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FRANKLIN COUNTY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2008

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

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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 5, 2009

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, 2008, 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, 2008, 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 5, 2009, 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 11 through 18 and the Budgetary Comparison Schedule and corresponding notes on pages 49 through 50 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.

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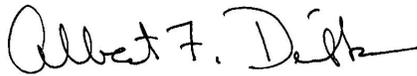
Al Dribben, CPA

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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.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink that reads "Albert F. Dribben". The signature is written in a cursive, flowing style.

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**

**Grady L. Fleming, Ph.D.**  
**Superintendent**

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008

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, 2008. 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, decreased \$162,392, which represents a 2% decrease from fiscal year 2007. This decrease is due primarily to the following: (1.) an increase in salaries over the prior year of \$453,000, and (2.) a decrease in sixteenth section interest earnings over the prior year.
- General revenues accounted for \$11,761,092 in revenue, or 79% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,037,856 or 21% of total revenues.
- The District had \$14,958,147 in expenses; only \$3,037,856 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$11,761,092 were inadequate to provide for these programs.
- Among major funds, the General Fund had \$11,094,075 in revenues and \$12,148,008 in expenditures. After net other financing sources of \$(102,211), the net change in fund balance for the General Fund was a decrease of \$1,156,144. This decrease was due primarily to an increase of expenditures in instruction, facilities acquisition and construction, support services, and operating transfers out during the fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$330,724.
- Long-term debt decreased by \$7,596.

## 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, a schedule of revenues, expenditures, and change in fund balance – general fund for the last four years, a schedule of revenues, expenditures, and change in fund balance – all governmental funds for the last four years, and a schedule of instructional, administrative and other expenditures for governmental funds are 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 \$8,618,606 as of June 30, 2008.

By far the largest portion of the District's net assets (67%) 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. \$5,190,466 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, 2008 and comparative data for the fiscal year ended June 30, 2007.

	Net Assets		Percentage Change
	June 30, 2008	June 30, 2007	
Current assets	\$ 3,671,752	4,139,054	-11.3%
Capital assets, net	5,740,848	5,410,124	6.1%
<b>Total assets</b>	<b>9,412,600</b>	<b>9,549,178</b>	<b>-1.4%</b>
Current liabilities	653,393	624,429	4.6%
Long-term debt outstanding	140,601	143,751	-2.2%
<b>Total liabilities</b>	<b>793,994</b>	<b>768,180</b>	<b>3.4%</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	5,740,848	5,410,124	6.1%
Restricted	5,190,466	4,535,033	14.5%
Unrestricted	(2,312,708)	(1,164,159)	-98.7%
<b>Total net assets</b>	<b>\$ 8,618,606</b>	<b>8,780,998</b>	<b>-1.8%</b>

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

- Current assets decreased from the previous fiscal year due primarily to a decrease 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.
- 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 sixteenth section principal funds.
- Unrestricted net assets decreased from the previous fiscal year due primarily to the increase in the sixteenth section advances to the General Fund which is reflected as a negative fund balance.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2008 were \$14,798,948. The total cost of all programs and services was \$14,958,147. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007.

<b>Revenues:</b>	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Percentage Change</u>
Program revenues			
Charges for services	\$ 486,976	484,218	0.6%
Operating grants and contributions	2,461,787	2,311,486	6.5%
Capital grants and contributions	89,093	106,543	-16.4%
General revenues			
Property taxes	2,110,903	2,049,557	3.0%
Grants and contributions not restricted	8,471,354	8,117,649	4.4%
Other	1,178,835	1,436,291	-17.9%
<b>Total revenues</b>	<u>14,798,948</u>	<u>14,505,744</u>	2.0%
<b>Expenses:</b>			
Instruction	8,843,832	8,306,151	6.5%
Support services	5,176,528	4,872,456	6.2%
Non-instructional	798,698	460,338	73.5%
Sixteenth Section	43,276	11,837	265.6%
Interest and other expenses on long-term liabilities	95,813	91,592	4.6%
<b>Total expenses</b>	<u>14,958,147</u>	<u>13,742,374</u>	8.8%
<b>Increase (Decrease) in net assets</b>	<u>(159,199)</u>	<u>763,370</u>	-120.9%
<b>Net Assets, July 1</b>	8,780,998	8,113,422	
<b>Prior period adjustment</b>	<u>(3,193)</u>	<u>(95,794)</u>	
<b>Net Assets, restated, July 1</b>	<u>8,777,805</u>	<u>8,017,628</u>	9.5%
<b>Net Assets, June 30</b>	<u>\$ 8,618,606</u>	<u>8,780,998</u>	-1.8%

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. Capital grants and contributions had a decrease for the year.
- General revenues increased from the previous fiscal year due primarily to an increase in property taxes and unrestricted state grants.
- 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, 2008, and comparative data for the fiscal year ended June 30, 2007, 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.

