



OHIO AUDITOR OF STATE
KEITH FABER

**FRANKLIN LOCAL COMMUNITY SCHOOL
MUSKINGUM COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Franklin Local Community School, Muskingum County, Ohio (FLCS), a component unit of the Franklin Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise FLCS's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to FLCS's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of FLCS's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

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, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, on December 13, 2018, the Board of Directors approved their portion of a joint resolution with the Franklin Local School District (the District) to permanently close FLCS, as a community school, at the end of the 2018-2019 school year and transfer FLCS's program and assets to the District. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, listed in the Table of Contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2019, on our consideration of FLCS'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 FLCS's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

February 11, 2019

Franklin Local Community School
Muskingum County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

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, 2018. Readers should also review the basic financial statements and notes to enhance their understanding of the FLCS' financial performance.

Highlights

FLCS finished its fifteenth year of operation during fiscal year 2018 as a seventh through twelfth grade community school. FLCS was created on February 20, 2003, however, operations did not begin until October 2003. For the first four years, the school operated as an on-line digital academy. As the school grew and evolved, the Board of Directors determined that a regular instructional atmosphere was more academically effective than online based instruction. Prior to the beginning of 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 2018, but averaged 59 students.

Key highlights for fiscal year 2018 are as follows:

- In total, net position was \$263,161 at June 30, 2018.
- FLCS had operating revenues of \$513,173, operating expenses of \$745,838, and non-operating revenues of \$99,811 for fiscal year 2018. The total change in net position for the fiscal year was a decrease of \$132,854.

Using this Annual Financial Report

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

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how FLCS did financially during the period ended June 30, 2018. 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 position and changes in net position. This change in net position 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, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Table 1 provides a summary of FLCS' net position for 2018 compared to 2017:

Table 1 Net Position			
	2018	2017	Change
<u>Assets:</u>			
Current Assets	\$334,184	\$442,091	(\$107,907)
Capital Assets	22,800	29,858	(7,058)
Total Assets	356,984	471,949	(114,965)
 <u>Liabilities:</u>			
Current and Other Liabilities	93,823	75,934	17,889
 <u>Net Position:</u>			
Investment in Capital Assets	22,800	29,858	(7,058)
Unrestricted	240,361	366,157	(125,796)
Total Net Position	\$263,161	\$396,015	(\$132,854)

FLCS had net position of \$263,161 at fiscal year-end, a decrease of \$132,854 from fiscal year 2017. Total assets decreased \$114,965 during fiscal year 2018. This decrease is primarily attributable to a decrease in cash and cash equivalents of \$111,073, a decrease in prepaid items of \$22, and a decrease in capital assets of \$7,058 that resulted from the depreciation for fiscal year 2018. These decreases were offset by an increase of \$2,927 in intergovernmental receivable and an increase of \$261 in accrued interest receivable.

Total liabilities increased \$17,889 during fiscal year 2018. This increase is primarily attributable to an increase in due to primary government of \$18,078 and in increase in accounts payable of \$88. These increase were offset by a decrease of \$277 in intergovernmental payable.

Franklin Local Community School
Muskingum County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Table 2 reflects the changes in net position for the periods ended June 30, 2018, and June 30, 2017.

Table 2
Change in Net Position

	2018	2017	Change
<u>Operating Revenues:</u>			
Foundation	\$513,173	\$639,029	(\$125,856)
<u>Non-Operating Revenues</u>			
Grants	94,459	96,043	(1,584)
Interest	3,021	3,737	(716)
Other Non-Operating Revenues	2,331	3,814	(1,483)
Total Non-Operating Revenues	99,811	103,594	(3,783)
Total Revenues	612,984	742,623	(129,639)
<u>Operating Expenses:</u>			
Purchased Services	727,068	751,526	(24,458)
Materials and Supplies	6,752	7,876	(1,124)
Depreciation	7,058	7,624	(566)
Other Operating Expenses	4,960	5,968	(1,008)
Total Expenses	745,838	772,994	(27,156)
Total Change in Net Position	(\$132,854)	(\$30,371)	(\$102,483)

During fiscal year 2018, operating revenues decreased \$125,856. This decrease is primarily due to a foundation revenue decrease for special education funding as a result of a decrease in the number of students in certain special education categories as well as an overall decrease in enrollment of FLCS. Student enrollment for fiscal year 2017 averaged 80 students and decreased to an average of 59 students in fiscal year 2018. Total non-operating revenues decreased \$3,783 primarily as a result of the FLCS's receiving less grant monies in fiscal year 2018 compared to fiscal year 2017.

