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CLAY COUNTY SCHOOL DISTRICT
FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2007

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 accompanying 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, 2007, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Clay County School District, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2008, 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 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 on pages 6 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 36 through 38 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.

February 26, 2008
Tupelo, Mississippi

J E Vance & Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CLAY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

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, 2007. 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 \$330,702, which represents a 13% increase from fiscal year 2006. Total net assets for 2006 increased \$367,355, which represents a 17% increase from fiscal year 2005.
- General revenues account for \$1,924,531 and \$1,856,509 in revenue, or 66% and 68% of all revenues for fiscal years 2007 and 2006, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,005,508 or 34% of total revenues for 2007 and \$889,482 or 32% of total revenues for 2006.
- The District had \$2,599,337 and \$2,381,012 in expenses for fiscal years 2007 and 2006; only \$1,005,508 for 2007 and \$889,482 for 2006 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$1,924,531 for 2007 and \$1,856,509 for 2006 were adequate to provide for these programs.
- Among major funds, the General Fund had \$1,830,323 in revenues and \$1,605,048 in expenditures for 2007 and \$1,893,663 in revenues and \$1,559,685 in expenditures for 2006. The General Fund's fund balance increased \$347,420 from 2006 and \$353,582 from 2005.
- Capital assets, net of accumulated depreciation, decreased by \$12,990 for 2007 and increased by \$41,730 for 2006.
- Long-term debt increased by \$259 for 2007 and decreased by \$2,470 for 2006.

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*. 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 - 38 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 40 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 \$2,845,718 as of June 30, 2007 and by \$2,515,016 as of June 30, 2006.

A large portion of the District's net assets (16% for 2007 and 18% for 2006) 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, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Current assets	\$ 2,381,977	\$ 2,042,102
Other assets	45,098	51,257
Capital assets, net	432,265	445,255
Total assets	<u>2,859,340</u>	<u>2,538,614</u>
Current liabilities	5,805	16,040
Long-term debt outstanding	7,817	7,558
Total liabilities	<u>13,622</u>	<u>23,598</u>
Net assets:		
Invested in capital assets, net of related debt	432,265	445,255
Restricted	100,971	80,017
Unrestricted	<u>2,312,482</u>	<u>1,989,744</u>
Total net assets	<u>\$ 2,845,718</u>	<u>\$ 2,515,016</u>

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 30, 2007 and 2006 were \$2,930,039 and \$2,745,991, respectively. The total cost of all programs and services was \$2,599,337 and \$2,381,012 for 2007 and 2006, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2007 and 2006.

	Change in Net Assets		Percentage Change
	2007	2006	
Revenues:			
Program revenues			
Charges for services	\$ 34,204	\$ 23,111	48.0%
Operating grants and contributions	956,292	866,371	10.4%
Capital grants and contributions	15,012	-0-	100.0%
General revenues			
Property taxes	712,448	693,270	2.8%
Grants and contributions not restricted	981,907	1,040,481	-5.6%
Other	230,176	122,758	87.5%
Total revenues	<u>2,930,039</u>	<u>2,745,991</u>	6.7%
Expenses:			
Instruction	1,094,643	956,787	14.4%
Support services	1,383,224	1,296,458	6.7%
Non-instructional	118,428	122,871	-3.6%
Sixteenth Section	3,042	4,896	-37.9%
Total expenses	<u>2,599,337</u>	<u>2,381,012</u>	9.2%
Increase (decrease) in net assets	330,702	364,979	-9.4%
Net Assets, July 1	2,515,016	2,147,661	17.1%
Prior Period Adjustments	-0-	2,376	-100.0%
Net Assets, Restated, July 1	<u>2,515,016</u>	<u>2,150,037</u>	17.0%
Net Assets, June 30	\$ <u>2,845,718</u>	\$ <u>2,515,016</u>	13.1%

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.

