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CLAY COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

CLAY COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
Clay County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Clay County School District as of and for the year ended June 30, 2005, which collectively comprise the Clay County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Clay County School District'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Clay County School District, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2005, on our consideration of the Clay County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 6 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 36 through 39 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 inquires 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 the Clay County School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

September 15, 2005
Tupelo, Mississippi

J. E. Vance & Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLAY COUNTY SCHOOL DISTRICT
MANAGAMENT'S DICUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

The discussion and analysis of Clay County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District'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 School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased $216,095, which represents an 11% increase from fiscal year 2004. Total net assets for 2004 increased $21,063, which represents a 1% increase from fiscal year 2003.

- General revenues account for $1,661,636 and $1,699,415 in revenue, or 66% and 64% of all revenues for fiscal years 2005 and 2004, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for $867,776 or 34% of total revenues for 2005 and $950,511 or 36% of total revenues for 2004.

- The District had $2,325,387 and $2,440,283 in expenses for fiscal years 2005 and 2004; only $867,776 for 2005 and $950,511 for 2004 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $1,661,636 for 2005 and $1,669,415 for 2004 were adequate to provide for these programs.

- Among major funds, the General Fund had $1,685,882 in revenues and $1,471,318 in expenditures for 2005 and $1,774,345 in revenues and $1,656,279 in expenditures for 2004. The General Fund's fund balance increased $251,342 from 2004 and $138,852 from 2003.

- Capital assets, net of accumulated depreciation, decreased by $49,277 for 2005 and by $124,330 for 2004.

- Long-term debt decreased by $1,579 for 2005 and $15,265 for 2004.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the District's 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 District is improving or deteriorating.

The statement of activities presents information showing how the District's 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 only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional and interest on long-term liabilities.

The government-wide financial statements can be found on pages 15 - 16 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

> **Governmental 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 fund financial statements focus on current 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 the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.
>
> 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 District's current financing decisions. Both the governmental fund balance sheet and the governmental fund 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 18 and 20, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund 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 fund financial statements can be found on pages 17 and 19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statement of Fiduciary Net Assets on page 21.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 34 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 35 - 39 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by $2,147,661 as of June 30, 2005 and by $1,931,566 as of June 30, 2004.

A large portion of the District's net assets (19% for 2005 and 23% for 2004) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2005 and 2004.

	2005	2004
Current assets	$ 1,771,279	$ 1,531,530
Capital assets, net	403,525	452,802
Total assets	2,174,804	1,984,332
Current liabilities	17,115	41,159
Long-term debt outstanding	10,028	11,607
Total liabilities	27,143	52,766
Net assets:		
Invested in capital assets, net of related debt	403,525	452,802
Restricted	134,867	122,418
Unrestricted	1,609,269	1,356,346
Total net assets	$ 2,147,661	$ 1,931,566

There were no significant current year transactions that had an impact on the Statement of Net Assets.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2005 and 2004 were $2,529,412 and $2,649,926, respectively. The total cost of all programs and services was $2,325,387 and $2,440,283 for 2005 and 2004, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2005 and 2004.

	2005	2004
Revenues:		
Program revenues	$ 867,776	$ 950,511
General revenues	1,661,636	1,699,415
Total revenues	2,529,412	2,649,926
Expenses:		
Instruction	1,053,745	1,111,977
Support services	1,154,783	1,195,500
Non-instructional	115,751	117,158
Sixteenth Section	1,108	15,445
Interest on long-term liabilities	-0-	203
Total expenses	2,325,387	2,440,283
Special Items		(3,675)
Increase (decrease) in net assets	$ 204,025	$ 205,968

Governmental activities. The following table presents the cost of four major District functional activities: instruction, support services, non-instructional and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	2005		2004	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	$ 1,053,745	$ (593,537)	$ 1,111,977	$ (668,610)
Support services	1,154,783	(859,963)	1,195,500	(805,956)
Non-instructional	115,751	(3,223)	117,158	442
Sixteenth section	1,108	(888)	15,445	(15,445)
Interest on long-term liabilities	-0-	-0-	203	(203)
Total expenses	$ 2,325,387	$ (1,457,611)	$ 2,440,283	$ (1,489,772)

- Net cost of governmental activities ($1,457,611 for 2005 and $1,489,772 for 2004), was financed by general revenue, which is made up of primarily property taxes ($608,073 for 2005 and $632,818 for 2004) and state revenue ($981,500 for 2005 and $1,013,231 for 2004).

