



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY  
SINGLE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Electronic Classroom of Tomorrow, Franklin County, Ohio, (ECOT), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of ECOT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electronic Classroom of Tomorrow, Franklin County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2006, on our consideration of ECOT's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the ECOT's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

January 30, 2006

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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, 2004. The intent of this discussion and analysis is to look at ECOT's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the ECOT's financial performance.

**Financial Highlights**

Key Financial Highlights of ECOT for the fiscal year ended June 30, 2004 are as follows:

Total Net Assets were \$2,670,333.  
Total Operating Revenues were \$28,762,077.  
Total Operating Expenses were \$29,810,898.  
Change in Net Assets was \$1,497,975.

The fiscal year 2004 was a year of increased numbers of students and better management of expenses related to those students, which translated to increased net assets.

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

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand ECOT as a financial whole, an entire operating entity.

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

**Reporting ECOT as a Whole**

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

The view of ECOT as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" 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, 2004  
UNAUDITED  
(Continued)**

**ECOT as a Whole**

The Statement of Net Assets provides the perspective of ECOT as a whole. Table 1 provides a summary of ECOT's net assets for 2004 compared to 2003:

**Table 1  
Statement of Net Assets**

	<u>2004</u>	<u>2003</u>	<u>Percentage Change</u>
<b>Assets</b>			
Current Assets	\$ 3,067,801	\$ 3,461,954	-11%
Security Deposits	401,013	346,642	16%
Capital Assets, Net of A/D	<u>4,983,835</u>	<u>4,069,845</u>	<u>22%</u>
Total Assets	<u><u>\$ 8,452,649</u></u>	<u><u>\$ 7,878,441</u></u>	<u><u>7%</u></u>
<b>Liabilities</b>			
Current Liabilities	\$ 5,491,147	\$ 5,148,490	7%
Due More than One Year	<u>291,169</u>	<u>1,557,593</u>	<u>-81%</u>
Total Liabilities	<u><u>5,782,316</u></u>	<u><u>6,706,083</u></u>	<u><u>-14%</u></u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	2,916,899	1,337,081	118%
Unrestricted	<u>(246,566)</u>	<u>(164,723)</u>	<u>50%</u>
Total Net Assets	<u><u>\$ 2,670,333</u></u>	<u><u>\$ 1,172,358</u></u>	<u><u>128%</u></u>

Total assets increased by \$574,208. While cash and cash equivalents decreased by \$2,031,624, intergovernmental receivables increased by \$1,427,392 due to a significant increase in grant funding from the previous year due to the increased student population.

Capital assets, net of depreciation, increased by \$913,990. Additional capital assets were acquired through the capital leases.

ECOT paid off significant amounts of noncurrent liabilities in 2004. Noncurrent liabilities decreased by 81%. \$550,000 was due to amounts paid to Ohio Department of Education in 2004 that had been included in non-current liabilities in 2003. Several Capital Leases matured at the end of 2004 and were included in current liabilities in 2003.

ECOT's net assets increased by \$1,497,975, and an analysis of cash flows for operating activities in 2004 demonstrates cash payments from operating activities decreased unrestricted cash receipts by \$54,003. The net cash provided by noncapital financing activities was \$1,600,343, mainly, from operating grants.



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2004 compared to 2003.

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

	<u>2004</u>	<u>2003</u>	Percent Change
<b>Operating Revenue</b>			
Foundation Payments	\$ 26,378,832	\$ 20,542,533	28%
Disadvantaged Pupil Impact Aid	699,718	495,862	41%
Special Education	1,619,695	1,351,206	20%
Other Operating Revenues	63,832	1,274	4910%
<b>Total Operating Revenues</b>	<u>28,762,077</u>	<u>22,390,875</u>	<u>28%</u>
<b>Operating Expenses</b>			
Salaries	7,884,746	5,782,969	36%
Fringe Benefits	1,930,406	1,506,063	28%
Purchased Services	16,243,804	9,174,527	77%
Materials and Supplies	1,645,256	2,953,082	-44%
Depreciation Expense	1,877,980	1,060,987	77%
Other Operating Expense	228,706	172,836	32%
<b>Total Operating Expenses</b>	<u>29,810,898</u>	<u>20,650,464</u>	<u>44%</u>
<b>Non-Operating Revenues and (Expenses)</b>			
Grants	2,685,009	1,232,963	118%
Interest Income	11,556	13,695	-16%
Contribution and Donations	1,250	468	167%
Gain on Disposal of Assets	900	-	-
Interest and Fiscal Charges	(151,919)	(157,288)	-3%
<b>Total Non-Operating</b>	<u>2,546,796</u>	<u>1,089,838</u>	<u>134%</u>
<b>Change in Net Assets</b>	<u>\$ 1,497,975</u>	<u>\$ 2,830,249</u>	<u>-47%</u>

