



Mary Taylor, CPA
Auditor of State

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

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Mary Taylor, CPA

Auditor of State

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, 2006, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Classroom of Tomorrow, Franklin County, Ohio, as of June 30, 2006, 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 July 9, 2007, 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.

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 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 also 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

July 9, 2007

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

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, 2006. 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 ECOT's financial performance.

Financial Highlights

Key Financial Highlights of ECOT for the fiscal year ended June 30, 2006 are as follows:

Total Net Assets were \$9,954,030.
Total Operating Revenue was \$39,942,289.
Total Operating Expenses were \$41,015,971.
Change in Net Assets was \$3,661,934.

The fiscal year 2006 was a year of increased numbers of students and better management of expenses related to those students, which translated to increased net assets and cash.

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

Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the whole entity, presenting both an aggregate view of ECOT's finances and a longer-term view of those finances. In the case of ECOT, there is only one fund presented.

Reporting ECOT as a Whole

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

The view of ECOT looks at all financial transactions and asks the question, "How did we do financially during 2006?" 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, 2006
(UNAUDITED)
(Continued)**

Reporting ECOT as a Whole

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

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

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 2006 compared to fiscal 2005:

Total assets increased by \$2,906,194. While cash and cash equivalents increased by \$2,492,147, total receivables increased by \$61,310.

ECOT's 2006 net assets increased by \$3,661,934, and an analysis of cash flows for operating activities in 2006 demonstrates cash payments from operating activities decreased unrestricted cash receipts by \$517,814. The 2006 net cash provided by noncapital financing activities was \$4,807,318 from operating grants.

Table 2 shows the changes in net assets for fiscal year 2006 compared to 2005.

Table 1
Statement of Net Assets

	<u>2006</u>	<u>2005</u>	Percentage <u>Change</u>
Assets			
Current and Other Assets	\$ 10,611,226	\$ 7,556,824	40%
Capital Assets, Net	5,574,246	5,722,454	-3%
Total Assets	<u>16,185,472</u>	<u>13,279,278</u>	<u>22%</u>
Liabilities			
Current Liabilities	5,053,662	5,545,232	-9%
Noncurrent Liabilities	1,177,780	1,441,950	-18%
Total Liabilities	<u>6,231,442</u>	<u>6,987,182</u>	<u>-11%</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,845,586	3,087,440	-8%
Restricted	2,268,409	1,705,620	33%
Unrestricted	4,840,035	1,499,036	223%
Total Net Assets	<u>\$ 9,954,030</u>	<u>\$ 6,292,096</u>	<u>58%</u>

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

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

	2006	2005	Percent Change
Operating Revenue			
Foundation Payments	\$ 36,071,852	\$ 35,093,512	3%
Disadvantage Pupils Impact Aid	-	166,169	-100%
Special Education	3,771,914	3,125,147	21%
Extracurricular Activities	8,452	-	100%
Classroom Fees	-	4,084	-100%
Other Operating Revenues	90,071	281,939	-68%
Total Operating Revenues	<u>39,942,289</u>	<u>38,670,851</u>	<u>3%</u>
Operating Expenses			
Salaries	13,288,012	11,197,208	19%
Fringe Benefits	3,672,413	3,023,087	21%
Purchased Services	19,440,520	21,062,010	-8%
Materials and Supplies	2,072,635	1,322,854	57%
Depreciation Expense	2,199,468	2,365,288	-7%
Other Operating Expense	342,923	629,549	-46%
Total Operating Expenses	<u>41,015,971</u>	<u>39,599,996</u>	<u>4%</u>
Non-Operating Revenues and (Expenses)			
Operating Grants	4,854,435	5,363,512	-9%
Interest Income	243,809	56,244	333%
Contribution and Donations	-	687	-100%
Gain (Loss) on Disposal of Assets	(103,913)	(517,874)	-80%
Interest and Fiscal Charges	(258,715)	(351,661)	-26%
Total Non-Operating Revenues and Expenses	<u>4,735,616</u>	<u>4,550,908</u>	<u>4%</u>
Change in Net Assets	<u>\$ 3,661,934</u>	<u>\$ 3,621,763</u>	<u>1%</u>

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Total operating revenue increased by 3% in fiscal year 2006. This was due to an increase in State Aid which was attributable to student enrollment.

