



**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, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2006, 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 opine on the financial statements that collectively comprise the ECOT's basic financial statements. The federal awards receipts and expenditures schedule is 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 the federal awards receipts and expenditures schedule to the 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.



**Betty Montgomery**  
Auditor of State

January 30, 2006

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The discussion and analysis of the Electronic Classroom of Tomorrow's (ECOT) financial performance provides an overall view of ECOT's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at 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 of ECOT for the fiscal year ended June 30, 2005 are as follows:

Total Net Assets were \$6,292,096.  
Total Operating Revenues were \$38,670,851.  
Total Operating Expenses were \$39,599,996.  
Change in Net Assets were \$3,621,763.

The fiscal year 2005 was a year of increased numbers of students and computers and better management of expenses related to those students, which translated to increased net assets and cash.

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 *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 ECOT as a Whole**

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

The view of ECOT as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statement of Revenue, 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 considers 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, for ECOT as a whole, 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 current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**ECOT as a Whole**

The Statement of Net Assets provides the perspective of ECOT as a whole. Table 1 provides a summary of ECOT's net assets for fiscal year 2005 compared to fiscal 2004:

**Table 1  
Statement of Net Assets**

	<u>2005</u>	<u>2004</u>	<u>Percentage Change</u>
<b>Assets</b>			
Current Assets	\$ 7,012,057	\$ 3,067,801	129%
Security Deposits	544,767	401,013	36%
Capital Assets, Net of A/D	5,722,454	4,983,835	15%
Total Assets	<u>\$ 13,279,278</u>	<u>\$ 8,452,649</u>	<u>57%</u>
<b>Liabilities</b>			
Current Liabilities	\$ 5,545,232	\$ 5,491,147	1%
Noncurrent Liabilities	<u>1,441,950</u>	<u>291,169</u>	<u>395%</u>
Total Liabilities	<u>6,987,182</u>	<u>5,782,316</u>	<u>21%</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,087,440	2,916,899	6%
Unrestricted	<u>3,204,656</u>	<u>(246,566)</u>	<u>-1400%</u>
Total Net Assets	<u>\$ 6,292,096</u>	<u>\$ 2,670,333</u>	<u>136%</u>

Total assets increased by \$3,621,763. While cash and cash equivalents increased by \$4,002,417, total receivables decreased by \$34,161. Increases in foundation payments received from the State of Ohio and Federal Grants contributed to the increase in cash for the year.

Additional capital lease agreements for the purchase of student computers accounted for the increase of \$1,150,781 in noncurrent liabilities as well as the increase of 15% in capital assets.

ECOT's net assets increased by \$3,621,763, and an analysis of cash flows for operating activities in 2005 demonstrates cash payments from operating activities increased unrestricted cash receipts by \$2,277,906. The net cash provided by noncapital financing activities was \$5,056,884, mainly, from grants.

Table 2 shows the changes in net assets for fiscal year 2005 compared to 2004.



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Table 2  
Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>2005</u>	<u>2004</u>	Percent Change
<b>Operating Revenue</b>			
Foundation Payments	\$ 35,093,512	\$ 26,378,832	33%
Disadvantaged Pupil Impact Aid	166,169	699,718	-76%
Special Education	3,125,147	1,619,695	93%
Other Operating Revenues	286,023	63,832	348%
<b>Total Operating Revenues</b>	<u>38,670,851</u>	<u>28,762,077</u>	<u>34%</u>
<b>Operating Expenses</b>			
Salaries	11,197,208	7,884,746	42%
Fringe Benefits	3,023,087	1,930,406	57%
Purchased Services	21,062,010	16,243,804	30%
Materials and Supplies	1,322,854	1,645,256	-20%
Depreciation Expense	2,365,288	1,877,980	26%
Other Operating Expense	629,549	228,706	175%
<b>Total Operating Expenses</b>	<u>39,599,996</u>	<u>29,810,898</u>	<u>33%</u>
<b>Non-Operating Revenues and</b>			
Grants	5,363,512	2,685,009	100%
Interest Income	56,244	11,556	387%
Contribution and Donations	687	1,250	-45%
Gain (Loss) on Disposal of Assets	(517,874)	900	-57642%
Interest and Fiscal Charges	(351,661)	(151,919)	131%
<b>Total Non-Operating Revenues</b>	<u>4,550,908</u>	<u>2,546,796</u>	<u>79%</u>
<b>Change in Net Assets</b>	<u>\$ 3,621,763</u>	<u>\$ 1,497,975</u>	<u>142%</u>

Salaries and Fringe Benefits comprise 36 percent of operating expenses. Interest expense was \$351,661, 0.9 percent of expenses. Interest expense was attributable to capital leases for equipment.

ECOT received significant increases in Foundation payments and Special Education Grants from Fiscal Year 2004 to Fiscal Year 2005. Purchased Services increased by a comparable 30% for 2004 to 2005.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**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 prescribe an annual spending plan requirement, and sets forth a requirement to prepare a five-year forecast that is to be updated annually.

