



**Auditor of State
Betty Montgomery**

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Electronic Classroom of Tomorrow
Franklin County
3700 South High Street, Suite 125
Columbus, Ohio 43207

To the Board of Directors:

We have audited the accompanying basic financial statements of the Electronic Classroom of Tomorrow, Franklin County, Ohio, (ECOT) as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of ECOT'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 Electronic Classroom of Tomorrow, Franklin County, Ohio, as of June 30, 2003, 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.

As described in Note 3, during the year ended June 30, 2003, ECOT implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis* for State and Local Governments.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2005, on our consideration of ECOT'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.

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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.

We conducted our audit to form an opinion on the basic financial statements. The Federal Awards Receipts and Expenditures Schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

May 12, 2005

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

The discussion and analysis of the Electronic Classroom of Tomorrow's (ECOT) financial performance provides an overall view of the financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the ECOT's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the ECOT's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

The fiscal year 2003 was a year of increased numbers of students and better management of expenses related to those students, which translated to increased net assets and cash.

Some of the management of expenses was a renegotiation of payments to Xerox, one of our biggest vendor relationships. Additionally, ECOT negotiated for lower Internet Service Provider (ISP) costs.

ECOT changed from paying directly for phone lines for each student to a connectivity allowance which allowed for lower costs by changing from business phone rates to residential rates. This, additionally, allowed ECOT to avoid being ultimately responsible for payment of the phone lines in the event that there was misuse of the service or relocation without payment for the lines.

ECOT also changed vendors for repair, maintenance, and deployment of computers. This resulted in a large savings of cost and improved service. Additionally, with the reduced costs of technology, new vendors for the purchase of computers, and increased size of the potential for business that ECOT represents to vendors, ECOT was able to negotiate lower pricing on new computers.

Additionally, ECOT was able to take advantage of the economy of scale principle so that with the increase in students the costs associated with the new students does not increase proportionately.

ECOT has used some of the increase in net assets to improve student services by decreasing the student to teacher ratio as well as providing new and improved curriculum and technology.

ECOT plans to utilize the increase in net assets to continue to improve student services and to replace computers and technology, which is quickly becoming obsolete.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand ECOT as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the whole entity, presenting both an aggregate view of the ECOT's finances and a longer-term view of those finances.

Reporting the ECOT as a Whole

Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)
(Continued)*

These statements view ECOT as a whole and look at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report ECOT'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 ECOT has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the ECOT's required educational programs and other factors.

In the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets, ECOT has only business-type activities.

- Business-Type Activities – These services are provided on a charge for goods or services basis used to recover all of the expenses of the goods or services provided. ECOT educational programs are reported as business activities.

ECOT as a Whole

Recall that the Statement of Net Assets provides the perspective of ECOT as a whole. Table 1 provides a summary of ECOT's net assets for 2003 compared to 2002:

**Table 1
Net Assets
(In Thousands)**

	<u>2003</u>	<u>2002</u>	<u>Percentage Change</u>
<u>Business-Type Activities</u>			
Assets			
Current and Other			
Assets	3,808	2,007	89.7%
Capital Assets	<u>4,070</u>	<u>2,924</u>	39.2%
Total Assets	<u>7,878</u>	<u>4,931</u>	59.8%
Liabilities			
Long-term Liabilities	1,558	1,785	(12.7)%
Other Liabilities	<u>5,484</u>	<u>4,804</u>	14.2%
Total Liabilities	<u>7,042</u>	<u>6,589</u>	(6.9)%
Net Assets			
Invested in Capital			
Assets Net of Debt	1,337	809	65.3%
Unrestricted	<u>(501)</u>	<u>(2,467)</u>	79.7%
Total Net Assets	<u>836</u>	<u>(1,658)</u>	150.0%

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)
(Continued)*

ECOT as a Whole (Continued)

Total Net Assets increased \$2.49 million or 150 percent. Equity in pooled cash and cash equivalents increased \$2.154 million.

Table 2 shows the changes in net assets for fiscal year 2003 compared to 2002.

**Table 2
(In Thousands)**

	<u>2003</u>	<u>2002</u>	<u>Percentage Change</u>
Business-Type Activities			
Revenue			
Operating Revenue and Other Revenues	\$22,406	\$15,497	44.5%
Grants	<u>1,232</u>	<u>647</u>	90.4%
Total Revenues	<u>23,638</u>	<u>16,144</u>	46.4%
Program Expenses			
Salaries	5,285	3,536	49.5%
Fringe Benefits	1,421	760	87.0%
Purchased Services	10,093	5,832	73.0%
Materials and Supplies	2,953	2,678	10.3%
Depreciation, Interest and Other Expenses	<u>1,392</u>	<u>1,354</u>	2.8%
Total Expenses	<u>21,144</u>	<u>14,160</u>	49.3%
Increase in Net Assets	<u>2,494</u>	<u>1,984</u>	25.7%
Net Assets at July 1	<u>(1,658)</u>	<u>(3,641)</u>	54.5%
Net Assets at June 30	<u>836</u>	<u>(1,657)</u>	150.0%

Salaries comprise 25 percent of expenses. Interest expense was 0.8 percent. Interest expense was attributable to the capital leases for equipment.

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the sponsor's contract with the school. The contract between ECOT and its Sponsor (Lucas County ESC) does not prescribe an annual budget requirement, but sets forth a requirement to prepare a five year forecast which is to be updated annually.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)
(Continued)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003 the ECOT had \$4.070 million invested in equipment, net of accumulated depreciation. Table 3 shows fiscal 2003 balances compared to 2002:

**Table 3
Capital Assets at June 30
(Net of Depreciation, in Thousands)**

	<u>Business-Type Activities</u>		<u>Percentage Change</u>
	<u>2003</u>	<u>2002</u>	
Computer Equipment	\$3,788	\$2,776	36.5%
Furniture and Equipment	<u>282</u>	<u>148</u>	90.5%
Totals	<u>\$4,070</u>	<u>\$2,924</u>	39.2%

ECOT acquired computer equipment valued at \$2.2 million. Depreciation expense for fiscal year 2003 was \$1,060,987.

Debt

At June 30, 2003 the ECOT had \$2.732 million in capital leases, \$1.761 million due within one year. Table 4 summarizes capital leases outstanding. Detailed information regarding capital leases activity is included in the notes to the basic financial statements. (Note 14)

**Table 4
Outstanding Debt, at Year End
(In Thousands)**

	<u>2003</u>	<u>2002</u>	<u>Percentage Change</u>
Capital Leases	<u>\$2,732</u>	<u>\$2,115</u>	29.2%
Total	<u>\$2,732</u>	<u>\$2,115</u>	29.2%

For the Future

As the preceding information shows, the ECOT heavily depends on foundation monies. However, financially the future is not without challenges. Thus management must diligently plan expenses, staying carefully within the ECOT's five-year plan. Additional revenues must not be treated as a windfall to expand programs, but as an opportunity to extend the time horizon of the five-year plan.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)
(Continued)*

Contacting the ECOT's Financial Management

This financial report is designed to provide the citizens, and taxpayers of Ohio, and our investors and creditors with a general overview of the ECOT's finances and to show ECOT's accountability for the money it receives. If you have questions about this report or need additional information contact Richard Cox, Treasurer of ECOT, 2275 Collingwood Blvd, Toledo, OH 43620, or e-mail at lc_rac@nwoca.org.