	2008		2007	
	Total	Net(Expense)	Total	Net(Expense)
	Expenses	Revenue	Expenses	Revenue
Instruction	\$ 8,843,832	(7,510,848)	\$ 8,306,151	(6,883,144)
Support services	5,176,528	(4,518,502)	4,872,456	(3,983,410)
Non-instructional	798,698	248,148	460,338	129,856
Sixteenth Section	43,276	(43,276)	11,837	(11,837)
Interest and other expenses on long-term liabilities	95,813	(95,813)	91,592	(91,592)
	<u>\$ 14,958,147</u>	<u>(11,920,291)</u>	<u>\$ 13,742,374</u>	<u>(10,840,127)</u>

- The net cost of governmental activities for fiscal year 2008 in the amount of \$11,920,291 was financed by general revenue, which is made up of primarily property taxes of \$2,110,903, state revenue of \$7,706,979.
- Investment earnings accounted for \$37,657 of funding.
- Sixteenth section sources in the amount of \$1,057,588 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, 2008, its governmental funds reported a combined fund balance of \$3,018,359. The net change in fund balance for the fiscal year was a decrease of \$500,712 due primarily to the decrease in sixteenth section revenue generated during the fiscal year. \$(1,970,931) 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 \$4,989,290 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 \$1,156,144 due primarily to an increase in advances from other funds, an increase in instruction, support services, and non instructional services expenditures and an increase in facilities acquisition and construction. The net change in fund balance for the Sixteenth Section Principal Fund was an increase of \$779,188 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 a decrease of \$123,756 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 increased 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, 2008, the District's total capital assets, before depreciation, were \$11,308,362, 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 \$396,577 from the previous year. Total depreciation expense for the year was \$376,470. Total accumulated depreciation as of June 30, 2008 was \$5,567,514, resulting in total net assets of \$5,740,848.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
Land	\$ 10,100	10,100	0.0%
Construction in progress	260,848	-	
Buildings	3,018,562	3,570,578	-15.5%
Building improvements	924,592	664,128	39.2%
Improvements other than buildings	334,939	104,513	220.5%
Mobile equipment	1,057,789	971,523	8.9%
Furniture and equipment	134,018	89,282	50.1%
Total	<u>\$ 5,740,848</u>	<u>5,410,124</u>	6.1%

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. At June 30, 2008, the District had \$140,601 compensated absences payable, of which \$5,406 (or 4%) is estimated as due within one year.

	Outstanding Debt		Percentage
	2008	2007	Change
Compensated absences payable	140,601	148,197	-5.1%
	<u>\$ 140,601</u>	<u>148,197</u>	-5.1%

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'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.

FRANKLIN COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN COUNTY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2008

Exhibit A

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,106,792
Due from other governments	327,482
Inventories	106,387
Restricted assets	2,131,091
Capital assets, non-depreciable:	
Land	10,100
Construction in progress	260,848
Capital assets, net of accumulated depreciation:	
Buildings	3,018,562
Building improvements	924,592
Improvements other than buildings	334,939
Mobile equipment	1,057,789
Furniture and equipment	134,018
<b>Total Assets</b>	<u>\$ 9,412,600</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	577,345
Unearned revenue	76,048
Long term liabilities, due within one year	
Non-capital related liabilities	5,406
Long term liabilities, due beyond one year	
Non-capital related liabilities	135,195
<b>Total Liabilities</b>	<u>\$ 793,994</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	5,740,848
Restricted net assets:	
Expendable:	
School - based activities	307,562
Forestry improvements	143,305
Unemployment benefits	39,751
Non-expendable:	
Sixteenth section	4,699,847
Unrestricted	<u>(2,312,707)</u>
<b>Total Net Assets</b>	<u>\$ 8,618,606</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, 2008

