

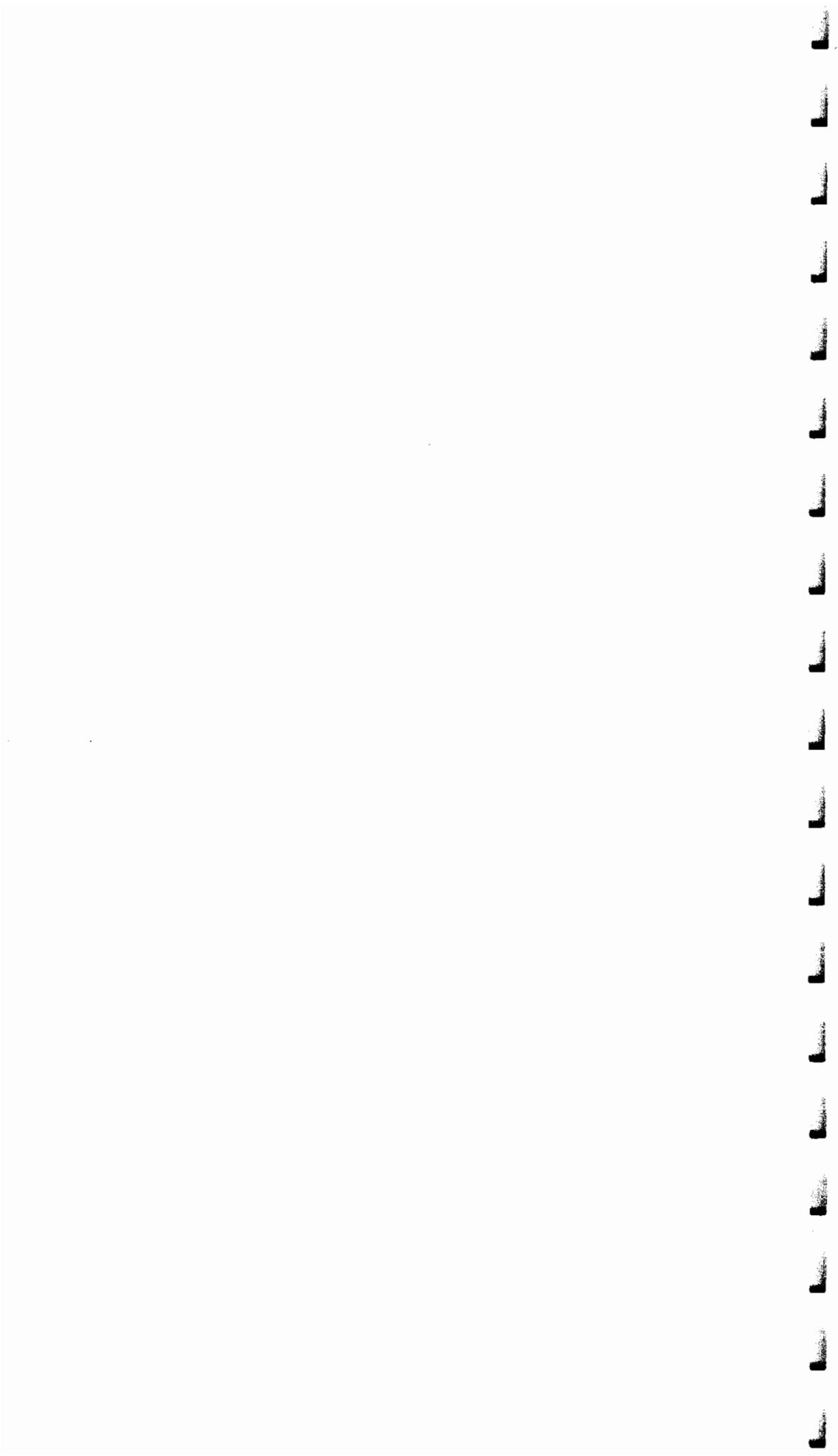


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FRANKLIN COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2007

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

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

March 17, 2008

(Except for Note 11, which is dated November 4, 2008.)

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, 2007, 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.