Salaries and Fringe Benefits comprise 32.9 percent of operating expenses. Interest expense was \$151,919, 0.5 percent of expenses. Interest expense was attributable to capital leases of equipment.

Grants Revenue increased significantly due to increase in Title Grants. This is due to an increase in students that were determined to be disadvantaged and qualified for Disadvantage Aid.

Purchased Services increased due to increase in services needed to provide for increased enrollment.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Salaries and benefits increased with the need for more teachers to service increased numbers of students.

Foundations payments also increased because of the increased student enrollment.

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

**Budgetary Process**

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

**Capital Assets and Debt Administration**

**Capital Assets**

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

	<u>2004</u>	<u>2003</u>	Percent Change
Computers	\$4,611,541	\$3,787,388	22%
Furniture and Equipment	372,294	282,451	32%
Totals	<u>\$4,983,835</u>	<u>\$4,069,839</u>	22%

At the end of 2004 ECOT had \$4,983,835 (net of \$4,544,650 in accumulated depreciation) invested in computers, furniture, and equipment. Table 3 shows fiscal year 2004 balances compared to 2003:

Acquisitions were greater than depreciation this year by \$913,990. For the fiscal year ended June 30, 2004, ECOT had \$2,791,970 in purchases of computers, furniture and equipment. Depreciation expense for fiscal year 2004 was \$1,877,980. See Note 6 for further information.

**Debt**

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

	<u>2004</u>	<u>2003</u>	Percent Change
Capital Leases	\$2,066,936	\$2,732,764	-24%

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

At June 30, 2004, ECOT had \$2,066,936 in Capital Lease obligations, \$1,859,751 of which is due within one year. Table 4 summarizes the debt outstanding. See Notes 13 and Note 14 for additional information.

**For the Future**

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.

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

**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](mailto:scott.kern@ecotoh.org).

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**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2004**

Assets:

Current Assets:

Cash and Cash Equivalents with Fiscal Agent	\$ 1,115,444
Intergovernmental Receivables	1,683,740
Prepaid Items	268,617

Total current assets	3,067,801
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Noncurrent assets:

Security Deposits	401,013
Capital Assets, Net	<u>4,983,835</u>

Total noncurrent assets	<u>5,384,848</u>
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Total Assets	<u><u>8,452,649</u></u>
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Liabilities:

Current Liabilities:

Accounts Payable	1,822,768
Accrued Wages and Benefits Payable	974,658
Intergovernmental Payable	833,970
Capital Leases Payable	<u>1,859,751</u>

Total Current Liabilities	5,491,147
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Long-Term Liabilities:

Compensated Absences Payable	83,984
Capital Leases Payable	<u>207,185</u>

Total Long-Term Liabilities	<u>291,169</u>
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Total Liabilities	<u><u>5,782,316</u></u>
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Net Assets:

Investment in Capital Assets, Net of Related Debt	2,916,899
Unrestricted	<u>(246,566)</u>

Total Net Assets	<u><u>\$ 2,670,333</u></u>
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See Accompanying Notes to the Basic Financial Statements

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Operating Revenues:

Foundation Payments	\$ 26,378,832
Disadvantaged Pupil Impact Aid	699,718
Special Education	1,619,695
Classroom Fees	360
Extracurricular Activities	2,425
Other Operating Revenues	61,047
Total Operating Revenues	<u>28,762,077</u>

Operating Expenses:

Salaries	7,884,746
Fringe Benefits	1,930,406
Purchased Services	16,243,804
Materials and Supplies	1,645,256
Depreciation	1,877,980
Other Operating Expenses	228,706
Total Operating Expenses	<u>29,810,898</u>

Operating Loss	<u>(1,048,821)</u>
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Non-Operating Revenues and Expenses:

Grants	2,685,009
Contributions and Donations	1,250
Gain on Disposal of Capital Assets	900
Interest	11,556
Interest and Fiscal Charges	(151,919)
Total Non-Operating Revenues and (Expenses)	<u>2,546,796</u>

Change in Net Assets	1,497,975
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Net Assets at Beginning of Year - Restated (See Note 3)	<u>1,172,358</u>
Net Assets at End of Year	<u>\$ 2,670,333</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, 2004**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 27,806,769
Cash Received from Extracurricular Activities	2,425
Cash Received from Classroom Fees	360
Cash Received from Other Operating Sources	61,047
Cash Payments to Suppliers for Goods and Services	(18,173,085)
Cash Payments to Employees for Services	(7,629,336)
Cash Payments for Employee Benefits	(1,881,150)
Cash Payments for Other Operating Uses	<u>(241,033)</u>

Net Cash (Used for) Operating Activities	<u>(54,003)</u>
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Cash Flows from Noncapital Financing Activities:

Cash received from Grants	1,599,093
Cash received from Contributions and Donations	<u>1,250</u>

Net Cash Provided by Noncapital Financing Activities	<u>1,600,343</u>
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Cash Flows from Capital and Related Financing Activities:

Cash Payments for Interest Payments	(151,919)
Cash Received from Sale of Capital Assets	900
Cash Payments for Capital Acquisitions	(1,302,799)
Cash Payments for Principal Payments	<u>(2,135,702)</u>

Net Cash (Used for) Capital and Related Financing Activities	<u>(3,589,520)</u>
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Cash Flows from Investing Activities:

Cash Received from Interest on Investments	<u>11,556</u>
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Net Cash Provided by Investing Activities	<u>11,556</u>
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Net (Decrease) in Cash and Cash Equivalents	(2,031,624)
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Cash and Cash Equivalents at Beginning of Year	<u>3,147,068</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$ 1,115,444</u></u>
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**Noncash capital and financing activities:**

During the fiscal year, ECOT entered into several capital lease agreements for the acquisition of computer equipment in the amount of \$1,469,874.

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, 2004**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

ECOT was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five academic years commencing after July 1, 2000. The Sponsor is responsible for evaluating the performance of ECOT and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. A new 10 year contract was signed and effective on June 2, 2004. The sponsorship agreement states that the Treasurer of Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of ECOT, (see Note 11).

ECOT operates under the direction of a seven-member Board of Directors (the Directors). The Directors are responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Directors control ECOT's one instructional/support facility staffed by twenty-one (21) non-certified and two hundred twenty-six (226) certificated full time teaching personnel who provide services to 4,768 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 18).

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

**A. Basis of Presentation**

ECOT's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and statement of cash flows. The statement of net assets and the statement of revenues, expenses, and changes in net assets display all financial activities about ECOT as a whole.

**B. Measurement Focus**

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

Enterprise accounting is used to track and report ECOT's financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to document any activity for which a fee is charged to external users for goods or services.

**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.

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

**Expenses**

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

**D. Budgetary Process**

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

**E. Cash and Investments**

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

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

Interest revenue credited during fiscal year 2004 amounted to \$11,556.

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by ECOT.

**G. Capital Assets and Depreciation**

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

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Equipment, and Software	3-5
Computers	5

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

**H. Compensated Absences**

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

**I. Security Deposits**

ECOT entered into several leases for the use of the building for administration, for computer start-up costs and computer equipment, and for use of a certain phone company for which security deposits were required to be paid at the signing of the agreement. The amounts held by the respective lessors/vendors were \$401,013.

**J. Accrued Liabilities and Long-Term Obligations**

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

**K. Net Assets**

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

**L. Estimates**

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

**M. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

**N. Operating Revenue and Expenses**

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**3. ACCOUNTING CHANGE**

The School restated net assets at June 30, 2003. The School overstated accounts payable and understated accrued wages at June 30, 2003. As a result, the School determined that net assets were understated as noted below.

Net Assets at June 30, 2003	\$ 836,782
Adjustment due to Overstated Accounts Payable	918,404
Adjustment due to Understated Accrued Wages	<u>(582,828)</u>
Net Assets at June 30, 2003	\$1,172,358

**4. DEPOSITS AND INVESTMENTS**

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

At June 30, 2004, the carrying amount of ECOT's deposits was \$968,110 and the bank balance was \$2,168,956. Protection of the ECOT's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), and by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

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 counterpart's trust department or agent in ECOT's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in ECOT's name. ECOT's investments totaling \$147,034 (reported amount and fair value), are maintained in a Business Sweep Account (repurchase agreement), which are included in Category 3.