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**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003**

Assets:

Current Assets:	
Cash and Cash Equivalents with Fiscal Agent	\$ 3,147,068
Receivables:	
Accounts	51,665
Intergovernmental	256,348
Prepaid Items	<u>6,873</u>
Total Current Assets	3,461,954
Noncurrent Assets:	
Security Deposits	346,642
Capital Assets, Net	<u>4,069,845</u>
Total Noncurrent Assets	<u>4,416,487</u>
Total Assets	<u>7,878,441</u>

Liabilities:

Current Liabilities:	
Accounts Payable	2,666,764
Accrued Wages and Benefits Payable	303,550
Intergovernmental Payable	752,097
Capital Leases Payable	<u>1,761,655</u>
Total Current Liabilities	5,484,066
Long-Term Liabilities:	
Compensated Absences Payable	36,484
Intergovernmental Payable	550,000
Capital Leases Payable	<u>971,109</u>
Total Long-Term Liabilities	<u>1,557,593</u>
Total Liabilities	<u>7,041,659</u>

Net Assets:

Investment in Capital Assets, Net of Related Debt	1,337,081
Unrestricted	<u>(500,299)</u>
Total Net Assets	<u>\$ 836,782</u>

See Accompanying Notes to the Basic Financial Statements

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Operating Revenues:

Foundation Payments	\$ 20,542,533
Disadvantaged Pupil Impact Aid	495,862
Special Education	1,351,206
Food Services	98
Classroom Fees	1,010
Other Operating Revenues	166
Total Operating Revenues	<u>22,390,875</u>

Operating Expenses:

Salaries	5,285,256
Fringe Benefits	1,420,948
Purchased Services	10,092,931
Materials and Supplies	2,953,082
Depreciation	1,060,987
Other Operating Expenses	172,836
Total Operating Expenses	<u>20,986,040</u>

Operating Income	<u>1,404,835</u>
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Non-Operating Revenues and (Expenses):

Grants	1,232,963
Interest	13,695
Contributions and Donations	468
Interest and Fiscal Charges	<u>(157,288)</u>
Total Non-Operating Revenues and (Expenses)	<u>1,089,838</u>

Change in Net Assets	2,494,673
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Net Assets at Beginning of Year (Note 3)	<u>(1,657,891)</u>
Net Assets at End of Year	<u><u>\$836,782</u></u>

See Accompanying Notes to the Basic Financial Statements

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 21,695,762
Cash Received from Customers	98
Cash Received from Classroom Fees	1,010
Cash Received from Other Operating Sources	394
Cash Payments to Suppliers for Goods and Services	(12,331,254)
Cash Payments to Employees for Services	(5,197,352)
Cash Payments for Employee Benefits	(1,237,379)
Cash Payments for Other Operating Uses	(172,901)
Net Cash Provided by Operating Activities	<u>2,758,378</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Grants	1,126,154
Cash Received Contributions and Donations	468
Net Cash Provided by Noncapital Financing Activities	<u>1,126,622</u>

Cash Flows from Capital and Related Financing Activities:

Cash Received from Sale of Fixed Assets	3,403
Cash Payments for Capital Acquisitions	(195,292)
Cash Payments for Principal Payments	(1,395,628)
Cash Payments for Interest Payments	(157,288)
Net Cash Used for Capital and Related Financing Activities	<u>(1,744,805)</u>

Cash Flows from Investing Activities:

Cash Received from Interest on Investments	<u>13,695</u>
--	---------------

Net Increase in Cash and Cash Equivalents	2,153,890
Cash and Cash Equivalents at Beginning of Year	993,178
Cash and Cash Equivalents at End of Year	<u>\$ 3,147,068</u>

Reconciliation of Operating Income
to Net Cash Provided by Operating Activities:

Operating Income	\$1,404,835
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Adjustments to Reconcile Operating Income
to Net Cash Provided by Operating Activities:

Depreciation	1,060,987
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	220,372
Increase in Intergovernmental Receivable	(250,648)
Decrease in Prepaid Items	16,710
Decrease in Security Deposits	472,602
Increase in Accounts Payable	294,832
Decrease in Maintenance Contacts Payable	(172,996)
Increase in Accrued Wages Payable	89,100
Decrease in Intergovernmental Payable	(399,864)
Increase in Compensated Absences Payable	22,448
Net Cash Provided by Operating Activities	<u>\$ 2,758,378</u>

See Accompanying Notes to the Basic Financial Statements

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**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Electronic Classroom of Tomorrow (ECOT) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. ECOT's objective is to lead Ohio in becoming the nation's premier, performance driven telecommunity school. ECOT recognizes the role of parents in the education of children is paramount. The role of ECOT is to support the parent in delivering the best resources and tools necessary for student success. ECOT wishes to make distance learning accessible to all of Ohio's students regardless of mental, emotional, or physical disability, regardless of social-economic or geographical hardship, and regardless of academic ability or family background. ECOT, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. ECOT may acquire facilities as needed and contract for any services necessary for the operation of the school.

ECOT was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five academic years commencing after July 1, 2000. The Sponsor is responsible for evaluating the performance of ECOT and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of ECOT, (see Note 11).

ECOT operates under the direction of a seven-member Board of Directors (the Directors). The Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Directors control the one instructional/support facility staffed by fifty-four (54) noncertified and one hundred thirty one (131) certificated full time teaching personnel who provide services to 4,038 students.

ECOT contracts with Altair Learning Management, LLC for a variety of services including management of personnel and human resources, the program of instruction, purchasing, strategic planning, public relations, financial report, recruiting, compliance issue, budgets, contracts, and equipment and facilities (See Note 17).

Reporting Entity A reporting entity is comprised of the primary government, and other organizations that are included to insure that the financial statements are not misleading. The primary government of ECOT consists of all funds, departments, boards, and agencies that are not legally separate from ECOT. For ECOT, this includes regular, special instruction, support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, and operation and maintenance of plant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of ECOT have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. ECOT also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of ECOT's accounting policies.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

ECOT's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

Government-wide Financial Statements

The statement of net assets and the statement of revenues, expenses, and changes in net assets display information about ECOT as a whole. These statements include the financial activities of the primary government which are considered business-type activities.

