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FRANKLIN COUNTY SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2006**

**Presented by:
Dribben & Associates, Ltd.
Albert F. Dribben CPA
P. O. Box 1411
113 North Broadway Avenue
McComb, MS 39649-1411**

FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

FRANKLIN COUNTY SCHOOL DISTRICT

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

November 22, 2006

Superintendent and School Board
Franklin 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 Franklin County School District as of and for the year ended June 30, 2006, which collectively comprise the Franklin County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Franklin 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.

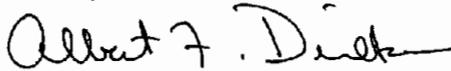
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Franklin County School District, as of June 30, 2006, and the respective 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 November 22, 2006, on our consideration of the Franklin County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of the 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 9 through 15 and the Budgetary Comparison Schedule and corresponding notes on pages 43 and 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Franklin County School District's basic financial statements. The accompanying 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 and is not a required part of the basic financial statements. 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.

Sincerely,

A handwritten signature in cursive script that reads "Albert F. Dribben".

Albert F. Dribben, CPA

Dribben & Associates, Ltd.

McComb, Mississippi

FRANKLIN COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FRANKLIN COUNTY SCHOOL DISTRICT

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Franklin County Board of Education
P.O. BOX 605
MEADVILLE, MISSISSIPPI 39653

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

The discussion and analysis of Franklin County School District's financial performance provides an overall narrative of the School District's financial activities for the year ended June 30, 2006. 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.

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

FINANCIAL STATEMENTS

Total net assets increased \$803,663, which represents an 11% increase from fiscal year 2005.

General revenues account for \$11,091,747 in revenue or 80% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,839,428, or 20 % of total revenues.

The District had \$13,129,748 in expenses; only \$2,839,428 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$11,091,747 were adequate to provide for these programs.

Among major funds, the General Fund has \$9,773,131 in revenues and \$10,663,138 in expenditures. The General Fund's fund balance increased by \$146,306 from the prior year.

Capital assets, net of accumulated depreciation, increased \$153,731 from the prior year.

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 themselves.

Governmental-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 actual 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 the 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, sixteenth section and interest on long-term liabilities.

The government-wide financial statements can be found on pages 19 and 20 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 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 22 and 24 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 21 and 23 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 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 Statements of Fiduciary Net Assets on page 25.

Notes to 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 statement can be found on page 27 - 39 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 fund.

This required supplemental information could be found on page 41 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 47 of the report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indication of government's financial position. In the case of this District, assets exceeded liabilities by \$8,113,423 as of June 30, 2006.

By far the largest portion of the District's net assets (63%) reflects its investment in capital assets (e. g., land, buildings, buildings improvements, improvements other than buildings, mobile equipment and furniture and equipment). 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 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 year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005:

	Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Current assets	\$ 3,922,373	3,052,669	28.49%
Capital assets, net	5,106,234	4,952,502	3.10%
Total assets	9,028,607	8,005,171	12.78%
Current liabilities	795,135	576,091	38.02%
Long-term debt outstanding	120,050	119,320	0.61%
Total liabilities	915,185	695,411	31.60%
Net assets:			
Invested in capital assets, net of related debt	5,106,234	4,952,502	3.10%
Restricted	4,023,973	1,902,157	111.55%
Unrestricted	(1,016,784)	455,101	-323.42%
Total net assets	\$ 8,113,423	7,309,760	10.99%

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$13,931,175. The total cost of all programs and services were \$13,129,748. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005:

	Change in Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Revenues:			
Program revenues			
Charges for services	\$ 369,133	475,033	-22.29%
Operating grants and contributions	2,307,604	2,273,871	1.48%
Capital grants and contributions	162,691	78,935	106.11%
General revenues			
Property Taxes	1,888,836	1,670,808	13.05%
Grants and contributions not restricted	7,658,920	7,362,374	4.03%
Other	1,543,991	978,475	57.80%
Total revenues	13,931,175	12,839,496	8.50%
Expenses:			
Instruction	7,565,708	7,240,711	4.49%
Support services	4,773,289	4,644,254	2.78%
Non-instructional	668,548	712,729	-6.20%
Sixteenth section	44,272	56,650	-21.85%
Interest on long-term liabilities	77,931	58,486	33.25%
Total expenses	13,129,748	12,712,830	3.28%
Increase (Decrease) in net assets	\$ 801,427	126,666	532.71%
Net assets, July 1	7,309,760	7,175,693	1.87%
Prior Period Adjustment	2,236	7,401	-69.79%
Net Assets, Restated, July 1	8,113,423	7,309,760	10.99%

