



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

Franklin County School District

Audited Financial Statements
For the Year Ended June 30, 2013

Fortenberry & Ballard, PC
Certified Public Accountants

**Franklin County School District
TABLE OF CONTENTS**

	PAGE #	
FINANCIAL AUDIT REPORT		
Independent Auditor's Report on the Basic Financial Statements and Supplementary Information	4	
MANAGEMENT'S DISCUSSION AND ANALYSIS	8	
BASIC FINANCIAL STATEMENTS		
Government-wide Financial Statements		
Exhibit A - Statement of Net Position	19	
Exhibit B - Statement of Activities	20	
Governmental Funds Financial Statements		
Exhibit C - Balance Sheet	21	
Exhibit C-1 - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	22	
Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances	23	
Exhibit D-1 -Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	24	
Fiduciary Funds Financial Statements		
Exhibit E - Statement of Fiduciary Net Position	25	
Exhibit F - Statement of Change in Fiduciary Net Position.	26	
Notes to the Financial Statements	28	
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule - General Fund	47	
Budgetary Comparison Schedule - Sixteenth Section Interest Fund	48	
Notes to the Required Supplementary Information	50	
SUPPLEMENTARY INFORMATION		
Schedule of Expenditures of Federal Awards	52	
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	53	
OTHER INFORMATION		
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years	55	
Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years	56	
REPORTS ON INTERNAL CONTROL AND COMPLIANCE		
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 <i>Government Auditing Standards</i>	58	
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133	60	
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAW AND REGULATIONS		64
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	67	
AUDITEE'S CORRECTIVE ACTION PLAN	70	

FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Franklin County School District

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Franklin County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously 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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8-17 and 47-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Franklin County School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived

from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2014, on our consideration of the Franklin County School District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Franklin County School District's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
February 24, 2014

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

The following discussion and analysis of Franklin County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2013 increased \$1,130,047, including a prior period adjustment of (\$33,393), which represents a 9% increase from fiscal year 2012. Total net position for 2012 increased \$1,578,831, including a prior period adjustment of (\$190,170), which represents a 14% increase from fiscal year 2011.
- General revenues amounted to \$11,668,747 and \$12,679,699, or 79% and 80% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,151,636, or 21% of total revenues for 2013, and \$3,243,130, or 20% of total revenues for 2012. Extraordinary items related to insurance recoveries for hailstorm damages accounted for \$408,695.
- The District had \$14,065,638 and \$14,153,828 in expenses for fiscal years 2013 and 2012; only \$3,151,636 for 2013 and \$3,243,130 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues and extraordinary items totaling \$12,077,442 for 2013 and \$12,679,699 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had \$10,420,078 in revenues and \$10,690,778 in expenditures for 2013, and \$11,000,684 in revenues and \$10,740,968 in expenditures in 2012. The General Fund's fund balance increased by \$843,263 from 2012 to 2013, and increased by \$144,859 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, decreased by \$170,361 for 2013 and decreased by \$237,930 for 2012. The decrease for 2013 was due to the disposal of mobile equipment and furniture and equipment coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$52,231 for 2013 and decreased by \$27,891 for 2012. The decrease for 2013 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$14,364 for 2013 and increased by \$8,517 for 2012.

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplementary information, supplementary information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Position and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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 periods.

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

Fund Financial Statements

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

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

provide a detailed view of the District's near-term financing requirements.

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, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities 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 funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined 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. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Although not a required part of the basic financial statements, 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$13,668,382 as of June 30, 2013.

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 and disposal of capital assets and the depreciation of capital assets.

Table 1 presents a summary of the District's net position at June 30, 2013 and June 30, 2012.

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 1
Condensed Statement of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Current assets	\$ 4,178,657	\$ 3,683,367	13.45 %
Restricted assets	4,935,592	4,254,884	16.00 %
Capital assets, net	4,806,345	4,976,706	(3.42) %
Total assets	<u>13,920,594</u>	<u>12,914,957</u>	7.79 %
Current liabilities	80,781	152,960	(47.19) %
Long-term debt outstanding	171,431	223,662	(23.35) %
Total liabilities	<u>252,212</u>	<u>376,622</u>	(33.03) %
Net position:			
Net investment in capital assets	4,806,345	4,976,706	(3.42) %
Restricted	8,469,588	8,064,674	5.02 %
Unrestricted	392,449	(503,045)	(178.01) %
Total net position	<u>\$ 13,668,382</u>	<u>\$ 12,538,335</u>	9.01 %

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

- Decrease in net capital assets in the amount of \$170,361.
- The principal retirement of \$37,867 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$15,229,078 and \$15,922,829, respectively. The total cost of all programs and services was \$14,065,638 for 2013 and \$14,153,828 for 2012.