B. Measurement Focus

The financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of ECOT are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets present increases and decreases in net assets. The Statement of Cash Flows provides information about how ECOT finances and meets the cash flow needs of its activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The financial statements use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions

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.

Non-exchange transactions, in which ECOT receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which ECOT must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to ECOT on a reimbursement basis.

ECOT currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Amounts awarded under federal grants and entitlements for the 2003 school year totaled \$1,232,963. ECOT also received grants from the Ohio Department of Education for EMIS and School Net Professional Development.

Amounts awarded under the above programs for the 2003 school year totaled \$23,622,564.

Expenses/Expenditures

On the accrual basis of accounting, 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 budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in ECOT's contract with its Sponsor. The contract between ECOT and its Sponsor does not prescribe an annual budget requirement, but sets forth a requirement to prepare a five year forecast which is to be updated annually.

E. Cash and Investments

All monies received by ECOT are accounted for by ECOT's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate accounts in ECOT's name. Monies for ECOT are maintained in these accounts or temporarily used to purchase short-term investments.

To improve cash management, all cash received by ECOT is pooled in a central bank account. Monies are maintained in this account or temporarily used to purchase short-term investments.

Interest revenue credited during fiscal year 2003 amounted to \$13,695.

For presentation on the financial statements investments with an original maturity of three months or less at the time they are purchased by ECOT are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by ECOT.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

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. ECOT maintains a capitalization threshold of \$500. ECOT does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest is not capitalized on fixed assets.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful live of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Equipment	5
Computer Equipment	5

H. Compensated Absences

Paid time off benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that ECOT will compensate the employees for the benefits through paid time off or some other means. ECOT records a liability for vested sick leave up to a maximum of ten days for twelve month employees.

I. Security Deposits

ECOT entered into several leases for the use of a building for administration, for computer start-up costs and computer equipment, and for use of a certain phone company for which security deposits were required to be paid at the signing of the agreement. The amounts held by the respective lessors/vendors were \$346,642.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the financial statements.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by ECOT or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. ECOT presently has no restricted net assets.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2003.

3. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2003, ECOT has implemented GASB Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments"; GASB No. 37 "Basic Financial Statements for State and Local Governments; and Omnibus", GASB No. 38, "Certain Financial Statement Note Disclosures. At June 30, 2002, there was no effect on net assets as a result of implementing GASB 34, 37 and 38.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

4. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments 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, 2003, the carrying amount of the ECOT's deposits was a deficit of \$673,183 and the bank balance was \$128,631. Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

ECOT's investments are categorized to give an indication of the level of risk assumed by ECOT at fiscal year end. Category 1 includes investments insured or registered for which the securities are held by ECOT or its agent in the ECOT's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ECOT's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the ECOT's name. The ECOT's investments totaling \$3,820,251 (reported amounted at fair value), which are maintained in a Business Sweep Account and a Money Market Sweep Account (repurchase agreement), are included in Category 3.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

5. RECEIVABLES

Receivables at June 30, 2003, consisted of accounts and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full within one year. A summary of the principal items of receivables follows:

<u>Receivables</u>	<u>Amount</u>
Accounts	\$51,665
Intergovernmental:	
IDEA - B '03 - Special Ed	36,518
Title I '03 - Targeted Assistance	82,610
Title V '03 - Innovative Programs	13,850
Title IVA '03 - Safe & Drug Free	5,197
Title IID '03 - Technology	13,173
Charter School Subgrant	<u>105,000</u>
Total Intergovernmental Receivables	<u>256,348</u>
Total Receivables	<u>\$308,013</u>

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Balance 6/30/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/03</u>
Business-Type Activities				
Computer Equipment	\$ 4,352,175	\$ 2,057,163	(\$ 3,781)	\$ 6,405,557
Furniture and Equipment	177,126	153,454	-	330,580
Total Capital Assets at Historical Cost	4,529,301	2,210,617	(3,781)	6,736,137
Less Accumulated Depreciation:				
Computer Equipment	(1,576,487)	(1,042,060)	378	(2,618,169)
Furniture and Equipment	(29,196)	(18,927)	-	(48,123)
Total Accumulated Depreciation	<u>(1,605,683)</u>	<u>(1,060,987)</u>	<u>378</u>	<u>(2,666,292)</u>
Capital Assets, Net	<u>\$ 2,923,618</u>	<u>\$ 1,149,630</u>	<u>(\$ 3,403)</u>	<u>\$ 4,069,845</u>

7. RISK MANAGEMENT

A. Insurance Coverage

ECOT is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, ECOT contracted with CNA Insurance for property and general liability insurance.

The School Leaders Errors and Omissions policy covers errors and omissions. This policy is protected by National Union Fire Insurance Company of Pittsburgh, PA. with a \$2,000,000 aggregate limit and a \$5,000 deductible.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

A. Insurance Coverage (Continued)

The CyberLiability Plus Insurance policy covers claims arising from ECOT's cyberspace activities. This policy is protected by Gulf Underwriters Insurance Company with a \$1,000,000 single occurrence limit, a \$2,000,000 aggregate limit, and a \$10,000 deductible.

B. Workers' Compensation

ECOT pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

ECOT contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and ECOT is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. ECOT's required contribution for pension obligations to SERS for fiscal years June 30, 2003, 2002, and 2001 were \$83,592, \$33,463 and \$41,637, respectively; 78 percent has been paid for fiscal year 2003 and 100 percent has been paid for 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount of \$18,390 is recorded as a liability.

B. State Teachers Retirement System

ECOT contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio, 43215-3371.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and ECOT is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. ECOT's required contributions for pension obligations to STRS for fiscal years June 30, 2003, 2002 and 2001 were \$508,622, \$181,822, and \$213,945, respectively; 76.1 percent being paid for 2003 and 100.00 percent has been contributed for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount of \$121,560 is recorded as a liability.

9. POSTEMPLOYMENT BENEFITS

ECOT provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For ECOT, this amount equaled \$37,841 for the fiscal year ended June 30, 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002. For fiscal year June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal period, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay had been established at \$14,500. For ECOT, the amount to fund health care benefits, including surcharge, was \$138,154 for the fiscal year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits as \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criterion for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, who are not on a twelve month contract, do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred days for classified employees and two hundred ten days for certified employees. The maximum amount of days to be paid at retirement is based upon the total years of service at the time of retirement.

B. Employee Medical, Dental and Vision Benefits

ECOT has contracted through an independent agent to provide employee medical, dental, and vision insurance to its full time employees who work 25 or more hours per week. ECOT pays a portion of the monthly premiums for all selected coverage (medical, dental and/or vision).

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security. As of June 30, 2003, ECOT has no employees or members of the governing board which contribute to Social Security.