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

	June 30, 2006		June 30, 2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	7,565,708	(6,059,294)	7,240,711	(5,771,923)
Support services	4,773,289	(4,140,023)	4,644,254	(4,063,458)
Non-instructional	668,548	31,200	712,729	4,767
Sixteenth section	44,272	(44,272)	56,650	4,109
Increase in long-term liabilities	77,931	(77,931)	58,486	(58,486)
Total expenses	\$ 13,129,748	(10,290,320)	12,712,830	(9,884,991)

Net cost of governmental activities, \$13,129,748; was financed by general revenue, which is made up of primarily property taxes \$1,888,836; federal revenues \$784,409; sixteenth section sources \$1,448,479; and state revenues \$6,874,511.

Investment earnings accounted for \$31,658 of funding.

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 used 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 \$3,131,414, an increase of \$647,600 from prior year. \$(684,613) 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 \$3,816,027 is reserved or designated to indicate that it is not available for spending because it is already committed

The General fund is a principal operating fund of the District. The increase in fund balance in the General fund for the fiscal year was \$146,306.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. The original budget amounts for revenue from state sources were based on full funding for Mississippi Adequate Education. The original budgeted amounts did not take into full consideration the potential cuts by the Mississippi legislatures. This was done upon suggestion of the Mississippi Department of Education. No other significant revisions to the budget were made during the fiscal year.

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. As of June 30, 2006, the District's total capital assets were \$10,286,213, including school buildings, buses, other vehicles, and furniture and equipment. This amount represents an increase of \$325,990 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$5,179,979 and total depreciation expense for the year was \$323,222 resulting in total net assets of \$5,106,234.

	Capital Assets, Net of Depreciation		Percentage Change
	2006	2005	
Land	\$ 10,100	10,100	0.00%
Construction in progress	307,159	10,808	2741.96%
Buildings	3,251,422	3,535,123	-8.03%
Buildings improvements	459,017	117,898	289.33%
Improvements other than buildings	117,658	354,887	-66.85%
Mobile equipment	851,989	787,219	8.23%
Furniture and equipment	108,889	136,467	-20.21%
Total	\$ 5,106,234	4,952,502	3.10%

Additional information of the District's capital assets can be found in Note 5 of this report.

Debt Administration. The District has never had any bonds issued. The long-term liabilities consist of a liability for compensated absences based on possible leave owed to current employees. There is no way to compute a current portion of this liability, as there are too many unknown factors involved. In prior years the district treated 16th section advances as loans because the funds were used to finance expenditures (buildings and buses) and the repayment schedules were set up over either a 10-year or 20-year period.

	Outstanding Debt		Percentage Change
	2006	2005	
Compensated absences payable	\$ 124,226	\$ 126,557	-1.84%

Additional information of the District's long-term debt can be found in Note 6 of this report.

CURRENT ISSUES

The Franklin 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. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future. Latest enrollment figures indicate that student enrollment in the District will remain steady.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Franklin County School District, P. O. Box 605, Meadville, MS 39653.

FRANKLIN COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

FRANKLIN COUNTY SCHOOL DISTRICT

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Franklin County School District
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,803,840
Due from other governments	324,779
Inventories and prepaid items	55,422
Restricted assets	1,738,332
Capital assets , not being depreciated:	
Land	10,100
Construction in progress	307,159
Capital assets, net of accumulated depreciation:	
Buildings	3,251,422
Building improvements	459,017
Improvements other than buildings	117,658
Mobile equipment	851,989
Furniture and equipment	108,889
Total assets	<u>\$ 9,028,607</u>
LIABILITIES	
Accounts payable and accrued liabilities	632,146
Deferred revenue	158,813
Long-term liabilities (due within one year)	
Non-capital liabilities	4,176
Long-term liabilities (due beyond one year)	
Non-capital liabilities	120,050
Total liabilities	<u>915,185</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,106,234
Restricted net assets	
Expendable:	
School based activities	263,368
Forestry improvement purposes	152,789
Unemployment benefits	33,559
Non-expendable:	
Sixteenth section	3,574,257
Unrestricted	(1,016,785)
Total net assets	<u>\$ 8,113,422</u>