Total operating expenses increased by 4% in fiscal year 2006. This was primarily due to increases in Salaries and Fringe Benefits. Salaries and Fringe Benefits comprise 41.4 percent of operating expenses. Interest expense was \$258,715 and was attributable to capital leases for equipment.

Budgetary Process

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

Capital Assets and Debt Administration

Capital Assets

At the end of 2006 ECOT had \$5,574,246 (net of \$7,387,533 in accumulated depreciation and amortization) invested in computers, furniture, equipment, and software. Table 3 shows fiscal year 2006 balances compared to 2005:

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

	2006	2005	Percent Change
Computer Equipment	4,651,954	4,781,894	-2.72%
Furniture and Equipment	337,283	220,272	53.12%
Software	585,009	720,288	-18.78%
	<u>5,574,246</u>	<u>5,722,454</u>	<u>-2.59%</u>

Acquisitions were greater than depreciation this year by \$9,353. For the fiscal year ended June 30, 2006, ECOT had \$2,208,821 in purchases of computers, furniture and equipment. Depreciation expense for fiscal year 2006 was \$2,199,468.

Debt

At June 30, 2006 ECOT had \$3,185,582 in Capital Leases and Compensated Absences, \$2,007,802 of which is due within one year. Table 4 summarizes the debt outstanding.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Table 4
Outstanding Debt, at Fiscal Year End

	<u>2006</u>	<u>2005</u>	<u>Percent Change</u>
Capital Leases	\$3,043,780	\$2,635,014	16%
Compensated Absences	141,802	115,486	23%
Total Outstanding Debt, at Year End	<u><u>\$3,185,582</u></u>	<u><u>\$2,750,500</u></u>	<u>16%</u>

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 6,304 students enrolled. ECOT receives its finances mostly from state aid. State per pupil aid for this period amounted to \$6,320 per student.

Contacting ECOT's Financial Management

This financial report is designed to provide our citizen's, 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.

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**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

Assets:

Current Assets:	
Cash and Cash Equivalents	\$ 7,610,008
Accounts Receivable	14,193
Intergovernmental Receivables	1,696,696
Inventory of Supplies	39,175
Prepaid Items	<u>218,644</u>
 Total Current Assets	 9,578,716
Noncurrent Assets:	
Security Deposits	1,032,510
Capital Assets, Net	<u>5,574,246</u>
 Total Noncurrent Assets	 <u>6,606,756</u>
 Total Assets	 <u>16,185,472</u>

Liabilities:

Current Liabilities:	
Accounts Payable	718,016
Accrued Wages and Benefits Payable	2,144,524
Intergovernmental Payable	183,320
Capital Leases Payable	<u>2,007,802</u>
 Total Current Liabilities	 5,053,662
Noncurrent Liabilities:	
Compensated Absences Payable	141,802
Capital Leases Payable	<u>1,035,978</u>
 Total Noncurrent Liabilities	 <u>1,177,780</u>
 Total Liabilities	 <u>6,231,442</u>

Net Assets:

Invested in Capital Assets, Net of Related Debt	2,845,586
Restricted for Security Deposits	1,032,510
Restricted for Other	1,235,899
Unrestricted	<u>4,840,035</u>
 Total Net Assets	 <u>\$ 9,954,030</u>

See Accompanying Notes to the Basic Financial Statements

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

Operating Revenues:

Foundation Payments	\$ 36,071,852
Special Education	3,771,914
Extracurricular Activities	8,452
Other Operating Revenues	<u>90,071</u>
 Total Operating Revenues	 <u>39,942,289</u>

Operating Expenses:

Salaries	13,288,012
Fringe Benefits	3,672,413
Purchased Services	19,440,520
Materials and Supplies	2,072,635
Depreciation and Amortization	2,199,468
Other Operating Expenses	<u>342,923</u>
 Total Operating Expenses	 <u>41,015,971</u>
 Operating Income (Loss)	 <u>(1,073,682)</u>

Non-Operating Revenues and (Expenses):

Non-Operating Grants	4,854,435
Interest	243,809
Loss on Disposal of Capital Assets	(103,913)
Interest and Fiscal Charges	<u>(258,715)</u>
 Total Non-Operating Revenues and (Expenses)	 <u>4,735,616</u>
 Change in Net Assets	 3,661,934
 Net Assets at Beginning of Year	 <u>6,292,096</u>
Net Assets at End of Year	<u><u>\$ 9,954,030</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, 2006**