11. FISCAL AGENT

The sponsor agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of Electronic Classroom of Tomorrow. As part of this agreement, ECOT shall compensate the Lucas County Educational Service Center two percent (2%) of all funds in the treasurer's custody that were paid to ECOT from the State of Ohio. The total contract payment of \$399,781 was paid in full during the fiscal year.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of ECOT:

- Maintain custody of all funds received by ECOT in segregated accounts separate from Lucas County ESC or any other community school's funds;
- Maintain all books and accounts of ECOT;
- Maintain all financial records of all state funds of ECOT and follow State Auditor procedures for receiving and expending state funds;
- Assist ECOT in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of ECOT in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. FISCAL AGENT (Continued)

- Pay obligations incurred by ECOT within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of ECOT so long as the proposed expenditure is within the approved budget and funds are available.

12. PURCHASED SERVICES

For the period July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 4,874,298
Property Services	1,547,723
Travel Mileage/Meeting Expense	411,742
Communications	2,951,374
Utilities	17,549
Contracted Craft or Trade Services	150,909
Tuition	3,336
Other Purchased Services	<u>136,000</u>
 Total Purchased Services	 <u>\$ 10,092,931</u>

13. LONG-TERM LIABILITIES

The changes in ECOT's long-term obligations during the fiscal year consist of the following:

	<u>Principal Outstanding 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/03</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	\$ 14,036	\$ 36,484	\$ (14,036)	\$ 36,484	\$ -
Intergovernmental Payable – (see note 18.C)	1,650,000	202,097	(550,000)	1,302,097	752,097
Capital Lease Payable- (see note 14)	<u>2,114,392</u>	<u>2,014,000</u>	<u>(1,395,628)</u>	<u>2,732,764</u>	<u>1,761,655</u>
 Long-Term Liabilities	 <u>\$3,778,428</u>	 <u>\$2,252,581</u>	 <u>(\$1,959,664)</u>	 <u>\$4,071,345</u>	 <u>\$ 2,513,752</u>

Compensated absences represents ECOT's contractually required vested sick leave which ECOT will pay when an employee leaves services. Intergovernmental payable represents a liability to the Ohio Department of Education for an overpayment of state foundation funds. (See Note 18c).

14. CAPITAL LEASES

ECOT entered into numerous capital leases to acquire a computer server, computer equipment and telephone system. The lease terms range from three to five years and the amounts paid represent more than 90% of the fair market value of the equipment. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of the future minimum lease payments as of the inception date.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

14. CAPITAL LEASES (Continued)

The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30	Capital Leases Payable
2004	\$ 1,912,981
2005	1,010,667
2006	<u>18,055</u>
Total minimum Lease Payments	2,941,703
Less: Amount Representing Interest	<u>(208,939)</u>
Total	<u>\$ 2,732,764</u>

15. OPERATING LEASES

ECOT entered into a lease agreement with Bob Evans Farms, Inc. for the use of space located in what is commonly known as Southland Mall. The term of the original leases commenced August 1, 2002 and will terminate July 31, 2003. Additional space was leased throughout the fiscal year, with the subsequent leases all terminating July 31, 2003. ECOT entered into new lease agreements with terms commencing on August 1, 2003 and terminating on July 31, 2004.

ECOT also entered into a lease agreement with St. Vincent DePaul for the use of property as extra storage. The term of the lease commenced February 1, 2003 and will terminate June 30, 2005. The lease has an option to extend the length of the lease to June 30, 2007.

Total lease payments were \$103,519 for the year ended June 30, 2003.

The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30	
2004	\$124,531
2005	<u>21,743</u>
Total Minimum lease Payments	<u>\$146,274</u>

16. STATE SCHOOL FUNDING DECISION

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

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

17. MANAGEMENT COMPANY

ECOT contracts with Altair Learning Management, LLC (Altair) for a variety of services including management of personnel and human resources, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities.

Per the management agreement with ECOT, Altair is entitled to 10% of all revenues received. The management fee for the fiscal year ended 2003 was \$2,419,878, including interest of \$98,201. The ECOT owes Altair \$767,716 at June 30, 2003. This amount is recorded in the accompanying financial statements as current account payables.

18. CONTINGENT LIABILITIES

A. Grants

ECOT receives significant 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of ECOT at June 30, 2003.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools 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 oral arguments were heard on November 18, 2003. The effect of this suit, if any, on ECOT is not presently determinable.

C. School Funding

The Ohio Department of Education (ODE) conducts reviews of student enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE's review of fiscal year 2001 resulted in an agreement to adjust ECOT's 2001 state funding by \$1,650,000. The overpayment is reduced from ECOT's foundation allocation in equal monthly installments for the next 24 months. The balance outstanding at June 30, 2003 is \$1,100,000 and is reported as an intergovernmental payable in the financial statements.

ODE's review of the student enrollment data and full-time equivalency calculations for ECOT for the fiscal year ended June 30, 2003 is still pending completion. There is potential for an additional liability from ECOT to ODE after the completion of this review. The amount of the potential liability cannot be determined at this time.

D. Tax Exempt Status

ECOT has not obtained, but is seeking approval for its' tax exempt status under Section 501(c)(3) of the Internal Revenue Code. ECOT has not made provision for any potential tax liability from not obtaining its Section 501(c)(3) tax exempt status.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to States (IDEA Part B)	6B SF 2002 6B SF 2003	84.027	\$ 69,771 135,408 <u>205,179</u>	\$ 71,212 157,896 <u>229,108</u>
Grants to Local Educational Agencies (ESEA Title I)	C1 S1 2002 C1 S1 2003	84.010	106,813 504,120	263,306 523,430
Drug Free Schools	DR S1 2003	84.186	2,021	3,609
Eisenhower Professional Development Grants (Title II)	MS S1 2002	84.281	2,943	3,867
Ohio Public Charter School Program	CH S1 2003	84.282	45,000	0
Innovative Educational Program Strategies	C2 S1 2002 C2 S1 2003	84.298	10,343 3,040	18,493 3,040
Title II D Technology	TJ S1 2003	84.318	2,892	18,163
Class Size Reduction	CR S1 2002	84.340	5,648	0
Improving Teacher Quality	TR S1 2003	84.367	<u>215,604</u>	<u>215,604</u>
Total U.S. Department of Education			<u>1,103,603</u>	<u>1,278,620</u>
Total Federal Awards			<u><u>\$1,103,603</u></u>	<u><u>\$1,278,620</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
JUNE 30, 2003**

A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of ECOT's federal award programs. The Schedule has been prepared on the cash basis of accounting.