- Investment earnings accounted for $52,643 and $29,347 of funding for 2005 and 2004, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $1,754,164 for 2005, an increase of $263,793 from 2004, and $1,490,371 for 2004, an increase of $129,511 from 2003. $1,717,855 or 98% for 2005 and $1,408,661 or 94% for 2004 of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of $36,309 or 2% for 2005 and $81,710 or 6% for 2004 is reserved or designated to indicate that it is not available for spending because it has already been committed. The areas of commitment are as follows:

	2005	2004
Inventory	$ 4,574	$ 5,816
Ad Valorem	805	54,076
Unemployment Benefits	23,110	13,110
Forestry Improvements	7,820	8,708
Total assets	$ 36,309	$ 81,710

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund was $251,342 for 2005 and $138,852 for 2004. The fund balance of Other Governmental Funds showed an increase for 2005 and a decrease for 2004.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's total capital assets were $1,110,739 for 2005 and 2004, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents no change from 2004 and an increase of $80,084 from 2003. Total accumulated depreciation was $707,214 for 2005 and $657,937 for 2004. Total depreciation expense was $49,277 for 2005 and $52,584 for 2004, resulting in total net assets of $403,525 for 2005 and $452,802 for 2004.

Additional information of the District's capital assets can be found in Note 4 on page 30 of this report.

Debt Administration. At June 30, 2005, the District had $10,028 in long-term debt outstanding, of which none is due within one year.

The District maintains a AAA bond rating.

Additional information of the District's long-term debt can be found in Note 5 on page 31 of this report.

CURRENT ISSUES

The Clay County School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Clay County School District, P.O. Box 759, West Point, Mississippi 39773.

FINANCIAL STATEMENTS

CLAY COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

		Primary Government
		Governmental Activities
Assets		
Cash and cash equivalents (Note 2)	$	1,682,447
Due from other governments		39,160
Inventories and prepaid items		4,574
Restricted assets		45,098
Capital assets, net (Note 4)		403,525
Total Assets	$	2,174,804
Liabilities		
Accounts payable and accrued liabilities	$	6,740
Deferred revenue		10,375
Long-term liabilities, due beyond one year (Note 5)		
Non-capital related liabilities		10,028
Total Liabilities	$	27,143
Net Assets		
Investment in capital assets, net of related debt	$	403,525
Restricted net assets:		
Expendable:		
School - based activities		58,839
Unemployment benefits		23,110
Forestry improvements		7,820
Nonexpendable:		
Sixteenth Section		45,098
Unrestricted		1,609,269
Total Net Assets	$	2,147,661

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

CLAY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	$ 1,053,745	4,614	455,594		(593,537)
Support services	1,154,783		279,808	15,012	(859,963)
Non-instructional	115,751	13,168	99,360		(3,223)
Sixteenth section	1,108	220			(888)
Total governmental activities	$ 2,325,387	18,002	834,762	15,012	(1,457,611)
General Revenues:					
Taxes:					
General purpose levies					608,073
Unrestricted grants and contributions:					
State					981,500
Federal					10,345
Unrestricted investment earnings					52,643
Sixteenth section sources					7,939
Other					1,136
Total General Revenues					1,661,636
Change in Net Assets					204,025
Net Assets - Beginning					1,931,566
Prior Period Adjustments (Note 8):					12,070
Net Assets - Beginning - Restated					1,943,636
Net Assets - Ending					$ 2,147,661