	2007		2006	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 1,094,643	\$ (634,520)	\$ 956,787	\$ (582,064)
Support services	1,383,224	(957,376)	1,296,458	(888,739)
Non-instructional	118,428	(15,838)	122,871	(19,065)
Sixteenth section	3,042	13,905	4,896	(1,662)
Total expenses	<u>\$ 2,599,337</u>	<u>\$ (1,593,829)</u>	<u>\$ 2,381,012</u>	<u>\$ (1,491,530)</u>

- Net cost of governmental activities (\$1,593,829 for 2007 and \$1,491,530 for 2006), was financed by general revenue, which is made up of primarily property taxes (\$712,448 for 2007 and \$693,270 for 2006) and state revenue (\$975,600 for 2007 and \$1,021,575 for 2006).

- Investment earnings accounted for \$121,345 and \$93,864 of funding for 2007 and 2006, 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 \$2,421,270 for 2007, an increase of \$343,951 from 2006, and \$2,077,319 for 2006, an increase of \$320,398 from 2005. \$2,351,646 or 98% for 2007 and \$1,997,302 or 96% for 2006 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 \$69,524 or 2% for 2007 and \$80,017 or 4% for 2006 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:

	2007	2006
Inventory	\$ 5,322	\$ 5,690
Ad Valorem	-0-	6,095
Unemployment Benefits	12,108	16,088
Forestry Improvements	3,116	7,046
Permanent Fund Investment Purposes	45,098	45,098
Total assets	<u>\$ 65,644</u>	<u>\$ 80,017</u>

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund was \$347,420 for 2007 and \$351,884 for 2006. The fund balance of Other Governmental Funds showed a decrease of \$3,101 for 2007 and \$31,486 for 2006.

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, before depreciation, were \$1,262,603 for 2007 and \$1,209,939 for 2006, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$52,664 from 2006 and an increase of \$99,200 from 2005. Total accumulated depreciation was \$830,338 for 2007 and \$764,684 for 2006. Total depreciation expense was \$65,654 for 2007 and \$58,205 for 2006, resulting in total net assets of \$432,265 for 2007 and \$445,255 for 2006.

Additional information of the District's capital assets can be found in Note 4 on page 31 of this report.

Debt Administration. At June 30, 2007, the District had \$7,817 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 32 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, 2007

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 2,306,601
Due from other governments	70,054
Inventories and prepaid items	5,322
Restricted assets	45,098
Capital assets, not being depreciated:	
Land	11,040
Capital assets, net of accumulated depreciation:	
Buildings	104,056
Mobile equipment	266,766
Furniture and equipment	<u>50,403</u>
Total Assets	<u>\$ 2,859,340</u>
Liabilities	
Deferred revenue	5,805
Long-term liabilities, due beyond one year (Note 5)	
Non-capital related liabilities	<u>7,817</u>
Total Liabilities	<u>\$ 13,622</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 432,265
Restricted net assets:	
Expendable:	
School - based activities	36,669
Unemployment benefits	16,088
Forestry improvements	3,116
Nonexpendable:	
Sixteenth Section	45,098
Unrestricted	<u>2,312,482</u>
Total Net Assets	<u>\$ 2,845,718</u>

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, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 1,094,643	2,543	457,580		(634,520)
Support services	1,383,224		410,836	15,012	(957,376)
Non-instructional	118,428	14,714	87,876		(15,838)
Sixteenth section	3,042	16,947			13,905
Total governmental activities	\$ 2,599,337	34,204	956,292	15,012	(1,593,829)
General Revenues:					
Taxes:					
					712,448
Unrestricted grants and contributions:					
					975,600
					6,307
Unrestricted investment earnings					
					121,345
Sixteenth section sources					
					103,747
Other					
					5,084
					Total General Revenues
					1,924,531
Change in Net Assets					330,702
Net Assets - Beginning					2,515,016
Net Assets - Ending					\$ 2,845,718