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 8,843,832	49,161	1,254,973	28,850	(7,510,848)
Support services	5,176,528	4,959	592,824	60,243	(4,518,502)
Non-instructional	798,698	432,856	613,990	-	248,148
Sixteenth section	43,276	-	-	-	(43,276)
Interest on long-term liabilities	95,813	-	-	-	(95,813)
Total governmental activities	\$ 14,958,147	486,976	2,461,787	89,093	(11,920,291)
General Revenues:					
Taxes:					
General purpose levies					
2,110,903					
Unrestricted grants and contributions:					
State					
7,706,979					
Federal					
764,375					
Unrestricted investment earnings					
37,657					
Sixteenth section sources					
1,057,588					
Other					
83,590					
Total General Revenues					
11,761,092					
Change in Net Assets					
(159,199)					
Net Assets - Beginning					
8,780,998					
Prior Period Adjustments:					
(3,193)					
Net Assets - Beginning - Restated					
8,777,805					
Net Assets - Ending					
\$ 8,618,606					

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

FRANKLIN COUNTY SCHOOL DISTRICT  
 Balance Sheet - Governmental Funds  
 June 30, 2008

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	16th Section Principal Fund	Other Governmental Funds	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 501,694	993,778	605,098	2,100,570
Investments		1,137,313		1,137,313
Due from other governments	277,877	-	49,605	327,482
Due from other funds	-	-	23,045	23,045
Advance to other funds	-	2,568,756	-	2,568,756
Inventories and prepaid items	84,876	-	21,511	106,387
Total Assets	<u>\$ 864,447</u>	<u>4,699,847</u>	<u>699,259</u>	<u>6,263,553</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 467,797	-	109,548	577,345
Due to other funds	-	-	23,045	23,045
Advances from other funds	2,568,756	-	-	2,568,756
Unearned revenue	-	-	76,048	76,048
Total Liabilities	<u>3,036,553</u>	<u>-</u>	<u>208,641</u>	<u>3,245,194</u>
<b>Fund Balances:</b>				
<b>Reserved for:</b>				
Advances	-	2,568,756	-	2,568,756
Inventory	-	-	21,511	21,511
Prepaid items	84,876	-	-	84,876
Unemployment benefits	-	-	39,751	39,751
Forestry improvement purposes	-	-	143,305	143,305
Permanent fund purposes	-	2,131,091	-	2,131,091
<b>Unreserved:</b>				
<b>Undesignated, reported in:</b>				
General fund	(2,256,982)	-	-	(2,256,982)
Special revenue funds	-	-	286,051	286,051
Total Fund Balances	<u>(2,172,106)</u>	<u>4,699,847</u>	<u>490,618</u>	<u>3,018,359</u>
Total Liabilities and Fund Balances	<u>\$ 864,447</u>	<u>4,699,847</u>	<u>699,259</u>	<u>6,263,553</u>

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, 2008

Exhibit C-1

	<u>Amount</u>
<b>Total fund balance - governmental funds</b>	\$ 3,018,359
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 \$5,567,514.	5,740,848
2. Liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(140,601)</u>
Total Net Assets - Governmental Activities	<u>\$ 8,618,606</u>

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  
All Governmental Funds  
For the Year Ended June 30, 2008