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

Franklin County School District
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Governmental Activities
Governmental Activities:						
Instruction	\$ 7,565,708	237,982	1,186,936	81,496		(6,059,294)
Support services	4,773,289	-	552,071	81,195		(4,140,023)
Noninstructional	668,548	131,151	568,597	-		31,200
Sixteenth section	44,272	-	-	-		(44,272)
Interest on long-term liabilities	77,931	-	-	-		(77,931)
Total governmental activities	<u>13,129,748</u>	<u>369,133</u>	<u>2,307,604</u>	<u>162,691</u>		<u>(10,290,320)</u>
General Revenues:						
Taxes:						
General purposes levies						1,888,836
Unrestricted grants and contributions:						
State						6,874,511
Federal						784,409
Unrestricted investment earnings						31,658
Sixteenth section sources						1,448,479
Other						63,854
Total general revenues						<u>11,091,747</u>
Change in Net Assets						<u>801,427</u>
Net Assets - Beginning						7,309,760
Prior Period Adjustment						2,235
Net Assets - Restated						<u>7,311,995</u>
Net Assets - Ending						<u>\$ 8,113,422</u>

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

Franklin County School District
 Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 1,153,132	1,738,332	650,708	3,542,172
Due from other governments	214,812	-	109,967	324,779
Due from other funds	84,030	-	17,413	101,443
Advances to other funds	-	1,835,925	-	1,835,925
Inventories and prepaid items	39,208	-	16,214	55,422
Total assets	1,491,182	3,574,257	794,302	5,859,741
LIABILITIES & FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	511,829	-	120,317	632,146
Due to other funds	-	-	101,443	101,443
Advances from other funds	1,835,925	-	-	1,835,925
Deferred revenue	35,987	-	122,826	158,813
Total liabilities	2,383,741		344,586	2,728,327
Fund balances:				
Reserved for:				
Advances	-	1,835,925	-	1,835,925
Inventory	-	-	16,214	16,214
Prepaid items	39,208	-	-	39,208
Unemployment benefits	-	-	33,559	33,559
Forestry improvement purposes	-	-	152,789	152,789
Permanent funds	-	1,738,332	-	1,738,332
Unreserved:				
Undesignated, reported in:				
General fund	(931,767)	-	-	(931,767)
Special revenue funds	-	-	247,154	247,154
Total fund balances	(892,559)	3,574,257	449,716	3,131,414
Total liabilities & fund balances	\$ 1,491,182	3,574,257	794,302	5,859,741

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

Franklin County School District
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2006

Exhibit C-1

	<u>Amount</u>
Total fund balance - Governmental Funds	\$ 3,131,414
 Amounts reported for governmental activities in the statement of net assets are different because:	
<ol style="list-style-type: none"> 1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 	
Capital Assets	10,286,213
Less Accumulated Depreciation	(5,179,979)
	5,106,234
<ol style="list-style-type: none"> 2. Long-term liabilities not due and payable in the current period and therefore are not reported in the funds. 	
	(124,226)
Total Net Assets - Governmental Activities	\$ 8,113,422

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

Franklin County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

Exhibit D

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 2,200,628	-	152,859	2,353,487
State sources	6,776,462	-	547,340	7,323,802
Federal sources	796,041	-	2,009,367	2,805,408
Sixteenth section sources	-	499,874	948,604	1,448,478
Total revenues	9,773,131	499,874	3,658,170	13,931,175
Expenditures:				
Instruction	6,162,753	-	1,577,523	7,740,276
Support services	3,790,004	-	807,625	4,597,629
Noninstructional services	5,679	-	623,821	629,500
Sixteenth section	-	-	44,272	44,272
Facilities acquisition and construction	276,771	-	-	276,771
Debt Service:				
Principal	350,000	-	-	350,000
Interest	77,931	-	-	77,931
Total expenditures	10,663,138	-	3,053,241	13,716,379
Excess (deficiency) of revenues over expenditures	(890,007)	499,874	604,929	214,796
Other Financing Sources (Uses):				
Sale of transportation equipment	5,324	-	-	5,324
Proceeds of loans	350,000	-	-	350,000
Insurance loss recoveries	73,616	-	2,559	76,175
Refund of prior year expenditures	-	-	3,097	3,097
Transfers in	1,283,465	-	365,381	1,648,846
Transfers out	(676,092)	(134,750)	(838,004)	(1,648,846)
Total Other Financing Sources (Uses):	1,036,313	(134,750)	(466,967)	434,596
Net Change in Fund Balances	146,306	365,124	137,962	649,392
Fund balances:				
July 1, 2005	(1,038,865)	3,209,133	313,546	2,483,814
Increase (Decrease) in reserve for inventory	-	-	(1,792)	(1,792)
June 30, 2006	\$ (892,559)	3,574,257	449,716	3,131,414