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

**CLAY COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007**

	Major Funds			Total Governmental Funds
	General Fund	Enhancing Education E2T2 Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents (Note 2)	\$ 2,251,997		99,702	2,351,699
Due from other governments	29,999	38,603	1,452	70,054
Due from other funds (Note 3)	38,603		300	38,903
Inventories			5,322	5,322
Total Assets	\$ 2,320,599	38,603	106,776	2,465,978
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds (Note 3)	\$ 300	38,603	5,805	38,903
Deferred revenue			5,805	5,805
Total Liabilities	300	38,603	5,805	44,708
Fund Balances:				
Reserved for:				
Unemployment benefits			16,088	16,088
Forestry improvements			3,116	3,116
Inventory			5,322	5,322
Permanent fund purposes			45,098	45,098
Unreserved:				
Undesignated, reported in:				
General fund	2,320,299			2,320,299
Special Revenue funds			31,347	31,347
Total Fund Balances	2,320,299	-0-	100,971	2,421,270
Total Liabilities and Fund Balances	\$ 2,320,599	38,603	106,776	2,465,978

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, 2007**

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 2,421,270
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 \$830,338. (Note 4)	432,265
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	<u>(7,817)</u>
Total Net Assets - Governmental Activities	\$ <u><u>2,845,718</u></u>

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, 2007**

	Major Funds				Total Governmental Funds
	General Fund	Enhancing Education E2T2 Fund	Other Governmental Funds		
Revenues:					
Local sources	\$ 838,062		15,662		853,724
State sources	985,954		17,970		1,003,924
Federal sources	6,307	68,134	874,931		949,372
Sixteenth section sources			123,019		123,019
Total Revenues	1,830,323	68,134	1,031,582		2,930,039
Expenditures:					
Instruction	686,588		444,340		1,130,928
Support services	918,460	68,134	347,832		1,334,426
Noninstructional services			117,324		117,324
Sixteenth section			3,042		3,042
Total Expenditures	1,605,048	68,134	912,538		2,585,720
Excess (Deficiency) of Revenues Over Expenditures	225,275	-0-	119,044		344,319
Other Financing Sources (Uses):					
Operating transfers in	148,365		10,000		158,365
Operating transfers out	(26,220)		(132,145)		(158,365)
Total Other Financing Sources (Uses)	122,145	-0-	(122,145)		-0-
Net Change in Fund Balances	347,420	-0-	(3,101)		344,319
Fund Balances:					
July 1, 2006	1,972,879	-0-	104,440		2,077,319
Inc. (Dec.) in reserve for inventory			(368)		(368)
June 30, 2007	\$ 2,320,299	-0-	100,971		2,421,270

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, 2007**

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 344,319
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 capital asset purchases in the amount of \$52,664 and the depreciation expense amounted to \$65,654. (Note 4)	(12,990)
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 increased to \$7,817.	(259)
3. 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.	(368)
Change in Net Assets of Governmental Activities	\$ 330,702

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

**CLAY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2007**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ <u>73,736</u>
Total Assets	\$ <u><u>73,736</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ <u>73,736</u>
Total Liabilities	\$ <u><u>73,736</u></u>

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

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

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

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

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. 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.

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

Note 1: Summary of Significant Accounting Policies (Continued)

Enhancing Education E2T2 Fund - This is a special revenue fund that accounts for Enhancing Technology Funds allotted to the school district to be used for technology purposes.

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 broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* 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.

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

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 three 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.

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

Note 1: Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
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.

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

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 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.

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

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.

Reserved for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

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

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

Note 2: Cash and Cash Equivalents

Cash and Cash Equivalents

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's 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 \$2,351,701 and \$73,736, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$2,306,602 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 \$2,504,883.

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, 2007, none of the district's bank balance of \$2,504,883 was exposed to custodial credit risk.

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

Note 3: Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 38,603	300
Enhancing Education E2T2 Fund		38,603
Other Governmental Funds	300	
Total	\$ 38,903	38,903

The amounts due to or from other funds represent amounts loaned between funds for timing differences between revenues and expenditures and cash balances.

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 148,365	26,220
Other Governmental Funds	10,000	132,145
Total	\$ 158,365	158,365

The transfers represent board approved operating transfers for school operations and planning purposes.