During fiscal year 2018, operating expenses decreased \$27,156. The decrease in operating expense is primarily due to decreases in purchased services. The decrease in purchased services is due to the reduced costs of services provided by the FLCS's sponsor, the Franklin Local School District as a result of a decrease in enrollment.

Budgeting

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

Franklin Local Community School
Muskingum County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Capital Assets and Debt Administration

Capital Assets

Accumulated depreciation at June 30, 2018, amounted to \$183,717; therefore, the capital assets, net of accumulated depreciation, were \$22,800. See Note 4 for more information.

Debt

FLCS did not incur any debt during fiscal year 2018.

Current Issues

As the Franklin Local Community School 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. Student enrollment decreased approximately 20 students in fiscal year 2018 compared to fiscal year 2017. With the decrease in enrollment, FLCS has attempted to decrease expenses especially in purchased services. The Community School still maintains a positive net position, but with the decrease in funding the Board of Directors and administration of the community school must adjust accordingly in order to preserve financial stability.

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 Scott M. Paul, Treasurer, Franklin Local Community School, P.O. Box 428, 360 Cedar Street, Duncan Falls, Ohio 43734. Or E-Mail at scott.paul@franklinlocalschools.org.

Franklin Local Community School
Muskingum County, Ohio
Statement of Net Position
June 30, 2018

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$279,842
Intergovernmental Receivable	47,138
Accrued Interest Receivable	3,723
Prepaid Items	3,481
Total Current Assets	<u>334,184</u>
Noncurrent Assets:	
Depreciable Capital Assets	<u>22,800</u>
Total Assets	<u>356,984</u>
<u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	88
Intergovernmental Payable	65
Due to Primary Government	93,670
Total Liabilities	<u>93,823</u>
<u>Net Position:</u>	
Investment in Capital Assets	22,800
Unrestricted	240,361
Total Net Position	<u>\$263,161</u>

See accompanying notes to the basic financial statements.

Franklin Local Community School
Muskingum County, Ohio
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

<u>Operating Revenues:</u>	
Foundation	<u>\$513,173</u>
<u>Operating Expenses:</u>	
Purchased Services	727,068
Materials and Supplies	6,752
Depreciation	7,058
Other Operating Expenses	4,960
Total Operating Expenses	<u>745,838</u>
Operating Loss	<u>(232,665)</u>
<u>Non-Operating Revenues:</u>	
Grants	94,459
Interest	3,021
Other Non-Operating Revenues	2,331
Total Non-Operating Revenues	<u>99,811</u>
Change in Net Position	(132,854)
Net Position at Beginning of Year	<u>396,015</u>
Net Position at End of Year	<u><u>\$263,161</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, 2018

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Foundation	\$512,132
Other Non-Operating Revenues	2,331
Cash Payments to Suppliers for Goods and Services	(715,567)
Other Operating Expenses	(4,960)
Net Cash Used for Operating Activities	<u>(206,064)</u>

Cash Flows from Noncapital Financing Activities:

Grants Received	92,231
Interest	2,760
Net Cash Provided by Noncapital Financing Activities	<u>94,991</u>

Net Decrease in Cash and Cash Equivalents	(111,073)
Cash and Cash Equivalents Beginning of Year	390,915
Cash and Cash Equivalents End of Year	<u>\$279,842</u>

Reconciliation of Operating Loss to

<u>Net Cash Used for Operating Activities:</u>	
Operating Loss	(\$232,665)

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

Depreciation	7,058
Other Non-Operating Revenues	2,331

Changes in Assets and Liabilities:

(Increase) Decrease in Assets:	
Prepaid Items	22
Intergovernmental Receivable	(699)
Increase (Decrease) in Liabilities:	
Accounts Payable	88
Intergovernmental Payable	(277)
Due to Primary Government	18,078

Net Cash Used for Operating Activities	<u><u>(\$206,064)</u></u>
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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, 2018

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 § 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. Due to the changing needs of students within the Franklin Local School District (the Sponsor), the name was changed to the FLCS on July 1, 2007. At that time, a new five year contract was agreed upon with the Sponsor. FLCS entered into a new five year contract with the Sponsor on May 18, 2017, with the contract commencing on July 1, 2017. 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 (Board) 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 is responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget and 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, 2018, 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. 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, 2018

A. Basis of Presentation

The FLCS' basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; 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 position, 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 position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. 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 position.

F. Capital Assets

FLCS' capital assets during fiscal year 2018 consisted of computers, computer equipment, a phone system, a refrigerator, a copier, and furniture. 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 acquisition value 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. Equipment is depreciated over six to ten years and furniture is depreciated over twenty years of useful life.