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2
Changes in Net Position

	Year Ended June 30, 2013	Year Ended June 30, 2012	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 688,934	\$ 715,271	(3.68) %
Operating grants and contributions	2,462,702	2,527,859	(2.58) %
General revenues:			
Property taxes	2,589,250	2,421,588	6.92 %
Grants and contributions not restricted	7,570,216	8,169,738	(7.34) %
Investment earnings	100,054	180,989	(44.72) %
Sixteenth section sources	1,358,411	1,824,560	(25.55) %
Other	50,816	82,824	(38.65) %
Total revenues	14,820,383	15,922,829	(6.92) %
Extraordinary items	408,695	-	N/A %
Total revenues and extraordinary items	15,229,078	15,922,829	(4.36) %
Expenses:			
Instruction	7,975,812	8,237,141	(3.17) %
Support services	5,012,925	4,873,340	2.86 %
Non-instructional	850,754	876,393	(2.93) %
Sixteenth section	144,731	74,577	94.07 %
Interest on long-term liabilities	81,416	92,377	(11.87) %
Total expenses	14,065,638	14,153,828	(0.62) %
Increase (Decrease) in net position	1,163,440	1,769,001	(34.23) %
Net Position, July 1, as previously reported	12,538,335	10,959,504	14.41 %
Prior Period Adjustment	(33,393)	(190,170)	(82.44) %
Net Position, July 1, as restated	12,504,942	10,769,334	16.12 %
Net Position, June 30	\$ 13,668,382	\$ 12,538,335	9.01 %

Governmental activities

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

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ 7,975,812	\$ 8,237,141	(3.17) %
Support services	5,012,925	4,873,340	2.86 %
Non-instructional	850,754	876,393	(2.93) %
Sixteenth section	144,731	74,577	94.07 %
Interest on long-term liabilities	81,416	92,377	(11.87) %
Total expenses	<u>\$ 14,065,638</u>	<u>\$ 14,153,828</u>	(0.62) %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ (6,519,437)	\$ (6,705,102)	(2.77) %
Support services	(4,297,522)	(4,237,363)	1.42 %
Non-instructional	(5,285)	2,365	(323.47) %
Sixteenth section	(10,342)	121,779	(108.49) %
Interest on long-term liabilities	(81,416)	(92,377)	(11.87) %
Total net (expense) revenue	<u>\$ (10,914,002)</u>	<u>\$ (10,910,698)</u>	0.03 %

- Net cost of governmental activities (\$10,914,002 for 2013 and \$10,910,698 for 2012) was financed by general revenue, which is primarily made up of property taxes (\$2,589,250 for 2013 and \$2,421,588 for 2012) and state and federal revenues (\$7,570,216 for 2013 and \$8,169,738 for 2012). In addition, there was \$1,358,411 and \$1,824,560 in Sixteenth Section sources for 2013 and 2012, respectively.
- Investment earnings amounted to \$100,054 for 2013 and \$180,989 for 2012.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$9,034,606, an increase of \$1,247,075, which includes a prior period adjustment of (\$33,393) and a decrease in inventory of \$9,107. \$432,316, or 5%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$8,602,290, or 95%, is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$843,263, which includes a prior period adjustment of \$4,274. The fund balance of Other Governmental Funds showed a decrease in the amount of \$151,068, which includes a prior period adjustment of (\$37,667) and a decrease in inventory of \$9,107. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>		<u>Increase (Decrease)</u>
Sixteenth Section Interest Fund	\$	101,731
Sixteenth Section Principal Fund	\$	453,149

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Budget revisions during the fiscal year were routine in nature and were insignificant when compared to total revenues and expenditures of the District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the District's total capital assets were \$11,252,023, including land, school buildings, building improvements and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents a gross decrease of \$7,453 from 2012. Total accumulated depreciation as of June 30, 2013, was \$6,445,678, and total depreciation expense for the year was \$311,015, resulting in total net capital assets of \$4,806,345.

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Land	\$ 61,590	\$ 61,590	0.00 %
Buildings	2,598,144	2,674,158	(2.84) %
Building improvements	1,103,950	1,165,915	(5.31) %
Improvements other than buildings	269,215	282,359	(4.66) %
Mobile equipment	718,092	714,149	0.55 %
Furniture and equipment	55,354	78,535	(29.52) %
Total	\$ 4,806,345	\$ 4,976,706	(3.42) %

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

Debt Administration. At June 30, 2013, the District had \$171,431 in outstanding long-term debt, of which \$45,759 is due within one year. During the fiscal year, the District made principal payments totaling \$37,867 on outstanding long-term debt. The liability for compensated absences decreased \$14,364 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Shortfall notes payable	\$ 39,145	\$ 77,012	(49.17) %
Compensated absences payable	132,286	146,650	(9.79) %
Total	\$ 171,431	\$ 223,662	(23.35) %

Additional information on the District's long-term debt can be found in Note 6 included in 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. The District's system of financial planning, budgeting, and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state, and federal revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Superintendent's Office of the Franklin County School District, P. O. Box 605, Meadville, MS
39653.

