



Mary Taylor, CPA  
Auditor of State



FRANKLIN LOCAL COMMUNITY SCHOOL  
MUSKINGUM COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Franklin Local Community School  
Muskingum County  
P.O. Box 428  
360 Cedar Street  
Duncan Falls, Ohio 43734-0428

To the Board of Directors:

We have audited the accompanying financial statements of the Franklin Local Community School, Muskingum County, Ohio (the Community School), a component unit of Franklin Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2008, which collectively comprise the Community School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Community School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Franklin Local Community School, Muskingum County, Ohio, as of June 30, 2008, and the change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2009, on our consideration of the Community School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 3, 2009

**Franklin Local Community School  
Muskingum County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
Unaudited*

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The discussion and analysis of the Franklin Local Community School's (FLCS') financial performance provides an overall review of the FLCS' financial activities for the period ended June 30, 2008. Readers should also review the basic financial statements and notes to enhance their understanding of the FLCS' financial performance.

**Highlights**

FLCS finished its fifth year of operation during fiscal year 2008 as a seventh through twelfth grade community school. The school was created on February 20, 2003, however, it did not begin providing services to students until October 2003. For the first four years, FLCS operated as an on-line digital academy. As the school grew and evolved, it was determined that a regular instructional atmosphere was more academically effective than online based instruction. Prior to beginning fiscal year 2008, the school filed a new charter with the Ohio Department of Education and changed its name from the Franklin Local Digital Academy to the Franklin Local Community School. Enrollment varied during fiscal year 2008 but averaged 70 students.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how FLCS did financially during the period ended June 30, 2008. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the period revenues and expenses regardless of when cash is received or paid.

These statements report FLCS' net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of FLCS has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

FLCS uses enterprise presentation for all of its activities.

**Franklin Local Community School  
Muskingum County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
Unaudited*

Table 1 provides a summary of FLCS' net assets for 2008 compared to 2007:

Table 1 Net Assets			
	2008	2007	Change
<u>Assets:</u>			
Current Assets	\$300,867	\$216,690	\$84,177
Capital Assets	57,094	72,543	(15,449)
Total Assets	357,961	289,233	68,728
 <u>Liabilities:</u>			
Current and Other Liabilities	77,292	95,177	(17,885)
 <u>Net Assets:</u>			
Invested in Capital Assets	57,094	72,543	(15,449)
Unrestricted	223,575	121,513	102,062
Total Net Assets	\$280,669	\$194,056	\$86,613

FLCS had net assets of \$280,669 at fiscal year end, an increase of \$86,613 from fiscal year 2007. Total assets of the FLCS increased \$68,728 during fiscal year 2008. This increase is mostly attributable to the cash fund balance increasing due to new parity aid funding, approximately \$48,000. In addition, in fiscal year 2008 the FLCS received a fiscal year 2007 student enrollment audit payment. The FLCS also received additional interest income during fiscal year 2008. FLCS receives foundation payments from the State based on the number of full-time equivalency students.



**Franklin Local Community School  
Muskingum County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
Unaudited*

Table 2 reflects the changes in net assets for the periods ended June 30, 2008 and June 30, 2007.

Table 2  
Change in Net Assets

	2008	2007	Change
<u>Operating Revenues:</u>			
Foundation	\$622,925	\$507,613	\$115,312
Interest	14,446	3,987	10,459
Contributions and Donations	0	19,120	(19,120)
Other	1,615	2,500	(885)
<u>Non-Operating Revenues</u>			
Grants	60,642	53,561	7,081
Total Revenues	<u>699,628</u>	<u>586,781</u>	<u>112,847</u>
<u>Operating Expenses:</u>			
Purchased Services	584,429	467,505	116,924
Materials and Supplies	12,812	23,359	(10,547)
Depreciation	15,449	15,531	(82)
Other Operating Expenses	325	325	0
Total Expenses	<u>613,015</u>	<u>506,720</u>	<u>106,295</u>
Total Increase in Net Assets	<u>\$86,613</u>	<u>\$80,061</u>	<u>\$6,552</u>

Foundation revenue increased by \$115,312 in fiscal year 2008 due to new parity aid being received due to being a community school rather than a digital academy. In addition, the FLCS received in fiscal year 2008 monies from a fiscal year 2007 student enrollment audit payment. Grant revenues increased \$7,081. Purchased services increased in fiscal year 2008 by \$116,924 mainly due to the additional instructional services expenses.

**Budgeting**

FLCS is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

**Capital Assets and Debt Administration**

Capital Assets

During fiscal year 2008, the FLCS had no capital asset additions or deletions. Accumulated depreciation at June 30, 2008, amounted to \$39,071; therefore, the capital assets figure net of accumulated depreciation was \$57,094.