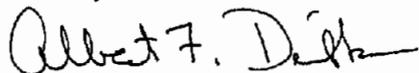
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Franklin County School District, as of June 30, 2007, and the respective 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 March 17, 2008, 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 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 9 through 18 and the Budgetary Comparison Schedule and corresponding notes on pages 45 and 46 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". The signature is written in dark ink and is positioned above the typed name.

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 School District
P. O. Box 605
Meadville, MS 39653

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Superintendent

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

The discussion and analysis of Franklin 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, including the effect of prior period adjustments, increased \$667,576, which represents an 8% increase from fiscal year 2006. This increase is due primarily to the following: (1.) sixteenth section revenue generated during the fiscal year primarily from oil and gas royalties and earnings on sixteenth section investments, and (2.) conservative budgeting and spending during the fiscal year.
- General revenues accounted for \$11,603,497 in revenue, or 80% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,902,247 or 20% of total revenues.
- The District had \$13,742,374 in expenses; only \$2,902,247 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$11,603,497 were adequate to provide for these programs.
- Among major funds, the General Fund had \$10,528,106 in revenues and \$11,351,541 in expenditures. After net other financing sources of \$703,770, the net change in fund balance for the General Fund was a decrease of \$119,665. This decrease was due primarily to an increase of expenditures in instruction and support services during the fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$303,890
- Long-term debt increased by \$23,971.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of 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 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 differences 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, sixteenth section and interest and other expenses on long-term debt liabilities.

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 Districts uses fund accounting to ensure and demonstrate compliance with finances-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 governments-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 used 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.

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.

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.

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.

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

The District adopts an annual operation budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds is included in 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 the District, assets exceeded liabilities by \$8,780,998 as of June 30, 2007.

By far the largest portion of the District's net assets (62%) 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. \$4,535,033 of the District's net assets reflects its restricted net assets. A portion of the restricted net assets is expendable for school bases activities, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable sixteenth section principal.

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

The following tables present a summary of the District's net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

	Net Assets		Percentage Change
	June 30, 2007	June 30, 2006	
Current assets	\$ 4,139,054	3,922,373	5.5%
Capital assets, net	5,400,024	5,106,234	5.8%
Total assets	9,539,078	9,028,607	5.7%
Current liabilities	624,429	795,135	-21.5%
Long-term debt outstanding	143,751	120,050	19.7%
Total liabilities	768,180	915,185	-16.1%
Net assets:			
Invested in capital assets, net of related debt	5,410,124	5,106,234	6.0%
Restricted	4,535,033	4,023,973	12.7%
Unrestricted	(1,164,159)	(1,016,785)	-14.5%
Total net assets	\$ 8,780,998	8,113,422	8.2%

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

- Current assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents.
- Capital assets increased from the previous fiscal year due primarily to the completion of building improvements during the year, the purchase of school buses and the purchase of various items of furniture and equipment.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to the reduction of accounts payable and accrued liabilities.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the increase in capital assets during the fiscal year.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for school based activities and sixteenth section principal funds.
- Unrestricted net assets decreased from the previous fiscal year due primarily to the decrease in the fund balance of the General Fund.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$14,505,744. The total cost of all programs and services was \$13,742,374. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

Revenues:	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Percentage Change</u>
Program revenues			
Charges for services	\$ 484,218	369,133	31.2%
Operating grants and contributions	2,311,486	2,307,604	0.2%
Capital grants and contributions	106,543	162,691	-34.5%
General revenues			
Property taxes	2,049,557	1,888,836	8.5%
Grants and contributions not restricted	8,117,649	7,658,920	6.0%
Other	1,436,291	1,543,991	-7.0%
Total revenues	<u>14,505,744</u>	<u>13,931,175</u>	4.1%
Expenses:			
Instruction	8,306,151	7,565,708	9.8%
Support services	4,872,456	4,773,289	2.1%
Non-instructional	460,338	668,548	-31.1%
Sixteenth Section	11,837	44,272	-73.3%
Interest and other expenses on long-term liabilities	91,592	77,931	17.5%
Total expenses	<u>13,742,374</u>	<u>13,129,748</u>	4.7%
Increase (Decrease) in net assets	<u>763,370</u>	<u>801,427</u>	-4.7%
Net Assets, July 1	8,113,422	7,309,760	
Prior period adjustment	(95,794)	2,235	
Net Assets, restated, July 1	<u>8,017,628</u>	<u>7,311,995</u>	9.7%
Net Assets, June 30	<u>\$ 8,780,998</u>	<u>8,113,422</u>	8.2%

