



**Auditor of State  
Betty Montgomery**



**FRANKLIN LOCAL DIGITAL ACADEMY  
MUSKINGUM COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report .....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Statement of Net Assets.....	7
Statement of Revenues, Expenses, and Changes in Net Assets .....	8
Statement of Cash Flows .....	9
Notes to the Financial Statements .....	11
Independent Accountants' Report on Compliance and on Internal Control Required By <i>Government Auditing Standards</i> .....	17

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Franklin Local Digital Academy  
Muskingum County  
P.O. Box 428  
360 Cedar Street  
Duncan Falls, Ohio 43734

To the Digital Academy Board of Directors:

We have audited the accompanying basic financial statements of the Franklin Local Digital Academy, Muskingum County, Ohio (the FLDA), a component unit of the Franklin Local School District, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the FLDA's management. Our responsibility is to express an opinion 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Franklin Local Digital Academy, Muskingum County, as of June 30, 2005, and the changes in its financial position and its 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 January 10, 2006, on our consideration of the FLDA'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 the Governmental Accounting Standards Board 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 10, 2006

**Franklin Local Digital Academy  
Muskingum County**

***Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited***

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The discussion and analysis of the Franklin Local Digital Academy's (FLDA) financial performance provides an overall review of the FLDA's financial activities for the period ended June 30, 2005. Readers should also review the basic financial statements and notes to enhance their understanding of the FLDA's financial performance.

**Highlights**

FLDA finished its second year of operation during fiscal year 2005 as a kindergarten through twelfth grade online internet school. FLDA was created on February 20, 2003, however, it did not begin providing services to students until October 2003. Each student was provided a computer and scanner which were used to access a curriculum based on the state model and which used certified/licensed instructors. Enrollment varied during the year but averaged 27 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 FLDA did financially during the period ended June 30, 2005. 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 FLDA's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of FLDA 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.

FLDA uses enterprise presentation for all of its activities.

Table 1 provides a summary of FLDA's net assets for 2005 compared to 2004:

	<u>2005</u>	<u>2004</u>
<b>Table 1 Net Assets</b>		
<u>Assets:</u>		
Current Assets	\$61,656	\$70,889
Capital Assets	<u>13,596</u>	<u>0</u>
Total Assets	<u>75,252</u>	<u>70,889</u>
 <u>Liabilities:</u>		
Current and Other Liabilities	<u>52,265</u>	<u>58,990</u>
 <u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	13,596	0
Restricted for Other Purposes	21,811	3,000
Unrestricted	<u>(12,420)</u>	<u>8,899</u>
Total Net Assets	<u>\$22,987</u>	<u>\$11,899</u>

**Franklin Local Digital Academy  
Muskingum County**

***Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited***

FLDA had net assets of \$22,987 at fiscal year end, an increase of \$11,088 from fiscal year 2004. Total assets of the FLDA increased \$4,363 during fiscal year 2005 despite a decrease in cash and cash equivalents of \$14,709. The decrease in cash and cash equivalents was offset by the acquisition of capital assets by the FLDA in the amount of \$14,539. The increase is also attributed to increases in accounts and intergovernmental receivables. The decrease in liabilities of \$6,725 is attributed to a decrease in the amount due to the primary government and an increase in deferred revenue. FLDA receives foundation payments from the State based on the number of full-time equivalency students.

Table 2 reflects the changes in net assets for the periods ended June 30, 2005 and June 30, 2004.

Table 2  
Change in Net Assets

	2005	2004
<u>Operating Revenues:</u>		
Foundation	\$118,518	\$160,279
Charges for Services	2,502	0
<u>Non-Operating Revenues</u>		
Grants	165,498	108,000
Total Revenues	286,518	268,279
 <u>Operating Expenses:</u>		
Purchased Services	258,449	271,388
Materials and Supplies	15,713	5,171
Depreciation	943	0
Other Operating Expenses	325	325
Total Expenses	275,430	276,884
 Total Increase in Net Assets	\$11,088	(\$8,605)

Foundation revenue decreased in fiscal year 2005 due to the number of students decreasing slightly and a foundation adjustment from fiscal year 2005 that the Ohio Department of Education charged against the Academy's fiscal year 2006 foundation revenues. In fiscal year 2005, the Academy provided a limited amount of services to another entity and this resulted in charges for services revenue. The increase in grants revenue was due to the grant period covering two fiscal years and only a portion of the grant being received in fiscal year 2004 where all of that grant was received in fiscal year 2005. Additional grants were also received in fiscal year 2005. Purchased services decreased in fiscal year 2005 due to the slight reduction in students and using alternative instruction materials for some students. Materials and supplies increased due to the purchase of computers and equipment in fiscal year 2005.

**Budgeting**

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



**Franklin Local Digital Academy  
Muskingum County**

***Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited***

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**Capital Assets and Debt Administration**

Capital Assets

During fiscal year 2005, FLDA invested \$14,539 in computer equipment. Accumulated depreciation during 2005 amounted to \$943; therefore, the capital assets figure net of accumulated depreciation was \$13,596. There was no capital asset balance as of fiscal year ending June 30, 2004.