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

Note 4: Capital Assets

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

	Balance 7/1/2006	Additions	Retirements	Balance 6/30/2007
<u>Non-depreciable capital assets</u>				
Land	\$ 11,040			11,040
Total non-depreciable capital assets	<u>11,040</u>	<u>-0-</u>	<u>-0-</u>	<u>11,040</u>
<u>Depreciable capital assets</u>				
Buildings	433,564			433,564
Mobile equipment	687,763			687,763
Furniture and equipment	77,572	52,664		130,236
Total depreciable assets	<u>1,198,899</u>	<u>52,664</u>	<u>-0-</u>	<u>1,251,563</u>
<u>Less accumulated depreciation for:</u>				
Buildings	320,837	8,671		329,508
Mobile equipment	375,068	45,929		420,997
Furniture and equipment	68,779	11,054		79,833
Total accumulated depreciation	<u>764,684</u>	<u>65,654</u>	<u>-0-</u>	<u>830,338</u>
Total depreciable capital assets, net	<u>434,215</u>	<u>(12,990)</u>	<u>-0-</u>	<u>421,225</u>
Governmental activities capital assets, net	<u>\$ 445,255</u>	<u>(12,990)</u>	<u>-0-</u>	<u>432,265</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 16,120
Support services	48,799
Non-instructional	735
	<u>\$ 65,654</u>

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.

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

Note 5: Long-term Liabilities

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

	<u>Balance</u> <u>7/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2007</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
A. Compensated absences payable	\$ 7,558	259		7,817	
Total	\$ 7,558	259	-0-	7,817	-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 rate for fiscal year ended June 30, 2007, was 11.30% 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, 2007, 2006, and 2005 were \$131,672, \$123,368 and \$109,763, respectively, which equaled the required contributions for each year.

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

Note 7: Other Commitments

Operating lease:

The school district has an operating lease for a Xerox copier.

Lease expenditures for the year ended June 30, 2007, amounted to \$2,635. Future lease payments for this lease are as follows:

Year Ending June 30,	Amount
2008	\$ 2,635
2009	2,635
Total	\$ 5,270

Note 8: 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
2007	\$ 2,560
2008	1,280
Total	\$ 3,840

**CLAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

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 approximately 121 school districts and one community college and covers risks of loss arising from injuries to the member'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 \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance that will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. 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, 2007**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 821,664	821,664	838,062	-0-	16,398
State sources	984,680	984,680	985,954	-0-	1,274
Federal sources	43,500	43,500	6,307	-0-	(37,193)
Total Revenues	<u>1,849,844</u>	<u>1,849,844</u>	<u>1,830,323</u>	<u>-0-</u>	<u>(19,521)</u>
Expenditures:					
Instruction	715,350	715,350	686,588	-0-	28,762
Support services	<u>1,059,706</u>	<u>1,062,356</u>	<u>918,460</u>	<u>(2,650)</u>	<u>143,896</u>
Total Expenditures	<u>1,775,056</u>	<u>1,777,706</u>	<u>1,605,048</u>	<u>(2,650)</u>	<u>172,658</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>74,788</u>	<u>72,138</u>	<u>225,275</u>	<u>(2,650)</u>	<u>153,137</u>
Other Financing Sources (Uses):					
Sale of other property	200	200		-0-	(200)
Operating transfers in	59,125	59,125	148,365	-0-	89,240
Operating transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(26,220)</u>	<u>-0-</u>	<u>23,780</u>
Total Other Financing Sources (Uses)	<u>9,325</u>	<u>9,325</u>	<u>122,145</u>	<u>-0-</u>	<u>112,820</u>
Net Change in Fund Balances					
	<u>84,113</u>	<u>81,463</u>	<u>347,420</u>	<u>(2,650)</u>	<u>265,957</u>
Fund Balances:					
July 1, 2006	<u>1,972,879</u>	<u>1,972,879</u>	<u>1,972,879</u>	<u>-0-</u>	<u>-0-</u>
June 30, 2007	<u>\$ 2,056,992</u>	<u>2,054,342</u>	<u>2,320,299</u>	<u>(2,650)</u>	<u>265,957</u>