**Capital Assets and Debt Administration**

**Capital Assets**

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

	2005	2004	Percent Change
Computer Equipment	\$5,436,928	\$4,611,541	18%
Furniture, Equipment, and Software	285,526	372,294	-23%
Totals	\$5,722,454	\$4,983,835	15%

At the end of 2005 ECOT had \$5,722,454 (net of \$5,798,068 in accumulated depreciation) invested in computers, furniture, equipment, and software. Table 3 shows fiscal year 2005 balances compared to 2004.

Acquisitions were greater than depreciation this year by \$1,199,166. For the fiscal year ended June 30, 2005, ECOT had \$3,564,454 in purchases of computers, furniture, equipment, and software. Depreciation expense for fiscal year 2005 was \$2,365,288. See Note 5 for further information.

**Debt**

At June 30, 2005 ECOT had \$2,635,014 in Capital Lease Obligations, \$1,308,550 of which is due within one year. Table 4 summarizes the debt outstanding. See Note 12 for further information.

**Table 4  
Outstanding Debt, at Fiscal Year End**

	2005	2004	Percent Change
Capital Leases	\$2,635,014	\$2,066,936	27%

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Current Financial Issues**

In conclusion, ECOT has committed itself to financial excellence. In addition, ECOT's financial relationship with the Lucas County Educational Service Center, its fiscal agent, aids in the raising of the quality of financial records and strengthens internal controls. All of ECOT's financial abilities will be needed to meet the challenges of the future. During the fiscal year, there were approximately 6,107 students enrolled. ECOT receives its finances mostly from state aid. Per pupil aid for this period amounted to \$5,058 per student.

**Contacting ECOT's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of 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 Mr. Scott Kerns of the Electronic Classroom of Tomorrow, 3700 South High Street, Suite 125, Columbus, OH 43207 or e-mail at [scott.kern@ecotoh.org](mailto:scott.kern@ecotoh.org).

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**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 5,117,861
Intergovernmental Receivables	1,649,579
Prepaid Items	<u>244,617</u>

Total Current Assets 7,012,057

Noncurrent assets:

Security Deposits	544,767
Capital Assets, Net	<u>5,722,454</u>

Total Noncurrent Assets 6,267,221

Total Assets \$ 13,279,278

Liabilities:

Current Liabilities:

Accounts Payable	\$ 1,997,498
Accrued Wages and Benefits Payable	1,449,493
Intergovernmental Payable	789,691
Capital Leases Payable	<u>1,308,550</u>

Total Current Liabilities 5,545,232

Noncurrent Liabilities:

Compensated Absences Payable	115,486
Capital Leases Payable	<u>1,326,464</u>

Total Noncurrent Liabilities 1,441,950

Total Liabilities 6,987,182

Net Assets:

Invested in Capital Assets, Net of Related Debt	3,087,440
Unrestricted	<u>3,204,656</u>

Total Net Assets \$ 6,292,096

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, 2005**

Operating Revenues:

Foundation Payments	\$ 35,093,512
Disadvantaged Pupil Impact Aid	166,169
Special Education	3,125,147
Classroom Fees	4,084
Other Operating Revenues	<u>281,939</u>
Total Operating Revenues	<u>38,670,851</u>

Operating Expenses:

Salaries	11,197,208
Fringe Benefits	3,023,087
Purchased Services	21,062,010
Materials and Supplies	1,322,854
Depreciation	2,365,288
Other Operating Expenses	<u>629,549</u>
Total Operating Expenses	<u>39,599,996</u>

Operating (Loss)	<u>(929,145)</u>
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Non-Operating Revenues and Expenses:

Grants	5,363,512
Contributions and Donations	687
Loss on Disposal of Capital Assets	(517,874)
Interest	56,244
Interest and Fiscal Charges	<u>(351,661)</u>
Total Non-Operating Revenues and (Expenses)	<u>4,550,908</u>

Change in Net Assets	3,621,763
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Net Assets at Beginning of Year	<u>2,670,333</u>
Net Assets at End of Year	<u><u>\$ 6,292,096</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, 2005**

Increase (Decrease) in Cash and Cash Equivalent:

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 38,221,954
Cash Received from Classroom Fees	4,084
Cash Received from Other Operating Sources	281,939
Cash Payments to Suppliers for Goods and Services	(22,118,722)
Cash Payments to Employees for Services	(10,778,727)
Cash Payments for Employee Benefits	(3,162,555)
Cash Payments for Other Operating Uses	(170,067)

Net Cash Provided by Operating Activities: 2,277,906

Cash Flows from Noncapital Financing Activities

Cash Received from Grants	5,056,197
Cash Received from Contributions and Donations	687

Net Cash Provided by Noncapital Financing Activities: 5,056,884

Cash Flows from Capital and Related Financing Activities

Cash Received from Sale of Capital Assets	650
Cash Payments for Capital Acquisitions	(597,790)
Cash Payments for Principal Payments	(2,439,816)
Cash payments for Interest	(351,661)

Net Cash (Used for) Capital and Related Financing Activities: (3,388,617)

Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>56,244</u>
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Net Cash Provided by Investing Activities: 56,244

Net Increase in Cash and Cash Equivalent: 4,002,417

Cash and Cash Equivalents at Beginning of Year 1,115,444

Cash and Cash Equivalents at End of Year \$ 5,117,861

Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities

Cash Provided by Operating Activities

Operating (Loss) \$ (929,145)

Adjustments to Reconcile Operating

(Loss) to Net Cash Provided

by Operating Activities

Depreciation	2,365,288
Changes in Assets and Liabilities	
Decrease in Intergovernmental Receivable	178,425
Decrease in Prepaid Items	24,000
Increase in Accounts Payable	177,280
Increase in Accrued Wages	474,835
(Decrease) in Intergovernmental Payable	(44,279)
Increase in Compensated Absences Payable	31,502

Total Adjustments 3,207,051

Net Cash Provided by Operating Activities: \$ 2,277,906

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, 2005**

**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. A new 10 year contract was signed and effective on June 2, 2004. The sponsorship agreement states that the Treasurer of Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of ECOT (see Note 10).

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 ECOT's one instructional/support facility staffed by 83 non-certified staff and 237 certificated full time teaching personnel who provide services to 6,107 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 reporting, recruiting, compliance issues, 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 ensure 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, 2005  
(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 net assets, and statement of cash flows. The statement of net assets and the statement of revenues, expenses, and changes in net assets display all financial activities about ECOT as a whole.

**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 presents increases and decreases in net assets. The Statement of Cash Flows provides information about how ECOT meets its cash flow needs.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The financial statements are prepared using 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 is 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.

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period they are earned and become measurable.

**Expenses**

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 prescribe an annual spending plan requirement in addition to preparing a five-year forecast, which is to be updated annually.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 for all funds are maintained in this account or temporarily used to purchase short-term investments.

Interest revenue credited during fiscal year 2005 amounted to \$56,244.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by ECOT are considered to be cash equivalents.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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.

**G. Capital Assets and Depreciation**

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 \$1,000. 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.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives 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 Other Equipment	5
Computers	5
Software	3

**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 vacation leave up to a maximum of ten days for twelve-month employees.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Security Deposits**

ECOT entered into several leases for the use of the 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 \$544,767.

**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.

**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 2005.

**N. Operating Revenue and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are operating grants. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

Deposits: The carrying value of ECOT's deposits totaled \$(1,282,035), and the bank balance totaled \$30,504, all of which was covered by Federal Deposit Insurance Corporation.

Investments of ECOT as of June 30, 2005 were as follows:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> <u>6 months or less</u>
Repurchase Agreements	\$6,399,596	\$6,399,596

Interest Rate Risk – ECOT has no policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The repurchase agreements are specifically pledged by a single security. ECOT places no limit on the amount that may be invested in any one issuer.

At fiscal year-end, ECOT had \$300 in undeposited cash on hand. This is included in "Cash and Cash Equivalents" on the Statement of Net Assets.

**4. RECEIVABLES**

Receivables at June 30, 2005, consisted of 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>
<u>Intergovernmental</u>	
Student Intervention Grade 9-10 PD	\$24,367
Student Intervention Grade 1-4	33,115
IDEA B	274,612
Title I	1,156,824
Title V	1,928
Title IVA	266
Title IID FY04	23,772
Title IIA	103,759
Federal Sub grant FY04	<u>100,000</u>
Title IID	<u>54,708</u>
Total Intergovernmental Receivables	<u>\$1,649,579</u>

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**5. CAPITAL ASSETS**

Capital assets to be depreciated for fiscal year ended June 30, 2005, were as follows:

	Balance 06/30/2004	Additions	Deductions	Balance 06/30/2005
Computer Equipment	\$ 8,999,420	\$3,027,517	\$1,572,417	\$ 10,454,520
Furniture, Equipment and Software	529,065	536,937	-	1,066,002
Totals at Historical Cost	<u>9,528,485</u>	<u>3,564,454</u>	<u>1,572,417</u>	<u>11,520,522</u>
Less Accumulated Depreciation:				
Computer Equipment	4,387,879	1,741,583	1,111,870	5,017,592
Furniture, Equipment and Software	156,771	623,705	-	780,476
Total Accumulated Depreciation	<u>4,544,650</u>	<u>2,365,288</u>	<u>1,111,870</u>	<u>5,798,068</u>
Capital Assets, Net	<u>\$ 4,983,835</u>	<u>\$1,199,166</u>	<u>\$ 460,547</u>	<u>\$ 5,722,454</u>

**6. 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 2005, ECOT contracted with Indiana 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 \$10,000 deductible.

The Miscellaneous Professional 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.

