



**Auditor of State
Betty Montgomery**

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors
Electronic Classroom of Tomorrow (ECOT)
Franklin County
3700 South High Street, Suite 125
Columbus, Ohio 43207

We have audited the accompanying Balance Sheet of the Electronic Classroom of Tomorrow, Franklin County, Ohio (ECOT) as of June 30, 2002, and the related Statement of Revenues, Expenses and Changes in Accumulated Deficit and Statement of Cash Flows for the year ended June 30, 2002. These financial statements are the responsibility of ECOT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ECOT, as of June 30, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As further discussed in Note 18, the Ohio Department of Education conducts reviews of student enrollment data and full time equivalency calculations upon which state funding is based. ECOT's fiscal year 2002 review has not been conducted as of the date of this report. The fiscal year 2001 review identified overpayments to ECOT.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 23, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, such information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

BETTY MONTGOMERY
Auditor of State

March 23, 2003, except for Note 18D which is dated April 21, 2003

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$ 993,178
Accounts Receivable	165,228
Intergovernmental Receivable	5,700
Prepaid Items	<u>23,583</u>
Total Current Assets	<u>1,187,689</u>

Non-Current Assets

Security Deposits	819,244
Fixed Assets (Net of Accumulated Depreciation)	<u>2,923,618</u>
Total Non-Current Assets	<u>3,742,862</u>

Total Assets	<u><u>4,930,551</u></u>
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Liabilities and Equity

Current Liabilities

Accounts Payable	2,370,607
Maintenance Contract Payable	172,996
Accrued Wages Payable	214,450
Capital Leases Payable	1,443,811
Intergovernmental Payable	<u>601,961</u>
Total Current Liabilities	<u>4,803,825</u>

Long-Term Liabilities

Compensated Absences Payable	14,036
Intergovernmental Payable	1,100,000
Capital Leases Payable - Long-Term Portion	<u>670,581</u>
Total Long-Term Liabilities	<u>1,784,617</u>

Total Liabilities	<u>6,588,442</u>
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Accumulated Deficit	<u>(1,657,891)</u>
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Total Liabilities and Equity	<u><u>\$ 4,930,551</u></u>
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The accompanying notes are an integral part of the financial statements.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Operating Revenues</u>	
Foundation Payments	\$ 14,769,818
Disadvantaged Public Impact Aid	690,427
Extracurricular Activities	3,103
Miscellaneous Operating Revenue	629
Total Operating Revenues	<u>15,463,977</u>
<u>Operating Expenses</u>	
Salaries	3,536,068
Fringe Benefits	760,132
Purchased Services	5,832,514
Materials and Supplies	2,678,057
Depreciation	862,630
Other Operating Expenses	164,613
Total Operating Expenses	<u>13,834,014</u>
Operating Income (Loss)	1,629,963
<u>Non-Operating Revenues and (Expenses)</u>	
Grants	647,115
Gain on the Disposal of Fixed Assets	1,808
Interest	31,337
Contributions and Donations	345
Interest and Fiscal Charges	(327,211)
Total Non-Operating Revenues	<u>353,394</u>
Net Income	1,983,357
Restated Beginning Accumulated Deficit	<u>(3,641,248)</u>
Accumulated Deficit at End of Year	<u><u>\$ (1,657,891)</u></u>

The accompanying notes are an integral part of the financial statements.

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**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash received from State of Ohio	\$ 15,460,245
Cash received from Extracurricular Activities	3,103
Cash received from Other Sources	629
Cash Payments to Suppliers for Goods and Services	(8,076,479)
Cash Payments to Employees for Services	(3,585,519)
Cash Payments for Employee Benefits	(885,690)
Cash Payments for Other Operating Uses	(157,515)
Net Cash Provided by (Used for) Operating Activities	<u>2,758,774</u>

Cash Flows from Noncapital Financing Activities

Grants Received	641,415
Contributions and Donations	2,945
Net Cash Provided by Noncapital Financing Activities	<u>644,360</u>

Cash Flows from Capital and Related Financing Activities

Proceeds from Sale of Fixed Assets	1,808
Principal Payments on Capital Leases	(2,094,523)
Interest Payments	(327,211)
Payments for Capital Acquisitions	(224,030)
Net Cash Used for Capital and Related Financing Activities	<u>(2,643,956)</u>

Cash Flows from Investing Activities

Cash Received from Interest on Investments	31,337
Net Cash Provided by Investing Activities	<u>31,337</u>

Net Increase in Cash and Cash Equivalents	790,515
Cash and Cash Equivalents at Beginning of Year	202,663
Cash and Cash Equivalents at End of Year	<u>\$ 993,178</u>

The accompanying notes are an integral part of the financial statements.

