005,772	\$ 522,332
Operating grants and contributions	912,846	1,056,346
Capital grants and contributions	198,123	206,980
General Revenues		
Property taxes	4,143,546	3,957,997
Road and bridge privilege taxes	226,904	225,776
Grants and contributions not restricted	3,993	227,748
Interest income	173,961	186,160
Other	725,725	581,628
Total Revenues	<u>7,390,870</u>	<u>6,964,967</u>
 Expenses:		
General government	2,583,253	2,341,712
Public safety	2,274,528	2,094,059
Public works	1,939,299	1,734,107
Health and welfare	231,774	234,056
Culture and recreation	73,607	75,567
Education	52,997	30,841
Conservation of natural resources	52,918	26,951
Economic development	63,053	191,376
Interest on long-term debt	142,142	216,033
Solid waste management	299,323	326,610
Total Expenses	<u>7,712,894</u>	<u>7,272,312</u>
 Prior period adjustment	 <u>(6,198)</u>	 <u>(2,539)</u>
 Increase (Decrease) in Net Assets	 <u>\$ (328,222)</u>	 <u>\$ (309,884)</u>

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

The information 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.

	2006 Total Expenses	2006 Net(Expense) Revenue	2005 Total Expenses	2005 Net(Expense) Revenue
General government	\$ 2,583,253	\$ (2,045,958)	\$ 2,341,712	\$ (2,008,879)
Public safety	2,274,528	(1,721,488)	2,094,059	(1,643,456)
Public works	1,939,299	(1,289,388)	1,734,107	(996,540)
Health and welfare	231,774	(198,508)	234,056	(205,879)
Economic development	63,053	42,370	192,376	(190,883)

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 \$3,724,242, a decrease of \$280,622. The primary reason for this decrease is highlighted in the analysis of governmental activities. In addition, other factors that affected ending fund balance decrease are as follows:

- There was a significant increase in the expenditures for the public works and public safety functions of the county in the fiscal year 2006.

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 \$453,455.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

Over the course of the year, Clay County revised its annual operating budget on several occasions. 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 special revenue funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets—As of September 30, 2006, Clay County's total capital assets were \$38,927,317. This includes land, roads, bridges, other infrastructure, buildings, mobile equipment, furniture and equipment, and leased property under capital lease. This amount represents an increase from the previous year of \$69,629.

Total accumulated depreciation as of September 30, 2006 was \$24,064,885, including \$551,913 of depreciation expense for the year. The balance in total net capital assets was \$14,862,432 at year-end.

Additional information on Clay County's capital assets can be found in note 6 on pages 38 and 39 of this report.

Debt Administration—At September 30, 2006, Clay County had \$2,511,086 in long-term debt outstanding. This includes general obligation bonds, capital leases and other loans. Of this debt, \$430,728 is due within one year.

The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. The County's outstanding debt is significantly below its current limit of 22 million dollars.

Additional information on Clay County's long-term debt can be found in note 9 on pages 43-45 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

Clay County is planning no major capital projects.

Sara Lee Corporation closed its doors in Clay County. This closing resulted in the loss of 1,200 jobs which will initially affect the local economy short term. The tax base for the county will be impacted for the 2008 fiscal year.

A roofing manufacturer and contractor moved its operations to Clay County and brought 45 jobs. Additionally, this will create an opportunity for new jobs in the local economy. A new industry has opened its doors and created approximately 800 new jobs. This industry is International Military and is a defense contractor.

The retail sector will receive a high boost when a new super Wal-Mart store will open January 2008. Additionally, CVS Pharmacy will also open December 2007. This will increase the taxable base for real and personal property.

The budget for the next fiscal year reflected an increase of \$605,660 in revenues and an increase of \$413,064 in expenditures. This is expected to increase the County's net assets.

Clay County has an unemployment rate of 11.1% versus 11.7% 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 MS 39773 or by phone (662) 494-3124.