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*

Electronic Classroom of Tomorrow
Franklin County
3700 South High Street, Suite 125
Columbus, Ohio 43207

To the Board of Directors:

We have audited the basic financial statements of Electronic Classroom of Tomorrow, Franklin County, Ohio, (ECOT) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 12, 2005, wherein we noted ECOT implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in the Comptroller General of the United State's *Government Auditing Standards*.

Internal Control Over Financial Reporting

In the planning and performing our audit, we considered ECOT's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design operation of the internal control over financial reporting that, in our judgment, could adversely affect ECOT's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-001 and 2003-003 through 2003-009.

A material weakness is a reportable condition in which the design and 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2003-001 and 2003-004 listed above to be material weaknesses. In a separate letter to ECOT 's management dated May 12, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether ECOT'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 statements 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 test disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2003-001 through 2003-002. In a separate letter to ECOT's management dated May 12, 2005, we reported a matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Directors, federal awarding agencies, and pass-through entities. 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

May 12, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Electronic Classroom of Tomorrow
Franklin County
3700 South High Street, Suite 125
Columbus, Ohio 43207

To the Board of Directors:

Compliance

We have audited the compliance of Electronic Classroom of Tomorrow, Franklin County, Ohio, (ECOT), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2003. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies ECOT's major federal program. ECOT's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on ECOT's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about ECOT's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on ECOT's compliance with those requirements.

As described in item 2003-012 in the accompanying schedule of findings and questioned costs, ECOT did not comply with requirements regarding Allowable Cost/Cost Principles applying to its Title I program. Compliance with those requirements is necessary, in our opinion, for ECOT to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Electronic Classroom of Tomorrow, Franklin County, Ohio, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

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Internal Control Over Compliance

ECOT's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered ECOT's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operations of the internal control over compliance that, in our judgment, could adversely affect ECOT's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-010 through 2003-012.

A material weakness is a reportable condition in which the design and operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe the reportable conditions described above are material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Directors, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 12, 2005

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I, CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2003-001
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Noncompliance Citation and Material Weakness – Student File Documentation

The FUNDING AGREEMENT (“Agreement”), effective July 1, 2002 by and between Electronic Classroom of Tomorrow (ECOT), and the Ohio Department of Education (ODE), Section 1 Documentation of Enrollment states, in part, ECOT shall maintain in its paper and/or electronic files for each student all forms necessary to enroll a student as required by law. ECOT shall maintain in its files records of the following:

- a) documentation or evidence of delivery and installation of the computer and all necessary related hardware;
- b) the successful connection to the School’s website, where the student can access electronic curriculum and other electronic resources offered by ECOT;
- c) delivery, by any means, of the curriculum materials necessary to begin education of the student (for each student, ECOT shall retain documentation of the delivery of curriculum materials and the date and mode of delivery);
- d) the completion of the student’s first assignment.

A student shall be considered enrolled and funding shall begin upon the satisfaction of one or more of the provisions of this section.

The results of our testing of 191 student files for compliance with Section 1 of the agreement were as follows:

86% of the student files tested did not contain any of the documentation required by Section 1, (a) through (d).

Of the 86%, 71% of the student files tested contained a computer ship date. It does not constitute evidence of the computer’s receipt by the student or enrollment.

Of the 86%, 14% of the student files tested contained no enrollment evidence and no computer ship date.

16% of the student files tested only had evidence of the completion of student’s first assignment. There was no indication these assignments had been graded, dated, or signed by an ECOT employee.

Section 2 Documentation of Learning Opportunities states, in part, for the purposes of an enrollment audit, ECOT shall maintain in its paper and/or electronic files for each student the following documentation:

- a) learning opportunity hours will be verified by a certified ECOT employee with appropriate administrative oversight and documentation that each such employee understands the significance and implications of his/her signature;
- b) a record of grades earned and proficiency test results while a student is at ECOT;
- c) documentation federally required of Special Needs students for which ECOT requests additional funding.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2003-001 (Continued)
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Noncompliance Citation and Material Weakness – Student File Documentation (Continued)

Results of our testing of 191 student files selected for compliance with Section 2 of the agreement were as follows:

23% of the student files tested did not contain the certification required by Section 2(a). Of the instances in which no certification was on file, for 21% of these files, ECOT reported some full-time equivalency (FTE) to ODE and received related funding.

13% of the student files tested did not contain a record of grades as required by Section 2(b). The remaining 87% contained a record of grades with marks of incomplete (I) or failure (F) in all cases. Through our review of the files, no grade card reported a passing grade for any subject.

67% of the student files tested did not contain any proficiency examination results, as required by Section 2(b).

The documentation maintained in the student files to substantiate enrollment and the availability of learning opportunities was not consistent from file to file and was often times incomplete. Some of the files had a checklist stapled to the inside of the file that contains a list of tasks and information that needed to be completed and/or gathered during the enrollment process. However, the tasks listed were not completed in most cases.

ECOT's funding is largely dependent upon the documentation that is obtained during the enrollment process and maintained during the school year as educational opportunities are made available to students. Lack of proper documentation and maintenance of these critical files results in a lack of support for funding received from ODE.

ECOT should develop a checklist that is always utilized by the admissions intake personnel during the enrollment process. The checklist should be maintained in a consistent location in each file and serve as an index for the information maintained in each student file. Each checklist should contain the name of the intake personnel responsible for completing the admission process. A student should not be considered enrolled until all required tasks have been completed by the intake personnel and reviewed and signed off by management.

**ELECTRONIC CLASSROOM OF TOMORROW
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2003-001 (Continued)
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Noncompliance Citation and Material Weakness – Student File Documentation (Continued)

ECOT should develop policies and procedures that require the assigned teacher to complete the applicable documentation that supports an educational opportunity was afforded each student. The assigned teacher should be responsible for completing the grade card and certifying the number of hours of educational opportunities that were made available. Student files should consistently contain complete and adequate documentation to support the funding requested by ECOT.

We also recommend that the community school sponsor monitor the controls that have been put in place by ECOT over this critical process that determines the amount of funding received. The sponsor should periodically review files and documentation to ensure that policies are being adhered to and that documentation in the student files is complete.

Finding Number	2003-002
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Lucas County Golf Classic- Finding Repaid Under Audit

1982 Op. Atty. Gen. No. 82-006 addresses the expenditure of funds for a proper public purpose. To be considered proper, in general, the expenditure is required to be for the general good of the general public, and promote public safety, health, security, prosperity and contentment of all the general public. The primary objective of the expenditure is to further the public purpose.

The determination of what constitutes a public purpose is primarily a legislative function. As such, the decision to expend public funds "...must be made in accordance with procedural formalities governing the exercise of the legislative body". [In this case, ECOT's Board of Trustees] The decision must be memorialized by a duly enacted ordinance or resolution that may have prospective effect only.