(Continued)

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

Operating Income	\$	1,629,963
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**Adjustments to Reconcile Operating Income to Net
Cash Provided by Operating Activities**

Depreciation	862,630
Non-Operating Changes in Accruals	3,100
Changes in Assets and Liabilities:	
(Increase)/Decrease in Accounts Receivable	(158,995)
(Increase)/Decrease in Prepaid Items	(1,897)
(Increase)/Decrease in Intergovernmental Receivables	159,300
Increase/(Decrease) in Accounts Payable	432,132
Increase/(Decrease) in Accrued Wages Payable	59,466
Increase/(Decrease) in Compensated Absences Payable	(115,027)
Increase/(Decrease) in Intergovernmental Payable	(111,898)
Total Adjustments	<u>1,128,811</u>
Net Cash Provided by Operating Activities	<u>\$ 2,758,774</u>

The accompanying notes are an integral part of the financial statements.

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**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE ENTITY

Electronic Classroom of Tomorrow (ECOT) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. ECOT wishes to make distance learning accessible to all of Ohio's students regardless of mental, emotional, or physical disability, regardless of social-economic or geographical hardship, and regardless of academic ability or family background. ECOT, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. ECOT may acquire facilities as needed and contract for any services necessary for the operation of the school.

ECOT was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five academic years commencing after July 1, 2000. The Sponsor is responsible for evaluating the performance of ECOT and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of ECOT, (see Note 10).

ECOT operates under the direction of a five-member Board of Directors. The Board is 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 Board controls ECOT's one instructional/support facility staffed by 27 noncertified and 89 certificated full time teaching personnel who provide services to 2,799 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 16).

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, provided they do not conflict with or contradict GASB pronouncements. The more significant of ECOT's accounting policies are described below:

A. Basis of Presentation

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

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

D. Equity In Pooled 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.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with an original maturity of three months or less at the time they are purchased by ECOT are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the date received. ECOT maintains a capitalization policy of five hundred dollars. ECOT does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest is not capitalized on fixed assets.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the 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 expenditures requirements, in which the resources are provided to ECOT on a reimbursement basis.

Amounts awarded under federal grants and entitlements for the 2002 school year totaled \$563,644. ECOT also received grants from the Ohio Department of Education for EMIS and School Net Professional Development. Amounts awarded under the above named programs for the 2002 school year totaled \$16,107,360.

G. Prepaid Items

Prepayments represent cash disbursements in advance of the receipt of goods or services and are therefore not current expendable resources. These items are reported as assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 time off up to a maximum of ten days for twelve month employees.

J. Security Deposit

ECOT entered into several leases for the use of building space for the administration of ECOT, for 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. These amounts are held by the respective lessors/vendors and will be returned to ECOT at the conclusion of the respective leases.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2002, ECOT changed its policy of how it will account for compensated absences by limiting payouts upon leave of service to only 12 month employees up to a maximum of 10 days, which causes a lower future payout liability. The implementation of this process resulted in no material change to the prior year's ending accumulated deficit.

4. CASH AND CASH EQUIVALENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At June 30, 2002, the carrying amount of ECOT's deposits was a deficit of \$538,470 and the bank balance was \$71,631. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

ECOT's investments are categorized to give an indication of the level of risk assumed by ECOT at fiscal year end. Category 1 includes investments insured or registered for which the securities are held by ECOT or its agent in ECOT's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in ECOT's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in ECOT's name. ECOT's investments totaling \$1,531,648 (reported amount and fair value), which are maintained in a Business Sweep Account and a Money Market Sweep Account (repurchase agreement), are included in Category 3.