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

CLAY COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	Major Funds				
	General Fund	Reading First	SPED Part B	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents (Note 2)	$ 1,594,572	10,375		122,598	1,727,545
Due from other governments	27,748		10,000	1,412	39,160
Due from other funds (Note 3)	3,717				3,717
Inventories and prepaid items				4,574	4,574
Total Assets	$ 1,626,037	10,375	10,000	128,584	1,774,996
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 6,740				6,740
Due to other funds (Note 3)			2,466	1,251	3,717
Deferred revenue		10,375			10,375
Total Liabilities	6,740	10,375	2,466	1,251	20,832
Fund Balances:					
Reserved for:					
Ad Valorem				805	805
Unemployment benefits				23,110	23,110
Forestry improvements				7,820	7,820
Inventory				4,574	4,574
Unreserved:					
Undesignated, reported in:					
General fund	1,619,297				1,619,297
Special Revenue funds			7,534	45,926	53,460
Permanent funds				45,098	45,098
Total Fund Balances	1,619,297	-0-	7,534	127,333	1,754,164
Total Liabilities and Fund Balances	$ 1,626,037	10,375	10,000	128,584	1,774,996

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

CLAY COUNTY SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS
JUNE 30, 2005

	Amount
Total Fund Balance - Governmental Funds	$ 1,754,164
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets which are used in governmental activities are not resources and therefore are not reported in the funds, net of accumulated depreciation of $707,214. (Note 4)	403,525
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	(10,028)
Total Net Assets - Governmental Activities	$ 2,147,661

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

CLAY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Major Funds			Other	Total
	General Fund	Reading First	SPED Part B	Governmental Funds	Governmental Funds
Revenues:					
Local sources	$ 663,717			14,150	677,867
State sources	992,593			114,672	1,107,265
Federal sources	29,572	152,444	123,673	428,780	734,469
Sixteenth section sources				9,812	9,812
Total Revenues	1,685,882	152,444	123,673	567,414	2,529,413
Expenditures:					
Instruction	624,188	104,834	77,472	240,160	1,046,654
Support services	847,130	44,305	35,666	187,812	1,114,913
Noninstructional services				113,774	113,774
Sixteenth section				1,107	1,107
Total Expenditures	1,471,318	149,139	113,138	542,853	2,276,448
Excess (Deficiency) of Revenues Over Expenditures	214,564	3,305	10,535	24,561	252,965
Other Financing Sources (Uses):					
Operating transfers in	43,093			10,000	53,093
Operating transfers out	(18,385)	(3,305)		(31,403)	(53,093)
Total Other Financing Sources (Uses)	24,708	(3,305)	-0-	(21,403)	-0-
Net Change in Fund Balances	239,272	-0-	10,535	3,158	252,965
Fund Balances:					
July 1, 2004	1,367,955		(3,001)	125,417	1,490,371
Prior period adjustments (Note 8)	12,070				12,070
July 1, 2004, as restated	1,380,025	-0-	(3,001)	125,417	1,502,441
Inc. (Dec.) in reserve for inventory				(1,242)	(1,242)
June 30, 2005	$ 1,619,297	-0-	7,534	127,333	1,754,164

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

CLAY COUNTY SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

		Amount
Net Change in Fund Balances - Governmental Funds	$	252,965
Amounts reported for governmental activities in the statement of activities are different because:		
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. There were no capital asset purchases and the depreciation expense amounted to $49,277. (Note 4)		(49,277)
2. Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The statement of activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences decreased to $10,028.		1,579
6. Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the statement of activity.		(1,242)
Change in Net Assets of Governmental Activities	$	204,025

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

CLAY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

		Agency Funds
Assets		
Cash and cash equivalents (Note 2)	$	67,495
Total Assets	$	67,495
Liabilities		
Accounts payable and accrued liabilities	$	67,495
Total Liabilities	$	67,495

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

Note 1: Summary of Significant Accounting Policies

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board of which each member was elected by the citizens of each defined county district.