ECOT expended \$280 for admission to the Lucas County Golf Classic. Four employees benefited from the expenditure by attending the golf outing. At the time of the expenditure, ECOT did not have an ordinance or resolution to establish the proper public purpose of this expenditure, as explained in Auditor of State Bulletin 2003-005 and 1982 Op. Atty. Gen No. 82-006.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money "illegally expended" is hereby issued against the benefiting employees named in Table 1 below, in the respective amounts and Richard Cox, Treasurer, and National Union Fire Insurance Company of Pittsburgh, their bonding company, jointly and severally, in the amount of two hundred and eighty dollars (\$280) in favor of the Electronic Classroom of Tomorrow.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-002 (Continued)
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Lucas County Golf Classic- Finding Repaid Under Audit (Continued)

**Table 1
Lucas County Golf Classic**

Employee	Lucas County Golf Classic
Jim Calabrese	\$ 70
Ryan Johnson	70
Travis McFeeters	70
Nick Wilson	70
Totals	<u><u>\$ 280</u></u>

In addition, we recommend that the Board develop and implement a resolution to establish policies and procedures to ensure expenditures are made for proper public purpose and meet the requirements enumerated in the Auditor of State Bulletin 2003-005 and 1982 Op. Atty. Gen No. 82-006.

The amount of \$ 280 was repaid by the parties listed in Table 1 above, on March 25, 2005.

Finding Number	2003-003
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Capital Lease Overpayments

ECOT has entered into several capital lease agreements with Information Leasing Corporation (ILC) to acquire computers for use in its computer based curriculum. Pre-determined monthly payments were drawn from the ECOT's bank account to meet the scheduled obligations under the lease terms.

As the lease term ended on August 26, 2002, ILC continued to withdraw from ECOT's bank account the monthly lease payment through March 25, 2003. Consequently, the bank withdrawals made from August 27, 2002 through March 25, 2003 exceeded the lease obligations in the amount of \$255,681, resulting in an overpayment. The following Table 2 illustrates the leases affected and the corresponding amount.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number (Continued)	2003-003
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Capital Lease Overpayments (Continued)

**Table 2
Lease Obligation Overpayments**

	Lease Obligation at 1-Jul-02	Payments through 30-Jun-03	Payments in Excess of Obligation
Lease No. 249050000	\$ 22,213	\$ 179,397	\$ 157,184
Lease No. 250130000	32,291	130,788	98,497
Totals	\$ 54,504	\$ 310,185	\$ 255,681

On April 19, 2003, the overpayment amount of \$255,681 was applied by Information Leasing Corporation to other outstanding capital lease obligations ECOT had with them. At the time the overpayments were identified by AOS, ECOT management was unaware that overpayments had been made and that Information Leasing Corporation had corrected the overpayments by applying them to other leases.

We recommend ECOT develop procedures to monitor lease obligation payments for timeliness and accuracy with executed agreements. All EFT payments should require timely review by management at an appropriate level and supporting documentation for each should be required. Inconsistencies with executed agreements should be brought to the attention of responsible parties for timely and effective resolution.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-004
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Management Company - Altair Management Co. – Material Weakness

ECOT has contracted with Altair Learning Management, LLC (Altair) for management services. Altair is responsible for management of personnel and human resources, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. The majority of the services provided by Altair were performed by one individual.

Per the executed agreement by and between ECOT and Altair, Article V, Section A, states in part, "ECOT shall pay Altair from May 16, 2000 through June 30, 2005 [the contract term], an annual amount, based on each school year, equal to ten percent of all funds [all funds is defined as state foundation reduced by special education funding] received by the ECOT". ECOT received \$22,431,288 in state foundation of which \$1,351,206 was for special education, for the school year ending June 30, 2003. Based on the provision of the aforementioned agreement and the state foundation funding, minus certain off-sets, ECOT was required to remit to Altair \$2,089,456 for management services performed during the 2003 school year. ECOT owed Altair \$997,937 for services performed in the prior fiscal years which was outstanding at June 30, 2002. ECOT owed Altair \$3,087,393 [\$2,089,456 + \$997,456] for the current year services and the outstanding balance for the year ended June 30, 2003. ECOT paid Altair \$2,417,878, including interest of \$98,201, during the fiscal year ending June 30, 2003. At June 30, 2003, ECOT owed Altair \$767,716.

For the monies remitted to Altair for management services, ECOT did not receive any breakdown of what services or charges were performed to substantiate the management fees incurred/paid. Without periodic invoices detailing the management services performed and the associated cost, the ECOT cannot monitor the management company's compliance with contract provisions or the allowability of the expenses incurred or billed.

We recommend ECOT require Altair to provide monthly invoices detailing the management services provided and incurred cost for such services by type. [I.e. Personnel and human resources, program of instructions, purchasing, etc.] We further recommend ECOT seek to revise the management contract fee basis with Altair to the actual cost for services provided plus a reasonable profit. In addition, the management contract should be revised to explicitly state the required duties, terms and conditions of the services to be provided, which should be agreed to by both ECOT and Altair. ECOT should make payment timely to avoid interest.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-005
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Capital Asset Tracking – Unaccounted for Computers

During the fiscal year ECOT discontinued the use of a third party to track and monitor computer assignments, locations and conditions. The in-house process that ECOT initiated, however, does not adequately track and monitor all computer assignments, locations, and conditions. The process is not centralized and information does not flow from one function to another within ECOT. In addition, the spreadsheet tracking methods for shipments, receipts, inventory and assignment were not performed on a central system or data base and did not always include crucial information to allow for appropriate tracking.

ECOT additionally has no system or means in place to track the acquisition and disposal of computers other than the spreadsheets. No complete additions, transfers or deletions list could be provided by ECOT management. ECOT has no formal policy or procedures in place for the collection of computers from withdrawn students, which hinders its ability to timely receive computers back from students and reallocate them.

These weaknesses resulted in the theft or loss of computers without timely detection by management. It could also result in inaccurate financial reporting of ECOT's capital assets.

At June 30, 2003, 120 ECOT owned computers representing a total cost of approximately \$160,000 were missing and unaccounted for. These computers were not included on the inventory record maintained by ECOT. The location of these computers could not be determined or whether they had been lost or stolen.

ECOT should review the current process of tracking and monitoring computer assignments, locations and conditions. ECOT management should develop detailed reports that include user (student) names, assigned CPU serial numbers, and the location for all computers that could be compared to centralized system reports. For computers held in inventory, the reports should provide the condition of the equipment and an estimate of repair costs. Asset insight inventory modules should be placed on all computers and should be maintained in a working condition for the appropriate tracking of the computers. Additionally all capital asset functions of ECOT should be centralized to an individual or group who has access to all capital asset records and is responsible to reconcile all records and create a central database for the needed information. These reports should then be provided to a designated individual or group of managers for review on a timely basis. A formal return policy should also be enacted and strictly adhered to, which describes the timeframe and steps to be taken for the return of a computer from a withdrawn student.