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

- Program revenues increased from the previous fiscal year due primarily to an increase in charges for services and operating grants and contributions.
- General revenues increased from the previous fiscal year due primarily to an increase in property taxes and unrestricted state grants and contributions and sixteenth section sources.
- Instruction expenses increased from the previous fiscal year due primarily to an increase in salary related expenditures and health insurances and retirement benefits.
- Support services expenses increased from the previous fiscal year due primarily to an increase in salary related expenditures, health insurance and retirement benefits.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2007, and comparative data for the fiscal year ended June 30, 2006, the cost of five major District functional activities: instructional, support services, non-instructional, sixteenth section and interest and other expenses on long-term liabilities. The table also shows each function's net cost (total cost less changes for the 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	\$ 8,306,151	(6,883,144)	\$ 7,565,708	(6,059,294)
Support services	4,872,456	(3,983,410)	4,773,289	(4,140,023)
Non-instructional	460,338	129,856	668,548	31,200
Sixteenth Section	11,837	(11,837)	44,272	(44,272)
Interest and other expenses on long-term liabilities	91,592	(91,592)	77,931	(77,931)
	<u>\$ 13,742,374</u>	<u>(10,840,127)</u>	<u>\$ 13,129,748</u>	<u>(10,290,320)</u>

- The net cost of governmental activities for fiscal year 2007 in the amount of \$10,840,127 was financed by general revenue, which is made up of primarily property taxes of \$2,049,557, state revenue of \$7,256,143.
- Investment earnings accounted for 35,487 of funding.
- Sixteenth section sources in the amount of \$1,358,856 were generated during the fiscal year primarily from the sale of timber, sixteenth section leases, and oil and gas royalties.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District used 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 balances 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 fiscal year June 30, 2007, its governmental funds reported a combined fund balance of \$3,519,071. The net change in fund balance for the fiscal year was an increase of \$387,657 due primarily to sixteenth section revenue generated during the fiscal year mainly from the sixteenth section leases, oil and gas royalties and earnings on sixteenth section investments and conservative budgeting during the fiscal year. \$(701,524) of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$4,220,595 is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for advances, inventory, prepaid items, unemployment benefits, forestry improvements, and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was a decrease of \$119,665 due primarily to an increase in advances from other funds. The net change in fund balance for the Sixteenth Section Principal Fund was an increase of \$346,402 due primarily to revenue received from oil and gas royalties and earnings on investments. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$164,658 due primarily to the excess of revenues over expenditures in various funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District has revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenues from state sources in the General Fund were decreased to reflect the increase in Mississippi Adequate Education Program funds from the original allocation to the revised allocation.
- Budgeted amounts for instruction and support services expenditures were increased primarily to reflect the increase in salaries and retirement benefits.
- Budgeted amounts for transfers in and transfers out of the General Fund were revised to reflect actual transfers 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 is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. As of June 30, 2007, the District's total capital assets, before depreciation, were \$10,911,785., including land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$625,572 from the previous year. Total depreciation expense for the year was \$321,456. Total accumulated depreciation as of June 30, 2007 was \$5,501,661, resulting in total net assets of \$5,410,124.

	Capital Assets, Net of Depreciation		Percentage
	2007	2006	Change
Land	\$ 10,100	10,100	0.0%
Construction in progress	0	307,159	-100.0%
Buildings	3,570,578	3,251,422	9.8%
Building improvements	664,128	459,017	44.7%
Improvements other than buildings	104,513	117,658	-11.2%
Mobile equipment	971,523	851,989	14.0%
Furniture and equipment	89,282	108,889	-18.0%
Total	<u>\$ 5,410,124</u>	<u>5,106,234</u>	6.0%

Additional information of the District's capital assets can be found in Note 4 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. At June 30, 2007, the District had \$148,197 compensated absences payable, of which \$4,446 (or 3%) is estimated as due within one year.

	Outstanding Debt		Percentage Change
	2007	2006	
Compensated absences payable	148,197	124,226	19.3%
	\$ 148,197	124,226	19.3%

Additional information of the district's long-term debt can be found in Note 5 on page 39 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's system of financial planning, sound budgeting and internal financial controls are 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 any questions about this report, contact the Superintendent's Office of the Franklin County School District, P. O. Box 605, Meadville, MS 39653.