Increase in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 39,798,516
Cash Received from Extracurricular Activities	8,452
Cash Received from Other Operating Sources	75,878
Cash Payments to Suppliers for Goods and Services	(23,241,105)
Cash Payments to Employees for Services	(12,727,829)
Cash Payments for Employee Benefits	(3,631,880)
Cash Payments for Other Operating Uses	(799,846)
	<hr/>
Net Cash Used for Operating Activities	(517,814)

Cash Flows from Noncapital Financing Activities:

Non-Operating Grants	4,807,318
	<hr/>
Net Cash Provided by Noncapital Financing Activities	4,807,318

Cash Flows from Capital and Related Financing Activities:

Proceeds from Sale of Capital Assets	1,087
Payments for Capital Acquisitions	(195,981)
Principal Payments	(1,587,557)
Interest Payments	(258,715)
	<hr/>
Net Cash Used for Capital and Related Financing Activities	(2,041,166)

Cash Flows from Investing Activities:

Interest on Investments	243,809
	<hr/>
Net Cash Provided by Investing Activities	243,809

Net Increase in Cash and Cash Equivalents	2,492,147
Cash and Cash Equivalents at Beginning of Year	5,117,861
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Cash and Cash Equivalents at End of Year	\$ 7,610,008

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss	\$ (1,073,682)
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Adjustments to Reconcile Operating

Loss to Net Cash Used for Operating Activities:

Depreciation	2,199,468
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(14,193)
Decrease in Prepaid Items	25,973
(Increase) in Inventory of Supplies	(39,175)
(Increase) in Security Deposits	(487,743)
(Decrease) in Accounts Payable	(1,243,438)
Increase in Accrued Wages	695,031
(Decrease) in Intergovernmental Payable	(606,371)
Increase in Compensated Absences Payable	26,316
Total Adjustments	555,868
Net Cash Used for Operating Activities	<hr/> <hr/> \$ (517,814)

Non - Cash Transactions:

Ecot entered into a capital lease in the amount of \$ 2,012, 840 for the purchase of computers and office equipment.

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, 2006**

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 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 87 non-certified and 274 certificated full time teaching personnel who provide services to 6,304 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 issue, budgets, contracts, and equipment and facilities (See Note 16).

Reporting Entity A reporting entity is comprised of the primary government, and other organizations that are included to insure that the financials 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, 2006
(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.

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 finances and meets the cash flow needs of its business type activities.

C. Basis of Accounting

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in ECOT's contract with its Sponsor. The contract between ECOT and its Sponsor does prescribe an annual budget 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, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

ECOT's fiscal agent, the Lucas County Educational Service Center, accounts for all monies received by ECOT. To improve cash management, all cash received by ECOT is pooled in a central bank account. All cash received by the fiscal agent is maintained in separate accounts in ECOT's name. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Interest in the pool is presented as "Cash and Cash Equivalents" on the Statement of Net Assets.

During fiscal year 2006, ECOT's investments were limited to repurchase agreements. This investment was reported at cost.

Interest revenue credited during fiscal year 2006 amounted to \$243,809.

F. Inventory of Supplies

Inventories are stated at lower of cost or market. Cost is determined using the FIFO method, and are determined by physical count. Inventories consist of consumable supplies.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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.

H. Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. ECOT maintains a capitalization threshold of \$1,000. All computers are capitalized regardless of cost. ECOT does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest is not capitalized on capital assets.

All reported capital assets are depreciated or amortized. Improvements are depreciated over the remaining useful life of the related capital assets. Depreciation and amortization 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

I. 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, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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 \$1,032,510.

K. Accrued Liabilities and Long-Term Obligations

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

L. 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 reports \$2,268,409 of restricted net assets, all of which is imposed by external restrictions.

ECOT applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. 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 Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

O. Operating Revenue and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of ECOT. For ECOT, these revenues are operating grants. Operating expenses are necessary costs incurred to provide the service that is the primary activity of ECOT. 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, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS

Deposits

State statutes classify monies held by ECOT's fiscal agent into three categories.

Active monies are public monies necessary to meet current demands on the treasury. Active monies must be maintained either as cash in ECOT's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Custodial credit risk is the risk that in the event of bank failure, ECOT will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of ECOT.