Franklin Local Community School
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

H. Net Position

Net position represents the difference between assets and liabilities. Net position is 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.

I. 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.

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 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, FLCS's deposits may not be returned. FLCS does not have a deposit policy for custodial credit risk. At June 30, 2018, the bank balances of FLCS's deposits totaled \$620,398. \$450,000 of the bank balances was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$170,398 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018
Equipment	\$192,632	\$0	\$0	\$192,632
Furniture and Fixtures	13,885	0	0	13,885
Less Accumulated Depreciation	(176,659)	(7,058)	0	(183,717)
Capital Assets, Net	<u>\$29,858</u>	<u>(\$7,058)</u>	<u>\$0</u>	<u>\$22,800</u>

FLCS's capital assets include assets that are not currently being used, however, it has not been determined whether these assets will be placed back in service or sold.

Franklin Local Community School
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 5 – Receivables

Receivables at June 30, 2018, consisted of intergovernmental grants and accrued interest. All receivables are considered collectible in full, due to the stable condition of State programs and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

	Amounts
IDEA-B	\$10,903
Title I	17,403
Title II-A	9,293
Title IV-A	8,840
State Foundation Adjustments	699
 Total	 \$47,138

Note 6 - Risk Management

FLCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2018, FLCS contracted with Schools for Ohio Risk Sharing Authority for the insurance shown as follows:

Educational General Liability:	
General Annual Aggregate Limit	\$17,000,000
Bodily Injury and Property Damage	15,000,000
Products – Completed Operations Limit	15,000,000
Educators’ Legal Liability:	
Wrongful Acts Coverage Per Occurrence	15,000,000
Wrongful Acts Coverage Aggregate	15,000,000
Crime Coverage:	
Forgery or Alteration	\$1,000,000
Computer Crime	1,000,000
Employee Theft	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2017.

Franklin Local Community School
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 7 - Purchased Services

For the period July 1, 2017, through June 30, 2018, purchased service expenses were for the following services:

Type	Amount
Professional and Technical Services	\$719,667
Audit Services	7,401
Total	\$727,068

Note 8 - 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 2018, \$762,604 was provided by the Sponsor for administrative, fiscal, and student services provided to FLCS. FLCS paid all but \$93,670 of this amount as of June 30, 2018. This amount is reflected as a Due to Primary Government in the financial statements.

	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Other Instruction (1400 and 1900 Function Codes)	Support Services (2000 Function Codes)	Non- Instructional (3000 through 7000 Function Codes)	Total
<i>Direct expenses:</i>						
Professional and technical services (410 object codes)	\$283,549	\$169,351	\$12,376	\$131,941	\$9,000	\$606,217
Travel/Meeting Expense (430 object codes)	1,205	0	0	0	0	1,205
Supplies (500 object codes)	2,666	0	0	297	0	2,963
Other direct costs (All other object codes)	0	0	0	58,549	0	58,549
Total expenses	\$287,420	\$169,351	\$12,376	\$190,787	\$9,000	\$668,934

Expenses are presented on a cash basis.

Note 9 - 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, 2018.

Franklin Local Community School
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

B. Ohio Department of Education Enrollment Review

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code § 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. As of the date of this report, ODE has not performed an FTE Review on FLCS for fiscal year 2018.

After year ending June 30, 2018, there were multiple adjustments from the State to the FLCS foundation settlement report that date back to fiscal year 2018. The total of these adjustments indicated that FLCS was underpaid by \$699, which is shown as an intergovernmental receivable as of June 30, 2018.

Note 10 – Subsequent Event

On December 13, 2018, the Board of Directors approved their portion of a joint resolution with the Franklin Local School District to permanently close the School, as a community school, at the end of the 2018-2019 school year and transfer the School's program and assets to the District so that, beginning with the 2019-2020 school year, the School can be operated directly by the Franklin Local School District Board of Education as a school of the District. The joint agreement is on the District's agenda of the February 2019 meeting for the District Board of Education's approval.

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Franklin Local Community School, Muskingum County, Ohio (FLCS), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise FLCS's basic financial statements and have issued our report thereon dated February 11, 2019 wherein we noted the Board of Directors approved their portion of a joint resolution with the Franklin Local School District (the District) to permanently close FLCS, as a community school, at the end of the 2018-2019 school year and transfer FLCS's program and assets to the District.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered FLCS's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of FLCS's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of FLCS's financial statements. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether FLCS'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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of FLCS's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering FLCS's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

February 11, 2019

OHIO AUDITOR OF STATE KEITH FABER



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
FEBRUARY 21, 2019**