FINANCIAL STATEMENTS

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FRANKLIN COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents	\$ 2,071,027
Due from other governments	330,077
Inventories and prepaid items	85,472
Restricted assets	1,652,478
Capital assets, non-depreciable:	
Land	10,100
Capital assets, net of accumulated depreciation:	
Buildings	3,570,578
Building improvements	664,128
Improvements other than buildings	104,513
Mobile equipment	971,523
Furniture and equipment	89,282
Total Assets	<u>9,549,178</u>
Liabilities	
Accounts payable and accrued liabilities	553,565
Deferred revenue	66,418
Long term liabilities, due within one year	
Non-capital related liabilities	4,446
Long term liabilities, due beyond one year	
Non-capital related liabilities	143,751
Total Liabilities	<u>768,180</u>
Net Assets	
Investment in capital assets, net of related debt	5,410,124
Restricted net assets:	
Expendable:	
School - based activities	400,360
Forestry improvements	179,912
Unemployment benefits	34,102
Non-expendable:	
Sixteenth section	3,920,659
Unrestricted	(1,164,159)
Total Net Assets	<u>\$ 8,780,998</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, 2007

Exhibit B

Functions/Programs	Program Revenues			Changes in Net Assets			Net (Expense) Revenue and
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental	Governmental Activities	
Governmental Activities:							
Instruction	\$ 8,306,151	185,365	1,190,417	47,225	(6,883,144)		
Support services	4,872,456	298,853	530,875	59,318	(3,983,410)		
Non-instructional	460,338	-	590,194	-	129,856		
Sixteenth section	11,837	-	-	-	(11,837)		
Interest on long-term liabilities	91,592	-	-	-	(91,592)		
Total governmental activities	\$ 13,742,374	484,218	2,311,486	106,543	(10,840,127)		
General Revenues:							
Taxes:							
General purpose levies					2,049,557		
Unrestricted grants and contributions:							
State					7,256,143		
Federal					861,506		
Unrestricted investment earnings					35,487		
Sixteenth section sources					1,358,856		
Other					41,948		
Total General Revenues					11,603,497		
Change in Net Assets					763,370		
Net Assets - Beginning					8,113,422		
Prior Period Adjustments:					(95,794)		
Net Assets - Beginning - Restated					8,017,628		
Net Assets - Ending					\$ 8,780,998		

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

FRANKLIN COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2007

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	16th Section Principal Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 1,382,992	1,652,478	688,035	3,723,505
Due from other governments	237,802	-	92,275	330,077
Due from other funds	-	-	21,058	21,058
Advance to other funds	-	2,268,181	-	2,268,181
Inventories and prepaid items	71,275	-	14,197	85,472
Total Assets	\$ 1,692,069	3,920,659	815,565	6,428,293
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 439,850	-	113,715	553,565
Due to other funds	-	-	21,058	21,058
Advances from other funds	2,268,181	-	-	2,268,181
Deferred revenue	-	-	66,418	66,418
Total Liabilities	2,708,031	-	201,191	2,909,222
Fund Balances:				
Reserved for:				
Advances	-	2,268,181	-	2,268,181
Inventory	-	-	14,197	14,197
Prepaid items	71,275	-	-	71,275
Unemployment benefits	-	-	34,102	34,102
Forestry improvement purposes	-	-	179,912	179,912
Permanent fund purposes	-	1,652,478	-	1,652,478
Unreserved:				
Undesignated, reported in:				
General fund	(1,087,687)	-	-	(1,087,687)
Special revenue funds	-	-	386,163	386,163
Total Fund Balances	(1,015,962)	3,920,659	614,374	3,519,071
Total Liabilities and Fund Balances	\$ 1,692,069	3,920,659	815,565	6,428,293

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, 2007

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 3,519,071
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$5,501,661.	5,410,124
2. Liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(148,197)</u>
Total Net Assets - Governmental Activities	<u>\$ 8,780,998</u>