We also recommend ECOT management review its inventory records, student enrollment records and other documentation to determine the location and status of all computers.

**ELECTRONIC CLASSROOM OF TOMORROW
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-006
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Payroll Disbursements Internal Controls

ECOT's fiscal agent, Lucas County ESC, provided no system generated payroll reports to ECOT management so ECOT did not have the ability to review and make comparisons between the payroll activity input data and the payroll system output data. System generated payroll reports from Lucas County ESC (fiscal agent) should be received and reviewed by a designated ECOT employee or management. The comparison of the payroll information sent to the fiscal agent by ECOT [input] for payroll processing to the final payroll reports [output] helps ensure payroll was processed accurately.

Failure to review system generated payroll reports may lead to improper payments or it could allow for; payments to non-ECOT employees, use of incorrect hours, leave balances, and pay rates for payroll calculations, in addition to possible calculation errors without the timely detection by management.

We recommend ECOT management request system generated payroll reports from the fiscal agent for each payroll processing period and an appropriate ECOT employee or management member should review the system generated payroll reports. This review and comparison could include such things as; comparison with ECOT employee rosters, pay schedules, and approved Payroll Summary (input) Reports. This review should be documented to evidence the comparison of the input and output data. Discrepancies identified should be timely addressed by ECOT management.

Finding Number	2003-007
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Purchasing Internal Controls

ECOT management had no formal requisition process in place for the purchase of goods or services.

No formal processes were in place to have 1) the individual who entered into an expenditure for goods or services to designate on the invoice that the goods were received or the service was rendered, (2) purchase orders and expenditures reviewed and approved by an appropriate, Board authorized, individual or group prior to being submitted to the fiscal agent, and (3) the Board review and approve expenditures from system generated expenditure reports.

We noted the following:

- 74% of purchase transactions tested showed no signs of approval by the Department Head or Vice-President of Administration.

- 42% of purchase transactions tested showed no signs of approval from ECOT personnel that services or goods were actually received.

- 32% of purchase transactions tested were not stamped as entered into the accounting system.

- 2% of purchase transactions tested were made without an invoice supporting the expenditure. These payments were in the total amount of \$110,436.

**ELECTRONIC CLASSROOM OF TOMORROW
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number (Continued)	2003-007
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Purchasing Internal Controls (Continued)

- 6% of purchase transactions tested did not have cancelled checks on file. These payments were in the total amount of \$417,444.

Lack of disbursement controls may lead to theft, deficit spending, adverse fiscal conditions, improper related party transactions, or purchases of goods or services that are not for a proper public purpose. This practice also allows for expenditures that do not meet the goals or mission of ECOT, or are outside of the internal budgets set up for departments.

We recommend the following:

- A formal requisition and approval process should be utilized for all purchases prior to entering into the commitment for the purchase of the goods or services.
- Invoices should be maintained to support all disbursements of public monies.
- ECOT employees entering into expenditure for goods or services should make designation on the invoice that the goods or services have been properly rendered and the invoice is eligible for payment.
- Purchase orders and expenditures should be reviewed and approved, in advance of being submitted to the fiscal agent, by an ECOT employee/consultant with appropriate Board authority that is knowledgeable about ECOT's mission, budget, and available resources.
- System generated reports should be received from the fiscal agent and reviewed for accuracy by ECOT personnel who submit expenditures to the fiscal agent for processing.
- The Board should review and approve expenditures made by ECOT from system generated expenditure reports and check registers from the fiscal agent.

We recommend that the Board or an appointee of the Board, such as an internal auditor, periodically review these controls to ensure that they are in place and operating effectively as designed.

Finding Number	2003-008
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Internal Audit

Internal auditing is an independent appraisal activity within an organization that reviews operations as a service to management. It is a managerial control that functions by measuring and evaluating the effectiveness of other controls. The basic objective of internal auditing is to assist all members of management in the discharge of their responsibilities. The internal audit function provides this assistance by furnishing management with analyses, appraisals, recommendations and comments concerning the activities reviewed. Frequently, this involves going beyond accounting and financial records to obtain a full understanding of the operations under review.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number (Continued)	2003-008
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Internal Audit (Continued)

The scope of an internal audit function should encompass the examination and evaluation of the adequacy and effectiveness of ECOT's internal control, and the quality of performance in carrying out its operations including:

- Reliability and integrity of information
- Compliance with policies, plans, procedures, laws and regulations
- Safeguarding assets
- Economical and efficient use of resources
- Accomplishment of established objectives and goals for operations or programs

ECOT should modify its established internal audit function to provide full access to all records, properties, and personnel that could be relevant to the subject under review. The internal audit function should be free to review and appraise policies, plans, procedures, and records.

In addition, the internal audit function should have no direct responsibility or authority over any of the activities reviewed. Therefore, the internal audit review and appraisal should not relieve other people in the organization of the responsibilities assigned to them. Independence is critical to the effectiveness of internal auditing. This independence is obtained primarily through organization status and objectivity. The status of the internal audit function within the organization and the support accorded to it by management are major determinants of its range and value. The head of the internal audit function should be directly responsible to the Board of Directors whose authority should assure both a broad range of audit coverage and the adequate consideration of, and effective action on, the audit findings and recommendations.

Objectivity is essential to the internal audit function. Therefore the internal audit function should not develop and install procedures, prepare records, or engage in any other activity that he or she would normally review and appraise and that could be reasonably construed to compromise his or her independence. The objectivity of the internal audit function need not be affected adversely by determining and recommending standards of control to be applied in the development of the systems and procedures being reviewed.

One of ECOT's main business functions is to record and monitor the hours of educational opportunity that ECOT students receive. These hours are comprised of both time spent in the "electronic classroom" where instruction time is recorded by the computer system and time entered into the computer system for instruction received outside the "electronic classroom." ECOT did not utilize an internal audit function to monitor the hours of educational opportunity accrued by students during the fiscal year. For instances where students are required to enter their instructional hours into the computer system, the internal audit function should, on a sample basis, periodically review documentation which supports the number of instructional hours entered by the student and evaluate the number of hours for reasonableness. In addition, the internal audit function should review the computer system tracked instructional hours for students reported within ECOT's enrollment data to ensure that students are obtaining the appropriate amount of service hours for their reported full time equivalency.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number (Continued)	2003-008
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Internal Audit (Continued)

A second main function of ECOT is to provide computers to students for completion of work in the on-line "electronic classroom". ECOT should use the internal audit function to monitor the successful and timely shipment and receipt of computers both to and from students, in addition to monitoring the status of computers at student residences.

We recommend that ECOT modify its internal audit function to meet the characteristics and functions suggested above.