5. FIXED ASSETS

The following is a summary of changes in the fixed assets during the fiscal year:

	Balance 7/1/2001	Additions	Deletions	Balance 6/30/2002
Computer Equipment	\$ 4,128,145	\$ 224,030	-	\$ 4,352,175
Furniture & Other Equipment	72,990	104,136	-	177,126
Total Assets	4,201,135	328,166	-	4,529,301
Less Accum. Depreciation	(743,053)	(862,630)	-	(1,605,683)
Net Fixed Assets	\$ 3,458,082	\$ 1,190,796	-	\$ 2,923,618

6. RISK MANAGEMENT

A. Property and Liability:

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 2002, ECOT contracted with CNA Insurance for property and general liability insurance.

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

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

6. RISK MANAGEMENT (Continued)

A. Property and Liability: (Continued)

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

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

Plan members are required to contribute 9 percent of their annual covered salary and ECOT is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 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 years ended June 30, 2002 and 2001 were \$33,463 and \$41,637, respectively; 92 percent has been contributed for fiscal year 2002 and 100% for fiscal year 2001. The unpaid contribution for fiscal year 2002, in the amount of \$2,675 is recorded as a liability.

B. State Teachers Retirement System

ECOT contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a public available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio, 43215-3771.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and ECOT is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. ECOT's required contributions for pension obligations to STRS for the year ended June 30, 2002 and 2001 were \$181,822 and \$213,945; 98 percent has been contributed for fiscal year 2002 and 100% for fiscal year 2001. The net unpaid contribution for fiscal year 2002, in the amount of \$3,235 has been recorded as a liability on the Balance Sheet.

C. Social Security Tax

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, ECOT has no employees or members of the governing board which contribute to Social Security.

8. POST EMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For ECOT, this amount equaled \$86,126 for the fiscal year ended June 30, 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

8. POST EMPLOYMENT BENEFITS (Continued)

For this fiscal period, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay had been established at \$12,400. For ECOT, the amount to fund health care benefits, including surcharge, was \$87,562 for the fiscal year ended June 30, 2002.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 "(the latest information available)" were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits were \$315.7 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining paid time off is derived from policies and procedures approved by the Board of Directors. Numerous employees had paid time off earned in fiscal year 2002 that had not been used at year end. Unused paid time off is shown as a long term liability unless due within current year.

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).

10. FISCAL AGENT

The sponsor agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of Electronic Classroom of Tomorrow. As part of this agreement, ECOT shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to ECOT from the State of Ohio. The total contract payment was \$309,205, of which \$276,936 was paid during the year, and the remainder, \$32,269, is recorded in accounts payable. ECOT also paid \$3,152 to reimburse Lucas County ESC for business expenses during fiscal year 2002.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

10. FISCAL AGENT (Continued)

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

- A. Maintain custody of all funds received by ECOT in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- B. Maintain all books and accounts of ECOT;
- C. Maintain all financial records of all state funds of ECOT and follow State Auditor procedures for receiving and expending state funds;
- D. Assist ECOT in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. Invest funds of ECOT in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- F. 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, 2001 through June 30, 2002, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 1,111,573
Management Fees - See Note 16	1,613,946
Lucas County Educational Service Center CFO Fees - See Note 10	309,205
Financial Planning Services	54,000
Property Services	58,381
Travel Mileage/Meeting Expense	74,638
Communications	2,562,538
Utilities	11,734
Contracted Craft or Trade Services	36,499
Total Purchased Services	<u>\$ 5,832,514</u>

12. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2001, 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.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

12. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2002.

Fiscal Year Ending		
2003	\$	1,601,099
2004		470,818
2005		222,521
2006		17,915
2007		6,988
Total Minimum Lease Payments		2,319,341
Less: Amount Representing Interest		(204,949)
Present Value of Minimum Lease payments	<u>\$</u>	<u>2,114,392</u>

13. MAINTENANCE CONTRACTS PAYABLE

ECOT received computers as well as support and maintenance services from Xerox Connect during the first few months of ECOT's startup. ECOT financed these services for a period of three years through Information Leasing Corporation (ILC). The total expense for the services rendered was \$757,836. As of June 30, 2002, \$584,840 of the expenses had been paid by ECOT through payment to ILC. The remainder is recorded in Maintenance Contracts Payable.