FINANCIAL STATEMENTS

Clay County
Statement of Net Assets
September 30, 2006

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash	\$ 3,961,956	206,747	4,168,703
Property tax receivable	3,453,195		3,453,195
Accounts receivable, net		507,672	507,672
Fines receivable, net	700,994		700,994
Capital lease receivable	989,222		989,222
Intergovernmental receivables	277,153		277,153
Other receivables, net	55,208	15,127	70,335
Internal balances	(3,594)	3,594	-0-
Capital assets:			
Land and construction in progress	206,407		206,407
Other capital assets, net	14,589,293	66,732	14,656,025
Total Assets	24,229,834	799,872	25,029,706
LIABILITIES			
Claims payable	387,055	10,719	397,774
Amounts held in custody for others	11,398		11,398
Intergovernmental payables	167,948		167,948
Accrued interest payable	39,071		39,071
Deferred revenue	3,610,771		3,610,771
Unearned revenue		19,085	19,085
Other payables	80		80
Long-term liabilities			
Due within one year:			
Capital related debt	398,728		398,728
Non-capital debt	32,000		32,000
Due in more than one year:			
Capital related debt	2,006,636		2,006,636
Non-capital debt	72,611	1,111	73,722
Total Liabilities	6,726,298	30,915	6,757,213
NET ASSETS			
Invested in capital assets, net of related debt	12,390,336	66,732	12,457,068
Restricted net assets:			
Expendable:			
General government	8,743		8,743
Debt service	102,421		102,421
Public safety	671,906		671,906
Public works	1,430,687	702,225	2,132,912
Culture and recreation	1,004		1,004
Economic development	1,527,385		1,527,385
Unemployment compensation	46,157		46,157
Other purposes	3,174		3,174
Unrestricted	1,321,723		1,321,723
Total Net Assets	\$ 17,503,536	768,957	18,272,493

The accompanying notes and auditors' reports are integral parts of the statements.

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,583,253	513,740	9,515	14,040	(2,045,958)		(2,045,958)
Public safety	2,274,528	262,919	285,121	5,000	(1,721,488)		(1,721,488)
Public works	1,939,299		574,727	75,184	(1,289,388)		(1,289,388)
Health and welfare	231,774		33,266		(198,508)		(198,508)
Culture and recreation	73,607		1,333		(72,274)		(72,274)
Education	52,997				(52,997)		(52,997)
Conservation of natural resources	52,918				(52,918)		(52,918)
Economic development and assistance	63,053		1,524	103,899	42,370		42,370
Interest on long-term debt	142,142				(142,142)		(142,142)
Total Governmental Activities	7,413,571	776,659	905,486	198,123	(5,533,303)	-0-	(5,533,303)
Business-type activities:							
Solid Waste	299,323	229,113	7,360			(62,850)	(62,850)
Total Business-type Activities	299,323	229,113	7,360	-0-		(62,850)	(62,850)
Total Primary Government	\$ 7,712,894	1,005,772	912,846	198,123	(5,533,303)	(62,850)	(5,596,153)
General revenues:							
Taxes:							
Property taxes					\$ 4,143,546		4,143,546
Road & bridge privilege taxes					226,904		226,904
Grants and contributions not restricted to specific programs					3,993		3,993
Unrestricted investment income					165,628	8,333	173,961
Miscellaneous					721,848	2,021	723,869
Gain on sale of capital asset						1,856	1,856
Total General Revenues					5,261,919	12,210	5,274,129
Changes in Net Assets					(271,384)	(50,640)	(322,024)
Net Assets - Beginning					17,781,118	819,597	18,600,715
Prior period adjustment					(6,198)		(6,198)
Net Assets - Beginning restated					17,774,920	819,597	18,594,517
Net Assets - Ending					17,503,536	768,957	18,272,493

The accompanying notes and auditors' reports are integral parts of the statements.

Clay County
Balance Sheet - Governmental Funds
September 30, 2006

Exhibit 3

	Major Funds			Total Governmental Funds
	General Fund	TVA Bridge Bond Fund	Other Governmental Funds	
ASSETS				
Cash	\$ 918,227	564,062	2,479,667	3,961,956
Property tax receivable	2,473,296		979,899	3,453,195
Fines receivable	700,994			700,994
Capital lease receivable		989,222		989,222
Intergovernmental receivables	161,306		112,673	273,979
Other receivables	33,324		21,884	55,208
Due from other funds	6,030		39,765	45,795
Advances to other funds	6,211		647	6,858
Total Assets	\$ 4,299,388	1,553,284	3,634,535	9,487,207
LIABILITIES AND FUND BALANCES				
Liabilities:				
Claims payable	\$ 170,539	2,083	214,433	387,055
Amounts held in custody for others	11,398			11,398
Intergovernmental payables	160,192			160,192
Due to other funds	54,145		3,000	57,145
Advances from other funds	230		3,454	3,684
Deferred revenue	3,174,290	989,222	979,899	5,143,411
Other payables	80			80
Total Liabilities	3,570,874	991,305	1,200,786	5,762,965
Fund balances:				
Reserved for:				
Advances	6,211		647	6,858
Economic development		561,979		561,979
Debt service			140,845	140,845
Unemployment compensation			46,156	46,156
Unreserved, reported in:				
General fund	722,303			722,303
Special revenue funds			2,246,101	2,246,101
Total Fund Balances	728,514	561,979	2,433,749	3,724,242
Total Liabilities and Fund Balances	\$ 4,299,388	1,553,284	3,634,535	9,487,207

The accompanying notes and auditors' reports are integral parts of these statements.