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

Franklin County School District
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund balances to the Statement of Activities
 For the Year Ended June 30, 2006

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - Governmental Funds	\$ 649,392

Amounts reported for governmental activities in the statement of activities are different because:

- | | |
|---|-----------|
| 1. Capital outlays are reported as expenditures in governmental funds but are not reported as expenses in the statement of activities. Instead, costs associated with capital assets are capitalized in the statement of net assets, as follows. | 492,167 |
| 2. Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their estimated useful lives in the statement of activities. | (323,222) |
| 3. In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas, in governmental funds, proceeds for the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by a combination of the following items: | |
| Losses on sales of capital assets | (17,449) |
| 4. Decrease in reserve for inventory is reported as a direct decrease to fund balance in governmental funds but is reported as a decrease to non-instructional expenses in the Statement of Net Assets. | (1,792) |
| 5. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items: | |
| Compensated absences decrease | 2,331 |

Change in net assets of governmental activities	<u>\$ 801,427</u>
---	-------------------

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

Franklin County School District
 Statement of Fiduciary Net Assets
 June 30, 2006

Exhibit E

	<u>Private-Purpose Trust</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 70,117	44,403
Total Assets	<u>70,117</u>	<u>44,403</u>
Liabilities		
Due to student clubs	-	44,403
Total Liabilities	<u>-</u>	<u>44,403</u>
Net Assets		
Reserved for endowments	-	
Total Net Assets	<u>\$ 70,117</u>	

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

Franklin County School District
Statement of Changes in Fiduciary Net Assets
June 30, 2006

Exhibit F

	Private-Purpose Funds
<u>Additions</u>	
Interest earnings	\$ 100
 Total Assets	 <u>100</u>
 <u>Deletions</u>	
 Total Liabilities	 <u>-</u>
 <u>Net Assets</u>	
July 1, 2005	70,017
June 30, 2006	<u>\$ 70,117</u>

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

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2006

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

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

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 as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. 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.

Sixteenth Section Principal Fund- This is a Permanent Fund used to account for 16th Section nonrenewable resource income. The resource is restricted in that it can only be borrowed to purchase buses or to construct buildings.

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

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

FIDUCIARY FUNDS

Private-purpose Trust Funds – Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

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, 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.

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 consist 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. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

Investments are reported at fair value.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

H. 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. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental-wide and governmental fund financial statements.

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the governmental-wide financial statements.

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.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<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 5 for details.

J. 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. In the government-wide Statement of Net

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

K. 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. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore, are not available for appropriation.

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 4 for details for interfund transactions, including receivables and payables at year-end.

L. 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.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

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 advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

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

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvement purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

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.

M. 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.

N. 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.

O. 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

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2006

historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

(2) Changes in Accounting Standards.

As required, the George County School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents.

The district follows the practice of aggregating the cash assets of various funds to maximize 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 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 reported in the governmental funds and fiduciary funds was \$3,542,172 and \$114,520 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$1,803,840 and Restricted Assets \$1,738,332. The Restricted assets represent 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 \$4,196,496.

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 Treasury manages that 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 Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$4,196,496 was exposed to custodial credit risk.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

(4) 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	\$ 84,030	
Other governmental funds	17,413	101,443
Total	<u>\$ 101,443</u>	<u>101,443</u>

During the course of the school year, expenditures are paid on a reimbursement basis causing the district to borrow moneys from other funds to cover expenditures at year end and not create a deficit. The above interfund loans were made to cover year end expenditures.

B. Advances To/From Other Funds:

	<u>Advances From</u>	<u>Advances To</u>
Governmental funds:		
General fund	\$ 1,835,925	
Sixteenth section principal fund		1,835,925
Total	<u>\$ 1,835,925</u>	<u>1,835,925</u>

Note: The sixteenth section principal loans payable is not reflected on the Statement of Net Assets because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

Sixteenth section principal loans payable.