**7. 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 defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The stand-alone report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and ECOT was required to contribute an actuarially determined rate. The employer rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 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 the fiscal years ending June 30, 2005, 2004 and 2003 were \$315,476, \$232,213, and \$83,592, respectively; 86% has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

**B. State Teachers Retirement Systems**

ECOT contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**Plan Options** – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement Systems (Continued)**

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**Combined Plan Benefits** – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement Systems (Continued)**

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. ECOT was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. ECOT's required contribution for pension obligations for the fiscal years ended June 30, 2005, 2004 and 2003 were \$1,043,637, \$676,505 and \$508,622, respectively; 100 percent has been contributed for fiscal year 2005, 2004 and 2003.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2005 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS OhioWeb site at [www.strsoh.org](http://www.strsoh.org).

**8. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43 percent. 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 2005, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

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, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of recipients currently receiving health care benefits is approximately 62,000.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 3.43 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For ECOT, the amount to fund health care benefits, including surcharge, equaled \$143,457 for the fiscal year ended June 30, 2005.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

**B. State Teachers Retirement System**

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For ECOT, this amount equaled \$78,493 for the fiscal year ended June 30, 2005.

For the fiscal year ended June 30, 2004 (the latest information available) net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

**9. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn fifteen 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 up to 10 days. 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 day per month. Sick leave may be accumulated up to thirty days for all employees. ECOT assumes no liability for sick leave payout when an employee leaves service.

**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/State Teachers Retirement System have an option to choose Social Security. As of June 30, 2005, ECOT has no employees or members of the governing board which contribute to Social Security.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**10. FISCAL AGENT**

The sponsor agreement states that the Treasurer of the Lucas County Educational Service Center (the Sponsor) shall serve as the Chief Fiscal Officer of the 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 \$763,089 was paid during the fiscal year plus \$98,139 was outstanding in accounts payable at fiscal year end.

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 the Sponsor 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 the sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- 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.

**11. PURCHASED SERVICES**

For the period July 1, 2004 through June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 15,620,868
Property Services	106,646
Travel Mileage/Meeting Expenses	530,471
Communications	4,501,113
Utilities	32,307
Contracted Craft or Trade Services	194,448
Tuition	23,241
Pupil Transportation Services	7,989
Other Purchases Services	44,927
Total Purchased Services	<u>\$ 21,062,010</u>

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**12. LONG-TERM LIABILITIES**

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

	<b>Principal Outstanding 6/30/05</b>	<b>Additions</b>	<b>Reductions</b>	<b>Principal Outstanding 6/30/05</b>	<b>Amounts Due Within One Year</b>
Compensated Absences	\$ 83,984	\$ 63,004	\$ (31,502)	\$ 115,486	\$ -
Capital Lease Payable	2,066,936	3,007,894	(2,439,816)	2,635,014	1,308,550
<b>Total Long-Term Liabilities</b>	<b>\$ 2,150,920</b>	<b>\$ 3,070,898</b>	<b>\$ (2,471,318)</b>	<b>\$ 2,750,500</b>	<b>\$ 1,308,550</b>

Compensated absences, representing ECOT's contractually required vested vacation leave which ECOT has entered into is paid when an employee leaves ECOT's services.

**13. CAPITAL LEASES**

ECOT entered into numerous capital leases for the start-up cost of the computer server, computer equipment and the 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.

The annual requirements to amortize all leases outstanding as of June 30, 2005, including interest is as follows:

<b>Fiscal Year Ending</b>	<b>Capital Leases 6/30/2005</b>
2005	\$ 1,533,479
2006	1,227,620
2007	136,314
Total Mimimum Lease Payments	2,897,413
Less Amount Representing Interest	(262,399)
<b>Total Capital Lease Payable</b>	<b>\$ 2,635,014</b>

**14. OPERATING LEASES**

ECOT entered into lease agreements with Bob Evans Farms, Inc. for use of space in the property commonly known as Southland Mall. The term of the original leases commenced August 1, 2002 and will terminate July 31, 2005. Additional space was leased throughout the fiscal year, with the subsequent leases terminating July 31, 2005. These leases were extended until June 30, 2006.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**14. OPERATING LEASES (Continued)**

ECOT also entered into a lease agreement with St. Vincent DePaul for the use of property as extra storage. The term of the leases 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. This lease was extended until June 30, 2007. For this fiscal year, ECOT paid \$213,694 in operating leases.

ECOT also entered into several lease agreements with Xerox Corporation for the use of copiers. The term of the leases were for 60 months and commenced at various times with the last payment in 2009.

The following minimum lease payments will be made for fiscal years ending:

<b>Fiscal Year Ending</b>	
<b><u>June 30,</u></b>	
2006	82,224
2007	58,662
2008	22,866
2009	10,903

**15. 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.

**16. 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 made no provision for any potential future tax liability from not obtaining the Section 501(c)(3) tax exempt status.

**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 14% of all revenues received except federal funding. Altair is also entitled to .5% interest on any outstanding balance. The management fee for the fiscal year ended 2005 was \$5,519,552, which includes \$55,130 of Interest. As of June 30, 2005, \$5,028,710 had been paid to Altair. ECOT owes Altair \$1,249,041, including delinquent fees and interest at June 30, 2005.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**18. CONTINGENT LIABILITIES**

**A. Grants**

ECOT receives significant financial assistance from numerous 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 of ECOT at June 30, 2005.