B. Basis of Presentation

The school district'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 more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district 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 school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each

Note 1: Summary of Significant Accounting Policies (Continued)

governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements

Fund financial statements of the school district 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 two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities 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. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Note 1: Summary of Significant Accounting Policies (Continued)

Reading First - This is the school district's fund for accounting for the federal funding of the Reading First program.

SPED Part B - This is the school district's fund for accounting for the federal funding of the Special Education program.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Permanent Funds - Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

D. Account Classifications

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

Note 1: Summary of Significant Accounting Policies (Continued)

F. Cash and Cash Equivalents

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

H. Capital Assets

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedules details those thresholds.

Note 1: Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

	Capitalization Policy	Estimated Useful Life
Land	$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications as listed. See Note 4 for details.

I. Long-term Liabilities

Long-term liabilities are the unmatured principal of bonds, warrants, 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. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 for details.

J. Interfund Transactions and Balances

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details of interfund transactions, including receivables and payables at year-end.

Note 1: Summary of Significant Accounting Policies (Continued)

K. Equity Classifications

Government-wide Financial Statements

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

1. 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, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.

2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

3. Unrestricted net assets - All other net assets that do not meet 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 further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for ad valorem - An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

Reserved for unemployment benefits - An account that represents the fund balance of the unemployment compensation revolving fund, which is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvements - An account that represents the fund balance of the sixteenth section forestry escrow fund which is legally restricted for improvements to sixteenth section forest lands.

Note 1: Summary of Significant Accounting Policies (Continued)

K. Equity Classifications (Continued)

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

L. Property Taxes

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

M. Mississippi Adequate Education Program Revenues

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the state of Mississippi.

N. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources

Note 2: Cash and Cash Equivalents

Cash and Cash Equivalents

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.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was $1,727,545 and 67,495, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents $1,682,447 and Restricted assets $45,098. The Restricted assets represents the cash balance of the 16th section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was $1,911,806.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of $1,911,806 was exposed to custodial credit risk.

Note 3: Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

		Due From	Due To
Major Fund			
General fund	$	3,717	
Other major funds			
SPED Part B			2,466
Other Governmental Funds			1,251
Total	$	3,717	3,717

Note 3: Interfund Transactions and Balances (Continued)

A. Due From/To Other Funds (continued)

The purpose of the interfund loans was to cover federal funds not received prior to year-end.

B. Transfers In/Out

		Transfers In	Transfers Out
Major Fund			
General fund	$	43,093	18,385
Other major funds			
Reading First			3,305
Other Governmental Funds		10,000	31,403
Total	$	53,093	53,093

The principal purpose of interfund transfers was to provide funds to pay for debt service payments or to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

Note 4: Capital Assets

The following is a summary of changes in capital assets for governmental activities:

	Balance 7/1/2004	Additions	Retirements	Balance 6/30/2005
Non-depreciable capital assets				
Land	$ 11,040			11,040
Total non-depreciable capital assets	11,040	-0-	-0-	11,040
Depreciable capital assets				
Buildings	433,564			433,564
Mobile equipment	588,563			588,563
Furniture and equipment	77,572			77,572
Total depreciable assets	1,099,699	-0-	-0-	1,099,699
Less accumulated depreciation for:				
Buildings	303,495	8,671		312,166
Mobile equipment	292,138	37,001		329,139
Furniture and equipment	62,304	3,605		65,909
Total accumulated depreciation	657,937	49,277	-0-	707,214
Total depreciable capital assets, net	441,762	(49,277)	-0-	392,485
Governmental activities capital assets, net	$ 452,802	(49,277)	-0-	403,525

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 8,671
Support services	39,871
Non-instructional	735
	$ 49,277

The capital assets above include significant amounts of buildings and furniture and equipment 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.

Note 5: Long-term Liabilities

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Amounts due within one year
A. Compensated absences payable	$ 11,607		1,579	10,028	
Total	$ 11,607	-0-	1,579	10,028	-0-

A. Compensated absences payable

As more fully explained in Note 1(N), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307 (5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

Note 6: Defined Benefit Pension Plan

Plan Description. The school district 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 report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800 444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were $109,763, $118,560 and $116,119, respectively, which equaled the required contributions for each year.