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

FRANKLIN COUNTY SCHOOL DISTRICT

Exhibit D

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	16th Section Principal Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 2,466,388	-	144,821	2,611,209
State sources	7,216,799	-	583,543	7,800,342
Federal sources	844,919	-	1,890,418	2,735,337
Sixteenth section sources	-	503,402	855,454	1,358,856
Total Revenues	<u>10,528,106</u>	<u>503,402</u>	<u>3,474,236</u>	<u>14,505,744</u>
Expenditures:				
Instruction	6,744,178	-	1,425,652	8,169,830
Support services	4,075,585	-	665,330	4,740,915
Noninstructional services	4,532	-	678,720	683,252
Sixteenth section	-	-	11,837	11,837
Facilities acquisition and construction	435,654	-	-	435,654
Debt service:				
Interest	91,592	-	-	91,592
Total Expenditures	<u>11,351,541</u>	<u>-</u>	<u>2,781,539</u>	<u>14,133,080</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(823,435)</u>	<u>503,402</u>	<u>692,697</u>	<u>372,664</u>
Other Financing Sources (Uses):				
Insurance loss recoveries	20,748	-	-	20,748
Operating transfers in	987,800	-	304,778	1,292,578
Operating transfers out	(304,778)	(157,000)	(830,800)	(1,292,578)
Total Other Financing Sources (Uses)	<u>703,770</u>	<u>(157,000)</u>	<u>(526,022)</u>	<u>20,748</u>
Net Change in Fund Balances	<u>(119,665)</u>	<u>346,402</u>	<u>166,675</u>	<u>393,412</u>
Fund Balances:				
July 1, 2006	(892,559)	3,574,257	449,716	3,131,414
Prior period adjustments	(3,738)	-	-	(3,738)
July 1, 2006, as restated	<u>(896,297)</u>	<u>3,574,257</u>	<u>449,716</u>	<u>3,127,676</u>
Increase (decrease) in reserve for inventory	-	-	(2,017)	(2,017)
June 30, 2007	<u>\$ (1,015,962)</u>	<u>3,920,659</u>	<u>614,374</u>	<u>3,519,071</u>

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

FRANKLIN COUNTY SCHOOL DISTRICT
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2007

Exhibit D-1

	<u>Amount</u>
Net Change in fund balances - governmental funds	\$ 393,412
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. Capital assets purchased amounted to \$721,912 and the depreciation expense amounted to \$321,456.	400,456
2. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(284)
3. Increases (decreases) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	(2,017)
4. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds.	
Compensated absences	(23,971)
Change in Net Assets of Governmental Activities	<u>\$ 767,596</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, 2007

Exhibit E

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	<u>\$ 70,280</u>	<u>38,084</u>
Total Assets	<u>70,280</u>	<u>38,084</u>
Liabilities		
Due to student clubs	<u>-</u>	<u>38,084</u>
Total Liabilities	<u>-</u>	<u>38,084</u>
Net assets reserved for endowments	<u>\$ 70,280</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, 2007

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	<u>\$ 163</u>
Total Additions	<u> 163</u>
Deductions	
Scholarships awarded	<u> -</u>
Total Deductions	<u> -</u>
Change in Net Assets	<u> 163</u>
Net Assets	
July 1, 2006	<u> 70,117</u>
June 30, 2007	<u><u>\$ 70,280</u></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, 2007

(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, to which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

The school district's basic financial statement 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, 2007

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 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 resources from sixteenth section lands 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.

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.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

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

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* issued in 2005 by the Government Financial 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.

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 original maturities of three 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 three months when acquired.

Investments are reported at fair value.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

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 the government-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 government-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 4 for details.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2007

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 Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 5 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 3 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."

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

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 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.

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

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.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

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 7-7-307(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 the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

(2) 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 \$3,723,505 and \$108,364 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$2,071,027 and restricted assets \$1,652,478. The restricted assets represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$4,216,735.

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 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 the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of \$4,216,735 was exposed to custodial credit risk.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

(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:		
Other governmental fund-Food Service Program	\$ 21,058	
Other governmental fund-Summer Food Program		21,058
Total Funds	<u>\$ 21,058</u>	<u>21,058</u>

This represents the amount money borrowed from the Food Service Program to cover operating expenses until the Summer Food Program funds are received.

B. Advances To/Advances From:

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
General fund	\$ 2,268,181	
Sixteenth section principal fund		2,268,181
Total Funds	<u>\$ 2,268,181</u>	<u>2,268,181</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).