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

**5. RECEIVABLES**

Receivables at June 30, 2004, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full within one year. A summary of the principal items of receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amount</u>
Disadvantaged Pupil Impact Aid (DPIA)	\$ 341,476
Student Intervention Grade 9-10 PD	9,050
Student Intervention Grade 1-4 FY04	33,187
Student Intervention Grade 9	18,299
Title I FY04	1,067,369
Title IV FY04	1,916
Title IIA	88,671
Title IID FY04	23,772
Federal Sub grant FY04	<u>100,000</u>
Total Intergovernmental Receivables	<u>\$1,683,740</u>

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**6. CAPITAL ASSETS**

Capital asset activity for fiscal year ended June 30, 2004, was as follows:

	Balance 6/30/2003	Additions	Deductions	Balance 6/30/2004
Computer Equipment	\$ 6,405,746	\$2,593,674	\$ -	\$ 8,999,420
Furniture, Equipment, and Software	330,769	198,296	-	529,065
Totals at Historical Cost	<u>6,736,515</u>	<u>2,791,970</u>	<u>-</u>	<u>9,528,485</u>
Less Accumulated Depreciation:				
Computer Equipment	2,618,358	1,769,521	-	4,387,879
Furniture, Equipment, and Software	48,312	108,459	-	156,771
Total Accumulated Depreciation	<u>2,666,670</u>	<u>1,877,980</u>	<u>-</u>	<u>4,544,650</u>
Capital Assets, Net	<u>\$ 4,069,845</u>	<u>\$ 913,990</u>	<u>\$ -</u>	<u>\$ 4,983,835</u>

**7. RISK MANAGEMENT**

**A. Insurance Coverage**

ECOT is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, ECOT contracted with Indiana Insurance for property and general liability insurance.

The School Leaders Errors and Omissions policy covers errors and omissions. This policy is protected by National Union Fire Insurance Company of Pittsburgh, PA. with a \$2,000,000 aggregate limit and a \$10,000 deductible.

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

**B. Workers' Compensation**

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

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

ECOT contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer 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 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 or by calling (614)222-5853.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

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

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; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. ECOT's required contribution for pension obligations to SERS for fiscal year June 30, 2004, 2003, and 2002 were \$232,213, \$83,592 and \$33,463, respectively; 61.8 percent has been paid for 2004 and 100 percent has been paid for 2003 and 2002.

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

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in part, by the state or any political subdivision thereof.

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

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

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

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

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

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

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

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

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

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



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

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

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. ECOT's contributions for pension obligations to STRS for the years ended June 30, 2004, 2003, and 2002 were \$676,505, \$508,622, and \$181,822, respectively; 79.97% has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002.

STRS Ohio issues a publicly available financial report. Additional information or copies of STRS Ohio's 2004 *Comprehensive Annual Financial Report* may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site.

**9. 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-certificated employees and their dependents through ECOT Employees Retirement System (SERS).

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

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For ECOT, this amount equaled \$52,039 for the ended June 30, 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

**State Employees Retirement System** - The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the healthcare allocation is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For 2004, the minimum pay had been established at \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For ECOT, the amount to fund health care benefits, including surcharge, was \$125,430 for the year ended June 30, 2004.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses before premium deduction. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits as \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

**10. 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, 2004, ECOT has no employees or members of the governing board which contribute to Social Security.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**11. FISCAL AGENT**

The sponsor agreement states that the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of Electronic Classroom of Tomorrow. As part of this agreement, ECOT shall compensate the Lucas County Educational Service Center two percent (2%) of all funds in the Treasurer's custody that were paid to ECOT from the State of Ohio. The total contract payment of \$524,722 was paid during the fiscal year plus \$64,364 was outstanding in accounts payable at fiscal year end.

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

- Maintain custody of all funds received by ECOT in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- Maintain all books and accounts of ECOT;
- Maintain all financial records of all state funds of ECOT and follow State Auditor procedures for receiving and expending state funds;
- Assist ECOT in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of ECOT in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- Pay obligations incurred by ECOT within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of ECOT so long as the proposed expenditure is within the approved budget and funds are available.