**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 case was heard on November 18, 2003. On August 24, 2004 the Court of Appeals rendered a decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral agreement occurred November 29, 2005. The effect of this suit, if any on ECOT is not presently determinable.

**C. School Funding**

The Ohio Department of Education conducts reviews of 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 balance outstanding at June 30, 2005 is \$45,250 and is reported as intergovernmental payable in the financial statements.

**19. CHANGE IN ACCOUNTING PRINCIPLE**

For 2005, ECOT has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District. However, additional note disclosure can be found in Note 3.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDING JUNE 30, 2005**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Education Agencies	133413-C1 S1 2004	84.010	\$ 139,085	\$ 20,281
Title I Grants to Local Education Agencies	133413-C1 S1 2005	84.010	2,989,522	2,710,545
Title I Grants to Local Education Agencies	133413-C1 SK 2005	84.010	50,000	50,000
<i>Total Title I Grants to Local Education Agencies</i>			<u>3,178,607</u>	<u>2,780,826</u>
Special Education Grants to States	133413-6B SF 2004	84.027	0	9,300
Special Education Grants to States	133413-6B SF 2005	84.027	882,043	849,094
<i>Total Special Education Grants to States</i>			<u>882,043</u>	<u>858,394</u>
Safe and Drug Free Schools and Communities State Grant	133413-DR S1 2004	84.186	1,915	0
Safe and Drug Free Schools and Communities State Grant	133413-DR S1 2005	84.186	42,838	38,570
<i>Total Safe and Drug Free Schools and Communities State Grant</i>			<u>44,753</u>	<u>38,570</u>
Ohio Public Charter School Program	133413-CH S1 2004	84.282	250,000	212,150
State Grants for Innovative Educational Program Strategies	133413-C2 S1 2004	84.298	(1,920)	0
State Grants for Innovative Educational Program Strategies	133413-C2 S1 2005	84.298	26,304	28,231
<i>Total Innovative Educational Program Strategies</i>			<u>24,384</u>	<u>28,231</u>
Education Technology State Grant	133413-TJ S1 2004	84.318	12,602	0
Education Technology State Grant	133413-TJ S1 2005	84.318	42,016	49,786
<i>Total Education Technology State Grant</i>			<u>54,618</u>	<u>49,786</u>
Improving Teacher Quality State Grants	133413-TR S1 2004	84.367	56,922	0
Improving Teacher Quality State Grants	133413-TR S1 2005	84.367	131,705	224,979
<i>Total Improving Teacher Quality State Grants</i>			<u>188,627</u>	<u>224,979</u>
Total U.S. Department of Education			<u>4,623,032</u>	<u>4,192,936</u>
<b>Total</b>			<u><b>\$ 4,623,032</b></u>	<u><b>\$ 4,192,936</b></u>

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – TRANSFERS DUE TO ODE ADMINISTRATIVE ACTION**

ECOT transferred between special cost centers during fiscal year 2005 for the following: CFDA #'s 84.186 - \$1 and 84.298 - \$1,920. These are for transfers from the 2004 grant to the 2005 grant year. This was due to the revised Comprehensive Continuous Improvement Plan Strategy (CCIP) as of July, 2002, which is an attempt to promote consistency between fiscal periods, and allows the local agencies to manage one ODE project at a time, and eliminates refunds to ODE.





**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 the Electronic Classroom of Tomorrow, Franklin County, Ohio, (ECOT) as of and for the year ended June 30, 2005, and have issued our report thereon dated January 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered 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 or 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 as items 2005-001 through 2005-003 and 2005-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. 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 2005-001 and 2005-002 listed above to be material weaknesses. In a separate letter to ECOT's management dated January 30, 2006. 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 2005-002 and 2005-004.

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

January 30, 2006



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH OF THE MAJOR FEDERAL PROGRAMS  
AND ON 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 the 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 each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies ECOT's major federal programs. ECOT's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs. 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 such other procedures as 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.

In our opinion, ECOT complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2005-006.

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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 the 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 reportable conditions. Reportable conditions involve matters coming to our attention resulting in significant deficiencies in the design or operation 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 applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings as items 2005-006 through 2005-009.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 material weaknesses. We consider item 2005-008 to be a material weakness. We noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the ECOT's management in a separate letter dated January 30, 2006.

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

January 30, 2006

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	<b>Unqualified</b>
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	<b>Yes</b>
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	<b>Yes</b>
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	<b>Yes</b>
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	<b>Yes</b>
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	<b>Yes</b>
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	<b>Unqualified</b>
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	<b>Yes</b>
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title I Grants to Local Educational Agencies CFDA #84.010 Special Education Grants to States CFDA #84.027
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	<b>No</b>

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2005-001</b>
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**Reportable Condition, Material Weakness**

**Purchasing Internal Controls**

While ECOT implemented a requisition process during the fiscal year, this process was not consistently utilized. The new requisition process requires purchases of goods or services that exceed \$500 to have a completed purchase requisition form with approval by the department head prior to order of the goods or services.

