



**Auditor of State
Betty Montgomery**

**FRANKLIN LOCAL DIGITAL ACADEMY
MUSKINGUM COUNTY**

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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, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2004, 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 December 2, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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

December 2, 2004

**Franklin Local Digital Academy
Muskingum County**

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited***

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, 2004. Readers should also review the basic financial statements and notes to enhance their understanding of the FLDA's financial performance.

Highlights

FLDA was created on February 20, 2003, however, it did not begin providing services to students until October 2003 as a kindergarten through twelfth grade online internet school. 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, 2004. 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.

**Franklin Local Digital Academy
Muskingum County**

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited***

Table 1 provides a summary of FLDA's net assets as of June 30, 2004:

Table 1
Net Assets

<u>Assets:</u>	
Current and Other Assets	<u>\$70,889</u>
<u>Liabilities:</u>	
Current and Other Liabilities	<u>58,990</u>
<u>Net Assets:</u>	
Restricted for Other Purposes	3,000
Unrestricted	<u>8,899</u>
Total Net Assets	<u><u>\$11,899</u></u>

FLDA had net assets of \$11,899 after its first full year of operation. 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 period ended June 30, 2004.

Table 2
Change in Net Assets

<u>Operating Revenues:</u>	
Foundation	\$160,279
<u>Non-Operating Revenues:</u>	
Grants	<u>108,000</u>
Total Revenues	<u>268,279</u>
<u>Operating Expenses:</u>	
Purchased Services	271,388
Materials and Supplies	5,171
Other Operating Expenses	<u>325</u>
Total Expenses	<u>276,884</u>
Total Increase in Net Assets	<u><u>(\$8,605)</u></u>

**Franklin Local Digital Academy
Muskingum County**

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited***

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

FLDA did not have any capital assets during the year ended June 30, 2004. All computer equipment used by the students was provided through FLDA's contract agreement with TRECA.

Debt

FLDA did not incur any debt during the year ended June 30, 2004.

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.

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**Franklin Local Digital Academy
Muskingum County**

**Statement of Net Assets
June 30, 2004**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$67,363
Intergovernmental Receivable	526
Restricted Assets:	
Cash and Cash Equivalents	3,000
Total Assets	<u>70,889</u>
 <u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	980
Due to Primary Government	48,328
Intergovernmental Payable	9,682
Total Liabilities	<u>58,990</u>
 <u>Net Assets:</u>	
Restricted for Other Purposes	3,000
Unrestricted	8,899
Total Net Assets	<u>\$11,899</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, 2004***

<u>Operating Revenues:</u>	
Foundation	\$160,279
Total Operating Revenues	<u>160,279</u>
<u>Operating Expenses:</u>	
Purchased Services	271,388
Materials and Supplies	5,171
Other Operating Expenses	325
Total Operating Expenses	<u>276,884</u>
Operating Loss	(116,605)
<u>Non-Operating Revenues:</u>	
Grants	108,000
Total Non-Operating Revenues	<u>108,000</u>
Change in Net Assets	(8,605)
Net Assets at Beginning of Year	<u>20,504</u>
Net Assets at End of Year	<u><u>\$11,899</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, 2004***

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$160,279
Cash Payments to Suppliers for Goods and Services	(218,095)
Other Operating Expenses	(325)
	<hr/>

Net Cash Used for Operating Activities	(58,141)
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Cash Flows from Noncapital Financing Activities:

Grants Received	108,000
	<hr/>

Net Increase in Cash and Cash Equivalents	49,859
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Cash and Cash Equivalents Beginning of Year	20,504
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Cash and Cash Equivalents End of Year	<u><u>\$70,363</u></u>
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Reconciliation of Operating Loss to

Net Cash Used for Operating Activities:

Operating Loss	(\$116,605)
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Changes in Assets and Liabilities:

(Increase) Decrease in Assets:

Increase in Intergovernmental Receivable	(526)
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Increase (Decrease) in Liabilities:

Accounts Payable	980
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Increase in Due to Primary Government	48,328
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Increase in Intergovernmental Payable	9,682
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Net Cash Used for Operating Activities	<u><u>(\$58,141)</u></u>
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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, 2004
(Continued)**

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 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 2004, FLDA paid purchased services to TRECA for providing the planning, design, implementation, instructional, administrative, and technical services. Thus, FLDA did not have any employees or capital assets. 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, 2004
(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, 2004.

F. 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.

G. Restricted Assets

There are certain resources set aside due to restricted state and federal grant funding.

H. 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.

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.

**Franklin Local Digital Academy
Muskingum County**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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, 2004, the carrying amount of FLDA's deposits was \$70,363 and the bank balance was \$70,541. 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 4 - Receivables

At June 30, 2004, receivables consisted of an intergovernmental receivable of \$526 due from TRECA for the reimbursement of long distance telephone fees paid by FLDA. The receivable is expected to be collected in full within one year.

Note 5 – Contract with TRECA

FLDA entered into a two-year contract on February 21, 2003, 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 2002-2003 school year and \$25,000 for the 2003-2004 school year.
- FLDA shall pay to TRECA \$3,500 per full-time high school student and \$2,500 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, \$115,734 was payable under this contract. FLDA paid all but \$9,682 of this amount as of June 30, 2004. This amount is reflected as an Intergovernmental Payable in the financial statements.

Note 6 – 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, 2004, 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, 2004
(Continued)**

Note 7 - 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 2004, \$117,153 was payable to the Sponsor for administrative, fiscal and student services provided to FLDA. FLDA paid all but \$48,328 of this amount as of June 30, 2004. This amount is reflected as a Due to Primary Government in the financial statements.

Note 8 - 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, 2004.

B. Litigation

A suit was filed alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. 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 LDA. 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 2004 review resulted in no discrepancies.

Note 9 - State School Funding

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

FLDA is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

Note 10 - Subsequent Event

FLDA is not aware of any subsequent events that would have an effect on their financial statements.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL 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, 2004, and have issued our report thereon dated December 2, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the FDLA's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the FDLA's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and the Digital Academy Board of Directors, and is not intended to be, and should not be used by 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

December 2, 2004



**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 10, 2005**