**12. PURCHASED SERVICES**

For the period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 11,142,428
Property Services	1,370
Travel Mileage/Meeting Expenses	359,835
Communications	4,416,456
Utilities	31,037
Contracted Craft or Trade Services	210,868
Tuitions	13,232
Pupil Transportation Services	3,046
Other Purchases Services	65,532
<b>Total Purchased Services</b>	<b>\$ 16,243,804</b>

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**13. LONG-TERM LIABILITIES**

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

	<u>Principal Outstanding 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/04</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	\$ 36,484	\$ 79,167	\$ (31,667)	\$ 83,984	\$ -
Intergovernmental Payable (Note 19C)	1,302,097	283,970	(752,097)	833,970	833,970
Capital Lease Payable (Note 14)	<u>2,732,764</u>	<u>1,469,874</u>	<u>(2,135,702)</u>	<u>2,066,936</u>	<u>1,859,751</u>
Total Long-Term Liabilities	<u>\$ 4,071,345</u>	<u>\$ 1,833,011</u>	<u>\$ (2,919,466)</u>	<u>\$ 2,984,890</u>	<u>\$ 2,693,721</u>

Compensated absences, representing ECOT's contractually required vested vacation leave which ECOT has entered into is paid when an employee leaves ECOT's services. Intergovernmental payable represents a balance to the Department of Education for an overpayment of state foundation funds and an underpayment of retirement contributions.

**14. 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, 2004, including interest is as follows:

<b>Fiscal Year Ending</b>	
2005	\$ 2,053,715
2006	190,172
2007	26,121
Total Mimimum Lease Payments	<u>\$ 2,270,008</u>
Less Amount Representing Interest	<u>(203,072)</u>
Total Capital Lease Payable	<u><u>\$ 2,066,936</u></u>

**15. OPERATING LEASES**

ECOT entered into lease agreements with Bob Evans Farms, Inc. for use of space in the property commonly known as Southland Mall. The term of the original leases commenced August 1, 2002 and will terminate July 31, 2004. Additional space was leased throughout the fiscal year, with the subsequent leases terminating July 31, 2005. The lease was extended until June 30, 2006.

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**15. OPERATING LEASES (Continued)**

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

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

<b>Fiscal Year Ending June 30</b>	
2005	\$ 221,898
2006	\$ 82,224
2007	\$ 58,662
2008	\$ 22,866
2009	\$ 10,903

**16. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**17. 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.

**18. 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 2004 was \$3,977,402 which includes \$43,796 of interest. As of June 30, 2004,

\$3,986,919 had been paid to Altair with \$758,119, including delinquent fees and interest, still owed to Altair by ECOT at June 30, 2004.

This amount is recorded in the accompanying financial statement as current accounts payable.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**19. CONTINGENT LIABILITIES**

**A. Grants**

ECOT receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of ECOT at June 30, 2004.

**B. Pending Litigation**

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004 the Court of Appeals rendered a decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. An oral argument occurred November 29, 2005. The effect of this suit, if any, on ECOT is not presently determinable.

**C. School Funding**

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE's review of fiscal year 2001 resulted in an agreement to adjust ECOT's 2001 state funding by \$1,650,000. The balance outstanding at June 30, 2004 is \$549,600 and is reported as intergovernmental payable in the financial statements.

ODE has not yet conducted a review of ECOT's fiscal year 2004 student enrollment data and FTE calculations. For the fiscal year 2004, ECOT does not anticipate revenue adjustments based on the results of any such review.

**20. SUBSEQUENT EVENTS**

On July 19, 2004, ECOT entered into a capital lease with Information Leasing Corporation for \$1,970,104. The term of the lease is 36 months with lease payments of \$54,725 payable monthly in advance. The lease is for equipment and the lease commenced on August 20, 2004.