Debt

FLDA did not incur any debt during the year ended June 30, 2005.

**Current Issues**

The cutting edge nature of this kind of instructional delivery makes for constant change during the first couple of years of operation. The upgrade and maintenance of equipment and technical support are some of the other challenges facing FLDA.

**Contacting the FLDA's Financial Management**

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the FLDA's finances and to show the FLDA's 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 Digital Academy, P. O. Box 428, 360 Cedar Street, Duncan Falls, Ohio 43734, or E-Mail at [fr\\_chris@omeresa.net](mailto:fr_chris@omeresa.net)

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**Franklin Local Digital Academy  
Muskingum County**

**Statement of Net Assets  
June 30, 2005**

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<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$34,583
Accounts Receivable	2,502
Restricted Assets:	
Cash and Cash Equivalents	21,071
Intergovernmental Receivable	3,500
Total Current Assets	<u>61,656</u>
Noncurrent Assets:	
Depreciable Capital Assets, net	13,596
Total Assets	<u><u>75,252</u></u>
 <u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	690
Deferred Revenue	24,398
Due to Primary Government	22,915
Intergovernmental Payable	1,502
Payable from Restricted Assets:	
Accounts Payable	2,181
Due to Primary Government	579
Total Liabilities	<u><u>52,265</u></u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	13,596
Restricted for Other Purposes	21,811
Unrestricted	(12,420)
Total Net Assets	<u><u>\$22,987</u></u>

See accompanying notes to the basic financial statements

**Franklin Local Digital Academy  
Muskingum County**

***Statement of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Year Ended June 30, 2005***

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<u>Operating Revenues:</u>	
Foundation	\$118,518
Charges for Services	<u>2,502</u>
Total Operating Revenues	<u>121,020</u>
<u>Operating Expenses:</u>	
Purchased Services	258,449
Materials and Supplies	15,713
Depreciation	943
Other Operating Expenses	<u>325</u>
Total Operating Expenses	<u>275,430</u>
Operating Loss	(154,410)
<u>Non-Operating Revenues:</u>	
Grants	<u>165,498</u>
Change in Net Assets	11,088
Net Assets at Beginning of Year	<u>11,899</u>
Net Assets at End of Year	<u><u>\$22,987</u></u>

See accompanying notes to the basic financial statements

**Franklin Local Digital Academy  
Muskingum County**

***Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2005***

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Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$142,916
Other Non-Operating Revenues	526
Cash Payments to Suppliers for Goods and Services	(305,285)
Other Operating Expenses	(325)
	<hr/>

Net Cash Used for Operating Activities (162,168)

Cash Flows from Noncapital Financing Activities:

Grants Received 161,998

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets (14,539)

Net Increase in Cash and Cash Equivalents (14,709)

Cash and Cash Equivalents Beginning of Year 70,363

Cash and Cash Equivalents End of Year \$55,654

Reconciliation of Operating Loss to

Net Cash Used for Operating Activities:

Operating Loss (\$154,410)

Adjustments to Reconcile Operating Loss  
to Net Cash Used for Operating Activities:

Depreciation 943

Changes in Assets and Liabilities:

(Increase) Decrease in Assets:

Increase in Intergovernmental Receivable (1,976)

Increase (Decrease) in Liabilities:

Increase in Deferred Revenue 24,398

Increase in Accounts Payable 1,891

Decrease in Due to Primary Government (24,834)

Decrease in Intergovernmental Payable (8,180)

Net Cash Used for Operating Activities (\$162,168)

See accompanying notes to the basic financial statements

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**Franklin Local Digital Academy  
Muskingum County**

***Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005***

**Note 1 - Description of the School**

The Franklin Local Digital Academy (FLDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. FLDA 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 FLDA's tax exempt status. FLDA's mission is to enhance and facilitate student learning by providing state of the art digital 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 City School District, sponsor school district, that desire a specific course not currently offered but is available through online instruction.

FLDA was created on February 20, 2003 by entering a five year contract with the Franklin Local School District (the Sponsor). The Sponsor is responsible for evaluating the performance of FLDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the FLDA with the Treasurer of the Sponsor completing the role of Treasurer for the FLDA.

FLDA operates under the direction of a seven-member Board of Directors made up of five-members from the Franklin Local School District and two-members from the public. The first public member shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of FLDA. The second public member shall be a representative appointed by the Tri-Rivers Educational Computer Association (TRECA). After the first year of operation, the member appointed by TRECA will be replaced by a person who represents the interests of parents and students served by the conversion school. FLDA is a component unit of the Sponsor. The Sponsor appoints a majority of the board and is able to impose its will on the FLDA. The Sponsor can suspend the FLDA's operations for any of the following reasons: 1) The FLDA's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The FLDA's failure to meet generally accepted standards of fiscal management, 3) The FLDA's 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 FLDA and the children it serves. During the year ended June 30 2005, FLDA paid TRECA for providing planning, design, implementation, instructional, administrative, and technical services. Thus, FLDA did not have any employees. FLDA used the facilities of the Sponsor.

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

The financial statements of the FLDA 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. FLDA 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 FLDA's accounting policies are described below.