FINANCIAL STATEMENTS

FRANKLIN COUNTY SCHOOL DISTRICT

**Statement of Net Position
June 30, 2013**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,269,695
Due from other governments	482,735
Other receivables, net	408,695
Inventories	17,532
Restricted assets	4,935,592
Capital assets, non-depreciable:	
Land	61,590
Capital assets, net of accumulated depreciation:	
Buildings	2,598,144
Building improvements	1,103,950
Improvements other than buildings	269,215
Mobile equipment	718,092
Furniture and equipment	55,354
Total Assets	13,920,594
Liabilities	
Accounts payable and accrued liabilities	78,406
Unearned revenue	1,237
Interest payable on long-term liabilities	1,138
Long-term liabilities, due within one year:	
Non-capital related liabilities	45,759
Long-term liabilities, due beyond one year:	
Non-capital related liabilities	125,672
Total Liabilities	252,212
Net Position	
Net investment in capital assets	4,806,345
Restricted for:	
Expendable:	
School-based activities	1,341,179
Debt service	36,752
Forestry improvements	355,546
Unemployment benefits	41,403
Non-expendable:	
Sixteenth section	6,694,708
Unrestricted	392,449
Total Net Position	\$ 13,668,382

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, 2013**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 7,975,812	\$ 301,799	\$ 1,154,576	\$ -	\$	(6,519,437)
Support services	5,012,925	80,473	634,930	-		(4,297,522)
Non-instructional	850,754	172,273	673,196	-		(5,285)
Sixteenth section	144,731	134,389	-	-		(10,342)
Interest on long-term liabilities	81,416	-	-	-		(81,416)
Total Governmental Activities	\$ 14,065,638	\$ 688,934	\$ 2,462,702	\$ -	\$	(10,914,002)

General Revenues:

Taxes:

General purpose levies	2,584,206
Debt purpose levies	5,044

Unrestricted grants and contributions:

State	7,082,921
Federal	487,295
Unrestricted investment earnings	100,054
Sixteenth section sources	1,358,411
Other	50,816

Total General Revenues 11,668,747

Extraordinary item 408,695

**Total General Revenues and
Extraordinary Items** 12,077,442

Change in Net Position 1,163,440

Net Position - Beginning, as previously reported 12,538,335
Prior Period Adjustments (33,393)

Net Position - Beginning, as restated 12,504,942

Net Position - Ending \$ 13,668,382

FRANKLIN COUNTY SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2013

Exhibit C

	Major Funds				
	General Fund	Sixteenth Section Interest Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,648,770	\$ 1,136,810	\$ 4,935,592	\$ 484,115	\$ 8,205,287
Due from other governments	172,936	135,253	-	174,546	482,735
Other receivables, net	408,695	-	-	-	408,695
Due from other funds	108,572	-	-	3,665	112,237
Advance to other funds	-	-	1,759,116	-	1,759,116
Inventories	-	-	-	17,532	17,532
Total Assets	<u>\$ 2,338,973</u>	<u>\$ 1,272,063</u>	<u>\$ 6,694,708</u>	<u>\$ 679,858</u>	<u>\$ 10,985,602</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 15,977	\$ 47,000	\$ -	\$ 15,429	\$ 78,406
Due to other funds	-	-	-	112,237	112,237
Advances from other funds	1,759,116	-	-	-	1,759,116
Unearned revenue	-	-	-	1,237	1,237
Total Liabilities	<u>1,775,093</u>	<u>47,000</u>	<u>-</u>	<u>128,903</u>	<u>1,950,996</u>
Fund Balances:					
Nonspendable:					
Inventory	-	-	-	17,532	17,532
Permanent fund principal	-	-	4,935,592	-	4,935,592
Advances	-	-	1,759,116	-	1,759,116
Restricted:					
Debt service	-	-	-	37,890	37,890
Forestry improvement purposes	-	-	-	355,546	355,546
Grant activities	-	-	-	18,480	18,480
Unemployment benefit	-	-	-	41,403	41,403
Food service	-	-	-	80,104	80,104
Sixteenth section interest	-	1,225,063	-	-	1,225,063
Assigned:					
Activity funds	129,687	-	-	-	129,687
Special education	1,877	-	-	-	1,877
Unassigned					
	432,316	-	-	-	432,316
Total Fund Balances	<u>563,880</u>	<u>1,225,063</u>	<u>6,694,708</u>	<u>550,955</u>	<u>9,034,606</u>
Total Liabilities and Fund Balances	<u>\$ 2,338,973</u>	<u>\$ 1,272,063</u>	<u>\$ 6,694,708</u>	<u>\$ 679,858</u>	<u>\$ 10,985,602</u>

FRANKLIN COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013**

Exhibit C-1

Total fund balances for governmental funds \$ 9,034,606

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

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$ 61,590	
Buildings	6,420,289	
Building improvements	1,549,125	
Improvements other than buildings	569,883	
Mobile equipment	2,138,022	
Furniture and equipment	513,114	
Accumulated depreciation	<u>(6,445,678)</u>	4,806,345

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

Notes payable	(39,145)	
Compensated absences	(132,286)	
Accrued interest payable	<u>(1,138)</u>	(172,569)