**ELECTRONIC CLASSROOM OF TOMORROW  
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**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR JUNE 30, 2004**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i>	Pass-Through Entity Number	Federal CFDA Number	Receipts	Disbursements
Program Title				
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Education Agencies	133413-C1 S1 2003	84.010	\$ 58,673	\$ 39,362
Title I Grants to Local Education Agencies	133413-C1 S1 2004	84.010	654,250	772,858
Title I Grants to Local Education Agencies	133413-C1 SK 2004	84.010	50,000	50,000
<i>Total Title I Grants to Local Education Agencies</i>			<b>762,923</b>	<b>862,220</b>
Special Education Grants to States	133413-6B SF 2003	84.027	36,518	14,030
Special Education Grants to States	133413-6B SF 2004	84.027	357,156	347,856
<i>Total Special Education Grants to States</i>			<b>393,674</b>	<b>361,886</b>
Safe and Drug Free Schools and Communities State Grant	133413-DR S1 2003	84.186	5,052	0
Safe and Drug Free Schools and Communities State Grant	133413-DR S1 2004	84.186	22,369	24,284
<i>Total Safe and Drug Free Schools and Communities State Grant</i>			<b>27,421</b>	<b>24,284</b>
Ohio Public Charter School Program	133413-CH S1 2003	84.282	105,000	150,000
Ohio Public Charter School Program	133413-CH S1 2004	84.282	50,000	87,850
<i>Total Ohio Public Charter School Program</i>			<b>155,000</b>	<b>237,850</b>
State Grants for Innovative Educational Program Strategies	133413-C2 S1 2003	84.298	13,850	0
State Grants for Innovative Educational Program Strategies	133413-C2 S1 2004	84.298	31,442	29,522
<i>Total Innovative Educational Program Strategies</i>			<b>45,292</b>	<b>29,522</b>
Education Technology State Grant	133413-TJ S1 2003	84.318	12,530	723
Education Technology State Grant	133413-TJ S1 2004	84.318	22,822	35,424
<i>Total Education Technology State Grant</i>			<b>35,352</b>	<b>36,147</b>
Class-size Reduction Grant	133413-CR S1 2002	84.340	<b>(5,648)</b>	<b>0</b>
Improving Teacher Quality State Grants	133413-TR S1 2004	84.367	56,440	113,361
Total U.S. Department of Education			<b>1,470,454</b>	<b>1,665,270</b>
<b>Total</b>			<b>\$ 1,470,454</b>	<b>\$ 1,665,270</b>

*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, 2004**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

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

The School transferred between special cost centers during fiscal year 2004 for the following: CFDA #'s 84.318-\$644 and 84.367-\$5,648. These are for transfers from the 2003 grant to the 2004 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.

**NOTE C – TRANSFERS DUE TO ELIMINATION OF CFDA #**

The School transferred \$5,648 from CFDA #84.340 as approved by ODE into CFDA #84.367 during fiscal year 2004.





**Auditor of State  
Betty Montgomery**

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

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

To the Board of Directors:

We have audited the basic financial statements of the Electronic Classroom of Tomorrow, Franklin County, Ohio, (ECOT) as of and for the year ended June 30, 2004, and have issued our report thereon dated January 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered ECOT's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect ECOT's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-001 through 2004-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2004-001 and 2004-002 listed above to be material weaknesses. In a separate letter to ECOT's management dated January 30, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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### **Compliance and Other Matters**

As part of reasonably assuring whether ECOT's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in accompanying schedule of findings and questioned costs as item 2004-002.

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



**Betty Montgomery**  
Auditor of State

January 30, 2006



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Directors:

**Compliance**

We have audited the compliance of the Electronic Classroom of Tomorrow, Franklin County, Ohio, (ECOT) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies ECOT's major federal programs. ECOT's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs. Our responsibility is to express an opinion on ECOT's compliance based on our audit.

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

As described in item 2004-004 in the accompanying schedule of findings and questioned costs, ECOT did not comply with requirements regarding Allowable Cost/Cost Principles applying to its Title I Grant to Local Educational Agencies program. Compliance with those requirements is necessary, in our opinion, for ECOT to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, ECOT complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. In a separate letter to the ECOT's management dated January 30, 2006, we reported other matters 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 the ECOT's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention resulting in significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect ECOT's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-005 through 2004-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider item 2004-006 to be a material weakness.

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



**Betty Montgomery**  
Auditor of State

January 30, 2006

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

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

**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 non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	<b>Unqualified</b> – Special Education Grants to States <b>Qualified-</b> Title 1 Grants to Local Educational Agencies
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<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 AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

<b>Finding Number</b>	<b>2004-001</b>
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**Reportable Condition, Material Weakness**

**Purchasing Internal Controls**

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

No formal processes were in place that required:

- 1) The individual who entered into an expenditure for goods or services to designate on the invoice that the goods were received or the service was rendered;
- 2) Purchase orders and expenditures reviewed and approved by an appropriate, Board authorized individual or group prior to being submitted to the fiscal agent; and
- 3) The Board review and approve expenditures from system generated expenditure reports.