The following is a schedule of the future minimum payments of the Maintenance Contracts Payable required under the terms of the agreement and the present value of the payments as of June 30, 2002.

Fiscal Year Ending		
2003	\$	183,859
Total Contract Payments		<u>183,859</u>
Less Amount Representing Interest		<u>(10,863)</u>
Present Value of Contract Payments	<u>\$</u>	<u>172,996</u>

14. OPERATING LEASES

ECOT entered into a lease agreements with Bob Evans Farms, Inc. for use of space in the property commonly know as Southland Mall. The term of the original leases commenced August 1, 2001 and will terminate July 31, 2002. Additional space was leased throughout the fiscal year, with the subsequent leases all terminating July 31, 2002. In July, 2002 the lease agreement was renewed for an additional year and the following minimum lease payments will be made for Fiscal Year 2003: The lease agreement can be renewed annually.

Suite 125	\$	19,110
Suite 90		5,200
Suite 95		54,925
Suite 129		5,752
Suite 157		13,000
Total Minimum Lease Payments	<u>\$</u>	<u>97,987</u>

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

15. TAX EXEMPT STATUS

ECOT has not obtained and is no longer 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 tax liability resulting 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. The majority of the services provided by Altair were performed by Mr. Lager.

Per the management agreement with ECOT, Altair is entitled to 10% of all revenues received. The management fee for fiscal year 2002 was \$1,613,946. As of June 30, 2002, \$1,105,000 of this fee had been paid to Altair with \$997,937, including delinquent fees of \$ 488,458 and interest, still owed.

17. RELATED PARTY TRANSACTIONS

N. Eugene Brundige is a board member of ECOT who also receives consulting fees. ECOT paid Mr. Brundige \$15,000 in consulting fees for fiscal year 2002.

18. CONTINGENCIES

A. 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 its financial operations.

B. Grants

ECOT received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of ECOT. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of ECOT at June 30, 2002.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

18. CONTINGENCIES (Continued)

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of student enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE'S review of fiscal year 2001 resulted in an agreement to adjust ECOT's 2001 state funding by \$1,650,000. ECOT will begin making 36 monthly payments in July 2002 to repay the settlement amount which will be adjusted from ECOT's monthly foundation payments. The balance outstanding at June 30, 2002 is \$1,650,000 and is reported as intergovernmental payable in the financial statements.

In addition to applicable statutory requirements, the settlement agreement provides that for ECOT's fiscal year 2002 FTE funding, enrollment of a student is to be determined by an enrollment form signed by the student's parent or guardian and certification of hours by each student's teacher with appropriate administrative oversight. On January 21, 2003 ECOT entered into a more comprehensive but similar Funding Agreement to be effective starting July 1, 2002.

ODE has not yet conducted a review of ECOT's fiscal year 2002 student enrollment data and FTE calculations. The conclusion of this review could result in state funding being adjusted. ECOT does not anticipate any material adjustments to state funding for fiscal year 2002, as a result of such review.

During the current audit, The Auditor of State also calculated a \$48,454 overpayment of state funding related to student's age eligibility. This overpayment has been reported by the Auditor of State as a finding for recovery in favor of the Ohio Department of Education.

D. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State Law. On April 21, 2003 the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues.

19. PRIOR PERIOD ADJUSTMENT

Management Fees are based on 10% of the Foundation payment received from the Ohio Department of Education. As Note 18c states, an overpayment of \$1,650,000 was made to ECOT as a result of an agreement from the 2001 enrollment data audit. A receivable for \$165,000 should have been established at June 30, 2001 for the overpayment to Altair Learning Management, LLC based on the 10% formula. The following is a prior period adjustment to recognize the receivable:

Accumulated Deficit at June 30, 2001	\$ (3,806,248)
Recognized Accounts Receivable at Year End from Management Company	165,000
Restated Accumulated Deficit at June 30, 2001	<u>\$ (3,641,248)</u>