Net Position of governmental activities \$ 13,668,382

FRANKLIN COUNTY SCHOOL DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	Sixteenth Section Principal Fund		
Revenues:					
Local sources	\$ 2,969,660	\$ -	\$ -	\$ 147,738	\$ 3,117,398
State sources	6,931,029	-	-	540,984	7,472,013
Federal sources	519,389	-	-	2,041,514	2,560,903
Sixteenth section sources	-	918,052	536,828	134,716	1,589,596
Total Revenues	10,420,078	918,052	536,828	2,864,952	14,739,910
Expenditures:					
Instruction	6,534,296	-	-	1,363,335	7,897,631
Support services	4,070,848	-	-	898,451	4,969,299
Noninstructional services	6,167	-	-	803,625	809,792
Sixteenth section	-	-	-	144,731	144,731
Debt service:					
Principal	-	-	-	37,867	37,867
Interest	79,467	-	-	3,051	82,518
Total Expenditures	10,690,778	-	-	3,251,060	13,941,838
Excess (Deficiency) of Revenues over (under) Expenditures	(270,700)	918,052	536,828	(386,108)	798,072
Other Financing Sources (Uses):					
Insurance recovery	80,473	-	-	-	80,473
Sale of transportation equipment	3,708	-	-	-	3,708
Operating transfers in	903,782	83,679	-	301,838	1,289,299
Operating transfers out	(285,596)	(900,000)	(83,679)	(20,024)	(1,289,299)
Other financing uses	(1,373)	-	-	-	(1,373)
Total Other Financing Sources (Uses)	700,994	(816,321)	(83,679)	281,814	82,808
Extraordinary item	408,695	-	-	-	408,695
Net Change in Fund Balances	838,989	101,731	453,149	(104,294)	1,289,575
Fund Balances:					
July 1, 2012, as previously reported	(279,383)	1,123,332	6,241,559	702,023	7,787,531
Prior period adjustments	4,274	-	-	(37,667)	(33,393)
July 1, 2012, as restated	(275,109)	1,123,332	6,241,559	664,356	7,754,138
Increase (Decrease) in inventory	-	-	-	(9,107)	(9,107)
June 30, 2013	\$ 563,880	\$ 1,225,063	\$ 6,694,708	\$ 550,955	\$ 9,034,606

FRANKLIN COUNTY SCHOOL DISTRICT

Governmental Funds

Exhibit D-1

**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, 2013**

Net change in fund balances - total governmental funds \$ 1,289,575

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

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 157,180	
Depreciation expense	<u>(311,015)</u>	(153,835)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold. (16,526)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal	37,867	
Accrued interest payable	<u>1,102</u>	38,969

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	14,364	
Change in inventory	<u>(9,107)</u>	5,257

Change in Net Position of governmental activities \$ 1,163,440

FRANKLIN COUNTY SCHOOL DISTRICT

Fiduciary Funds

**Statement of Fiduciary Net Position
June 30, 2013**

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 387,201
Investments	68,666	-
Total Assets	<u>68,666</u>	<u>\$ 387,201</u>
Liabilities		
Accounts payable and accrued liabilities	-	\$ 362,938
Due to student clubs	-	24,263
Total Liabilities	<u>-</u>	<u>\$ 387,201</u>
Net Position		
Reserved for endowments	<u>68,666</u>	
Total Net Position	<u>\$ 68,666</u>	

FRANKLIN COUNTY SCHOOL DISTRICT

Fiduciary Funds

**Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2013**

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 327
Total Additions	<u>327</u>
Deductions	
Scholarships awarded	<u>1,472</u>
Total Deductions	<u>1,472</u>
Change in Net Position	<u>(1,145)</u>
Net Position	
July 1, 2012	<u>69,811</u>
June 30, 2013	<u>\$ 68,666</u>

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

Franklin County School District

Notes to the Financial Statements
For the Year Ended June 30, 2013

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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 is 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. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund 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 Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2013

externally imposed or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has 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, are 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 taxes and other items not included among program revenues are reported instead as general revenues.

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

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Sixteenth Section Interest Fund - This is a special revenue fund that accounts for the expendable revenues associated with earnings on sixteenth section lands and the expenditures incurred for maintaining and improving sixteenth section lands.

Sixteenth Section Principal Fund - This is a permanent fund used to account for resources from sixteenth section lands that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

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

The school district also reports fiduciary funds which focus on net position and changes in net position. The District's fiduciary funds include the following:

Payroll Clearing Fund - This fund is used as a clearing fund for payroll type transactions.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2013

Student Club Funds - These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

Higginbotham Memorial Scholars Fund - This fund is used to report a trust arrangement, other than those properly reported elsewhere, under which the principal and income benefit students through scholarships.

Accounts Payable Clearing Fund - This fund is used as a clearing fund for non-payroll type transactions.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in 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, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position 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 recorded when earned, and expenses are recorded when a liability is

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2013

incurred or economic asset used, regardless of the 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.

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 taxes, 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 is both restricted and unrestricted net position 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 inter-fund activity has been eliminated from the government-wide

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2013

statements.

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

D. Encumbrances

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

E. Assets, liabilities, and net position/fund balances

1. Cash, 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.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2013

2. Receivables and payables

Activities 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 inter-fund loans) or “advances to/from other funds”(i.e. the non-current portion of inter-fund 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.

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.

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2013

that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. 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 table below.

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.

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

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 a long-term liability in

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2013

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 liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide 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 governmental 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.

9. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is a resolution approved by the School Board. Currently there is no committed fund balance for this school district.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2013

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and the Business Manager pursuant to authorization established by the District's approved fund balance policy.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 10% of general revenues. If the unassigned fund balance at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

Note 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 and investments are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2013

Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess 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 deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer ; (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 other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. 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. Investment income of 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 \$8,205,287 and \$387,201.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2013, none of the district's bank balance of \$8,912,185 was exposed to custodial credit risk.

Investments

As of June 30, 2013, the district had the following investments.

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
Certificate of deposit	N/A	1 year	\$ 68,666
Total			\$ 68,666

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2013

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.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2013, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2013, the district had 100% of the investments guaranteed by the U.S. government.

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ 108,572
Other governmental funds	Other governmental funds	3,665
Total		\$ 112,237

The primary purpose of the interfund balances was to eliminate deficit cash balances in certain special revenue funds caused by negative federal award program cash flows. All inter-fund receivables and payables are expected to be repaid within one year.

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
Sixteenth Section Principal Fund	General Fund	\$ 1,759,116
Total		\$ 1,759,116

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2013

Sixteenth section principal loans payable

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

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 213,537	\$ 70,365	\$ 283,902
2015	204,037	61,823	265,860
2016	188,797	53,662	242,459
2017	165,077	46,110	211,187
2018	148,605	39,507	188,112
2019 - 2023	540,735	124,053	664,788
2024 - 2028	293,828	29,300	323,128
2029	4,500	180	4,680
Total	\$ 1,759,116	\$ 425,000	\$ 2,184,116

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 285,596
Sixteenth Section Interest Fund	General Fund	900,000
Sixteenth Section Principal Fund	Sixteenth Section Interest Fund	83,679
Other governmental funds	General Fund	3,782
	Other governmental funds	16,242
Total		\$ 1,289,299

Operating transfers were primarily for the following: indirect cost transfers, vocational and special education expenditure transfers, unemployment transfers, and the transfer of expendable sixteenth section resources.

Note 4 – Restricted Assets

The restricted assets represent the cash balance totaling \$4,935,592 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district’s programs.

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2013

Note 5 – Capital Assets

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

	Balance 7/1/2012	Increases	Decreases	Balance 6/30/2013
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 61,590	\$	\$	\$ 61,590
Total non-depreciable capital assets	61,590	-	-	61,590
<u>Depreciable capital assets:</u>				
Buildings	6,420,289			6,420,289
Building improvements	1,549,125			1,549,125
Improvements other than buildings	569,883			569,883
Mobile equipment	2,125,423	157,180	144,581	2,138,022
Furniture and equipment	533,166		20,052	513,114
Total depreciable capital assets	11,197,886	157,180	164,633	11,190,433
<u>Less accumulated depreciation for:</u>				
Buildings	3,746,131	76,014		3,822,145
Building improvements	383,210	61,965		445,175
Improvements other than buildings	287,524	13,144		300,668
Mobile equipment	1,411,274	138,779	130,123	1,419,930
Furniture and equipment	454,631	21,113	17,984	457,760
Total accumulated depreciation	6,282,770	311,015	148,107	6,445,678
Total depreciable capital assets, net	4,915,116	(153,835)	16,526	4,744,755
Governmental activities capital assets, net	\$ 4,976,706	\$ (153,835)	\$ 16,526	\$ 4,806,345

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 86,863
Support services	191,579
Non-instructional	32,573
Total depreciation expense - Governmental activities	\$ 311,015

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2013

Note 6 – Long-term Liabilities

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

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts due within one year
A. Shortfall notes payable	\$ 77,012	\$	\$ 37,867	\$ 39,145	\$ 39,145
B. Compensated absences payable	146,650		14,364	132,286	6,614
Total	\$ 223,662	\$ -	\$ 52,231	\$ 171,431	\$ 45,759

A. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall note, Series 2010	3.95%	10/5/2010	10/5/2013	\$ 113,420	\$ 39,145
Total				\$ 113,420	\$ 39,145

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 39,145	\$ 1,550	\$ 40,695
Total	\$ 39,145	\$ 1,550	\$ 40,695

This debt will be retired from the Shortfall Note Fund (Debt Service Fund).

B. Compensated absences payable

As more fully explained in Note 1(E)(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.

Note 7 – Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2013

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 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2013 was 14.26% 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, 2013, 2012 and 2011 were \$1,135,424, \$1,022,772 and \$962,098, respectively, which equaled the required contributions for each year.

Note 8 – Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are 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
2014	\$ 56,006
2015	56,006
2016	28,305
2017	362
2018	261
2019 – 2023	1,303
2024 – 2028	1,303
2029 – 2033	1,303
2034 – 2038	1,303
2039 – 2043	1,303
Thereafter	13,807
Total	<u>\$ 161,262</u>

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2013

Note 9 – Prior Period Adjustments

A summary of significant Net Position/Fund Balance adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
See explanation below.	\$ (33,393)
Total	<u>\$ (33,393)</u>

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

Fund	Explanation	Amount
General Fund	To correct error in recording a prior year asset or liability	\$ 4,274
Other governmental funds	To correct balance in a prior year receivable	(37,667)
Total		<u>\$ (33,393)</u>

Note 10 – Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

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 the various proceedings. However, the school district’s legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Note 11 – Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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

Notes to the Financial Statements
For Year Ended June 30, 2013

Note 12 - Insurance loss recoveries

The Franklin County School District received \$80,473 in insurance loss recoveries related primarily to vehicle damage and misappropriated assets recovery during the 2012-2013 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and were allocated to the support services expense function.