However the purchasing process does not contain the following elements:

- 1) Purchase orders and expenditures reviewed and approved by an appropriate, Board authorized individual or group prior to being submitted to the fiscal agent; and
- 2) The Board review and approve expenditures from system generated expenditure reports.

We noted the following:

- 84% of purchase transactions tested according to the new requisition process showed no signs of requisition approval by the department head or Senior VP of Finance, and 33% of the purchase transactions tested under \$500 showed no signs of approval by the department head or Senior VP of Finance;
- 15% of purchase transactions tested showed no signs of approval from ECOT personnel that goods or services were actually received;
- 3% of purchase transactions tested did not have a purchase order approved by the purchasing agent;
- ECOT's internal accounting system expenditure reports did not agree to the fiscal agent's expenditure reports.

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 established for departments.

We recommend the following:

- A formal requisition and approval process should be consistently utilized for all purchases prior to entering into the commitment for the purchase of goods or services;
- ECOT employees entering into expenditures 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; and
- The Board should review and approve expenditures made by ECOT from system generated expenditure reports and check registers from the fiscal agent.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2005-001 (Continued)</b>
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**Reportable Condition, Material Weakness**

**Purchasing Internal Controls (Continued)**

We also 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.

**Client response:**

In August 2004, ECOT implemented a formal requisition process. All new purchases are required to have a requisition request form attached. Purchases over \$500 must be approved by the department manager. However, as noted in the 2005 report this was not consistently applied. As of July 1, 2005 this process is currently being monitored in the Controller's office for compliance. Also, system generated reports from the fiscal agent are being presented to the Board of Directors at monthly board meetings.

<b>Finding Number</b>	<b>2005-002</b>
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**Material Weakness- Non Compliance**

**Management Company – Altair Management Co.**

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.

Per the executed agreement by and between ECOT and Altair effective July 1, 2003, Article V, Section A, ECOT shall pay Altair an annual amount based on each school year equal to 14% of all funds received by ECOT. ECOT owed Altair \$758,199 for services performed in prior fiscal years which was outstanding at June 30, 2004. ECOT owed Altair \$5,519,552 for services performed in the fiscal year ending June 30, 2005, which includes \$55,130 of interest accrued. ECOT paid Altair \$5,028,710 during the fiscal year ending June 30, 2005. As of June 30, 2005, ECOT had an outstanding balance with Altair Learning Management of \$1,249,041.

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 and/or paid. The contract with Altair, Article V, Section E, states in part that "Altair shall provide ECOT and its Board with statements of all revenues received, regardless of whatever source, with respect to ECOT, and detailed statements of all direct expenditures for services rendered to or on behalf of ECOT, whether incurred on-site or off-site, upon request." ECOT did not request such statements. Without periodic invoices detailing the management services performed and the associated cost, ECOT cannot monitor the management company's compliance with contract provisions or the allowability of the expenses incurred or billed.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2005-002(Continued)</b>
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**Material Weakness- Non Compliance**

**Management Company – Altair Management Co. (Continued)**

We recommend that 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 that 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. Finally, ECOT should make timely payments to avoid interest.

**Client response:**

Altair Learning Management attends all Board meetings and reports details of services provided to ECOT.

<b>Finding Number</b>	<b>2005-003</b>
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**Reportable Condition**

**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.

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



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2005-003(Continued)</b>
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**Reportable Condition**

**Internal Audit (Continued)**

ECOT should establish an 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 person assigned to 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 that could be reasonably construed to compromise his or her independence. The objectivity of the person assigned to 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 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  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2005-003(Continued)</b>
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**Reportable Condition**

**Internal Audit (Continued)**

A second main function of ECOT is to provide computers to students for completion of work in the online "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 establish an internal audit function to meet the characteristics and functions suggested above.

**Client response:**

At the recommendation of the Auditor of State, ECOT is establishing an internal audit function. ECOT has purchased a new filing system for student files. The new system was complete and in place in 2005. ECOT is in the process of developing a formal job description that includes internal audit functions and plans to fill the position in the near future.

<b>Finding Number</b>	<b>2005-004</b>
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**Non Compliance- Finding for Recovery Repaid Under Audit**

Upon termination of his employment, Robin Peterfy, a former ECOT employee, received payout of his vacation on September 15, 2004 for 12.25 days totaling \$4,353.28. The Board of Directors authorized this payment at their monthly meeting on August 24, 2004. This payment was for his "paid time off" leave balance as of August 13, 2004. The procedure of the School is to require an employee to submit requests for time off on the "Employee Time off Request Form". This form requires the employees name, date(s) requested off, reason for the request, signature of the employee, and approval by the employee's supervisor. Mr. Peterfy requested on November 14, 2003 and received one day of paid time off on November 26, 2003. This request and useage was never posted to the payroll system or deducted from Mr. Peterfy's balance. This caused Mr. Peterfy's balance to be overstated by one day at his termination of employment. The total amount of overpayment was \$355.37, equaling one day of pay.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery for public money illegally expended would have been issued against Robin Peterfy, former ECOT employee, Richard Cox, Treasurer, and the Travelers Casualty and Surety Company, Mr. Cox's surety, jointly and severally, in the amount of \$355.37 in favor of ECOT. On February 17, 2006, \$355.37 was repaid to ECOT by Mr. Peterfy.