Exhibit D

	Major Funds			Total Governmental Funds
	General Fund	16th Section Principal Fund	Other Governmental Funds	
<b>Revenues:</b>				
Local sources	\$ 2,572,516	-	146,609	2,719,125
State sources	7,704,021	-	663,371	8,367,392
Federal sources	817,538	-	1,837,304	2,654,842
Sixteenth section sources	-	952,634	104,955	1,057,589
Total Revenues	<u>11,094,075</u>	<u>952,634</u>	<u>2,752,239</u>	<u>14,798,948</u>
<b>Expenditures:</b>				
Instruction	7,179,243	-	1,525,169	8,704,412
Support services	4,159,685	-	797,782	4,957,467
Noninstructional services	10,788	-	744,705	755,493
Sixteenth section	-	-	43,276	43,276
Facilities acquisition and construction	702,479	-	34,181	736,660
Debt service:				
Interest	95,813	-	-	95,813
Total Expenditures	<u>12,148,008</u>	<u>-</u>	<u>3,145,113</u>	<u>15,293,121</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,053,933)</u>	<u>952,634</u>	<u>(392,874)</u>	<u>(494,173)</u>
<b>Other Financing Sources (Uses):</b>				
Sale of transportation equipment	3,521	-	-	3,521
Sale of other property	50	-	-	50
Operating transfers in	304,467	-	410,249	714,716
Operating transfers out	(410,249)	(170,600)	(133,867)	(714,716)
Total Other Financing Sources (Uses)	<u>(102,211)</u>	<u>(170,600)</u>	<u>276,382</u>	<u>3,571</u>
Net Change in Fund Balances	<u>(1,156,144)</u>	<u>782,034</u>	<u>(116,492)</u>	<u>(490,602)</u>
<b>Fund Balances:</b>				
July 1, 2007	(1,015,962)	3,920,659	614,374	3,519,071
Prior period adjustments	-	(2,846)	50	(2,796)
July 1, 2007, as restated	<u>(1,015,962)</u>	<u>3,917,813</u>	<u>614,424</u>	<u>3,516,275</u>
Increase (decrease) in reserve for inventory	-	-	(7,314)	(7,314)
June 30, 2008	<u>\$ (2,172,106)</u>	<u>4,699,847</u>	<u>490,618</u>	<u>3,018,359</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, 2008

Exhibit D-1

	<u>Amount</u>
<b>Net Change in fund balances - governmental funds</b>	<b>\$ (490,602)</b>
<p>Amounts reported for governmental activities in the Statement  of Activities are different because:</p>	
<p>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 \$736,660 and the depreciation expense amounted to \$376,470.</p>	360,190
<p>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.</p>	(29,069)
<p>3. Increases in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.</p>	(7,314)
<p>4. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds.</p>	
Compensated absences	7,596
 Change in Net Assets of Governmental Activities	 <u><u>\$ (159,199)</u></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, 2008

Exhibit E

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 70,716	41,767
Total Assets	<u>70,716</u>	<u>41,767</u>
Liabilities		
Due to student clubs	-	41,767
Total Liabilities	<u>-</u>	<u>41,767</u>
Net assets reserved for endowments	<u>\$ 70,716</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, 2008

Exhibit F

	Private-Purpose Trust Funds
Additions	
Interest on investments	\$ 436
Total Additions	436
Deductions	
Scholarships awarded	-
Total Deductions	-
Change in Net Assets	436
Net Assets	
July 1, 2007	70,280
June 30, 2008	\$ 70,716

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, 2008

### Notes to Financial Statements

(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.

For financial reporting purposes, Franklin County School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

## FRANKLIN COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2008

2. *Restricted net assets* result when constraints placed on net asset use either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

#### *Fund Financial Statements:*

Fund financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund – This is the school district’s primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

16<sup>th</sup> Section Principal Fund – This is 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.

## FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

Additionally, the school district reports the following fund types:

### GOVERNMENTAL FUND TYPES

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.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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 program.

### FIDUCIARY FUNDS

Private-purpose Trust Fund – 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.

#### 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 timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

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.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

F. Assets, liabilities, and net assets or equity.

1. Cash and Cash equivalents and Investments

Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. 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.

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 an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and Payables.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments.

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

4. 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.

5. Restricted Assets.

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

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

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

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

8. Long-term liabilities.

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The government fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

9. Fund Equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

## FRANKLIN COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2008

#### (2) Cash and Cash Equivalents and Investments.

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 districts' 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 Deposit Insurance Corporation.

**Investments.** Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality of United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

#### Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,237,883 (which includes \$1,137,313 of certificates of deposit with maturities beyond three months and reported on exhibit A as restricted assets and on exhibit C as investments) and \$112,483 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$1,106,792. The bank balance was \$4,077,948.

*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 or 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, 2008, none of the district's bank balance of \$4,077,948 was exposed to custodial credit risk.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

Investments.