Note 13 – Extraordinary Items

An amount of \$408,695 was treated as an Extraordinary Item inflow. This was insurance recovery related to roof damages due to a hailstorm.

Note 14 – Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Franklin County School District evaluated the activity of the district through the date the financial statements were available to be issued, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

On March 18, 2013, a hailstorm caused a major damage to various buildings roofs, skylights and canopies along with a running track at various District locations. Per statement of loss, replacement cost estimates covered by insurance totaled \$2,552,965 less a \$10,000 deductible. As of January 17, 2014, Zurich Insurance has reimbursed the District on three occasions totaling \$1,369,239. The District is expectant of being reimbursed the remaining \$1,183,726 upon completion of the various projects by the insurer.

This page is intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

FRANKLIN COUNTY SCHOOL DISTRICT

Required Supplementary Information

**Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,834,744	\$ 2,969,660	\$ 2,969,660	\$ 134,916	\$ -
State sources	6,992,668	6,931,029	6,931,029	(61,639)	-
Federal sources	616,000	519,389	519,389	(96,611)	-
Total Revenues	10,443,412	10,420,078	10,420,078	(23,334)	-
Expenditures:					
Instruction	6,721,435	6,534,296	6,534,296	187,139	-
Support services	4,187,749	4,033,799	4,070,848	153,950	(37,049)
Noninstructional services	7,567	6,167	6,167	1,400	-
Facilities acquisition and construction	60,000	18,950	-	41,050	18,950
Debt service:					
Principal	227,559	-	-	227,559	-
Interest	79,467	79,467	79,467	-	-
Total Expenditures	11,283,777	10,672,679	10,690,778	611,098	(18,099)
Excess (Deficiency) of Revenues over (under) Expenditures	(840,365)	(252,601)	(270,700)	587,764	(18,099)
Other Financing Sources (Uses):					
Insurance recovery	-	80,473	80,473	80,473	-
Sale of transportation equipment	-	3,708	3,708	3,708	-
Operating transfers in	1,395,627	1,358,037	903,782	(37,590)	(454,255)
Operating transfers out	(793,508)	(702,358)	(285,596)	91,150	416,762
Other financing uses	-	(1,373)	(1,373)	(1,373)	-
Total Other Financing Sources (Uses)	602,119	738,487	700,994	136,368	(37,493)
Extraordinary item	-	-	408,695	-	408,695
Net Change in Fund Balances	(238,246)	485,886	838,989	724,132	353,103
Fund Balances:					
July 1, 2012, as previously reported	(128,703)	(128,703)	(279,383)	-	(150,680)
Prior period adjustments	-	4,274	4,274	4,274	-
July 1, 2012, as restated	(128,703)	(124,429)	(275,109)	4,274	(150,680)
June 30, 2013	\$ (366,949)	\$ 361,457	\$ 563,880	\$ 728,406	\$ 202,423

FRANKLIN COUNTY SCHOOL DISTRICT

Required Supplementary Information

**Budgetary Comparison Schedule
Sixteenth Section Interest Fund
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 932,783	\$ 918,052	\$ 918,052	\$ (14,731)	\$ -
Total Revenues	932,783	918,052	918,052	(14,731)	-
Expenditures:					
Sixteenth section	1,500	-	-	1,500	-
Total Expenditures	1,500	-	-	1,500	-
Excess (Deficiency) of Revenues over (under) Expenditures	931,283	918,052	918,052	(13,231)	-
Other Financing Sources (Uses):					
Operating transfers in	-	83,679	83,679	83,679	-
Operating transfers out	(800,000)	(900,000)	(900,000)	(100,000)	-
Total Other Financing Sources (Uses)	(800,000)	(816,321)	(816,321)	(16,321)	-
Net Change in Fund Balances	131,283	101,731	101,731	(29,552)	-
Fund Balances:					
July 1, 2012	1,123,332	1,123,332	1,123,332	-	-
June 30, 2013	\$ 1,254,615	\$ 1,225,063	\$ 1,225,063	\$ (29,552)	\$ -

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

FRANKLIN COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Year Ended June 30, 2013