Clay County
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2006

Exhibit 3-1

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 3,724,242
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:	
Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$23,307,693.	14,795,700
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. (Such as fine receivables)	700,994
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.	(2,509,975)
Accrued interest on bonds is not due and payable in the current year, therefore is not reported in the funds.	(39,071)
Capital leases are not available to pay for current period expenditures and, therefore, are deferred in the funds.	831,646
Total net assets - governmental activities (Exhibit 1)	\$ <u><u>17,503,536</u></u>

The accompanying notes and auditors' reports are integral parts of these statements.

Clay County
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2006

Exhibit 4

	Major Funds			Total Governmental Funds
	General Fund	TVA Bridge Bond Fund	Other Governmental Funds	
REVENUES				
Property taxes	\$ 2,775,815		1,367,731	4,143,546
Road and bridge privilege taxes			226,904	226,904
Licenses, commissions and other revenue	282,946		7,844	290,790
Fines and forfeitures	202,740			202,740
Intergovernmental revenues	861,094		684,166	1,545,260
Charges for services	168,829		69,247	238,076
Interest income	66,160	18,679	80,789	165,628
Miscellaneous revenues	173,270	28,276	82,644	284,190
Total Revenues	4,530,854	46,955	2,519,325	7,097,134
EXPENDITURES				
Current:				
General government	2,565,784		11,101	2,576,885
Public safety	1,996,218		199,590	2,195,808
Public works	64,813		1,587,374	1,652,187
Health and welfare	206,334			206,334
Culture and recreation			73,606	73,606
Education	52,997			52,997
Conservation of natural resources	52,918			52,918
Economic development and assistance	18,494	27,083	17,475	63,052
Debt service:				
Principal	28,076		444,731	472,807
Interest	1,879		148,351	150,230
Total Expenditures	4,987,513	27,083	2,482,228	7,496,824
Excess of Revenues over (under) Expenditures	(456,659)	19,872	37,097	(399,690)
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	9,400		16,000	25,400
Transfers in	2		56,882	56,884
Transfers out			(56,884)	(56,884)
Lease principal payments		99,866		99,866
Total Other Financing Sources and Uses	9,402	99,866	15,998	125,266
Net Changes in Fund Balances	(447,257)	119,738	53,095	(274,424)
Fund Balances - Beginning	1,181,969	442,241	2,380,654	4,004,864
Prior period adjustment	(6,198)			(6,198)
Fund Balances - Beginning, as restated	1,175,771	442,241	2,380,654	3,998,666
Fund Balances - Ending	\$ 728,514	561,979	2,433,749	3,724,242

The accompanying notes and auditors' reports are integral parts of these statements.

Clay County
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
September 30, 2006

Exhibit 4-1

Net changes in fund balances - total governmental funds (Exhibit 4) \$ (274,424)

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 depreciation \$526,587 exceeded capital outlays \$145,220 in the current period. (381,367)

In the statement of activities, only gains and losses from the sale or disposal of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and loss from the sale or disposal of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the loss of \$6,414. (6,414)

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. 45,052

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 repayments \$472,807 exceeded debt proceeds \$25,400. 447,407

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:

The amount of increase in compensated absences. (9,860)
The amount of decrease in accrued interest payable. 8,088

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 the change in fund balance by the principal collections on the capital lease. (99,866)

Change in net assets of governmental activities (Exhibit 2) \$ (271,384)

The accompanying notes and auditors' reports are integral parts of these statements.

Clay County
Statement of Net Assets - Proprietary Fund
September 30, 2006

Exhibit 5

Business-type Activities-Enterprise Fund

	<u>Solid Waste</u>
ASSETS	
Current assets:	
Cash	\$ 206,747
Accounts receivable (net of allowance for uncollectibles of \$418,877)	507,672
Other receivables	15,127
Due from other funds	<u>9,624</u>
Total Current Assets	<u>739,170</u>
Noncurrent assets:	
Capital assets:	
Other capital assets, net	<u>66,732</u>
Total Noncurrent Assets	<u>66,732</u>
Total Assets	<u>805,902</u>
LIABILITIES	
Current liabilities:	
Claims payable	10,719
Due to other funds	6,030
Deferred revenue	<u>19,085</u>
Total Current Liabilities	<u>35,834</u>
Noncurrent liabilities:	
Non-capital debt:	
Compensated absences payable	<u>1,111</u>
Total Noncurrent Liabilities	<u>1,111</u>
NET ASSETS	
Invested in capital assets, net of related debt	66,732
Restricted for public works	<u>702,225</u>
Total Net Assets	<u>\$ 768,957</u>

The accompanying notes and auditors' reports are integral parts of these statements.