We noted the following:

- 85% of purchase transactions tested showed no signs of approval by the department head or the Senior Vice President of Finance;
- 53% of purchase transactions tested were not stamped as entered into the accounting system;
- 35% of purchase transactions tested showed no signs of approval from ECOT personnel that goods or services were actually received;
- 5% of purchase transactions tested did not have a purchase order approved by the purchasing agent;
- ECOT's internal accounting system expenditure reports did not agree to the fiscal agent's expenditure reports; and
- We noted several transactions where late fees were charged on overdue balances.

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

We recommend the following:

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2004-001</b>
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**Reportable Condition, Material Weakness**

**Purchasing Internal Controls (Continued)**

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

**Client response:**

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

<b>Finding Number</b>	<b>2004-002</b>
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**Material Weakness – Non Compliance**

**Management Company – Altair Management Co.**

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

Per the executed agreement by and between ECOT and Altair effective July 1, 2003, Article V, Section A, ECOT shall pay Altair an annual amount based on each school year equal to 14% of all funds received by ECOT. ECOT owed Altair \$767,716 for services performed in prior fiscal years which was outstanding at June 30, 2003. ECOT owed Altair \$3,977,402 for services performed in the fiscal year ending June 30, 2004, which includes \$43,796 of interest accrued. ECOT paid Altair \$3,986,919 during the fiscal year ending June 30, 2004. As of June 30, 2004, ECOT had an outstanding balance with Altair Learning Management of \$758,199. This amount is reflected as accounts payable in the financial statements.

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2004-002 (Continued)</b>
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**Material Weakness – Non Compliance**

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

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

**Client response:**

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

<b>Finding Number</b>	<b>2004-003</b>
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**Reportable Condition**

**Internal Audit**

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

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

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



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2004-003(Continued)</b>
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**Reportable Condition**

**Internal Audit (Continued)**

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

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

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

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

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.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2004-003(Continued)</b>
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**Reportable Condition**

**Internal Audit (Continued)**

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

**Client response:**

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

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	<b>2004-004</b>
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<b>CFDA Title and Number</b>	<b>84.010- Title 1 Grants to Local Education Agencies</b>
<b>Federal Award Number / Year</b>	<b>133413-C1-S1-2003; 133413-C1-S1-2004; and 133413-C1- SK-2004</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

**Allowable Cost/Cost Principles- Questioned Cost/Noncompliance**

OMB Circular A-87, Attachment B subsection 8.h. provides, in part, that salaries and wages shall be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the government unit. When employees work on multiple activities or cost objectives, a distribution of compensation shall be supported by personnel activity reports that reflect the actual activity and total activity of the employees, unless certain time study requirements are met. An employee whose compensation is allocated solely to a single cost objective must furnish semiannual certificates that he/she has been engaged solely in activities supportive of the cost objectives.

During fiscal year 2004, ECOT allocated certain teachers' and an administrator's salaries to the Title I program based on pre-determined percentage rates. Teachers were primarily charged to the program at 15% of their annual salary and the administrator was charged at 77%. ECOT did not provide detail, after the fact, personnel activity reports for these employees charged to the program to support these charges nor was there evidence provided that a substitute system was approved. Further, no time study was conducted and instituted to support the percentage allocations made. ECOT did not have procedures in place to assess whether the costs allocated to the program correlated with the actual costs of benefits provided to the program by the teachers and administrator. Consequently, ECOT could not provide records to otherwise substantiate the reasonableness of the charges assessed to the program for fiscal year 2004.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

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

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)</b>
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<b>Finding Number</b>	<b>2004-004 (Continued)</b>
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**Allowable Cost/Cost Principles- Questioned Cost/Noncompliance (Continued)**

ECOT was unable to provide personnel activity reports/certification or any supporting time and effort documentation as required by OMB Circular A-87, Attachment B, paragraph 8.h3 for two teachers and the grant coordinator. For the fiscal year ended June 30, 2004, ECOT charged payroll and related employee benefits totaling \$265,319 to the Title I Program. A questioned cost for unsupported expenditures is reported in the amount of \$74,904 for the three employees mentioned above.