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTARY INFORMATION

FRANKLIN COUNTY SCHOOL DISTRICT

Schedule 1

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

<u>Federal Grantor/ Pass-through Grantor/ Program Title/</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 172,030
National School Lunch Program	10.555	546,026
Summer Food Service Program for Children	10.559	23,466
Total Child Nutrition Cluster		<u>741,522</u>
Total passed-through the Mississippi Department of Education		<u>741,522</u>
Passed-through the Franklin County:		
Schools and Roads - Grants to States	10.665	418,486
Total passed-through the Franklin County		<u>418,486</u>
Total U.S. Department of Agriculture		<u>1,160,008</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officer's Training Corps	12.xxx	59,450
Total U.S. Department of Defense		<u>59,450</u>
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
The School and Libraries Program of The Universal Service Fund	32.xxx	36,176
Total Federal Communications Commission		<u>36,176</u>
<u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	445,069
Career and Technical Education - Basic Grants to States	84.048	17,615
Twenty-First Century Community Learning Centers	84.287	265,040
Rural Education	84.358	21,106
Improving Teacher Quality State Grants	84.367	165,926
Subtotal		<u>914,756</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	353,991
Special Education - Preschool Grants	84.173	29,208
Total Special Education Cluster		<u>383,199</u>
Total passed-through the Mississippi Department of Education		<u>1,297,955</u>
Total U.S. Department of Education		<u>1,297,955</u>
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Medical Assistance Program	93.778	27,356
Total U.S. Department of Health and Human Services - Direct Program		<u>27,356</u>
<u>U.S. Department of Homeland Security</u>		
Passes through the Mississippi Emergency Management Agency:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	5,277
Total passed-through the Mississippi Emergency Management Agency		<u>5,277</u>
Total Department of Homeland Security		<u>5,277</u>
Total for All Federal Awards		\$ <u>2,586,222</u>

NOTES TO SCHEDULE

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

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2013

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 10,963,222	8,063,778	746,834	851,713	1,300,897
Other	2,978,616	819,875	178,905	33,756	1,946,080
Total	<u>\$ 13,941,838</u>	<u>8,883,653</u>	<u>925,739</u>	<u>885,469</u>	<u>3,246,977</u>
Total number of students *	<u>1,348</u>				
Cost per student	\$ <u>10,343</u>	<u>6,590</u>	<u>687</u>	<u>657</u>	<u>2,409</u>

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

Instruction and other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following functions: Support Services - School Administration.

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

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

OTHER INFORMATION

FRANKLIN COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	<u>2013</u>	<u>2012*</u>	<u>2011*</u>	<u>2010*</u>
Revenues:				
Local sources	\$ 2,969,660	2,853,555	2,628,000	2,622,105
State sources	6,931,029	7,204,128	6,738,274	6,517,223
Federal sources	519,389	943,001	627,522	790,842
Total Revenues	<u>10,420,078</u>	<u>11,000,684</u>	<u>9,993,796</u>	<u>9,930,170</u>
Expenditures:				
Instruction	6,534,296	6,718,346	5,797,291	6,519,790
Support services	4,070,848	3,925,707	3,719,415	4,126,677
Noninstructional services	6,167	7,977	3,842	5,367
Facilities acquisition and construction	0	0	0	51,490
Debt service:				
Principal	0	0	0	0
Interest	79,467	88,938	102,150	113,673
Total Expenditures	<u>10,690,778</u>	<u>10,740,968</u>	<u>9,622,698</u>	<u>10,816,997</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(270,700)</u>	<u>259,716</u>	<u>371,098</u>	<u>(886,827)</u>
Other Financing Sources (Uses):				
Bonds and notes issued	0	0	113,420	0
Insurance loss recoveries	80,473	0	13,829	2,441
Sale of transportation equipment	3,708	0	3,004	0
Sale of other property	0	100	0	0
Operating transfers in	903,782	404,482	1,691,037	1,533,630
Operating transfers out	(285,596)	(337,562)	(403,050)	(494,608)
Other financing uses	(1,373)	(218)	0	0
Total Other Financing Sources (Uses)	<u>700,994</u>	<u>66,802</u>	<u>1,418,240</u>	<u>1,041,463</u>
Extraordinary item	<u>408,695</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>838,989</u>	<u>326,518</u>	<u>1,789,338</u>	<u>154,636</u>
Fund Balances:				
July 1, as previously reported	(279,383)	(424,242)	(2,213,580)	(2,368,216)
Prior period adjustments	4,274	(181,659)	0	0
July 1, as restated	<u>(275,109)</u>	<u>(605,901)</u>	<u>(2,213,580)</u>	<u>(2,368,216)</u>
June 30,	<u>\$ 563,880</u>	<u>(279,383)</u>	<u>(424,242)</u>	<u>(2,213,580)</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

FRANKLIN COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
 All Governmental Funds
 Last Four Years

"UNAUDITED"