Finding Number	2003-009
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Monitoring Controls

The Board of Directors should monitor the financial operations of ECOT regularly. Such monitoring should include, for example, a review of resources received, expenditures, fund balances, and unpaid invoices.

Effective monitoring controls over financial operations were not implemented by ECOT's management. Lack of effective monitoring controls could allow for operational failures and errors to occur without timely detection by management.

Monitoring controls should be comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved, including operational, legal compliance, and financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

To assist management in detecting potential material financial and or compliance transactions that may effect financial operations, we recommend the Board develop and implement monitoring controls. Some of these monitoring controls may consist of, but should not be limited to, the following:

- regular review of monthly budgeted and actual figures;
- regular review of financial summaries (detailed revenue, expenditure, and fund balance reports)
- review of key performance indicators;
- review of payable aging reports;
- review of unusual or significant and long outstanding items;
- monitoring grant expenditures in accordance with grant requirements;
- ensuring adequate segregation of duties exist, and;
- review of monthly bank reconciliations.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2003-010
CFDA Title and Number	Title 1, # 84.010
Federal Award Number / Year	C1 S1 2003/02
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Payroll Disbursements Internal Controls

See Findings related to the Financial Statements required to be reported under GAGAS number 2003-006. This finding is also required to be reported under OMB Circular A-133.505(d)(3).

Finding Number	2003-011
CFDA Title and Number	Title 1, # 84.010
Federal Award Number / Year	C1 S1 2003/02
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Purchasing Internal Controls

See Findings related to the Financial Statements required to be reported under GAGAS number 2003-007. This finding is also required to be reported under OMB Circular A-133.505(d)(3).

Finding Number	2003-012
CFDA Title and Number	Title 1, # 84.010
Federal Award Number / Year	C1 S1 2003/02
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Allowable Cost/Cost Principles- Questioned Cost

Office of Management and Budget (OMB) Circular A-122, Attachment B subsection 7.b. provides in part that compensation for personnel services is allowable to the extent it satisfies the specific requirements of the Circular; that total compensation for individual employees is reasonable for the service rendered and conforms to the established policy of the governmental unit; and it is supported as provided in subsection 7.m. of the Circular.

**ELECTRONIC CLASSROOM OF TOMORROW
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number (Continued)	2003-012
CFDA Title and Number	Title 1, # 84.010
Federal Award Number / Year	C1 S1 2003
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Allowable Cost/ Cost Principles- Questioned Cost (Continued)

OMB Circular A-122, Attachment B subsection 7.m. provides in part that salaries and wages shall be based on documented payrolls approved by a responsible official. The distribution of salaries and wages to awards must be supported by personnel activity reports unless a substitute system has been approved in writing by the cognizant agency. Whether employees are charged in whole or in part to a federal award, personnel activity reports must:

- Reflect an after-the-fact determination of actual activity of each employee. Budget estimates do not qualify for support.
- Must account for the total activity for which the employees are compensated and which is required in fulfillment of their obligations to the organization.
- Must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activities represents a reasonable estimate of actual work performed.
- Reports must be prepared at least monthly and must coincide with one or more pay periods.

During fiscal year 2003, ECOT allocated certain teachers' and an administrator's salaries to the Title 1 program based on pre-determined percentage rates. Teachers were primarily charged to the program at 30% of their annual salary and the administrator was charged at 77%. ECOT did not provide detailed after the fact personnel activity reports to support the allocations made nor was evidence provided that a substitute system was approved.

Further, no time study was conducted and instituted to support the percentage allocations made. ECOT did not have procedures in place to assess whether the costs allocated to the program correlated with the actual costs of benefits provided to the program by the teachers and administrator. Consequently, ECOT could not provide records to otherwise substantiate the reasonableness of the charges assessed to the program for fiscal 2003.

In March 2004, ECOT provided activity reports, however, \$150,834 of payroll and related benefits was not substantiated by those reports. A questioned cost for unsupported expenditures is reported in the amount of \$150,834.

We recommend ECOT prepare and maintain personnel activity reports as required, for individuals who will be charge in whole or in part to federal awards. Monthly an individual responsible for monitoring the cost allocated to the program should review the time and effort records for comparison to the cost charged to the program. Any variance between the allocated costs to the actual time spent meeting cost objectives should be adjusted. The final cost charged to the program should be reflective of the actual cost objectives demonstrated on the personnel activity reports.

**ELECTRONIC CLASSROOM OF TOMORROW
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**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .315 (b)
JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Finding for Recovery – Student Enrollment Ohio Rev. Code Sections 3321.01(A)(2) and <u>Section 3314.06(A)</u> Illegal expenditure of Public Monies	Yes	Corrected
2002-002	Missing and Unaccounted for Computers	No	Not Corrected-Reissued as 2003-005
2002-003	Capital Assets not properly monitored.	No	Not Corrected-Reissued as 2003-005
2002-004	ECOT should be provided a copy of the SAS 70 report timely and should review the report contents concerning Xerox Connect.	Yes	Finding No Longer Valid. ECOT no longer uses the services of Xerox Connect.
2002-005	ECOT received no breakout of what services or charges were contained in the management fee paid or owed to Altair.	No	Not corrected-Reissued as 2003-004
2002-006	<u>Payroll Disbursements</u> Payroll Summary Reports of ECOT employees hours and leave for the pay period should be reviewed and signed by the Superintendent prior to submission to the fiscal agent, Lucas County ESC, for processing. In addition, system generated payroll reports from the fiscal agent should be reviewed by an appropriate authorized ECOT employee to ensure that all information was correctly entered and processed as submitted.	Partially Corrected	Reissued as 2003-006

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .315 (b)
JUNE 30, 2003
(Continued)**

2002-007	<u>Purchasing Controls</u> No formal purchasing requisition process. System generated reports were not reviewed. No formal purchasing process for approving receipt of goods and services.	No	Not Corrected-Reissued as 2003-007
2002-008	ECOT should modify the internal audit function.	No	Not Corrected-Reissued as 2003-008
2002-009	The Board of Directors should monitor the financial operations of ECOT regularly.	No	Not Corrected-Reissued as 2003-009
2002-010	ECOT should follow the established student withdrawal policy.	Yes	
2002-011	Payroll Disbursements – Federal funds	No	Not Corrected-Reissued as 2003-010
2002-012	Purchasing Controls – Federal funds	No	Not corrected-Reissued as 2003-011
2002-013	From the documentation provided it is not clear to what extent the handbook was prepared outside the scope of the Title 1 Coordinator's regular employment, and during times outside her regular employment, as required by the Board's action. Accordingly, a questioned cost is reported in the amount of \$15,000.	Yes	



**Auditor of State
Betty Montgomery**

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ELECTRONIC CLASSROOM OF TOMORROW

FRANKLIN 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
JULY 18, 2005**