As of June 30, 2008, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Certificates of deposit	1 to 5	\$ 1,137,313	Not Rated
Total Investments		<u>\$ 1,137,313</u>	

*Interest Rate Risk.* The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Advances To/Advances From:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
16th Section Principal	General fund	\$ 2,568,756
Total		<u>\$ 2,568,756</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). This total includes (16) transportation notes in the amount of \$756,708, and the following building notes totaling \$1,812,048: High School Dining Room \$354,633, Track Phase I \$269,280, Football Field house \$235,872, High School Gym Roof \$177,888, Gym Remodel \$395,147, Junior/Middle School Gym Remodel \$263,716, Vocational-Technical North Roof \$72,753, Vocational-Technical South Roof \$32,259, and High School Roof \$10,500.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

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
2009	245,632	103,222	348,854
2010	226,653	93,396	320,049
2011	226,648	84,331	310,979
2012	213,611	74,714	288,325
2013	204,406	66,721	271,127
2014-2018	804,296	221,625	1,025,921
2019-2023	449,971	95,864	545,835
2024-2027	197,539	9,439	206,978
<b>Total</b>	<b>\$ 2,568,756</b>	<b>749,312</b>	<b>3,318,068</b>

B. Interfund Transfers.

Transfers Out	Transfers In	Amount
General fund	Other governmental funds	\$ 410,249
16th Section Principal	General fund	170,600
Other governmental funds	General fund	133,867
<b>Total</b>		<b>\$ 714,716</b>

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

(4) Restricted Assets.

The restricted assets represent the cash and cash equivalents balance, totaling \$993,778, and \$1,137,313 (certificates of deposit with maturities beyond three months and reported on exhibit A as restricted assets and on exhibit C as investments), respectively, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's program.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

(5) Capital Assets.

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

	Balance 7/1/2007	Additions	Retirements	Adjustment	Balance 6/30/2008
<u>Non-depreciable capital assets:</u>					
Land	\$ 10,100	-	-	-	10,100
Construction in progress	-	260,848	-	-	260,848
Total non-depreciable capital assets	<u>10,100</u>	<u>260,848</u>	<u>-</u>	<u>-</u>	<u>270,948</u>
<u>Depreciable capital assets:</u>					
Buildings	6,855,942	-	-	(435,653)	6,420,289
Building improvements	763,058	110,764	-	192,083	1,065,905
Improvements other than buildings	326,313	-	-	243,570	569,883
Mobile equipment	2,282,191	274,953	(285,203)	-	2,271,941
Furniture and equipment	674,181	90,095	(54,880)	-	709,396
Total depreciable capital assets	<u>10,901,685</u>	<u>475,812</u>	<u>(340,083)</u>	<u>-</u>	<u>11,037,414</u>
<u>Less accumulated depreciation for:</u>					
Buildings	(3,285,364)	(116,363)	-	-	(3,401,727)
Building improvements	(98,930)	(42,636)	-	253	(141,313)
Improvements other than buildings	(221,800)	(13,144)	-	-	(234,944)
Mobile equipment	(1,310,668)	(160,167)	256,683	-	(1,214,152)
Furniture and equipment	(584,899)	(44,160)	54,331	(650)	(575,378)
Total accumulated depreciation	<u>(5,501,661)</u>	<u>(376,470)</u>	<u>311,014</u>	<u>(397)</u>	<u>(5,567,514)</u>
Total depreciable capital assets, net	<u>5,400,024</u>	<u>99,342</u>	<u>(29,069)</u>	<u>(397)</u>	<u>5,469,900</u>
Governmental activities capital assets, net	<u>\$ 5,410,124</u>	<u>360,190</u>	<u>(29,069)</u>	<u>(397)</u>	<u>5,740,848</u>

Adjustments were made to buildings to adjust for building improvements and other improvements from a prior year. Adjustments were also made to correct depreciation expense from prior years (see Note 10).

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 147,016
Support services	193,563
Non-instructional	<u>35,891</u>
Total depreciation expense	<u><u>\$ 376,470</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</u> <u>7/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2008</u>	<u>Amount Due</u> <u>within one</u> <u>year</u>
Compensated absences payable	\$ 148,197		(7,596)	140,601	5,406
Total	<u>\$ 148,197</u>	<u>-</u>	<u>(7,596)</u>	<u>140,601</u>	<u>5,406</u>

Compensated absences payable.

As more fully explained in Note 1(F)(7), 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.

(7) Short-term Financing.