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

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
2008	226,848	90,728	317,576
2009	199,348	81,653	281,001
2010	190,884	73,679	264,563
2011	190,879	66,044	256,923
2012	177,843	58,409	236,252
2013-2017	704,403	194,135	898,538
2018-2022	388,925	81,643	470,568
2023-2026	189,051	17,105	206,156
Total	<u>\$ 2,268,181</u>	<u>663,396</u>	<u>2,931,577</u>

C. Transfers In/Out.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 987,800	304,778
16th Section Principal		157,000
Other governmental funds	304,778	830,800
Total Funds	<u>\$ 1,292,578</u>	<u>1,292,578</u>

The above transfers were for distribution of MAEP monies to various funds, and the transfer of sixteenth section principal and interest funds.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

(4) Capital Assets.

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

	Balance 7/1/2006	Additions	Retirements	Completed Construction	Adjustment	Balance 6/30/2007
<u>Non-depreciable capital assets:</u>						
Land	\$ 10,100	-	-	-	-	10,100
Construction in progress	307,159	435,654	-	(679,223)	(63,590)	-
Total non-depreciable capital assets	317,259	435,654	-	(679,223)	(63,590)	10,100
<u>Depreciable capital assets:</u>						
Buildings	6,420,289	-	-	435,653	-	6,855,942
Building improvements	519,488	-	-	243,570	-	763,058
Improvements other than buildings	326,313	-	-	-	-	326,313
Mobile equipment	2,019,586	262,605	-	-	-	2,282,191
Furniture and equipment	683,278	19,427	(28,524)	-	-	674,181
Total depreciable capital assets	9,968,954	282,032	(28,524)	679,223	-	10,901,685
<u>Less accumulated depreciation for:</u>						
Buildings	(3,168,867)	(116,363)	-	-	(134)	(3,285,364)
Building improvements	(60,471)	(38,459)	-	-	-	(98,930)
Improvements other than buildings	(208,655)	(13,145)	-	-	-	(221,800)
Mobile equipment	(1,167,597)	(120,086)	-	-	(22,985)	(1,310,668)
Furniture and equipment	(574,389)	(33,403)	28,240	-	(5,347)	(584,899)
Total accumulated depreciation	(5,179,979)	(321,456)	28,240	-	(28,466)	(5,501,661)
Total depreciable capital assets, net	4,788,975	(39,424)	(284)	679,223	(28,466)	5,400,024
Governmental activities capital assets, net	\$ 5,106,234	396,230	(284)	-	(92,056)	5,410,124

Adjustments were made to adjust balances to actual.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

Depreciation expense was charged to the following governmental functions:

	Amount
Instructional	\$ 144,772
Support Services	139,427
Non-instructional	37,257
Total depreciation expense	\$ 321,456

(5) Long-term liabilities.

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

Error! Not a valid link.
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.

(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 \$896,565, \$858,448, and \$744,841, respectively, which equaled the required contributions for each year.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

(7) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising 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.

Sixteenth Section Leases	
Year Ending	
<u>June 30</u>	<u>Amount</u>
2008	\$ 95,946
2009	84,275
2010	32,106
2011	30,906
2012	7,855
2013-2017	1,303
2018-2022	1,303
2023-2027	1,303
2028-2032	1,303
Total	<u>\$ 256,300</u>

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

(8) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1. An adjustment to correct errors in recording a revenue or an expenditure in a prior year.	\$ (3,738)
2. An adjustment to correct errors in completed construction and construction in progress in a prior year.	(63,590)
3. To correct errors in depreciation expense in prior years.	<u>(28,466)</u>
Total	<u>\$ (95,794)</u>

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund

<u>Explanations</u>	<u>Amount</u>
1. An adjustment to correct errors in recording a revenue or an expenditure in a prior year.	\$ (3,738)
Total	<u>\$ (3,738)</u>

(9) Short-term Financing.

During the fiscal year ended June 30, 2007, the school district participated in the following short-term financing:

Tax anticipation note payable.