Note 7: Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30,	Amount
2006	$ 2,424

Note 8: Prior Period Adjustments/Exhibits

A summary of significant fund equity adjustments is as follows:

Statement of Activities		Amount
Explanation		
1. To record prior year revenue		12,070
	Total	$ 12,070

Statement of Revenues, Expenditures and Changes in Fund Balances		
Major fund:	Explanation	
General Fund	To record prior year revenue	12,070
	Total	$ 12,070

Note 9: Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of 90 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South in Jackson. The funds in the trust account are used to pay any claim up to $400,000. For a claim exceeding $400,000, MSBAWCT has insurance that will pay the excess up to $25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for the excess losses incurred by the pool.

Note 10: Uncertainties

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). Because one of the school districts which share a township with Clay County School District did not file its list of children as required, no division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be.

Of the townships Clay County School District shares with other school districts, Clay County School District has control of some of the sixteenth section property. A portion of the sixteenth section revenues (rents, leases, timber sales, etc.) Clay County School District received on these sections may be due to other school districts.

REQUIRED SUPPLEMENTARY INFORMATION

CLAY COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 632,295	716,988	663,717	84,693	(53,271)
State sources	967,859	1,004,664	992,593	36,805	(12,071)
Federal sources	46,500	28,995	29,572	(17,505)	577
Total Revenues	1,646,654	1,750,647	1,685,882	103,993	(64,765)
Expenditures:					
Instruction	667,304	624,188	624,188	43,116	-0-
Support services	967,914	847,130	847,130	120,784	-0-
Total Expenditures	1,635,218	1,471,318	1,471,318	163,900	-0-
Excess (Deficiency) of Revenues Over Expenditures	11,436	279,329	214,564	267,893	(64,765)
Other Financing Sources (Uses):					
Sale of other property	200			(200)	-0-
Operating transfers in	52,702	43,093	43,093	(9,609)	-0-
Operating transfers out		(18,385)	(18,385)	(18,385)	-0-
Total Other Financing Sources (Uses)	52,902	24,708	24,708	(28,194)	-0-
Net Change in Fund Balances	64,338	304,037	239,272	239,699	(64,765)
Fund Balances:					
July 1, 2004	1,367,955	1,367,955	1,367,955	-0-	-0-
Prior period adjustments (Note 8)		(53,271)	12,070	(53,271)	65,341
July 1, 2004, as restated	1,367,955	1,314,684	1,380,025	(53,271)	65,341
June 30, 2005	$ 1,432,293	1,618,721	1,619,297	186,428	576

The notes to the required supplementary information are an integral part of this statement.

CLAY COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE READING FIRST FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Federal sources	$ 135,535	154,541	152,444	19,006	(2,097)
Total Revenues	135,535	154,541	152,444	19,006	(2,097)
Expenditures:					
Instruction	79,240	104,834	104,834	(25,594)	-0-
Support services	52,989	44,305	44,305	8,684	-0-
Total Expenditures	132,229	149,139	149,139	(16,910)	-0-
Excess (Deficiency) of Revenues Over Expenditures	3,306	5,402	3,305	2,096	(2,097)
Other Financing Sources (Uses):					
Operating transfers out	(3,306)	(3,305)	(3,305)	1	-0-
Total Other Financing Sources (Uses)	(3,306)	(3,305)	(3,305)	1	-0-
Net Change in Fund Balances	-0-	2,097	-0-	2,097	(2,097)
Fund Balances:					
July 1, 2004	-0-	-0-	-0-	-0-	-0-
June 30, 2005	$ -0-	2,097	-0-	2,097	(2,097)

The notes to the required supplementary information are an integral part of this statement.