During the fiscal year ended June 30, 2008, 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 2008 are as follows:

	<u>Balance</u> <u>7/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2008</u>
Tax anticipation note payable	\$ -	140,000	(140,000)	-
Total	<u>\$ -</u>	<u>140,000</u>	<u>(140,000)</u>	<u>-</u>

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

(8) 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, 2008, was 11.85% 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, 2008, 2007 and 2006 were \$998,040, \$896,565, and \$858,448, respectively, which equaled the required contributions for each year.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

(9) 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.

Year Ending June 30	Amount
2009	\$ 63,396
2010	63,396
2011	46,379
2012	45,179
2013	22,628
2014-2018	4,827
2019-2023	1,505
2024-2028	1,303
2029-2033	1,303
Total	\$ 249,916

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

Explanations	Amount
1. An adjustment to correct errors in recording a revenue in the Sixteenth Section Principal Fund.	\$ (2,846)
2. An adjustment to correct errors in recording an expenditure in a prior year.	50
3. To correct errors in depreciation expense in prior years.	(397)
Total	\$ (3,193)

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

Explanations	Amount
1. An adjustment to correct errors in recording a revenue in the Sixteenth Section Principal Fund.	\$ (2,846)
2. An adjustment to correct errors in recording a revenue or an expenditure in a prior year.	\$ 50
Total	\$ (2,796)

(11) 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 the 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 only one case 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.

(12) Subsequent Events.

On August 5, 2008, the board approved a bid for re-roofing the high school building in the amount of \$229,000.

On August 8, 2008, in a recessed meeting, the board approved a timber sale from sixteenth section lands in the amount of \$437,521.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

On September 23, 2008, the board approved a sixteenth section principal loan of \$239,808 for improvements to the elementary and junior high school gymnasiums.

On November 4, 2008, the board approved a tax anticipation loan in the amount of \$675,000 at an interest rate of 3.75%.

On December 2, 2008, the board approved a timber sale from sixteenth section lands in the amount of \$205,998.

On January 20, 2009, in a recessed meeting, the board approved a sixteenth section principal loan of \$217,550 for the high school roofing project.

(13) 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, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 2,478,450	2,594,979	2,572,516	116,529	(22,463)
State sources	7,600,409	7,724,332	7,704,021	123,923	(20,311)
Federal sources	806,500	877,710	817,538	71,210	(60,172)
Total Revenues	<u>10,885,359</u>	<u>11,197,021</u>	<u>11,094,075</u>	<u>311,662</u>	<u>(102,946)</u>
<b>Expenditures:</b>					
Instruction	7,000,695	7,206,745	7,179,243	(206,050)	27,502
Support services	4,252,709	4,483,270	4,159,685	(230,561)	323,585
Noninstructional services	6,860	9,598	10,788	(2,738)	(1,190)
Facilities acquisition and construction	235,000	359,709	702,479	(124,709)	(342,770)
<b>Debt service:</b>					
Principal	225,000	140,000	-	85,000	140,000
Interest	-	95,813	95,813	(95,813)	-
Total Expenditures	<u>11,720,264</u>	<u>12,295,135</u>	<u>12,148,008</u>	<u>(574,871)</u>	<u>147,127</u>
Excess (Deficiency) of Revenues Over Expenditures	(834,905)	(1,098,114)	(1,053,933)	(263,209)	44,181
<b>Other Financing Sources (Uses):</b>					
Sale of transportation equipment	2,500	3,521	3,521	1,021	-
Proceeds of loans	400,000	667,088	-	267,088	(667,088)
Sale of other property	-	50	50	50	-
Operating transfers in	1,328,760	1,241,617	304,467	(87,143)	(937,150)
Operating transfers out	(771,355)	(731,246)	(410,249)	40,109	(320,997)
Total Other Financing Sources (Uses)	<u>959,905</u>	<u>1,181,030</u>	<u>(102,211)</u>	<u>221,125</u>	<u>(1,925,235)</u>
Net Change in Fund Balances	<u>125,000</u>	<u>82,916</u>	<u>(1,156,144)</u>	<u>(42,084)</u>	<u>(1,881,054)</u>
<b>Fund Balances:</b>					
July 1, 2007			<u>(1,015,962)</u>		
June 30, 2008			<u>\$ (2,172,106)</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, 2008

(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 15<sup>th</sup> of each year. 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 Expenditure of Federal Awards  
For the Year Ending June 30, 2008