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2007	\$ 182,078	73,546	255,624
2008	182,078	66,155	248,233
2009	154,578	58,871	213,449
2010	146,114	52,687	198,801
2011	146,109	46,844	192,953
2012-2016	552,238	156,037	708,275
2017-2021	319,140	64,759	383,899
2022-2026	153,590	12,928	166,518
Total	<u>\$ 1,835,925</u>	<u>531,827</u>	<u>2,367,752</u>

C. Transfers In/Out.

	Transfers In	Transfers Out
Major funds:		
General fund	\$ 1,283,465	676,092
16th Section Principal	-	134,750
Other governmental funds	365,381	838,004
Total funds	<u>\$ 1,648,846</u>	<u>1,648,846</u>

A summary of the districts transfers: 16th section interest transfer, transfer of MAEP money to specific funds, and transfer of indirect costs.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

(5) Capital Assets.

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

	Balance 07/01/05	Additions	Retirements	Completed Construction	Adjustment	Balance 06/30/06
<u>Non-depreciable capital assets:</u>						
Land	\$ 10,100					10,100
Construction in progress	10,808	253,753		(209,281)	251,879	307,159
Total non-depreciable capital assets	20,908	253,753	-	(209,281)	251,879	317,259
<u>Depreciable capital assets:</u>						
Buildings	6,602,346				(182,057)	6,420,289
Building improvements	128,150			209,281	182,057	519,488
Improvements other than buildings	569,882				(243,569)	326,313
Mobile equipment	1,987,373	206,700	(174,487)			2,019,586
Furniture and equipment	651,564	31,714				683,278
Total depreciable capital assets	9,939,315	238,414	(174,487)	209,281	(243,569)	9,968,954
<u>Less accumulated depreciation for:</u>						
Buildings	(3,067,223)	(116,364)			14,720	(3,168,867)
Building improvements	(10,252)	(20,779)			(29,440)	(60,471)
Improvements other than buildings	(214,994)	(3,403)			9,742	(208,655)
Mobile equipment	(1,200,154)	(128,098)	157,038		3,617	(1,167,597)
Furniture and equipment	(515,097)	(54,578)			(4,714)	(574,389)
Total accumulated depreciation	(5,007,720)	(323,222)	157,038	-	(6,075)	(5,179,979)
Total depreciable capital assets, net	4,931,595	(84,808)	(17,449)	209,281	(249,644)	4,788,975
Governmental activities capital assets, net	\$ 4,952,503	168,945	(17,449)	-	2,235	5,106,234

Adjustments were made to construction in progress to adjust completed construction from a prior year. Adjustments were also made for misclassification of assets.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 122,431
Support services	163,535
Non-instruction	<u>37,256</u>
Total depreciation expense	<u>\$ 323,222</u>

Commitments under construction contracts at June 30, 2006, are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Gymnasium renovation	\$ 350,000	-
Total	<u>\$ 350,000</u>	<u>-</u>

(6) Long-term liabilities.

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

	<u>Balance 07/01/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 06/30/06</u>	<u>Amounts due within one year</u>
Tax anticipation note	\$ -	350,000	(350,000)	-	-
Compensated absences payable	126,557		(2,331)	124,226	4,176
Total	<u>\$ 126,557</u>	<u>350,000</u>	<u>(352,331)</u>	<u>124,226</u>	<u>4,176</u>

Compensated absences payable.

As more fully explained in Note 1(O), 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.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

(7) 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 10.75% 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, 2006, 2005 and 2004 were \$858,448, \$744,841, and \$723,401, respectively, which equaled the required contributions for each year.

(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 there from 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 the 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.

<u>Year Ending</u> <u>June 30, 2005</u>	<u>Amount</u>
2007	\$ 99,149
2008	86,302
2009	74,632
2010	22,463
2011	21,263
2012-2016	1,303
2017-2021	1,303
2022-2026	1,303
2027-2031	1,303
 Total	 <u>\$ 309,021</u>

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

(9) Prior Period Adjustments/exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1. To correct errors in completed construction and construction in progress in a prior year.	\$ 251,879
2. To correct errors in the classification of capital assets and completed construction in a prior year.	(243,569)
3. To correct errors in recording depreciation expense in a prior year.	(6,075)
Total	\$ 2,235

(10) Litigation.

The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the school district with respect to various proceedings. However, the school district's legal counsel believes that there is no litigation or threatened proceedings at present that will have a material adverse effect on the financial condition of the school district.

(11) Subsequent Events.

On July 18, 2006, board approved a bid from Owen and Holland for the gym renovation project for \$285,900.