CLAY COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPED PART B FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Federal sources	$ 133,671	123,673	123,673	(9,998)	-0-
Total Revenues	133,671	123,673	123,673	(9,998)	-0-
Expenditures:					
Instruction	59,448	77,472	77,472	(18,024)	-0-
Support services	51,028	35,666	35,666	15,362	-0-
Total Expenditures	110,476	113,138	113,138	(2,662)	-0-
Excess (Deficiency) of Revenues Over Expenditures	23,195	10,535	10,535	(12,660)	-0-
Net Change in Fund Balances	23,195	10,535	10,535	(12,660)	-0-
Fund Balances:					
July 1, 2004	(3,001)	(3,001)	(3,001)	-0-	-0-
June 30, 2005	$ 20,194	7,534	7,534	(12,660)	-0-

The notes to the required supplementary information are an integral part of this statement.

CLAY COUNTY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

Budgetary Comparison Schedule

Note 1: Basis of Presentation

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

Note 2: Budget amendments and revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

CLAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	$ 6,342
Child Nutrition Cluster:		
School breakfast program	10.553	43,854
National school lunch program	10.555	83,263
Total		127,117
Total passed-through MDE		133,459
Total U.S. Department of Agriculture		133,459
U.S. Department of Education		
Passed through Mississippi Department of Education:		
Special Education Cluster		
Special education - grants to states	84.027	190,474
Special education - preschool grants	84.173	3,399
Total		193,873
Title I - grants to local educational agencies	84.010	180,479
Eisenhower professional development state grant	84.281	50,935
Innovative education program strategies	84.298	1,353
Safe and drug-free schools and communities - state grants	84.186	3,240
Education technology state grants	84.318	5,892
Reading first state grants	84.357	152,444
Total passed through Mississippi Department of Education		588,216
Total U.S. Department of Education		588,216
Total for All Federal Awards		$ 721,675

Note 1: This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

Note 2: The expenditure amounts include transfers out.

Note 3: The pass-through entities did not assign identifying numbers to the school district.

CLAY COUNTY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

Expenditures		Total	Instruction	Administrative	Other
Salaries and fringe benefits	$	1,544,939	806,824	363,235	374,880
Other		731,509	239,829	140,188	351,492
Total	$	2,276,448	1,046,653	503,423	726,372
Total number of students		197			
Cost per student	$	11,556	5,313	2,555	3,688

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type - all the 1000 functional codes.

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); Support Services - Business (2500s).

Other – includes all expenditure functions not included in Instruction or Administrative

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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

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

Superintendent and School Board
Clay County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Clay County School District as of and for the year ended June 30, 2005, which collectively comprise the Clay County School District's basic financial statements and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements 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 did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

September 15, 2005
Tupelo, Mississippi

J E Vance & Company

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Clay County School District

Compliance

We have audited the compliance of the Clay County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Clay County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Clay County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by fraud or error that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

September 15, 2005
Tupelo, Mississippi

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Clay County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Clay County School District as of and for the year ended June 30, 2005, which collectively comprise Clay County School District's basic financial statements and have issued our report thereon dated September 15, 2005. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported $3,553 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

September 15, 2005
Tupelo, Mississippi

J.E. Vance & Company

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CLAY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditors' report issued on the financial statements:	Unqualified
2. Material noncompliance relating to the financial statements?	No
3. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Reportable condition(s) identified that are not considered to be material weaknesses?	No

Federal Awards:

4. Type of auditors' report issued on compliance for major federal programs:	Unqualified
5. Internal control over major programs:	
a. Material weakness(es) identified?	No
b. Reportable condition(s) identified that are not considered to be material weaknesses?	No
6. Any audit findings reported as required by Section __.510(a) of OMB Circular A-133?	No

7. Federal program identified as a major program:

   a. Title I - grants to local educational agencies

      CFDA #84.010

CLAY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Section 1: Summary of Auditor's Results (Continued)

8. The dollar threshold used to distinguish between type A and type B programs:	$300,000.
9. Auditee qualified as a low-risk auditee?	Yes
10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ___.510(b) of OMB Circular A-133?	No

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.