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:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 182,088
National school lunch program	10.555	484,576
Summer food service program for children	10.559	23,685
Total child nutrition cluster		<u>690,349</u>
Passed-through Franklin County:		
Schools and roads cluster:		
Schools and roads-grants to states	10.665	650,822
Total schools and roads cluster		<u>650,822</u>
Total U. S. Department of Agriculture		<u>1,341,171</u>
<u>U. S. Department of Defense</u>		
Direct program:		
Reserve officers' training corps	12.XXX	53,163
Total U. S. Department of Defense		<u>53,163</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
Communications information and assistance and investigation of complaints	32.001	113,552
Total Federal Communications Commission		<u>113,552</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	478,949
Career and Technical Education-basic grants to states	84.048	18,855
Safe and drug-free schools and communities-state grants	84.186	9,313
Even start - state educational agencies	84.213	87,211
State grants for innovative programs	84.298	761
Education technology state grants	84.318	11,616
Rural education	84.358	44,606
Improving teacher quality state grants	84.367	129,077
Stanford English language proficiency	84.369	40
Total		<u>780,428</u>
Special education cluster:		
Special education-grants to states	84.027	374,444
Special education-preschool grants	84.173	36,589
Total		<u>411,033</u>
Total passed-through Mississippi Department of Education		<u>1,191,461</u>
Total U.S. Department of Education		<u>1,191,461</u>
Total for All Federal Awards		<u>\$ 2,699,347</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 – Governmental Funds  
 For the Year Ended June 30, 2008

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 11,630,974	8,707,359	650,614	753,552	1,519,449
Other	3,662,147	1,244,130	112,510	48,871	2,256,636
Total	\$ 15,293,121	9,951,489	763,124	802,423	3,776,085
Total number of students *	1,343				
Cost per student	\$ 11,387	7,410	568	597	2,812

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

OTHER SUPPLEMENTAL INFORMATION

FRANKLIN COUNTY SCHOOL DISTRICT

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FRANKLIN COUNTY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balance  
General Fund  
Last Four Years

"UNAUDITED"

	2008	2007 *	2006 *	2005 *
Revenues:				
Local sources	\$ 2,572,516	2,466,388	2,200,628	1,983,628
State sources	7,704,021	7,216,799	6,776,462	6,388,738
Federal sources	817,538	844,919	796,041	870,368
Sixteenth section sources	-			
Total Revenues	<u>11,094,075</u>	<u>10,528,106</u>	<u>9,773,131</u>	<u>9,242,734</u>
Expenditures:				
Instruction	7,179,243	6,744,178	6,162,753	5,825,963
Support services	4,159,685	4,075,585	3,790,004	3,719,267
Noninstructional services	10,788	4,532	5,679	2,160
Facilities acquisition and construction	702,479	435,654	276,771	550,022
Debt service:				
Principal	-	-	350,000	-
Interest	95,813	91,592	77,931	58,486
Total Expenditures	<u>12,148,008</u>	<u>11,351,541</u>	<u>10,663,138</u>	<u>10,155,898</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,053,933)</u>	<u>(823,435)</u>	<u>(890,007)</u>	<u>(913,164)</u>
Other Financing Sources (Uses):				
Insurance loss recoveries	-	20,748	73,616	-
Sale of transportation equipment	3,521	-	5,324	-
Proceeds of loan	-	-	350,000	-
Sale of other property	50	-	-	-
Operating transfers in	304,467	987,800	1,283,465	922,601
Operating transfers out	(410,249)	(304,778)	(676,092)	(693,320)
Total Other Financing Sources (Uses)	<u>(102,211)</u>	<u>703,770</u>	<u>1,036,313</u>	<u>229,281</u>
Net Change in Fund Balances	<u>(1,156,144)</u>	<u>(119,665)</u>	<u>146,306</u>	<u>(683,883)</u>
Fund Balances:				
Beginning year balance	(1,015,962)	(892,559)	(1,038,865)	(354,982)
Prior period adjustments	-	(3,738)	-	-
Beginning of year, as restated	<u>(1,015,962)</u>	<u>(896,297)</u>	<u>(1,038,865)</u>	<u>(354,982)</u>
Increase (decrease) in reserve for inventory	-	-	-	-
Fund Balances: End of Year	<u>\$ (2,172,106)</u>	<u>(1,015,962)</u>	<u>(892,559)</u>	<u>(1,038,865)</u>