**A. Basis of Presentation**

The FLDA's 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.

FLDA 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.

**Franklin Local Digital Academy  
Muskingum County**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**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 FLDA 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 FLDA 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. FLDA's 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 FLDA 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 FLDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to FLDA 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 FLDA's contract with its Sponsor. The contract between FLDA 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 FLDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. FLDA had no investments during the fiscal year ended June 30, 2005.

**F. Capital Assets**

FLDA's capital assets during fiscal year 2005 consisted of computers. 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. FLDA maintains a capitalization threshold of five hundred dollars. All of FLDA's reported capital assets are depreciated using the straight-line method over six years of useful life.

**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 FLDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. FLDA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports \$21,811 of restricted net assets, of which none was restricted by enabling legislation.

**H. Restricted Assets**

Restricted assets represent certain resources set aside due to restricted state and federal grant funding.



**Franklin Local Digital Academy  
Muskingum County**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**I. Operating Revenues and Expenses**

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

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

**J. 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 – Change in Accounting Principle**

For the fiscal year ended June 30, 2005, the Digital Academy has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefit Expenditures/ Expenses and Liabilities by Cost Sharing Employers", and early-implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 4 "Deposits" for the required disclosures.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/ expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans. The implementation had no effect on net assets.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets, and had no material effect on the financial statements.

**Note 4 - 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, 2005, the carrying amount of FLDA's deposits was \$55,654 and the bank balance was \$64,270. All 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 5 - Receivables**

At June 30, 2005, receivables consisted of an intergovernmental receivable of \$3,500 for the IDEA-Part B grant and an account receivable of \$2,502 for services provided to non-district students. The receivables are expected to be collected in full within one year.

**Franklin Local Digital Academy  
Muskingum County**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 6 – Contract with TRECA**

FLDA entered into a one-year contract on March 17, 2005, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide FLDA with instructional, supervisory/administrative, and technical services sufficient to effectively implement FLDA's educational plan and FLDA's assessment and accountability plan.
- All personnel providing services to FLDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to FLDA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- FLDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of FLDA.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- In exchange for the services and support (including equipment) provided by TRECA, FLDA shall pay to TRECA a fee of \$60,000 for the 2004-2005 school year and no amount for the 2005-2006 school year.
- FLDA shall pay to TRECA \$3,550 per full-time high school student and \$2,550 per full-time K – 8 student enrolled in FLDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For the fiscal year, \$101,052 was payable under this contract. FLDA paid all but \$1,502 of this amount as of June 30, 2005. This amount is reflected as an Intergovernmental Payable in the financial statements. To obtain TRECA's audited June 30, 2005 financial statements, please contact Scott Armstrong, Treasurer, at [scott@treca.org](mailto:scott@treca.org).

**Note 7 – Capital Asset Note**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Computer Equipment	\$0	\$14,539		\$14,539
Less Accumulated Depreciation	0	(943)		(943)
Capital Assets, Net	\$0	\$13,596	\$0	\$13,596

**Note 8 – Risk Management**

FLDA is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. During the fiscal year ended June 30, 2005, FLDA had liability insurance through the Franklin Local School District's policy.

**Franklin Local Digital Academy  
Muskingum County**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 9 – Purchased Services**

For the period July 1, 2004 through June 30, 2005, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Professional and Technical Services	\$252,245
Audit Services	3,097
Legal Services	3,107
Total	<u>\$258,449</u>

**Note 10 - Related Party Transactions**

Of the seven-member board of FLDA, Franklin Local School District, Sponsor, appoints five-members. FLDA is presented as a component unit of the Sponsor. For fiscal year 2005, \$123,312 was payable to the Sponsor for administrative, fiscal and student services provided to FLDA. FLDA paid all but \$23,494 of this amount as of June 30, 2005. This amount is reflected as a Due to Primary Government in the financial statements.

**Note 11 - Contingencies**

**A. Grants**

FLDA 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 FLDA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the FLDA at June 30, 2005.

**B. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on FLDA, is not presently determinable.

**C. 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 FLDA. These reviews are conducted to ensure FLDA is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The fiscal year 2005 review resulted in the discovery of an overpayment to the FLDA in the amount of \$24,398. This amount has been reflected as deferred revenue and will be deducted from foundation funding in fiscal year 2006.

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**Auditor of State  
Betty Montgomery**

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

Franklin Local Digital Academy  
Muskingum County  
P.O. Box 428  
360 Cedar Street  
Duncan Falls, Ohio 43734

To the Digital Academy Board of Directors:

We have audited the basic financial statements of the Franklin Local Digital Academy, Muskingum County, Ohio (the FLDA), a component unit of the Franklin Local School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated January 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the FLDA's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

**Compliance and Other Matters**

As part of reasonably assuring whether the FLDA's basic 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*.

Franklin Local Digital Academy  
Muskingum County  
Independent Accountants' Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management and the Digital Academy Board of Directors. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

January 10, 2006



**Auditor of State  
Betty Montgomery**

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800-282-0370

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**FRANKLIN LOCAL DIGITAL ACADEMY**

**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  
FEBRUARY 28, 2006**