Changes in short-term debt activity recorded in the governmental activities during fiscal year 2007 are as follows:

	<u>Balance</u> <u>7/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2007</u>
Tax anticipation note payable	\$ -	200,000	(200,000)	-
Total	<u>\$ -</u>	<u>200,000</u>	<u>(200,000)</u>	<u>-</u>

(10) Litigation

The school 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 the ultimate outcome or liability, if any, of the school district with respect to various proceedings. However, the school district's legal counsel advises that there is only one case open at this time. It involves a workman's compensation claim. This litigation will not have a material adverse effect on the financial condition of the school district.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

(11) Subsequent Events.

On September 4, 2007, Superintendent Lona Thomas resigned. Dr. Grady Fleming succeeded her as Superintendent.

On September 18, 2007 a reroofing bid of \$33,956 was approved for one part of the Vo Tech building.

On December 4, 2007 the board approved the purchase of three new school buses, costing \$65,040 each using EEF funds of \$94,909 and \$100,211 sixteenth section principal advance. An additional sixteenth section advance of \$64,442 was approved to pay for bus purchase approved in 2007 but not received until the 2008 fiscal year.

A bid of \$76,583 for reroofing the north and east sections of the Vo-Tech classrooms was also approved on December 4, 2007 with a sixteenth section advance as the funding source.

A short-term tax anticipation loan of \$140,000 was approved on December 20, 2007 and later repaid in February, 2008.

On December 31, 2007, a bid of \$239,808 was approved for air conditioning and renovations at the elementary and junior high gymnasiums to be paid from sixteenth section principal funds advanced to the District.

On August 5, 2008, the school district approved a bid of \$229,000 to reroof the High School Building to be funded by a 20 year sixteenth section principal advance.

On August 8, 2008, the district accepted the high bid of \$437,521 for a timber sale from sixteenth section lands.

(11) 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 was 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 employees 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 BankcorpSouth Bank in Jackson. The funds in the trust account are used

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2007

to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which 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.

On September 30, 2005, Franklin County School District was assessed an additional assessment of \$27,154, depending upon their prior years of membership in the Mississippi School Boards Association Workers; Compensation Trust (MBAWCT). Since Franklin County School District had left the pool, the assessment was due within two years in equal installments.

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, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,331,838	2,466,388	2,466,388	134,550	-
State sources	6,954,764	7,216,799	7,216,799	262,035	-
Federal sources	766,920	844,919	844,919	77,999	-
Total Revenues	<u>10,053,522</u>	<u>10,528,106</u>	<u>10,528,106</u>	<u>474,584</u>	<u>-</u>
Expenditures:					
Instruction	6,210,724	6,739,178	6,744,178	(528,454)	(5,000)
Support services	4,119,739	4,071,359	4,071,359	48,380	-
Noninstructional services	6,860	4,532	4,532	2,328	-
Facilities acquisition and construction	350,000	439,880	439,880	(89,880)	
Debt service:					
Principal	190,000	-	-	190,000	
Interest	-	91,592	91,592	(91,592)	-
Total Expenditures	<u>10,877,323</u>	<u>11,346,541</u>	<u>11,351,541</u>	<u>(469,218)</u>	<u>(5,000)</u>
Excess (Deficiency) of Revenues Over Expenditures	(823,801)	(818,435)	(823,435)	5,366	(5,000)
Other Financing Sources (Uses):					
Sale of transportation equipment	2,500	-	-	(2,500)	-
Loan proceeds	400,000	-	-	(400,000)	-
Insurance loss recoveries	-	20,748	20,748	20,748	-
Operating transfers in	1,203,758	987,800	987,800	(215,958)	-
Operating transfers out	(702,457)	(304,778)	(304,778)	397,679	-
Total Other Financing Sources (Uses)	<u>903,801</u>	<u>703,770</u>	<u>703,770</u>	<u>(200,031)</u>	<u>-</u>
Net Change in Fund Balances	<u>80,000</u>	<u>(114,665)</u>	<u>(119,665)</u>	<u>(194,665)</u>	<u>(5,000)</u>
Fund Balances:					
July 1, 2006			(892,559)		
Prior period adj. & reclassifications			<u>(3,738)</u>		
July 1, 2006 as restated			<u>(896,297)</u>		
June 30, 2007			<u>\$ (1,015,962)</u>		

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

FRANKLIN COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2007

(1) Basis of Presentation.

The Budgetary Comparison Schedule 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.

(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 15th of each year. 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.