**Franklin Local Community School  
Muskingum County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
Unaudited*

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**Debt**

FLCS did not incur any debt during fiscal year 2008.

**Current Issues**

As the Franklin Local Digital Academy grew and evolved, the Board of Directors determined that the students would achieve better in an atmosphere where regular instructional services were provided face-to-face rather than in an online environment. Prior to beginning fiscal year 2008, the school filed a new charter with the Ohio Department of Education and changed its name from the Franklin Local Digital Academy to the Franklin Local Community School, effective July 1, 2007.

**Contacting the FLCS' Financial Management**

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the FLCS' finances and to show the FLCS' accountability for the money it receives. If you have any questions about this report or need additional financial information contact Christopher K. Miller, Treasurer, Franklin Local Community School, P. O. Box 428, 360 Cedar Street, Duncan Falls, Ohio 43734, or e-mail at [chris.miller@omeresa.net](mailto:chris.miller@omeresa.net).

**Franklin Local Community School  
Muskingum County, Ohio**

*Statement of Net Assets  
June 30, 2008*

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<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$300,833
Accounts Receivable	34
Total Current Assets	<u>300,867</u>
Noncurrent Assets:	
Depreciable Capital Assets, net	<u>57,094</u>
Total Assets	<u>357,961</u>
 <u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	4,518
Intergovernmental Payable	115
Due to Primary Government	<u>72,659</u>
Total Liabilities	<u>77,292</u>
 <u>Net Assets:</u>	
Invested in Capital Assets	57,094
Unrestricted	<u>223,575</u>
Total Net Assets	<u><u>\$280,669</u></u>

See accompanying notes to the basic financial statements

**Franklin Local Community School  
Muskingum County, Ohio**

*Statement of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Year Ended June 30, 2008*

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<u>Operating Revenues:</u>	
Foundation	\$622,925
Interest	14,446
Miscellaneous	<u>1,615</u>
Total Operating Revenues	<u>638,986</u>
<u>Operating Expenses:</u>	
Purchased Services	584,429
Materials and Supplies	12,812
Depreciation	15,449
Other Operating Expenses	<u>325</u>
Total Operating Expenses	<u>613,015</u>
Operating Income	25,971
<u>Non-Operating Revenues:</u>	
Grants	<u>60,642</u>
Change in Net Assets	86,613
Net Assets at Beginning of Year	<u>194,056</u>
Net Assets at End of Year	<u><u>\$280,669</u></u>

See accompanying notes to the basic financial statements

**Franklin Local Community School  
Muskingum County, Ohio**

*Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2008*

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<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation	\$575,191
Cash Received from Interest	15,277
Cash Payments to Suppliers for Goods and Services	(566,642)
Other Operating Expenses	<u>(325)</u>
Net Cash Provided by Operating Activities	23,501
<u>Cash Flows from Noncapital Financing Activities:</u>	
Grants Received	<u>60,642</u>
Net Increase in Cash and Cash Equivalents	84,143
Cash and Cash Equivalents Beginning of Year	<u>216,690</u>
Cash and Cash Equivalents End of Year	<u><u>\$300,833</u></u>
Reconciliation of Operating Income to	
<u>Net Cash Provided By Operating Activities:</u>	
Operating Income	\$25,971
Adjustments to Reconcile Operating Income	
to Net Cash Used for Operating Activities:	
Depreciation	15,449
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Increase in Accounts Receivable	(34)
Increase (Decrease) in Liabilities:	
Increase in Accounts Payable	3,722
Decrease in Intergovernmental Payable	(47,734)
Increase in Due to Primary Government	<u>26,127</u>
Net Cash Provided By Operating Activities	<u><u>\$23,501</u></u>

See accompanying notes to the basic financial statements

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**Franklin Local Community School  
Muskingum County, Ohio**

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

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**Note 1 - Description of the School**

The Franklin Local Community School (FLCS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. FLCS is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect FLCS' tax exempt status. FLCS' mission is to enhance and facilitate student learning by providing curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schoolers; children with special physical and mental needs; students removed from the regular classroom for discipline concerns; students who need an alternative to the traditional classroom for various reasons, including religious reasons; transient students; and students with the Franklin Local School District, sponsor School District, that desire a specific course not currently offered but is available through online instruction.

The Franklin Local Digital Academy was created on February 20, 2003. The composition of the district and name was changed to the FLCS and was therefore created on July 1, 2007 by entering a five year contract with the Franklin Local School District (the Sponsor). The Sponsor is responsible for evaluating the performance of FLCS and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the FLCS with the Treasurer of the Sponsor completing the role of Treasurer for the FLCS.