Clay County
 Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund
 For the Year Ended September 30, 2006

Exhibit 6

	<u>Business-type Activities-Enterprise Fund</u>
	<u>Solid Waste</u>
Operating Revenues	
Charges for services	\$ 229,113
Total Operating Revenues	<u>229,113</u>
Operating Expenses	
Personal services	110,587
Contractual services	114,039
Materials and supplies	43,341
Depreciation expense	25,326
Indirect administrative cost	6,030
Total Operating Expenses	<u>299,323</u>
Operating Income (Loss)	<u>(70,210)</u>
Nonoperating Revenues (Expenses)	
Interest income	8,333
Operating grants	7,360
Gain on sale of capital assets	1,856
Other income	2,021
Net Nonoperating Revenue (Expenses)	<u>19,570</u>
Changes in Net Assets	<u>(50,640)</u>
Net Assets - Beginning	<u>819,597</u>
Net Assets Ending	<u>\$ 768,957</u>

The accompanying notes and auditors' reports are integral parts of these statements.

Clay County
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2006

Exhibit 7

	<u>Solid Waste</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 223,669
Payments to suppliers	(164,914)
Payments to employees	(109,477)
Payments to General Fund for indirect costs	(13,247)
Net Cash Used by Operating Activities	<u>(63,969)</u>
Cash Flows From Noncapital Financing Activities	
Operating grants received	<u>7,360</u>
Net Cash Provided by Noncapital Financing Activities	<u>7,360</u>
Cash Flows From Capital and Related Financing Activities	
Other receipts	<u>2,021</u>
Net Cash Used by Capital and Related Financing Activities	<u>2,021</u>
Cash Flows From Investing Activities	
Interest and dividends on investments	<u>8,333</u>
Net Cash Provided by Investing Activities	<u>8,333</u>
Net Decrease in Cash and Cash Equivalents	(46,255)
Cash and Cash Equivalents at Beginning of Year	253,002
Cash and Cash Equivalents at End of Year	<u>\$ 206,747</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating loss	\$ (70,210)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	25,326
Provision for uncollectible accounts	(11,098)
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	16,039
(Increase) decrease in other receivables	(15,127)
Increase (decrease) in claims payable	(7,534)
Increase (decrease) in interfund payables	(7,218)
Increase (decrease) in compensated absences liability	1,111
Increase (decrease) in deferred revenue	4,742
Total Adjustments	<u>6,241</u>
Net Cash Used by Operating Activities	<u>\$ (63,969)</u>

The accompanying notes and auditors' reports are integral parts of these statements.

Clay County
Statement of Fiduciary Assets and Liabilities
September 30, 2006

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	130,398
Due from other funds	<u>7,756</u>
Total Assets	\$ <u><u>138,154</u></u>
LIABILITIES	
Amounts held in custody for others	55,299
Intergovernmental payables	79,681
Advances from other funds	<u>3,174</u>
Total Liabilities	\$ <u><u>138,154</u></u>

The accompanying notes and auditors' reports are integral parts of these statements.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(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 primary government 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 primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

B. Basis of Presentation (Continued)

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-type activity or governmental function is self-financing or draws from the general revenues of the county.

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 (excluding agency 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. Agency funds have no measurement focus, but use the accrual basis of accounting.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

C. Measurement Focus and Basis of Accounting (Continued)

The county's Proprietary Funds apply 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 established 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, 2006

C. Measurement Focus and Basis of Accounting (Continued)

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 (other than for major capital projects) 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 2005 by the Government Finance Officers Association.

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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

E. Deposits and Investments (Continued)

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 government securities during the fiscal year.

F. Receivables

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

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 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.

**CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

H. Capital Assets (Continued)

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 and has not elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002 are reported in the financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

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.

	<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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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, constructions 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 appropriate or are legally segregated for a specific purpose.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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, 2006**

(2) Prior Period Adjustment

A summary of significant fund equity adjustments is as follows:

<u>Statement of Activities</u>	<u>Amount</u>
<u>Explanation</u>	
To correct prior year receivables.	(6,198)
Total	\$ (6,198)
<u>Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds</u>	<u>Amount</u>
<u>Explanation</u>	
To correct prior year receivables.	(6,198)
Total	\$ (6,198)

(3) Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$4,299,101 and the bank balance was \$4,457,823. 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.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

**CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(4) Interfund Transactions and Balances

The following is a summary of interfund balances at September 30, 2006:

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Solid Waste Fund	\$ 6,030
Other Governmental Funds	General Fund	39,765
Solid Waste Fund	General Fund	6,624
Solid Waste Fund	Other Governmental Funds	3,000
Agency Funds	General Fund	<u>7,756</u>
Total		<u>\$ 63,175</u>