**Client response:**

A formal termination payout policy is in place at ECOT. In the future leave balances maintained by Lucas County Educational Service Center (the schools fiscal agent) will be reconciled to leave balances maintained by ECOT to ensure completeness.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2005-005</b>
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**Reportable Condition- Payroll Monitoring Controls**

While ECOT's fiscal agent, Lucas County ESC, provided ECOT with system generated payroll reports during the fiscal year, as of November, 2004, no review of system generated payroll reports took place after payroll was processed by the fiscal agent. System generated payroll reports should be reviewed by a designated ECOT employee or member of management. The comparison of the payroll information sent to the fiscal agent by ECOT (input) for payroll processing to the final reports (output) helps to ensure that 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 that an appropriate ECOT employee or management member review the system generated payroll reports. This review and comparison could include such steps as comparison with ECOT employee rosters, pay schedules, and approved Payroll Summary reports (input). This review should be documented to evidence the comparison of the input and output data. Identified discrepancies should be addressed by ECOT management in a timely manner.

**Client response:**

Upon recommendation by the Auditor of State during the audit process, ECOT has now started reconciling the fiscal agent ( i.e.Lucas County Educational Service Center) payroll reports to the time records maintained at ECOT. The first payroll that was reconciled under this new process was dated December 15, 2005. In the future, ECOT will make sure that this process is followed consistently to insure that payroll disbursements are accurate and complete.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	<b>2005-006</b>
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<b>CFDA Title and Number</b>	<b>84.010-Title I Grants to Local Educational Agencies</b>
<b>Federal Award Number / Year</b>	<b>133413-C1-S1-2004; 133413-C1-S1-2005; and 133413-C1- SK-2005</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

**Reporting Project Cash Request- Reportable Condition/Noncompliance**

The Project Cash Request form for reporting to the Ohio Department of Education (ODE) the pass through agency, requires that only actual cash basis expenditures authorized by the approved project application and charges to the project special cost center be reported (report amounts actually expended, not encumbered).

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)**

<b>Finding Number</b>	<b>2005-006(Continued)</b>
<b>CFDA Title and Number</b>	<b>84.010-Title I Grants to Local Educational Agencies</b>
<b>Federal Award Number / Year</b>	<b>133413-C1-S1-2004; 133413-C1-S1-2005; and 133413-C1- SK-2005</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

**Reporting Project Cash Request- Reportable Condition/Noncompliance (Continued)**

ECOT reported expenditures in error on twelve of the fourteen cash requests during the fiscal year ended June 30, 2005. The cash requests were initiated by the fiscal agent/sponsor otherwise known as Lucas County Educational Service Center. By reporting expenditures incorrectly, ECOT did not request the proper amount of funding from the pass through agency (ODE). Failure to accurately report expenditures could lead ECOT to be noncompliant with pass through requirements. Additionally this could lead to excess cash on hand which could potentially cause noncompliance with Federal Cash Management procedures. ECOT should only request funds that are expected to be expended with in the following month of the request.

The amounts below indicate variances between the expenditures reported on the Project Cash Request Forms at the time of request and ECOT's actual cash basis expenditures according to the accounting records:

<b>Project Cash Request Date</b>	<b>Award Grant Number</b>	<b>Expenditures reported by ECOT</b>	<b>Actual expenditures on the request date</b>	<b>Difference (1)</b>
July 13, 2004	C1-S1-2004	\$ 751,907	\$ 772,858	\$ (20,951)
August 12, 2004	C1-S1-2004	793,335	780,250	13,085
September 16, 2004	C1-S1-2005	249,974	149,269	100,705
October 6, 2004	C1-S1-2005	331,740	199,555	132,185
November 1, 2004	C1-S1-2005	382,663	273,718	108,945
January 27, 2005	C1-S1-2005	962,753	780,794	181,959
March 9, 2005	C1-S1-2005	1,759,530	1,500,677	258,853
March 9, 2005	C1-SK-2005	45,000	33,333	11,667
April 21, 2005	C1-S1-2005	1,563,502	1,799,971	(236,469)
May 4, 2005	C1-S1-2005	2,035,536	2,037,519	(1,983)
May 27, 2005	C1-S1-2005	2,431,144	2,252,190	178,954
June 13, 2005	C1-S1-2005	2,574,887	2,431,124	143,763

**(1)= This amount represents the amount over or under actual expenditures by ECOT to amounts reported to the Ohio Department of Education.**

We recommend that ECOT only report actual cash basis expenditure at the time funds are requested on the Project Cash Request Form as required by the pass through agency (ODE). We also recommend that ECOT implement procedures that will result in complete and accurate reporting.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (continued)</b>
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<b>Finding Number</b>	<b>2005-007</b>
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<b>CFDA Title and Number</b>	<b>84.027-Special Education Grants to the States</b>
<b>Federal Award Number / Year</b>	<b>133413-6B SF 2004 and 133413- 6B SF 2005</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

**Reportable Condition -Non Payroll Disbursement Approval- Grant Coordinator**

There was no documentation or indication of review or approval of the Special Education grant coordinator for ten percent of the non-payroll disbursements tested. The grant coordinator should review and approve all grant disbursements prior to processing for compliance with requirements of the grant agreement. By not requiring the grant coordinator to approve all grant disbursements, there is an increased risk that unallowable disbursements could occur and go undetected by management.