FLCS operates under the direction of a five-member Board of Directors who are appointed from the public by the Sponsor. The members are public officials, public employees or community leaders demonstrating a professional interest in education or in other issues involving children and desires to further the objectives of the FLCS. FLCS is a component unit of the Sponsor. The sponsor appoints a majority of the board and is able to impose its will on the FLCS. The Sponsor can suspend the FLCS' operations for any of the following reasons: 1) The FLCS' failure to meet student performance requirements stated in its contract with the Sponsor, 2) The FLCS' failure to meet generally accepted standards of fiscal management, 3) The FLCS' violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of FLCS and the children it serves. During the fiscal year ended June 30 2008, the FLCS used instructional, support and administrative services from the Sponsor. FLCS' classrooms are located in the Sponsor's facilities.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the FLCS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. FLCS also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the FLCS' accounting policies are described below.

**Franklin Local Community School  
Muskingum County, Ohio**

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

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**A. Basis of Presentation**

The FLCS' basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

FLCS uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**B. Measurement Focus**

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of FLCS are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how FLCS finances meet its cash flow needs.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. FLCS' financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which FLCS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted; matching requirements, in which FLCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to FLCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the FLCS' contract with its Sponsor. The contract between FLCS and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**E. Cash and Cash Equivalents**

Cash received by FLCS is reflected as "Cash and Cash Equivalents" on the statement of net assets. FLCS had no investments during the fiscal year ended June 30, 2008.

**F. Capital Assets**

FLCS' capital assets during fiscal year 2008 consisted of computers, computer equipment, a phone system, a refrigerator, and a copier. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. FLCS maintains a capitalization threshold of five hundred dollars. All of FLCS' reported capital assets are depreciated using the straight-line method over six or seven years of useful life.



**Franklin Local Community School  
Muskingum County, Ohio**

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

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**G. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by FLCS or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. FLCS applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The statement of net assets reports no restricted net assets and has no monies restricted by enabling legislation.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of FLCS.

Operating expenses are necessary costs incurred to provide the service that is the primary activity of FLCS. All revenues and expenses not meeting this definition are reported as non-operating.

**I. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note 3 - Deposits**

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At June 30, 2008, the carrying amount of FLCS' deposits was \$300,833 and the bank balance was \$604,559. \$100,000 of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**Note 4 – Capital Asset Note**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Computer Equipment	\$96,165	\$0	\$0	\$96,165
Less Accumulated Depreciation	(23,622)	(15,449)	0	(39,071)
Capital Assets, Net	<u>\$72,543</u>	<u>(\$15,449)</u>	<u>\$0</u>	<u>\$57,094</u>

**Franklin Local Community School  
Muskingum County, Ohio**

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

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**Note 5 – Risk Management**

FLCS is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. During the fiscal year ended June 30, 2008, FLCS had liability insurance through the Franklin Local School District's policy.

**Note 6 – Purchased Services**

For the period July 1, 2007 through June 30, 2008, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Professional and Technical Services	\$569,796
Audit Services	4,911
Legal Services	9,722
Total	<u>\$584,429</u>

**Note 7 - Related Party Transactions**

Franklin Local School District, the Sponsor, appoints each of FLCS' five board members from the general public. FLCS is presented as a component unit of the Sponsor. For fiscal year 2008, \$610,495 was provided by the Sponsor for administrative, fiscal, and student services provided to FLCS. FLCS paid all but \$72,659 of this amount as of June 30, 2008. This amount is reflected as a Due to Primary Government in the financial statements.

**Note 8 - Contingencies**

**A. Grants**

FLCS received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the FLCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the FLCS at June 30, 2008.

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by FLCS. These reviews are conducted to ensure FLCS is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.



# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Franklin Local Community School  
Muskingum County  
P.O. Box 428  
360 Cedar Street  
Duncan Falls, Ohio 43734-0428

To the Board of Directors:

We have audited the financial statements of the Franklin Local Community School, Muskingum County, Ohio (the Community School), a component unit of Franklin Local School District, as of and for the year ended June 30, 2008 and have issued our report thereon dated February 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Community School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Community School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Community School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Community School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Community School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Community School's internal control will not prevent or detect a material financial statement misstatement.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the Community School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, the Board of Directors and the Community School's sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 3, 2009



**Mary Taylor, CPA**  
Auditor of State

**FRANKLIN LOCAL COMMUNITY SCHOOL  
MUSKINGUM COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 10, 2009**