Based on the criteria described in GASB Statement No. 40, Deposits and Investment Risk Disclosures as of June 30, 2006, \$310,534 of ECOT's bank balance of \$510,534 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in ECOT's name.

ECOT has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with ECOT's fiscal agent or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least on hundred five percent of the deposits being secured.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Investments

Interim monies may be deposited or invested in the following securities:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of purchase;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Investments of ECOT as of June 30, 2006 were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Investment Maturity 6 Months or less</u>
Repurchase Agreements	\$8,401,118	\$8,401,118

Interest Rate Risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, ECOT's fiscal agent investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. No investment shall be made unless, at the time of making the investment, is reasonably expected to be held to its maturity. Unless matched to a specific obligation or debt of ECOT, ECOT's fiscal agent will not directly invest in securities maturing more than five years from the date of investment.

Credit Risk: The repurchase agreement has underlying securities in Ginnie Mae CMOs, which have a carrying rate of AAA by Moody's and Standard and Poor's. ECOT has no policy regarding credit risk.

Concentration of Credit Risk: ECOT places no limit on the amount it may invest in any one issuer. ECOT's investment in the Repurchase Agreements represents 100 percent of ECOT's total investments.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2006, consisted of accounts and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	<u>Amount</u>
Accounts Receivable	\$ 14,193
<u>Intergovernmental</u>	
Entry Year 2005	9,600
IDEA B	531,451
Title I	972,649
Title V	12,948
Title IVA	39,540
Title IIA	90,578
Title IID	<u>39,930</u>
 Total Intergovernmental Receivables	 <u>1,696,696</u>
Total Receivables	<u><u>\$ 1,710,889</u></u>

5. CAPITAL ASSETS

Capital asset to be depreciated and amortized for fiscal year ended June 30, 2006, were as follows:

	Balance 06/30/2005	Additions	Deductions	Balance 06/30/2006
<u>Capital Assets, Net</u>				
Computer Equipment	\$ 9,706,572	\$ 1,517,375	\$ 767,002	\$ 10,456,945
Furniture and Equipment	364,608	197,289	562	561,335
Software	1,449,342	494,157	-	1,943,499
Totals at Historical Cost	<u>11,520,522</u>	<u>2,208,821</u>	<u>767,564</u>	<u>12,961,779</u>
Less Accumulated Depreciation and Amortization:				
Computer Equipment	4,288,538	1,490,316	610,003	5,168,851
Furniture and Equipment	780,476	79,716	-	860,192
Software	729,054	629,436	-	1,358,490
Total Accumulated Depreciation and Amortization	<u>5,798,068</u>	<u>2,199,468</u>	<u>610,003</u>	<u>7,387,533</u>
 Capital Assets, Net	 <u>\$ 5,722,454</u>	 <u>\$ 9,353</u>	 <u>\$ 157,561</u>	 <u>\$ 5,574,246</u>

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

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 2006, ECOT contracted with Indiana Insurance for property and general liability insurance.

The School Leaders Errors and Omissions policy covers errors and omissions. National Union Fire Insurance Company of Pittsburgh, PA protects this policy 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. Gulf Underwriters Insurance Company protects this policy 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 (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 plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information.

That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and ECOT is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of ECOT's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. ECOT'S required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$335,846, \$315,476, and \$232,213, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

ECOT participates in the State Teachers Retirement System of Ohio

(STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of 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. 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The ECOT was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (Continued)

ECOT'S required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,053,893, \$1,043,637, and \$676,505, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$1,446,048 made by ECOT and \$924,753 made by the plan members.

8. POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the 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. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For ECOT, this amount equaled \$103,289 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For ECOT, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$202,767.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

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. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

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, 2006, ECOT has no employees or members of the governing board, which contribute to Social Security.