The payables from General Fund represent the tax revenue collected but not settled until October 2006. The payable from the Solid Waste Fund represents the amount owed for indirect costs paid by the General Fund. 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 Fund	Other Governmental Funds	\$ 3,037
General Fund	Agency Funds	3,174
Other Governmental Funds	General Fund	230
Other Governmental Funds	Other Governmental Funds	<u>417</u>
Total		<u>\$ 6,858</u>

The payables from the General Fund represent errors noted from previous fiscal years.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(4) Interfund Transactions and Balances (Continued)

C. Transfers In/Out

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 2
Other Governmental Funds	Other Governmental Funds	56,882
Total		<u>\$ 56,884</u>

The principal purpose of interfund transfers was to provide funds for grant matches or to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(5) Intergovernmental Receivables

Intergovernmental receivables at September 30, 2006 consisted of the following:

Governmental Activities:

Description	Amount
Legislative tag credit	\$ 88,181
Home Project grant proceeds	93,785
Motor vehicle fuel tax	17,421
Gas severance tax	3,278
Reimbursement for housing prisoners	24,100
Reimbursement for salaries	6,324
Motor vehicle licenses	4,450
Flood control	4,875
Public safety grant	7,288
Reimbursement for food stamps	4,378
Other	19,899
Total Governmental Activities	<u>\$ 273,979</u>

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(6) Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2006:

Governmental activities:

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments	Balance Sept. 30, 2006
<u>Non-depreciable capital assets</u>					
Land	\$ 206,407				206,407
Total non-depreciable capital assets	<u>206,407</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>206,407</u>
<u>Depreciable capital assets</u>					
Infrastructure	28,812,450	21,172			28,833,622
Buildings	4,510,669				4,510,669
Mobile equipment	4,204,713	64,832	(44,297)	181,873	4,407,121
Furniture and equipment	232,368	49,816	(19,850)		262,334
Leased property under capital leases	524,567	9,400		(181,873)	352,094
Total depreciable assets	<u>38,284,767</u>	<u>145,220</u>	<u>(64,147)</u>	<u>-0-</u>	<u>38,365,840</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	17,656,686	155,120			17,811,806
Buildings	2,319,263	39,614			2,358,877
Mobile equipment	2,972,492	260,483	(39,868)	92,148	3,285,255
Furniture and equipment	186,021	27,470	(17,865)		195,626
Leased property under capital leases	173,231	43,900		(92,148)	124,983
Total accumulated depreciation	<u>23,307,693</u>	<u>526,587</u>	<u>(57,733)</u>	<u>-0-</u>	<u>23,776,547</u>
Total depreciable capital assets, net	<u>14,977,074</u>	<u>(381,367)</u>	<u>(6,414)</u>	<u>-0-</u>	<u>14,589,293</u>
Governmental activities capital assets, net	<u>\$ 15,183,481</u>	<u>(381,367)</u>	<u>(6,414)</u>	<u>-0-</u>	<u>14,795,700</u>

The adjustments are due to the reclassification of assets from leased property to mobile equipment.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(6) Capital Assets (Continued)

Business-type activities:

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments	Balance Sept. 30, 2006
<u>Depreciable capital assets</u>					
Mobile equipment	353,974		(11,444)		342,530
Furniture and equipment	12,540				12,540
Total depreciable assets	<u>366,514</u>	<u>-0-</u>	<u>(11,444)</u>	<u>-0-</u>	<u>355,070</u>
<u>Less accumulated depreciation for:</u>					
Mobile equipment	262,026	25,326	(10,300)		277,052
Furniture and equipment	11,286				11,286
Total accumulated depreciation	<u>273,312</u>	<u>25,326</u>	<u>(10,300)</u>	<u>-0-</u>	<u>288,338</u>
Total depreciable capital assets, net	<u>93,202</u>	<u>(25,326)</u>	<u>(1,144)</u>	<u>-0-</u>	<u>66,732</u>
Business-type activities capital assets, net	<u>\$ 93,202</u>	<u>(25,326)</u>	<u>(1,144)</u>	<u>-0-</u>	<u>66,732</u>

Depreciation expense was charged to the following functions:

	Amount
<u>Governmental Activities:</u>	
General government	\$ 13,038
Public safety	123,477
Public works	364,632
Health and welfare	25,440
Total governmental activities depreciation expense	<u>\$ 526,587</u>
<u>Business-type activities:</u>	
Public works	\$ 25,326
Total business-type activities depreciation expense	<u>\$ 25,326</u>

**CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(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 \$750,000 for each accident and completely covers statutory limits set by 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, 2005, to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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). The following table provides changes in the balances of claims liabilities for fiscal years 2005 and 2006:

	2005	2006
Unpaid Claims, Beginning of Fiscal Year	\$ 37,406	-0-
Plus: Incurred Claims (Including IBNRs)	621,432	64,107
Less: Claims Payments	<u>(658,838)</u>	<u>(64,027)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ -0-</u>	<u>80</u>

**CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(8) Capital Leases

As Lessor:

The county leases the following property with varying terms and options as of September 30, 2006:

<u>Class of Property</u>	<u>Amount</u>
Industrial facilities	\$ <u>1,257,830</u>

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2006, are as follows:

	<u>Principal</u>	<u>Interest</u>
Year Ending September 30,		
2007	\$ 86,294	30,472
2008	86,560	25,696
2009	88,034	22,367
2010	70,592	19,395
2011	73,279	16,749
2012-2016	379,015	40,735
2017-2021	<u>47,872</u>	<u>2,162</u>
Total	\$ <u>831,646</u>	<u>157,576</u>

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2006:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ <u>352,094</u>
Total	352,094
Less: Accumulated Depreciation	<u>124,983</u>
Leased Property Under Capital Lease	\$ <u>227,111</u>

**CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(8) Capital Leases (Continued)

The following is a schedule by years of the total payments due as of September 30, 2006:

Year Ending September 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 75,728	3,667
2008	29,560	1,724
2009	26,539	763
2010	8,851	157
2011	<u>686</u>	<u>6</u>
Total	<u>\$ 141,364</u>	<u>6,317</u>

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(9) Long-term Debt

Debt outstanding as of September 30, 2006, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rates	Final Maturity Date
Governmental Activities			
A. General Obligation Bonds:			
District 5 road 2000 issue	180,000	5/6.0	10/01/2015
District 1 road	330,000	4.8/5.4	12/1/2012
District 4 road	60,000	5/5.25	07/01/2008
District 4 road 2000 issue	200,000	5.2/7.0	12/01/2015
District 3 road 2000 issue	405,000	5.5/7.5	08/01/2020
District 2 road 2000 issue	425,000	5.25/5.65	12/01/2020
Courthouse remodeling	255,000	4.6/6.25	06/01/2011
County building	264,000	5.05/5.25	09/01/2014
Total General Obligation Bonds	2,119,000		
B. Capital Leases			
Four Sheriff's vehicles	27,737	3.01	01/10/2007
Copier	8,251	3.94	01/12/2011
Caterpillar motor grader	19,370	3.28	03/02/2007
2004 Sierra pickup	8,410	3.09	04/20/2009
Caterpillar backhoe	30,023	3.09	07/10/2009
Ford F-250 pickup	11,760	3.12	07/20/2009
2006 International truck	35,813	3.39	05/11/2010
Total Capital Leases	141,364		
C. Other Loans:			
Volunteer fire station and trucks	54,000	4.25	03/07/2007
County building drainage	64,000	4.25	04/07/2008
Volunteer fire truck	75,000	1.35/2.6	11/26/2007
1995 International truck	16,000	8.00	06/15/2007
Total Other Loans	\$ 209,000		

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(9) Long-term Debt (Continued)

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
2007	\$ 228,000	112,346	127,000	8,109
2008	238,000	100,721	57,000	2,644
2009	208,000	88,625	25,000	650
2010	218,000	77,956		
2011	228,000	66,346		
2012-2016	664,000	186,673		
2017-2021	335,000	50,043		
Total	\$ 2,119,000	682,710	209,000	11,403

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, 2006, the amount of outstanding debt was equal to 1.43% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2006:

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(9) Long-term Debt (Continued)

	Balance Oct. 1, 2005	Additions	Reductions	Balance Sept. 30, 2006	Amount due within one year
Governmental Activities:					
Compensated absences	\$ 30,751	9,860		40,611	
General obligation bonds	2,347,000		228,000	2,119,000	228,000
Capital leases	253,771	9,400	121,807	141,364	75,728
Other loans	316,000	16,000	123,000	209,000	127,000
Totals	<u>2,947,522</u>	<u>35,260</u>	<u>472,807</u>	<u>2,509,975</u>	<u>430,728</u>
Business-type Activities:					
Compensated absences	-0-	1,111		1,111	
Totals	<u>\$ -0-</u>	<u>1,111</u>	<u>-0-</u>	<u>1,111</u>	<u>-0-</u>

(10) 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, 2006

(11) 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 2006. 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.

(12) 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 twelve members of the college board of trustees. The county appropriated \$448,250 for the maintenance and support of the college in fiscal year 2006.

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 \$16,200 for support of the district in fiscal year 2006.

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 \$72,605 to the library during fiscal year 2006.

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 2006.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(12) Jointly Governed Organizations (Continued)

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 of the members of the board of directors. The county appropriated \$64,900 for support of the Task Force in fiscal year 2006.

(13) 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 rate at September 30, 2006 was 11.30% 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, 2006, 2005, and 2004, were \$226,010, \$219,816, and \$212,006, respectively, equal to the required contributions for each year.