We recommend ECOT prepare and maintain personnel activity reports that reflect an after-the-fact distribution of the actual activity of each employee, account for the total activity for which each employee is compensated, and contain a certification signature of the grant coordinator and employee. These personnel activity reports should be completed semi-annually for employees that are paid solely from the Title I grant and should coincide with one or more pay periods on at least a monthly basis for those employees who receive less than 100% of their compensation from Title I. These records should then be used to adjust budgeted grant costs to actual grant costs on at least a quarterly basis. We further recommend an effective system of reconciling the personnel activity reports with the actual payroll costs charged to Title I to ensure the completeness and accuracy of Title I payroll expenditures.

<b>Finding Number</b>	<b>2004-005</b>
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<b>CFDA Title and Number</b>	<b>84.027-Special Education Grants to States</b>
<b>Federal Award Number / Year</b>	<b>133413-6B SF 2003 and 133413-6B SF 2004</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

**Reportable Condition -Non Payroll Disbursement Approval**

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

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

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

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)</b>
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<b>Finding Number</b>	<b>2004-006</b>
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<b>CFDA Title and Number</b>	<b>84.010-Title I Grants to Local Educational Agencies 84.027-Special Education Grants to States</b>
<b>Federal Award Number / Year</b>	<b>133413-6B-SF-2004; 133413-6B-SF-2003; 133413-C1-S1-2003; 133413-C1-S1-2004; and 133413-C1- SK-2004</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

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

See Findings Related to the Financial Statements required to be reported under GAGAS number 2004-001. This finding is also required to be reported under OMB Circular A-133.505(d)(3).

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid: <b><u>Explain:</u></b>
2002-012	Purchasing Controls – Federal funds	No	Not corrected-Reissued see response in 2004-001
2003-001	There was not adequate student file documentation as required in the Ohio Dept. of Education funding agreement	Yes	Corrected
2003-002	1982 Op. Atty. Gen. No. 82-006 – Finding Repaid under Audit for a golf outing	Yes	Corrected
2003-003	Capital Lease payments exceeded the executed agreement amounts.	Yes	Corrected
2003-004	ECOT received no breakout of what services or charges were contained in the management fee paid or owed to Altair.	No	Not corrected-Reissued see response in 2004-002
2003-005	Capital Assets were not properly monitored.	No	Partially Corrected- ECOT has started performing physical inventory counts of computers in March of 2005. ECOT is in the process of establishing additional policies to govern safeguarding of the capital assets. This process plans to be monitored in 2006 by an Internal Auditor.
2003-006	Payroll disbursements were not properly monitored or approved.	Yes	Corrected
2003-007	There was no formal requisition or approval process over disbursements nor were system generated reports reviewed.	No	Not corrected-Reissued see response in 2004-001
2003-008	ECOT did not have an adequate internal audit function.	No	Not corrected- Reissued see response in 2004-003
2003-009	The Board of Directors should monitor the financial operations of ECOT regularly.	No	Partially- The Board of Directors now receive fiscal agent reports which started in 2006.
2003-010	Payroll Controls – Federal Funds	Yes	Corrected
2003-011	Purchasing Controls – Federal Funds	No	Not corrected-Reissued as 2004-006. However see response in Corrective Action Plan and 2004-006.
2003-012	Payroll charges to the Title I fund were not properly supported, as required by OMB Circular A-122, Attachment B subsection 7.b. and 7.m. Accordingly, a questioned cost is reported in the amount of \$150,834.	No	Not corrected-Reissued under OMB Circular A-87 as Finding 2004-004. See Response in Corrective Action Plan

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2004**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2004-004	ECOT is now aware of the requirement to have Teacher Certifications signed by teachers every six months and will make sure that these forms are completed.	July 1, 2005	Mr. Ed Breehl, Title I Coordinator
2004-005	The grant coordinator approves all expenditures. A formal title grant committee also reviews and approves all title grant expenditures for federal compliance requirements.	December 31, 2005	Scott Kern, Senior Vice President
2004-006	In August 2004, ECOT implemented a formal requisition process. All purchases are required to have a requisition request form attached. Purchases over \$500 must be approved by the department manager. However, as noted in the 2005 report this was not consistently applied. As of July 1, 2005 this process is currently being monitored in the Controller's office for compliance.	July 1, 2005	Scott Kern, Senior Vice President



**Auditor of State  
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**ELECTRONIC CLASSROOM OF TOMORROW**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 13, 2006**