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 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 \$984,440 was paid during the fiscal year plus \$85,481 was outstanding in accounts payable at fiscal year end.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

10. FISCAL AGENT (Continued)

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, 2005 through June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$	11,584,531
Property Services		2,397,900
Travel Mileage/Meeting Expenses		401,827
Communications		4,507,601
Utilities		41,419
Contracted Craft or Trade Services		113,074
Pupil Transportation Services		5,290
Other Purchases Services		388,878
Total Purchased Services	<u>\$</u>	<u>19,440,520</u>

12. LONG -TERM LIABILITIES

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

	<u>Principal Outstanding 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/06</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	\$ 115,486	\$ 26,316	\$ -	\$ 141,802	\$ -
Capital Lease Payable	2,635,014	1,996,323	(1,587,557)	3,043,780	2,007,802
Total Noncurrent	<u>\$ 2,750,500</u>	<u>\$ 2,022,639</u>	<u>\$ (1,587,557)</u>	<u>\$ 3,185,582</u>	<u>\$ 2,007,802</u>

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

12. LONG –TERM LIABILITIES (Continued)

Compensated absences, representing ECOT’s contractually required vested vacation leave which ECOT has entered into is paid when an employee leaves ECOT’s services, will be paid from the fund from which the employees’ salaries are paid.

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, 2006, including interest is as follows:

Fiscal Year Ending	Capital Leases 6/30/2006
2007	\$ 2,226,959
2008	828,085
2009	<u>278,258</u>
Total Mimimum Lease Payments	3,333,302
Less Amount Representing Interest	<u>(289,522)</u>
Total Capital Lease Payable	<u><u>\$ 3,043,780</u></u>

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 was to terminate on July 31, 2005 but was extended to December 31, 2007. For fiscal year 2006 ECOT paid \$162,419 in operating leases for the Southland Mall properties.

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 July 1, 2005 and were to terminate July 31, 2006 but were extended to December 31, 2007. For fiscal year 2006, ECOT paid \$33,505 in operating leases for the extra storage.

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

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

Fiscal Year Ending <u>June 30,</u>	
2007	\$240,490
2008	131,694
2009	10,903

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

15. 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.

16. 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 2006 was \$5,580,522. As of June 30, 2006, \$5,574,123 of this fee had been paid to Altair with \$6,401, including delinquent fees and interest, still owed.

17. 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 are 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 or on the overall financial position of ECOT at June 30, 2006.

B. Pending Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The Case is still pending. The effect of this suit, if any, on ECOT is not presently determinable.

C. School Funding

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by ECOT. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODOE's review of ECOT's fiscal year 2006 student enrollment resulted in an adjustment to its state funding of \$35,653.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

JUNE 30, 2006

18. CHANGE IN ACCOUNTING PRINCIPLE

For 2006, ECOT has implemented *GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*.

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on ECOT's financial statements for 2006.

GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation an amendment of GASB Statement No. 34".

This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as citizens, public interest groups, or the judiciary can compel a government to honor.

GASB Statement No. 47, "Accounting for Termination Benefits"

This Statement establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the net assets of ECOT as previously reported at June 30, 2005.

19. COMPLIANCE

Contrary to the Ohio Department of Education EMIS attendance guidance, ECOT was backdating absences to the last day of participation in the case of withdrawals due to non-attendance. Absences should be recorded as they occur and the practice of backdating absences is not acceptable as an attendance policy.

ECOT understands that further submission of incorrect attendance data could result in 10% foundation funding being withheld for fiscal year 2008 until it can prove successful and accurate submission of year end EMIS data.

20. SUBSEQUENT EVENT

As noted in Note 10, the Lucas County ESC was the fiscal agent for ECOT. As of August 31, 2006 Lucas County ESC is no longer the Fiscal Agent for ECOT. ECOT has hired their own Treasurer that will be responsible for ECOT's financial functions. Lucas County ESC will remain ECOT's sponsor.