**CLAY COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(14) Subsequent Events

Subsequent to September 30, 2006, 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>
11/22/06	3.89	85,000	Negotiable notes	Ad valorem taxes
11/22/06	3.89	130,000	Negotiable notes	Ad valorem taxes

REQUIRED SUPPLEMENTARY INFORMATION

Clay County
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,025,132	2,777,983	2,777,983	-0-
Licenses, commissions and other revenue	250,000	279,506	279,506	-0-
Fines and forfeitures	193,600	203,135	203,135	-0-
Intergovernmental revenues	759,567	926,077	926,077	-0-
Charges for services	500	154,430	154,430	-0-
Interest income	48,185	65,967	65,967	-0-
Miscellaneous revenues	25,150	196,324	196,324	-0-
Total Revenues	<u>4,302,134</u>	<u>4,603,422</u>	<u>4,603,422</u>	<u>-0-</u>
EXPENDITURES				
Current:				
General government	2,272,324	2,540,280	2,540,280	-0-
Public safety	1,895,772	2,015,919	2,015,919	-0-
Public works	175,000	78,225	78,225	-0-
Health and welfare	170,750	197,961	197,961	-0-
Education		85,797	85,797	-0-
Conservation of natural resources	53,669	53,824	53,824	-0-
Economic development and assistance	16,200	16,200	16,200	-0-
Debt service:				
Principal	26,926	28,076	28,076	-0-
Interest	1,645	1,879	1,879	-0-
Total Expenditures	<u>4,612,286</u>	<u>5,018,161</u>	<u>5,018,161</u>	<u>-0-</u>
Excess of Revenues over (under) Expenditures	<u>(310,152)</u>	<u>(414,739)</u>	<u>(414,739)</u>	<u>-0-</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued		9,400	9,400	-0-
Proceeds from sale of capital assets		825	825	-0-
Transfers in	400,000	310,488	310,488	-0-
Transfers out	(400,000)	(493,423)	(493,423)	-0-
Total Other Financing Sources and Uses	<u>-0-</u>	<u>(172,710)</u>	<u>(172,710)</u>	<u>-0-</u>
Net Change in Fund Balance	(310,152)	(587,449)	(587,449)	-0-
Fund Balances - Beginning		1,330,741	1,330,741	-0-
Fund Balances - Ending	\$ <u>(310,152)</u>	<u>743,292</u>	<u>743,292</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, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Interest income	\$ 10,000	18,679	18,679	-0-
Interest on leases	27,216	23,328	23,328	-0-
Total Revenues	<u>37,216</u>	<u>42,007</u>	<u>42,007</u>	<u>-0-</u>
EXPENDITURES				
Current:				
Economic development and assistance	25,000	25,000	25,000	-0-
Total Expenditures	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-0-</u>
Excess of Revenues over (under) Expenditures	<u>12,216</u>	<u>17,007</u>	<u>17,007</u>	<u>-0-</u>
OTHER FINANCING SOURCES (USES)				
Lease principal payments	128,500	104,814	104,814	-0-
Total Other Financing Sources and Uses	<u>128,500</u>	<u>104,814</u>	<u>104,814</u>	<u>-0-</u>
Net Change in Fund Balance	140,716	121,821	121,821	-0-
Fund Balances - Beginning	-0-	440,158	440,158	-0-
Fund Balances - Ending	<u>\$ 140,716</u>	<u>561,979</u>	<u>561,979</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, 2006

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 schedule is presented for the General Fund and each 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).

CLAY COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2006

C. Budget/GAAP Reconciliation (Continued)

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

	Governmental Fund Types	
	General Fund	TVA Bridge Bond Fund
	<u> </u>	<u> </u>
Budget (Cash Basis)	(587,449)	121,821
Increase (Decrease)		
Net adjustments for revenue accruals	(383,879)	
Net adjustments for expenditure accruals	<u>524,071</u>	<u>(2,083)</u>
GAAP Basis	<u><u>(447,257)</u></u>	<u><u>119,738</u></u>

SPECIAL REPORTS

J.E. VANCE & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

825 JEFFERSON STREET
POST OFFICE BOX 1280
TUPELO, MISSISSIPPI 38802

(662) 842-2123
FACSIMILE (662) 841-6809
E-MAIL: jev@jevance.com

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

Members of the Board of Supervisors
Clay County, Mississippi

We have audited the basic 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, 2006, which collectively comprise the county's basic financial statements and have issued our report thereon dated January 25, 2008. 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 opinion on the basic 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 06-1 and 06-2.