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**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B SF 2001 6B SX 2000	84.027	\$ 103,632	\$ 102,191
Total Special Education Cluster			<u>103,632</u>	<u>102,191</u>
Grants to Local Educational Agencies (ESEA Title I)	C1 S1 2002	84.010	434,994	293,501
Eisenhower Professional Development Grants (Title II)	MS S1 2002	84.281	6,004	5,080
Innovative Educational Program Strategies	C2 S1 2002	84.298	3,394	9,094
Class Size Reduction	CR S1 2002	84.340	15,620	15,620
Total Department of Education			<u>563,644</u>	<u>425,486</u>
Total Federal Awards			<u>\$563,644</u>	<u>\$425,486</u>

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

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2002**

A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of 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.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Board of Directors
Electronic Classroom of Tomorrow (ECOT)
Franklin County
3700 South High Street, Suite 125
Columbus, Ohio 43207

We have audited the financial statements of the Electronic Classroom of Tomorrow, Franklin County, Ohio, (ECOT) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 23, 2003 in which we noted that the Ohio Department of Education has not yet conducted reviews of information upon which ECOT'S fiscal year 2002 state funding was based. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether ECOT's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2002-001. We also noted an immaterial instance of noncompliance that we have reported to management of ECOT in a separate letter dated March 23, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ECOT's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 to be 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 the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-002 through 2002-010.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 to be material weaknesses. However, of the reportable conditions described above, we consider items 2002-003 and 2002-004 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of ECOT in a separate letter date March 23, 2003.

This report is intended for the information and use of management, the Board of Directors, audit committee, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

BETTY MONTGOMERY
Auditor of State

March 23, 2003



Auditor of State Betty Montgomery

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

Board of Directors
Electronic Classroom of Tomorrow (ECOT)
Franklin County
3700 South High Street, Suite 125
Columbus, Ohio 43207

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 are applicable to its major federal program for the year ended June 30, 2002. ECOT's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of ECOT's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on 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 are applicable to its major federal program for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2002-013.

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Internal Control Over Compliance

The management of ECOT 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design 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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-011 and 2002-012.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses. We also noted other matters involving the internal control over federal compliance that do not require inclusion in this report that we have reported to management of ECOT in a separate letter dated March 23, 2003.

This report is intended for the information and use of management, the Board of Directors, audit committee, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.



BETTY MONTGOMERY
Auditor of State

March 23, 2003

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505**

1. SUMMARY OF AUDITOR'S RESULTS

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

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

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

Finding Number	2002-001
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Finding for Recovery - Student Enrollment

Ohio Rev. Code Section 3321.01(A)(2) states no child shall be admitted to kindergarten and the first grade in August or September unless the child is five or six years of age, respectively by the thirtieth day of September of the year of admittance, or by the first day of a term or semester other than one beginning in August or September in school districts granting admittance at the beginning of such term or semester.

Ohio Rev. Code Section 3314.06(A) states that admission to the school shall be open to any individual age five to twenty-two.

The 2002 ECOT funding agreement with the Ohio Department of Education states that for the purpose of full time equivalency (FTE) funding for the 2001-2002 school year, enrollment of a student will be determined by enrollment by parent or guardian and certification by each student's teacher(s) employed by ECOT with appropriate administrative oversight and documentation.

Nine students below the age limitation and two students above the age limitation were noted to have been enrolled/reported as eligible by ECOT and funded by the Ohio Department of Education (ODE) for State Foundation payments. In addition, two students had supported teacher enrollment documentation for less than the FTE certified to ODE for State Foundation payments.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money that has been illegally expended is hereby issued against the Electronic Classroom of Tomorrow in the amount of forty-eight thousand four hundred fifty four dollars (\$48,454), in favor of the Ohio Department of Education.

Finding Number	2002-002
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Unaccounted For Computers

At June 30, 2002, twenty-eight (28) ECOT owned computers at a total estimated cost of \$30,800 were missing and unaccounted for.

This condition is due in part to matters noted in findings 2002-003, 2002-008, and 2002-010.

We recommend ECOT review its inventory records, student enrollment records and other documentation in order to determine the status of these computers. ECOT should implement recovery procedures, adjust its inventory records, or take other action as appropriate based on its findings.