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**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDING JUNE 30, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Education Agencies	133413-C1 S1 2005	84.010	\$ 420,858	\$ 699,834
Title I Grants to Local Education Agencies	133413-C1 S1 2006	84.010	2,573,687	2,564,303
Title I Grants to Local Education Agencies	133413-C1 SK 2006	84.010	50,000	35,000
<i>Total Title I Grants to Local Education Agencies</i>			<u>3,044,545</u>	<u>3,299,137</u>
Special Education Grants to States	133413-6B SF 2005	84.027	135,889	168,838
Special Education Grants to States	133413-6B SF 2006	84.027	1,061,970	1,011,906
<i>Total Special Education Grants to States</i>			<u>1,197,859</u>	<u>1,180,744</u>
Safe and Drug Free Schools and Communities State Grant	133413-DR S1 2006	84.186	37,830	45,111
<i>Total Safe and Drug Free Schools and Communities State Grant</i>			<u>37,830</u>	<u>45,111</u>
State Grants for Innovative Educational Program Strategies	133413-C2 S1 2005	84.298	1,928	0
State Grants for Innovative Educational Program Strategies	133413-C2 S1 2006	84.298	3,946	2,256
<i>Total Innovative Educational Program Strategies</i>			<u>5,874</u>	<u>2,256</u>
Education Technology State Grant	133413-TJ S1 2005	84.318	47,971	40,201
Education Technology State Grant	133413-TJ S1 2006	84.318	17,911	21,673
<i>Total Education Technology State Grant</i>			<u>65,882</u>	<u>61,874</u>
Improving Teacher Quality State Grants	133413-TR S1 2005	84.367	102,103	8,829
Improving Teacher Quality State Grants	133413-TR S1 2006	84.367	101,826	127,850
<i>Total Improving Teacher Quality State Grants</i>			<u>203,929</u>	<u>136,679</u>
Total U.S. Department of Education			<u>4,420,030</u>	<u>4,725,801</u>
Total			<u>\$ 4,420,030</u>	<u>\$ 4,725,801</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, 2006**

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 2006 for the following: CFDA #'s 84.186 - \$4,268 and 84.010 - \$197. These are for transfers from the 2005 grant to the 2006 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.



Mary Taylor, CPA

Auditor of State

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 (ECOT) as of and for the year ended June 30, 2006, and have issued our report thereon dated July 9, 2007. 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 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 the 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 2006-001 and 2006-002.

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 condition 2006-001 listed above to be a material weakness. In a separate letter to ECOT's management dated July 9, 2007, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 9, 2007



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM 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 Electronic Classroom of Tomorrow (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, 2006. 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 major federal program. Our responsibility is to express an opinion on ECOT's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about ECOT's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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, the Electronic Classroom of Tomorrow 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, 2006. In a separate letter to the ECOT's management dated July 9, 2007, we reported another matter related to federal noncompliance not requiring inclusion in this report.

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Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Mary Taylor, CPA
Auditor of State

July 9, 2007

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

Finding Number	2006-001
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Reportable Condition/Material Weakness

Management Company – Altair Learning Management

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 paid Altair \$5,574,122 during the fiscal year ending June 30, 2006. As of June 30, 2006, ECOT had an outstanding balance with Altair Learning Management of \$6,401.

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 onsite 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.

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.

Official’s Response:

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

Auditor of State’s Analysis:

While we do not dispute Altair attendance at ECOT’S Board meetings, it is the Auditor of State’s position that detailed invoices are needed to ensure services billed by Altair are proper and in accordance with expectations/agreements with the Board of Directors.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

Finding Number	2006-002
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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

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.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

Finding Number	2006-002 (Continued)
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Reportable Condition

Internal Audit (Continued)

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. 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.

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.

Official's 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. 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.

FINDINGS FOR FEDERAL AWARDS

None

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006**

<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: <u>Explain:</u>
2005-001 and 2004-001	There was no effective formal requisition or approval process over disbursements nor were system generated reports reviewed.	Yes	Finding no longer valid
2005-002 and 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 2006-001
2005-003 and 2004-003	ECOT did not have an adequate internal audit function.	No	Not Corrected- See response in 2006-002
2005-004	Finding related to overpayment of termination benefits.	Yes	Finding no longer valid
2005-005	ECOT payroll system generated reports were not reviewed.	Yes	Finding no longer valid
2005-006	Project Cash Request – Title 1 grant.	Yes	Finding no longer valid
2005-007 and 2004-005	Special Education Grants to States disbursements were not always approved by grant coordinator	Yes	Finding no longer valid
2005-008 and 2004-006	There was no effective formal requisition or approval process over federal disbursements nor were system generated reports reviewed.	Yes	Finding no longer valid
2005-009	ECOT federal payroll system generated reports were not reviewed.	Yes	Finding no longer valid
2004-004	Payroll charges to the Title I fund were not properly supported as Required by OBM A-87, Attachment B, subsection 8.h. Accordingly, a questioned cost is reported in the amount of \$74,904.	Yes	Finding no longer valid



Mary Taylor, CPA
Auditor of State

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
SEPTEMBER 13, 2007**