FRANKLIN COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN COUNTY SCHOOL DISTRICT
Schedule of Expenditure of Federal Awards
For the Year Ending June 30, 2007

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	\$ 45,106
Child nutrition cluster:		
School breakfast program	10.553	172,715
National school lunch program	10.555	388,721
Summer food service program for children	10.559	25,015
Total child nutrition cluster		<u>586,451</u>
Total U. S. Department of Agriculture		<u>631,557</u>
<u>U. S. Department of Defense</u>		
Direct program:		
Reserve officers' training corps	12.XXX	51,314
Total U. S. Department of Defense		<u>51,314</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	70,986
Total Federal Communications Commission		<u>70,986</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	491,753
Vocational education-basic grants to states	84.048	24,253
Safe and drug-free schools and communities-state grants	84.186	10,160
Even start - state educational agencies	84.213	68,497
State grants for innovative programs	84.298	5,545
Education technology state grants	84.318	1,324
Rural education	84.358	56,253
Improving teacher quality state grants	84.367	132,526
Total		<u>790,311</u>
Special education cluster:		
Special education-grants to states	84.027	352,004
Special education-preschool grants	84.173	40,459
Total		<u>392,463</u>
Total passed-through Mississippi Department of Education		<u>1,182,774</u>
Total U.S. Department of Education		<u>1,182,774</u>
Total for All Federal Awards		<u>\$ 1,936,631</u>

NOTES TO SCHEDULE:

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

The expenditure amounts include transfers out.

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

Franklin County School District
 Schedule of Instructional, Administrative and Other Expenditures – Government Funds
 For the Year Ended June 30, 2007

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 10,724,103	8,098,002	619,857	691,868	1,314,376
Other	3,408,977	1,195,036	113,715	47,712	2,052,514
Total	\$ 14,133,080	9,293,038	733,572	739,580	3,366,890
Total number of students *	1,379				
Cost per student	\$ 10,249	6,739	532	536	2,442

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing with the interaction between teachers and students. Included here are the activities of teachers, teacher's aides or classroom assistants of any type. (all the 1000, 2100, & 2200 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 :Support Services - School Administration (2400s)

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

* Includes the number of students reported on the ADA report for month 9, which is the final submission for the fiscal year.

FRANKLIN COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FRANKLIN COUNTY SCHOOL DISTRICT

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CERTIFIED PUBLIC ACCOUNTANT

AICPA/MSCPA

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

March 17, 2008

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, 2007, which collectively comprise Franklin County School District's basic financial statements and have issued our report thereon dated March 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 a 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

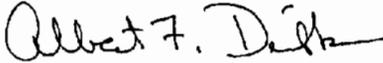
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

CERTIFIED PUBLIC ACCOUNTANT

AICPA/MSCPA

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

March 17, 2008

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, 2007. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying 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, 2007.

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 the 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.

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Al Dribben, CPA

P.O. Box 1411 113 North Broadway McComb MS 39649
601-684-4819 Phone 601-684-4818 Fax 1-888-299-4829 MS Toll Free email dribbencpa@cableone.net

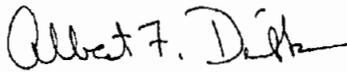
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal 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 a federal program 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 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 the 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 as defined below. 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.

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

March 17, 2008

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, 2007, which collectively comprise Franklin County School District's basic financial statements and have issued our report thereon dated March 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by 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)(ii), Miss Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$13,286 of classroom supply funds carried over from previous years.

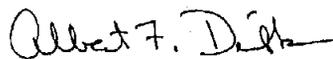
Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures to test compliance with the requirement 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.

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.

Sincerely,



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

FRANKLIN COUNTY SCHOOL DISTRICT

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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, 2007

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 weaknesses identified? | No |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |

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. Significant deficiency identified that is not considered to be material weakness? | None Reported |
| 6 | Any audit finding reported as required by Section __.510(a) of Circular A-133? | No |
| 7 | Federal programs identified as major programs: | |
| | a. Special education cluster | |
| | Special education - grants to states | CFDA#: 84.027 |
| | Special education - preschool grants | CFDA#: 84.173 |
| | b. Title I grants to local educational agencies | CFDA#: 84.010 |
| 8 | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9 | Auditee qualified as 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 __.315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

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