Finding Number	2002-003
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Fixed Asset Tracking

During the fiscal year ECOT did not receive or review reports from Xerox Connect that provided timely meaningful information on the computers tracked and assigned users. Additionally, Xerox Connect's tracking system did not monitor the condition of computers held in inventory. Xerox Connect's tracking system also failed to update the most current information from the inventory modules placed on tracked computers and about withdrawn students.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

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

Finding Number	2002-003 (Continued)
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Fixed Asset Tracking (Continued)

ECOT then subsequently brought the functions of tracking and monitoring the shipment, receipt, and possession of the computers and assigned users in house. However, the function is not centralized and information did not flow from one function to another. In addition, the spreadsheet tracking methods for shipments, receipts, inventory, and possession were not performed on a central system or data base and did not include crucial information for the appropriate tracking, such as the CPU serial number.

ECOT additionally has no system or means in place to track the acquisition and disposal of fixed assets other than computers that were tracked by the asset management systems of Xerox Connect and ECOT spreadsheets. Furthermore, ECOT does not have a fixed asset procedures manual.

These weaknesses also inhibit ECOT's ability to track which students have custody of computers. This further creates a difficulty when students withdraw and do not return their computers to ECOT timely.

In addition these weaknesses could result in the theft or loss of assets without management's detection and also result in inaccurate financial reporting of ECOT's fixed assets.

ECOT has no formal policy or procedures in place for collection of unreturned computers from withdrawn students, which hindered their ability to receive computers back from students and reallocate them timely.

The absence of the timely reviews over the rapidly changing fixed assets of ECOT in the prior year led to a loss on unreturned equipment of \$446,600 for approximately 400 computers that were still held by students who have withdrawn from ECOT. Some computers are still being held by students who have withdrawn from ECOT. ECOT continues to pay, and is responsible for, the capital lease payments on these computers.

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

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

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

Finding Number	2002-004
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SAS 70 Report

During the fiscal year ECOT delegated the inventory and tracking function for computer fixed assets, which is a significant accounting function, to a third-party administrator, Xerox Connect. ECOT did not establish procedures to determine whether the service organization had sufficient controls in place and that they were operating effectively to reduce the risk that assets had not been completely and accurately tracked and inventoried.

When delegating accounting functions in the future, we recommend ECOT implement procedures to assure the completeness and accuracy of service provider records. Statement on Auditing Standards (SAS) No. 70 as amended, prescribes standards for reporting on the processing (i.e. control design and operation) of transactions by service organizations. An unqualified Tier II "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70 should provide ECOT with an appropriate level of assurance that assets are being tracked and inventoried in conformance with the contract.

We recommend ECOT specify in their contract with all third-party administrators that an annual Tier II SAS 70 audit report be performed. ECOT should be provided a copy of the SAS 70 report timely and should review the report's content. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide ECOT with a Tier II SAS 70 report, we recommend ECOT only contract with a third-party administrator that will provide such a report.

Finding Number	2002-005
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Management Contract

ECOT has a management agreement with Altair Learning Management, LLC (Altair) for management services. Per the management agreement, Altair was entitled to ten percent of all revenues received. For fiscal year 2002, the fees totaled \$1,613,946. During fiscal year 2002 \$1,105,000 of fees were paid to Altair with \$997,937, including delinquent fees and interest, still owed as of June 30, 2002.

Altair is responsible for management of personnel and human resources, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. The majority of the services provided by Altair were performed by William Lager. Altair paid for few ECOT related expenses other than Mr. Lager's compensation.

During fiscal year 2002, ECOT received no breakout of what services or charges were contained in the management fee paid or owed to Altair. ECOT cannot monitor the management company or expenses being incurred by ECOT without more detailed information about the services performed by Altair.

We recommend ECOT require Altair to provide monthly invoices detailing the services provided, expenses incurred, and charges billed. We further recommend ECOT seek to revise the management contract fee basis with Altair to the actual cost for services provided plus a reasonable profit. In addition, the management contract should be revised to explicitly state the required duties, terms, and conditions of the services to be provided, which should be agreed to by both ECOT and Altair.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY
JUNE 30, 2002**

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

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

Finding Number	2002-006
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Payroll Disbursements

Payroll Summary Reports of ECOT employees hours and leave for the pay period should be reviewed and signed by the Superintendent prior to submission to the fiscal agent, Lucas County ESC, for processing. In addition, system generated payroll reports from the fiscal agent should be reviewed by an appropriate authorized ECOT employee to ensure that all information was correctly entered and processed as submitted.