(12) 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. 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.

FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Positive (Negative)	
				Original to Final	Final to Actual
REVENUES					
Local sources	\$ 2,131,421	2,200,628	2,200,628	69,207	-
State sources	6,811,704	6,776,462	6,776,462	(35,242)	-
Federal sources	879,370	796,041	796,041	(83,329)	-
Sixteenth section sources					-
Total revenues	9,822,495	9,773,131	9,773,131	(49,364)	-
EXPENDITURES					
Instruction	6,240,457	6,162,753	6,162,753	(77,704)	-
Support services	4,018,070	3,790,004	3,790,004	(228,066)	-
Noninstructional services	3,925	5,679	5,679	1,754	-
Facilities acquisition and construction	286,825	276,771	276,771	(10,054)	-
Debt Service:				-	
Principal	153,067	350,000	350,000	196,933	-
Interest	-	77,931	77,931	77,931	-
Total expenditures	10,702,344	10,663,138	10,663,138	(39,206)	-
Excess (deficiency) of revenues over expenditures	(879,849)	(890,007)	(890,007)	(88,570)	-
OTHER FINANCING SOURCES (USES)					
Sale of transportation equipment	2,000	5,324	5,324	3,324	-
Proceeds of loans	386,825	350,000	350,000	(36,825)	-
Insurance loss recoveries		73,616	73,616	73,616	-
Operating transfers in	1,118,235	1,283,465	1,283,465	165,230	-
Operating transfers out	(568,726)	(676,092)	(676,092)	(107,366)	-
Total other financing sources and uses	938,334	1,036,313	1,036,313	97,979	-
Net change in fund balances	58,485	146,306	146,306		
Fund balances:					
July 1, 2005			(1,038,865)		
June 30, 2006			(892,559)		

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2006

Budgetary Comparison Schedule

(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.

(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 consistent with accounting principles generally accepted in the United States of America.

FRANKLIN COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN 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>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 43,057
Child nutrition cluster:		
School breakfast program	10.553	164,578
National school lunch program	10.555	359,849
Summer food service program for children	10.559	20,769
Total Child Nutrition Cluster		<u>545,196</u>
Total U. S. Department of Agriculture		<u>588,253</u>
<u>U.S Department of Defense</u>		
Direct program:		
Reserve officers' training corps	12.XXX	49,864
Total U.S. Department of Defense		<u>49,864</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.XXX	76,657
Total Federal Communications Commission		<u>76,657</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	487,558
Vocational education - basic grants to states	84.048	17,988
Safe and drug-free schools and communities - state grants	84.186	13,481
Even start-state educational agencies	84.213	74,886
Education technology state grants	84.318	8,898
Rural education	84.358	49,576
State grants for innovative programs	84.298	5,013
Improving teacher quality - state grants	84.367	134,611
English language acquisition grants	84.365	1,769
Hurricane education recovery	84.938	157,723
Grants for state assessments and related activities	84.369	6,943
Total		<u>958,446</u>
Special education cluster:		
Special education - grants to states	84.027	334,797
Special education - preschool grants	84.173	39,524
Total		<u>374,321</u>
Total Passed-through Mississippi Department of Education		<u>1,332,767</u>
Total U. S. Department of Education		<u>1,332,767</u>

U.S. Department of Homeland Security

Passed-through Mississippi Emergency Management Agency:

Disaster grants - public assistance (presidential declared disasters)

97.036

10,321

Total U.S. Department of Homeland Security

10,321

Total for All Federal Awards

\$ 2,057,862

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

Franklin County School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administrative	School Administration	Other
Salaries and fringe benefits	\$ 10,616,707	7,161,431	597,810	618,452	2,239,014
Other	2,664,458	462,525	89,420	44,501	2,068,012
Total	13,281,165	7,623,956	687,230	662,953	4,307,026
Total number of students	1,421				
Cost per student	\$ 9,346	5,365	484	467	3,030

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

Instruction - includes that 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)

General Administration - includes expenditures for the following functions: Support Services - General Administration (2300s); and Support Services - Business (2500s)

School Administration - includes expenditures for the following function: School Administration (2400s)

Other - includes all expenditure functions not included in Instruction or Administrative Categories

FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FRANKLIN COUNTY SCHOOL DISTRICT

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

November 22, 2006

Superintendent and School Board
Franklin County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Franklin County School District as of and for the year ended June 30, 2006, which collectively comprise the Franklin County School District's basic financial statements and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Finding 06-01 and 06-02.