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 3,117,398	3,047,553	2,795,263	2,797,464
State sources	7,472,013	7,611,998	7,318,447	7,020,662
Federal sources	2,560,903	3,085,601	3,709,776	3,954,882
Sixteenth section sources	1,589,596	2,177,677	2,236,543	1,752,341
Total Revenues	<u>14,739,910</u>	<u>15,922,829</u>	<u>16,060,029</u>	<u>15,525,349</u>
Expenditures:				
Instruction	7,897,631	8,149,725	8,329,532	8,928,596
Support services	4,969,299	4,747,190	4,569,595	5,068,562
Noninstructional services	809,792	841,381	804,610	817,414
Sixteenth section	144,731	74,577	124,964	59,117
Facilities acquisition and construction	0	0	0	51,490
Debt service:				
Principal	37,867	36,408	0	0
Interest	82,518	93,449	102,150	113,673
Total Expenditures	<u>13,941,838</u>	<u>13,942,730</u>	<u>13,930,851</u>	<u>15,038,852</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>798,072</u>	<u>1,980,099</u>	<u>2,129,178</u>	<u>486,497</u>
Other Financing Sources (Uses):				
Bonds and notes issued	0	0	113,420	0
Insurance loss recoveries	80,473	0	13,829	2,441
Sale of transportation equipment	3,708	0	3,004	0
Sale of other property	0	100	0	0
Operating transfers in	1,289,299	894,674	2,222,087	2,038,233
Operating transfers out	(1,289,299)	(894,674)	(2,222,087)	(2,038,233)
Other financing uses	(1,373)	(218)	0	0
Total Other Financing Sources (Uses)	<u>82,808</u>	<u>(118)</u>	<u>130,253</u>	<u>2,441</u>
Extraordinary item	<u>408,695</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>1,289,575</u>	<u>1,979,981</u>	<u>2,259,431</u>	<u>488,938</u>
Fund Balances:				
July 1, as previously reported	7,787,531	5,999,733	3,738,337	3,251,705
Prior period adjustments	(33,393)	(190,170)	0	0
July 1, as restated	<u>7,754,138</u>	<u>5,809,563</u>	<u>3,738,337</u>	<u>3,251,705</u>
Increase (Decrease) in reserve for inventory	(9,107)	(2,013)	1,965	(2,306)
June 30,	<u>\$ 9,034,606</u>	<u>7,787,531</u>	<u>5,999,733</u>	<u>3,738,337</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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*

Superintendent and School Board
Franklin County School District

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Franklin County School District's basic financial statements, and have issued our report thereon dated February 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. Finding 2013-1.

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. Finding 2013-2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Franklin County School District's financial statements are free from 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*.

School District's Response to Finding

Franklin County School District's responses to the findings identified in our audit are described in the accompanying auditee's corrective action plan. School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
February 24, 2014

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

Superintendent and School Board
Franklin County School District

Report on Compliance for Each Major Federal Program

We have audited Franklin County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of school district's major federal programs for the year ended June 30, 2013. The Franklin County School District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Franklin County School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the school district's compliance.

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

Opinion on Each Major Federal Program

In our opinion, the Franklin County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Franklin County School District is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Franklin County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of out testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of management, the school board, 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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
February 24, 2014

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2013, which collectively comprise Franklin County School District's basic financial statements and have issued our report thereon dated February 24, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to ensure 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 \$0 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 ensure 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 requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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

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

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies, the Office of the State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
February 24, 2014

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Franklin County School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unqualified.
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? Yes.
 - b. Significant deficiency(ies) identified? Yes.
3. Noncompliance material to financial statements noted? No.

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major programs: Unqualified
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No.
7. Identification of major programs:

<u>CFDA Numbers:</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555 & 10.559	Child Nutrition Cluster
84.027 & 84.173	Special Education Cluster
84.367	Improving Teacher Quality State Grants
84.010	Title I Grants to Local Educational Agencies

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
9. Auditee qualified as low-risk auditee? No.

Section II: Financial Statements Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*:

Material Weakness:

Finding 2013-1

Condition: The business manager has access to general ledger activities, prepares bank deposits, enters receipts into system, receipts money hand delivered to the central office, record receipts of funds transferred by wire and prepared the monthly bank reconciliations. There are no compensating controls to assist with this lack of segregation of duties.

Criteria: An effective system of internal control requires proper segregation of duties to the greatest extent possible.

Cause: This is the result of limited staff and inadequate job assignments to facilitate proper segregation of duties.

Effect: This increased the risk that misstatements, due to error or fraud, could occur and not be detected in a timely manner.

Recommendation:

We recommend that the district strengthen its internal controls whereby duties will be divided to the greatest extent possible.

Significant Deficiency:

Finding 2013-2

Condition: There was not a documented system of documentation for the activity fund ticket reconciliations sheets. Signatures on cash counts game receipts were missing.

Criteria: An effective system of internal control requires that all activity fund ticket reconciliations sheets for school events be well documented.

Cause: This the result of an inadequate system of internal control.

Effect: The lack of controls resulted in missing or unaccounted cash.

Recommendation:

We recommend that proper signatures be made on the school event reconciliation form that is used to account for ticket sales.

Section III: Federal Awards Findings and Questioned Costs

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

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

Ray Carlock
Superintendent

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

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section 315(c) of OMB Circular A-133, the Franklin County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2013:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2013-1	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Name: Tremel B. Young Phone Number: 601-384-2340</p> <p>b. Corrective Action Planned: In the future there will be a segregation of duties to have the most effective internal control system possible.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2014</p>

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

Ray Carlock
Superintendent

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

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section 315(c) of OMB Circular A-133, the Franklin County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2013:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2013-2	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Name: Tremel B. Young Phone Number: 601-384-2340</p> <p>b. Corrective Action Planned: In the future activity fund ticket reconciliation sheets will be signed by the proper personnel.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2014</p>