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

**CLAY COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE
ENHANCING EDUCATION E2T2 FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 23,522	23,522	68,134	-0-	44,612
Total Revenues	<u>23,522</u>	<u>23,522</u>	<u>68,134</u>	<u>-0-</u>	<u>44,612</u>
Expenditures:					
Support services	27,677	180,660	68,134	(152,983)	112,526
Total Expenditures	<u>27,677</u>	<u>180,660</u>	<u>68,134</u>	<u>(152,983)</u>	<u>112,526</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,155)</u>	<u>(157,138)</u>	<u>-0-</u>	<u>(152,983)</u>	<u>157,138</u>
Net Change in Fund Balances	<u>(4,155)</u>	<u>(157,138)</u>	<u>-0-</u>	<u>(152,983)</u>	<u>157,138</u>
Fund Balances:					
July 1, 2006	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
June 30, 2007	<u><u>\$ (4,155)</u></u>	<u><u>(157,138)</u></u>	<u><u>-0-</u></u>	<u><u>(152,983)</u></u>	<u><u>157,138</u></u>

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, 2007**

Budgetary Comparison Schedule

Note 1: Basis of Presentation

The Budgetary Comparison Schedules present 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 October 15. 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, 2007**

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	\$ 6,640
Child Nutrition Cluster:		
School breakfast program	10.553	56,341
National school lunch program	10.555	78,096
Total		134,437
Total passed-through MDE		141,077
Total U.S. Department of Agriculture		141,077
U.S. Department of Education		
Passed through Mississippi Department of Education:		
Special Education Cluster		
Special education - grants to states	84.027	140,084
Special education - preschool grants	84.173	27,362
Total		167,446
Title I - grants to local educational agencies	84.010	170,313
Innovative education program strategies	84.298	338
Safe and drug-free schools and communities - state grants	84.186	2,627
Improving teacher quality - state grants	84.367	49,817
Improving literacy through school libraries	84.364	140,731
Education technology state grants	84.318	68,134
Reading first state grants	84.357	224,421
Total passed through Mississippi Department of Education		823,827
Total U.S. Department of Education		823,827
Total for All Federal Awards		\$ 964,904

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, 2007**

Expenditures	Total	Instruction and Other Student Support Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 1,652,978	1,077,498	284,500	96,805	194,175
Other	<u>932,742</u>	<u>478,623</u>	<u>159,688</u>	<u>16,367</u>	<u>278,064</u>
Total	\$ <u>2,585,720</u>	<u>1,556,121</u>	<u>444,188</u>	<u>113,172</u>	<u>472,239</u>
Total number of students	177				
Cost per student	\$ <u>14,609</u>	<u>8,792</u>	<u>2,510</u>	<u>639</u>	<u>2,669</u>

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 INTERNAL CONTROL AND COMPLIANCE

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

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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*

Supintendent 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, 2007, which collectively comprise the Clay County School District's basic financial statements and have issued our report thereon dated February 26, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any

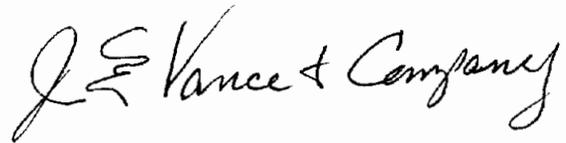
deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grant agreements, 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.

February 26, 2008
Tupelo, Mississippi

Handwritten signature in cursive script that reads "J. E. Vance & Company".

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

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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, 2007. 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer federal programs such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.

February 26, 2008
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, 2007, which collectively comprise Clay County School District's basic financial statements and have issued our report thereon dated February 26, 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 *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 \$2,575 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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 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.

February 26, 2008
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, 2007**

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. Significant deficiency(ies) 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. Significant deficiency(ies) 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 programs identified as a major program: | |
| a. Child nutrition cluster | |
| CFDA #10.553 | |
| CFDA # 10.555 | |
| b. Reading first | |
| CFDA #84.357 | |

**CLAY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

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? | Yes |

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.

Clay County Schools

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AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section ____315(b) of OMB Circular A-133, the Clay County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2007:

<u>Finding</u>	<u>Status</u>
06-1	Corrective action has been taken.
06-2	Corrective action has been taken.