Eleven percent (11%) of Payroll Summary Reports were not reviewed and signed for approval by the Superintendent. Furthermore, no system generated payroll reports were received from the fiscal agent for review against submitted information by ECOT personnel.

Failure of the Superintendent to review and approve Payroll Summary Reports in addition to an inability to review system generated payroll reports may lead to payment of improper or 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 the Superintendent review and approve all Payroll Summary Reports in addition to having an appropriate level ECOT employee review system generated payroll report submissions from the fiscal agent in accordance with ECOT employee rosters, pay schedules, and approved Payroll Summary Reports.

Finding Number	2002-007
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Purchasing Controls

No formal requisition process was in place for the purchase of goods or services.

Twelve percent (12%) of system generated reports received from the fiscal agent showed no signs of review from ECOT personnel who submitted expenditures to the fiscal agent for processing.

No processes were in place to have the individual who entered into an expenditure for goods or services to designate on the invoice that the goods were received or the service was rendered, have purchase orders and expenditures reviewed and approved by an appropriate individual or group prior to being submitted to the fiscal agent, and have the Board review and approve expenditures from system generated 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 for improper public purposes, do not meet the goals or mission of the School, or are outside of the internal budgets set up for departments.

We recommend the following:

- A formal requisition and approval process should be utilized for all purchases prior to entering into the commitment for the purchase of the goods or services.
- ECOT employees entering into an expenditure for goods or services should make designation on the invoice that the goods or services have been properly rendered and the invoice is eligible for payment.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY
JUNE 30, 2002**

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

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

Finding Number	2002-007 (Continued)
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Purchasing Controls (Continued)

- 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 authority that is knowledgeable about ECOT's mission, budget, and available resources.
- System generated reports received from the fiscal agent should be reviewed for accuracy by the ECOT personnel who submit expenditures to the fiscal agent for processing.
- The Board should review and approve expenditures made by ECOT from system generated expenditure reports and check registers from the fiscal agent.

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

Finding Number	2002-008
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Internal Audit

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

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

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

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

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

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY
JUNE 30, 2002**

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

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

Finding Number	2002-008 (Continued)
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Objectivity is essential to the internal audit function. Therefore the internal audit function should not develop and install procedures, prepare records, or engage in any other activity that he or she would normally review and appraise and that could be reasonably construed to compromise his or her independence. The objectivity of the internal audit function need not be affected adversely by determining and recommending standards of control to be applied in the development of the systems and procedures being reviewed.

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

A second main function of ECOT is to provide computers to students for completion of work in the on-line "electronic classroom". The function of tracking, shipping, and inventorying these computers has been brought in-house by ECOT beginning in fiscal year 2002. ECOT should use the internal audit function to monitor the successful and timely shipment and receipt of computers both to and from students, in addition to monitoring the status of computers at student residences.

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

Finding Number	2002-009
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Monitoring Controls

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

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

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

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY
JUNE 30, 2002**

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

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

Finding Number	2002-009 (Continued)
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To assist management in detecting potential material financial and or compliance transactions that may effect financial operations, we recommend the Board develop and implement monitoring controls. Some of these monitoring controls may consist of, but may not be limited to, the following:

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

Finding Number	2002-010
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Withdrawal Policy

ECOT's established withdrawal policy states that any student in good standing who wishes to withdraw from ECOT must submit in writing a request for withdrawal signed by a parent and return all equipment. Within seven school days upon return of equipment, the Superintendent shall certify the withdrawal form and send student records to the requesting school.

ECOT had withdrawn approximately 490 students at June 30, 2002 that had not returned their equipment to ECOT. In addition, fifteen percent (15%) of withdrawn students did not have the parent or guardian sign the request for withdrawal and one hundred percent (100%) of withdrawn students did not have their withdrawal certified by the Superintendent.

Failure to follow the established withdrawal policy may lead to possible Foundation overpayment.