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 primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

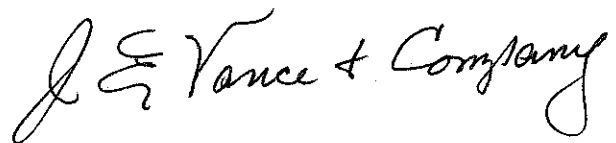
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay County, Mississippi's basic 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 Auditors' Report on Central Purchasing System, Inventory Control System, and Purchase Clerk Schedules dated January 25, 2008, 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.

Tupelo, Mississippi
January 25, 2008

A handwritten signature in cursive script that reads "J. E. Vance & Company". The signature is written in dark ink and is positioned to the right of the typed date and location.

J.E. VANCE & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

825 JEFFERSON STREET
POST OFFICE BOX 1280
TUPELO, MISSISSIPPI 38802

(662) 842-2123
FACSIMILE (662) 841-6809
E-MAIL: jev@jevance.com

**INDEPENDENT AUDITORS' 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, 2006. 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

Finding

Section 31-7-103, Miss. Code Ann. (1972), requires purchase requisitions, purchase orders and receiving reports to accompany all claims for payment. As reported in the prior three years' audit report, some purchase transition documents are being prepared after the fact.

Recommendation

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

Purchase Clerk's Response

The Comptroller and I addressed this problem at a Board meeting in November 2006. We reminded the Board of Supervisors of the procedures involved with the central purchasing system. We requested their assistance with making sure all paperwork is completed accordingly. We are working hard to get this problem corrected.

Inventory Control Clerk

Finding

We noted the following deficiency in control procedures over capital assets: Several items had been ordered to be removed per the Board of Supervisors' minutes but had not been removed from inventory.

Recommendation

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

Inventory Control Clerk's Response

A "fail safe" system has been established and a person is exclusively in charge of seeing that Board ordered deletions are followed up with a removal of that item from the inventory.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Clay County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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.

Tupelo, Mississippi
January 25, 2008

J. E. Vance & Company

Clay County
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2006

Schedule 1

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

Clay County
Schedule of Emergency Purchases
For the Year Ended September 30, 2006

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
10/10/2005	Labor	\$ 11,855	A-MC Construction, Inc.	Hurricane damage to courtroom building

Clay County
Schedule of Purchases Made Noncompetitively from a Sole Source
For the Year Ended September 30, 2006

Schedule 3

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

J.E. VANCE & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

825 JEFFERSON STREET
POST OFFICE BOX 1280
TUPELO, MISSISSIPPI 38802

(662) 842-2123
FACSIMILE (662) 841-6809
E-MAIL: jev@jevance.com

Limited Internal Control and Compliance Review Management Report

Members of the Board of Supervisors
Clay County, Mississippi

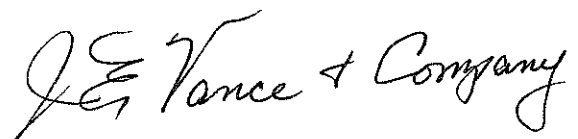
In planning and performing our audit of the financial statements of Clay County, Mississippi for the year ended September 30, 2006, we considered Clay County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Clay County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated January 25, 2008, on the financial statements of Clay County, Mississippi.

Although no findings came to our attention as a result of these review procedures and compliance test, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of the internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

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 party. However, this report is a matter of public record and its distribution is not limited.

Tupelo, Mississippi
January 25, 2008



SCHEDULE OF FINDINGS

**CLAY COUNTY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Section 1: Summary of Auditors' Results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditors' report issued on the primary government financial statements: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Reportable conditions identified that are not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to the primary government financial statements? | No |

Section 2: Financial Statement Findings

Justice Court Clerk

06-1 Finding

Audit procedures disclosed a lack of segregation of accounting duties in the Justice Court Clerk's office, thereby subjecting the county to the risk of fraud. The same employee collects cash, prepares deposits, and reconciles the bank statements.

Recommendation

The Justice Court Clerk should assign cash collections and disbursement functions to other personnel in the office.

Clerk's Response

The deputy clerks (2) have the only cash drawers in the office. Currently, they receipt the mail and receipt the money that come in the office daily. At the end of every day, they prepare the daily check up forms. I, the Justice Court Clerk, count their money, prepare the deposit, and the deposit slip. Additionally, I prepare the recapture report and take the deposit to the bank every day. Hopefully, the problem has been solved and we are moving forward.

**CLAY COUNTY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Section 2: Financial Statement Findings (Continued)

Inventory Control Clerk

06-2 Finding

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

- a. Several items had been ordered to be removed per the Board of Supervisors' minutes but had not been removed from inventory.

Recommendation

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

Inventory Control Clerk's Response

A "fail safe" system has been established and a person is exclusively in charge of seeing that Board ordered deletions are followed up with a removal of that item from the inventory.