\* SOURCE - PRIOR YEAR AUDIT REPORT

FRANKLIN COUNTY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balance  
All Governmental Funds  
Last Four Years

"UNAUDITED"

	2008	2007 *	2006 *	2005 *
Revenues:				
Local sources	\$ 2,719,125	2,611,209	2,353,487	2,153,615
State sources	8,367,392	7,800,342	7,323,802	6,926,892
Federal sources	2,654,842	2,735,337	2,805,408	2,788,291
Sixteenth section sources	1,057,589	1,358,856	1,448,478	970,698
Total Revenues	<u>14,798,948</u>	<u>14,505,744</u>	<u>13,931,175</u>	<u>12,839,496</u>
Expenditures:				
Instruction	8,704,412	8,169,830	7,740,276	7,341,110
Support services	4,957,467	4,740,915	4,597,629	4,479,455
Noninstructional services	755,493	683,252	629,500	674,311
Sixteenth section	43,276	11,837	44,272	56,650
Facilities acquisition and construction	736,660	435,654	276,771	550,022
Debt service:				
Principal	-	-	350,000	-
Interest	95,813	91,592	77,931	58,486
Total Expenditures	<u>15,293,121</u>	<u>14,133,080</u>	<u>13,716,379</u>	<u>13,160,034</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(494,173)</u>	<u>372,664</u>	<u>214,796</u>	<u>(320,538)</u>
Other Financing Sources (Uses):				
Insurance loss recoveries	-	20,748	76,175	-
Sale of transportation equipment	3,521	-	5,324	-
Sale of other property	50	-	-	-
Proceeds of loans	-	-	350,000	-
Refund of prior year expenditures	-	-	3,097	5,044
Operating transfers in	714,716	1,292,578	1,648,846	1,244,420
Operating transfers out	(714,716)	(1,292,578)	(1,648,846)	(1,244,420)
Total Other Financing Sources (Uses)	<u>3,571</u>	<u>20,748</u>	<u>434,596</u>	<u>5,044</u>
Net Change in Fund Balances	<u>(490,602)</u>	<u>393,412</u>	<u>649,392</u>	<u>(315,494)</u>
Fund Balances:				
Beginning year balance	3,519,071	3,131,414	2,483,814	2,800,795
Prior period adjustments	(2,796)	(3,738)	-	-
Beginning of year, as restated	<u>3,516,275</u>	<u>3,127,676</u>	<u>2,483,814</u>	<u>2,800,795</u>
Increase (decrease) in reserve for inventory	<u>(7,314)</u>	<u>(2,017)</u>	<u>(1,792)</u>	<u>(1,487)</u>
Fund Balances: End of year	<u>\$ 3,018,359</u>	<u>3,519,071</u>	<u>3,131,414</u>	<u>2,483,814</u>

\* SOURCE - PRIOR YEAR AUDIT REPORT

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 5, 2009

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, 2008, which collectively comprise Franklin County School District's basic financial statements and have issued our report thereon dated March 5, 2009. 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.

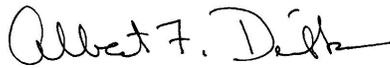
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any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

**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 5, 2009

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, 2008. 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, 2008.

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

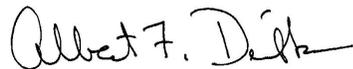
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal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

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

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

This report is intended solely for the information and use of the school board and management, others within the entity, 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 5, 2009

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, 2008, which collectively comprise Franklin County School District's basic financial statements and have issued our report thereon dated March 5, 2009. 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)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$3,243 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."

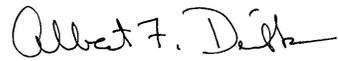
The results of our procedures performed to test compliance with the requirement of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

This report is intended solely for the information and use of the school board and management, others within the entity, 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 black ink that reads "Albert F. Dribben". The signature is written in a cursive style with a horizontal line at the end.

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, 2008

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. Child Nutrition Cluster   |               |
|    | School Breakfast Program   | CFDA#: 10.553 |
|    | National School Lunch Program  | CFDA#: 10.555 |
|    | Summer Food Service Program for Children   | CFDA#: 10.559 |
|    | b. Improving Teacher Quality State Grants  | CFDA#: 84.367 |
| 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 Audit Standards*.

Section 3: Federal Award Findings and Questioned Costs

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