We recommend the Board modify the withdrawal policy to allow for a window of time from the withdrawal that computers must be returned by. After the window of time has elapsed we recommend that collection procedures be enacted for the return of the computers. We further recommend that ECOT ensure that written withdrawals are received from parents or guardians and that the Superintendent certify all withdrawals.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2002-011
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CFDA Title and Number	Title I, # 84.010
Federal Award Number / Year	C1 S1 2002
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY
JUNE 30, 2002**

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

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number	2002-011 (Continued)
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Payroll Disbursements

See Findings related to the Financial Statements required to be reported under GAGAS number 2002-006. This finding is also required to be reported under OMB Circular A-133.505(d)(3).

Finding Number	2002-012
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CFDA Title and Number	Title I, # 84.010
Federal Award Number / Year	C1 S1 2002
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Purchasing Controls

See Findings related to the Financial Statements required to be reported under GAGAS number 2002-007. This finding is also required to be reported under OMB Circular A-133.505(d)(3).

Finding Number	2002-013
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CFDA Title and Number	Title I, # 84.010
Federal Award Number / Year	C1 S1 2002
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Unallowable Expenditure

OMB Circular A-87, Attachment A Section C, 1, j states that to be allowable under federal awards, costs must be adequately documented.

OMB Circular A-87, Attachment B Section 11 (a) states that the costs of compensation for personnel services are allowable to the extent that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal Law

During fiscal year 2002, the Board approved a "supplemental contract" for the Title I Coordinator in the amount of \$15,000, related to creating a Title I handbook. The Board action provided that the Title I Coordinator would be paid upon presentation of the finished handbook and the Superintendent's acceptance of the handbook as satisfactory and appropriate. As stated in the minutes, the Board action was further based on the understanding that the handbook was created by the Title I Coordinator "outside the scope of her regular employment, and during times outside her regular employment".

The Board appointed the Title I Coordinator for a fixed yearly salary amount. ECOT has not established:

- Written employment agreements,
- Written job descriptions,
- Formally approved working hours,
- A personnel policy manual, or
- Formal policies and procedures governing work-from-home assignments

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY
JUNE 30, 2002**

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

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number	2002-013 (Continued)
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Unallowable Expenditure (Continued)

According to ECOT personnel, the Title I Coordinator is responsible for overseeing ECOT's Title I activities and Title I teaching curriculum, is a twelve month salary employee, and is in a work-from-home status with office attendance on an as-needed basis. ECOT did not provide timesheets or other documentation indicating the normal working hours for the Title I Coordinator.

During 2002 \$15,000 was paid to the Title I Coordinator and charged to the Title I program. The payment was made prior to submission of the completed handbook and acceptance by the Superintendent. Further, the Title I Coordinator did maintain a complete list of dates and time spent related to creating the Title I handbook.

Given the Title I Coordinator's responsibilities, salary status, work-from-home status, the lack of documented normal working hours, and the level of documentation supporting time spent on the Title I handbook, it is not clear how the approval of a supplemental contract complies with the provisions of OMB Circular A-87. Additionally, contrary to Board action the payment was made prior to completion and acceptance of the handbook. Finally, from the documentation provided it is not clear to what extent the handbook was prepared outside the scope of the Title I Coordinator's regular employment, and during times outside her regular employment, as required by the Board's action. Accordingly, a questioned cost is reported in the amount of \$15,000.

**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY
JUNE 30, 2002**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.505**

Finding Number	Finding Summary	Status of Findings
2001-10625-001	Establishment of an internal audit function	Not Corrected – Reissued
2001-10625-002	Lack of a SAS 70 report for a service organization.	Not Corrected – Reissued
2001-10625-003	Establishment of policies and procedures for student withdrawal.	Partially Corrected – Reissued
2001-10625-004	Timely review of computer tracking information.	Not Corrected – Reissued
2001-10625-005	Establishment of policies regarding student enrollment determination.	Fully Corrected
2001-10625-006	Review and modification of contract with management company.	Not Corrected – Reissued
2001-10625-007	Review and approval of expenditures.	Not Corrected – Reissued
2001-10621-008	Lack of effective monitoring controls.	Not Corrected – Reissued



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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
SEPTEMBER 2, 2003**