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

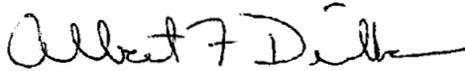
Compliance and Other Matters

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the school district in a separate letter dated November 22, 2006, which is included in this report.

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.

Sincerely,

A handwritten signature in cursive script that reads "Albert F. Dribben".

Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

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

November 22, 2006

Superintendent and School Board
Franklin County School District

Compliance

We have audited the compliance of the Franklin 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, 2006. 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, Franklin 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, 2006.

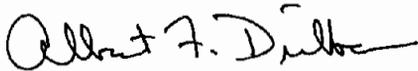
Internal Control Over Compliance

The management of the Franklin 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 the 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 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.

Sincerely,



Albert F. Dribben, CPA

Dribben & Associates, Ltd.

McComb, Mississippi

FRANKLIN COUNTY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS

FRANKLIN COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS

November 22, 2006

Superintendent and School Board
Franklin County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Franklin County School District as of and for the year ended June 30, 2006, and have issued our report thereon dated November 22, 2006. 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.

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 \$8,022 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 disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding

A sole-source purchase was made without the required certification or approval by the board.

Recommendation

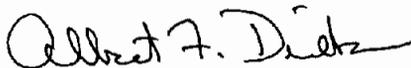
The district should comply with Section 37-7-13(m), Miss. Code Ann. (1972), which requires a certification of the conditions and circumstances requiring the purchase and that the purchase be approved by the board at the next regular meeting.

Response

The district will strive to include sole source items on the docket to be presented to the board at the regularly scheduled meetings.

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.

Sincerely,



Albert F. Dribben, CPA

Dribben & Associates, Ltd.

McComb, Mississippi

FRANKLIN COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditor's 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 identified: | No |
| | b. Reportable conditions identified that are not considered to be material weakness? | Yes |

Federal Awards:

- | | | |
|-----|---|----------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Reportable condition identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding reported as required by Section __510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. Child Nutrition Cluster: | |
| | School Breakfast | CFDA# 10.553 |
| | National school lunch program | CFDA #: 10.555 |
| | Summer food service program for children | CFDA #: 10.559 |
| | b. Hurricane Education Recovery | CFDA #: 84.938 |
| 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 findings 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 __315(b) of OMB Circular A-133? | No |

FRANKLIN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section 2: Financial Statement Findings

Reportable Conditions Not Considered to be a Material Weakness

06-01 Finding

As reported in prior year's report, in our test of receipts of general, activity and club funds we noted 10 instances of failure to deposit funds timely into the financial institution.

Recommendation

We recommend that the school district abide by school policy and refer to the policies recommended in the *Financial Accounting Manual for Mississippi Public School Districts* for persons receiving general, agency, activity and club funds.

06-02 Finding

In our tests of expenditures of general, activity and club funds, we noted the following internal control weaknesses:

- a) As reported in the prior year's report, one instance of an expense being paid without an invoice.
- b) One instance of purchase made with no purchase order.

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.

FRANKLIN COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

FRANKLIN COUNTY SCHOOL DISTRICT

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Franklin County School District

P.O. Box 605

Headville, MS 39653

Lona B. Thomas
Superintendent

(601) 384-2340
FAX (601) 384-2393

November 22, 2006

Dribben & Associates, Ltd.
P.O. Box 1411
McComb, Mississippi 39649

As required by Section 315 of OMB Circular A-133 the Franklin County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006.

Finding Corrective Action Plan Details

- 06-01 a. Ramona T. Mullins, Business Administrator, (601)384-2340
- b. The Business Administrator will have a meeting with all secretaries to go over these findings. We believe most of these are due to carelessness. We will emphasize the need to make deposits in a timelier manner.
- c. We plan to have this meeting during the month of March, 2007.
- 06-02 a. Ramona T. Mullins, Business Administrator. (601)384-2340
- b. During the abovementioned meeting, the Business Administrator will emphasize to the secretaries the payments are not to be made without invoices. Also, she will reemphasize the need for purchase orders for purchases over \$500.
- c. We plan to have this meeting during the month of March, 2007.

Sincerely yours,

Lona B. Thomas
Lona B. Thomas
Superintendent of Education

Ramona T. Mullins
Ramona T. Mullins
Business Administrator