We recommend that the grant coordinator review and approve all grant disbursements prior to processing for compliance with allowable costs.

<b>Finding Number</b>	<b>2005-008</b>
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<b>CFDA Title and Number</b>	<b>84.010-Title I Grants to Local Educational Agencies 84.027-Special Education Grants to States</b>
<b>Federal Award Number / Year</b>	<b>133413-C1-S1-2004; 133413-C1-S1-2005; 133413-C1-SK-2005; 133413-6B-SF-2004; and 133413- 6B-SF-2005</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

**Purchasing Internal Controls- Reportable Condition, Material Weakness**

See Findings Related to the Financial Statements required to be reported under GAGAS number 2005-001. This finding is also required to be reported under OMB Circular A-133.505(d)(3).

<b>Finding Number</b>	<b>2005-009</b>
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<b>CFDA Title and Number</b>	<b>84.010-Title I Grants to Local Educational Agencies 84.027-Special Education Grants to States</b>
<b>Federal Award Number / Year</b>	<b>133413-C1-S1-2004;133413-C1-S1-2005; 133413-C1-SK-2005; 133413-6B-SF-2004; and 133413- 6B-SF-2005</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

**Payroll Monitoring Controls- Reportable Condition**

See Findings Related to the Financial Statements required to be reported under GAGAS number 2005-005. This finding is also required to be reported under OMB Circular A-133.505(d)(3).

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005**

<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; <b><u>Explain:</u></b>
2004-001	There was no formal requisition or approval process over disbursements nor were system generated reports reviewed.	No	Not Corrected- See response in 2005-001
2004-002	ECOT received no breakout of what services or charges were contained in the management fee paid or owed to Altair.	No	Not Corrected- See response in 2005-002
2004-003	ECOT did not have an adequate internal audit function.	No	Not Corrected- See response in 2005-003
2004-004	Payroll charges to the Title I fund were not properly supported as required by OMB Circular A-87, Attachment B, subsection 8.h. Accordingly, a questioned cost is reported in the amount of \$74,904.	No	Partially Corrected- ECOT is now aware of the requirement to have Teacher Certifications signed by teachers every six months and will make sure that these forms are completed.
2004-005	Special Education Grants to States disbursements were not always approved by grant coordinator	No	Not Corrected- The grant coordinator approves all expenditures. A formal title grant committee also reviews and approves all title grant expenditures for federal compliance requirements.
2004-006	Purchasing Controls – Federal Funds	No	Not Corrected- In August 2005, ECOT implemented a formal requisition process. All purchases are required to have a requisition request form attached. Purchases over \$500 must be approved by the department manager. This is currently being monitored in the Controller's office.
2003-011	Purchasing Controls – Federal Funds	No	Not Corrected- In August 2005, ECOT implemented a formal requisition process. All purchases are required to have a requisition request form attached. Purchases over \$500 must be approved by the department manager. This is currently being monitored in the Controller's office.
2003-012	Payroll charges to the Title I fund were not properly supported, as required by OMB Circular A-122, Attachment B subsection 7.b. and 7.m. Accordingly, a questioned cost is reported in the amount of \$150,834.	No	Not Corrected- ECOT is now aware of the requirement to have Teacher Certifications signed by teachers every six months and will make sure that these forms are completed.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2005**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2005-006	Currently the Project Cash Requests are prepared on behalf of ECOT by the Lucas County Educational Service Center (the Fiscal Agent). Lucas County is aware of the differences and will work to resolve future requests.	February 1, 2006	Richard Cox, Treasurer
2005-007	The grant coordinator approves all expenditures. A formal title grant committee also reviews and approves all title grant expenditures for federal compliance requirements.	December 31, 2005	Scott Kern, Senior Vice President
2005-008	In August 2005, ECOT implemented a formal requisition process. All purchases are required to have a requisition request form attached. Purchases over \$500 must be approved by the department manager. This is currently being monitored in the Controller's office.	August 1, 2005	Scott Kern, Senior Vice President
2005-009	Upon recommendation by the Auditor of State during the audit process, ECOT has started reconciling the fiscal agent payroll reports to the time records maintained at ECOT. In the future, ECOT will make sure that this process is followed to insure that payroll disbursements are accurate and proper.	December 15, 2005	Scott Kern, Senior Vice President







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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  
APRIL 13, 2006**