



Dave Yost • Auditor of State



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY  
JUNE 30, 2016**

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**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Total Federal Receipts</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION Passed Through Ohio Department of Education</b>			
Title I Grants to Local Educational Agencies	84.010	\$ 8,131,471	\$ 8,724,303
Special Education Grants to State	84.027	3,249,952	3,433,389
School Improvement Grants	84.377	319,192	338,525
Improving Teacher Quality State Grants	84.367	118,112	132,713
English Language Acquisition State Grants	84.365	<u>23,421</u>	<u>13,943</u>
Total U.S. Department of Education		<u><b>11,842,148</b></u>	<u><b>12,642,873</b></u>
<b>Total Receipts and Expenditures of Federal Awards</b>		<u><b>\$ 11,842,148</b></u>	<u><b>\$ 12,642,873</b></u>

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Electronic Classroom of Tomorrow (the School's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S 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 95  
Columbus, Ohio 43207

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Electronic Classroom of Tomorrow, Franklin County, Ohio (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated February 21, 2017, wherein we noted the School is in an appeals process with the Ohio Department of Education (ODE) regarding the results of the June 30, 2016 Full-Time Equivalency review conducted by ODE.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the School'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, opining 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 matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

***School's Response to Finding***

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 21, 2017



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Electronic Classroom of Tomorrow  
Franklin County  
3700 South High St  
Suite 95  
Columbus, Ohio 43207

To the Board of Directors:

### ***Report on Compliance for the Major Federal Program***

We have audited the Electronic Classroom of Tomorrow's (the School) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the School's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School's major federal program.

### ***Management's Responsibility***

The School's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the School's compliance for the School's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School's major program. However, our audit does not provide a legal determination of the School's compliance.

***Opinion on the Major Federal Program***

In our opinion, the Electronic Classroom of Tomorrow complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

***Report on Internal Control over Compliance***

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on the major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected or corrected. *A significant deficiency in internal over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on the Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Receipts and Expenditures of Federal Awards Required by the Uniform Guidance***

We have also audited the financial statements of the Electronic Classroom of Tomorrow (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements. We issued our unmodified report thereon dated February 21, 2017, wherein we noted the School is in an appeals process with the Ohio Department of Education (ODE) regarding the results of the June 30, 2016 Full-Time Equivalency review conducted by ODE. We conducted our audit to opine on the School's basic financial statements as a whole. The accompanying schedule of receipts and expenditures of federal awards presents additional analysis required by the Uniform Guidance and is not a required part of the basic financial statements.

The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records management used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 21, 2017

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**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA # 84.027 - Special Education Grants to State
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 CFR §200.520?</b>	Yes

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

**FINDING NUMBER 2016-001**

2016-001: Full-Time Equivalent (FTE) Reporting - Material Non-Compliance/Material Weakness

Ohio Rev. Code Section 3314.08(H) requires, in relevant part, the Ohio Department of Education (ODE) to adjust the amounts subtracted and paid under division (C) of that section to reflect the enrollment in community schools of students for less than the equivalent of a full school year. The state board of education within ninety days after April 8, 2003, was obligated to act under Chapter 119 of the Revised Code to adopt rules governing the payments to community schools under the section including initial payments in a school year, adjustments, and reductions made in subsequent periodic payments to community schools, and in corresponding deductions from school district accounts, as provided under division (C) of the section.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2016-001 (Continued)**

Ohio Rev. Code Section 3314.08(H)(2) provides in relevant part, "A student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system established under section 3301.0714 of the Revised Code. For purposes of applying this division and divisions (H)(3) and (4) of this section to a community school student, "learning opportunities" shall be defined in the contract, which shall describe both classroom-based and non-classroom-based learning opportunities and shall be in compliance with criteria and documentation requirements for student participation which shall be established by the department. Any student's instruction time in non-classroom-based learning opportunities shall be certified by an employee of the community school."

Ohio Rev. Code Section 3314.08(H)(3) includes the following: "The department shall determine each community school student's percentage of full-time equivalency based on the percentage of learning opportunities offered by the community school to that student, reported either as number of hours or number of days, is of the total learning opportunities offered by the community school to a student who attends for the school's entire school year. However, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours. Whether it reports hours or days of learning opportunities, each community school shall offer not less than nine hundred twenty hours of learning opportunities during the school year."

In addition, Ohio Rev. Code Section 3314.03(A) (11) (a) states, in relevant part, "The school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year."

ECOT's procedure to track FTE during fiscal year 2016 was to assess FTE based on the period between a student's enrollment date and withdrawal date, if applicable, or the last day of school. If a student was enrolled for the entire school year, ECOT reported in EMIS an FTE of one for the student. Similarly, if a student was enrolled for a period of three months ECOT reported in EMIS an FTE of .25 for the student. ECOT did not have policies or procedures in place during the audit period to capture the duration of time a student was engaged in learning opportunities.

The ODE performed an FTE review regarding the number of students enrolled as FTEs that ECOT reported in EMIS. After the ODE review began, ECOT did attempt to collect the time students were logged on to the various Education Learning Systems and Modules. However, ECOT was successful in collecting information necessary to track duration of student time for only 25 out of 50 software vendors utilized to provide learning opportunities to the students. ECOT also had approximately 120 Board approved digital applications a student could use to assist in learning opportunities. ECOT was unable to collect any duration of time data from these applications. While ODE would have accepted manual tracking of hours spent on learning opportunities as a substitute for the time spent on the computer, ECOT did not have a manual tracking process in place during the audit period.

ODE informed ECOT of its results of the FTE review in a letter dated September 26, 2016. ODE noted in the letter that it was able to match 706 records provided by ECOT. From the records verified by ODE from ECOT's sample, ECOT reported 414.35 FTEs. ODE's testing, however, identified only 170.1 FTEs that could be supported to show duration of time.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2016-001 (Continued)**

ECOT's inability to provide documentation to support the FTE requirements for durational engagement for each student in EMIS has resulted in a potential liability of approximately \$59 million owed back to ODE for overfunding. As allowed by Ohio Rev. Code Section 3314.08(K), ECOT has appealed the findings noted in ODE's FTE review with the State Board of Education. ECOT also has an appeal pending before the Franklin County Court of Appeals challenging the legality of the standard utilized by ODE in 2016.

Further, upon review of the School's contract with the Education Service Center of Lake Erie West (the "Sponsor"); we noted that Attachment 6.3 to the contract defines extensively the educational curriculum utilized by the school. The contract, or attachment, however, do not specify how the School should document "student participation" pursuant to requirements established by law, and, therefore, how the Sponsor could effectively monitor such compliance. The inclusion of such documentation would facilitate the School's compliance with requirements and standards established by law.

We recommend ECOT review the current statutory requirements and guidance issued by ODE to determine what documentation is needed to support the FTE data to be reported for each student. Once ECOT has an understanding of what is required to support FTE, ECOT should develop policies and procedures to capture the duration of time spent by students on computer, as well as time spent on non-computer learning opportunities.

**Officials' Response:** *Responses to the Material Non-compliance/Material Weakness comment were received from ECOT and ECOT's Sponsor. Portions of those responses are included below. The responses in their entirety are available from the Auditor of State upon request.*

**ECOT's Response:**

ODE, for the first time in 2016, has required certain eschools to not only prove that their students are enrolled for a full school year in order to receive full FTE funding from the State of Ohio, but also to provide documentation of the time that students were logged in to computer systems and/or time spent on non-computer activities, adding up to, at least, the total amount of hours comprising of the school's calendar year (or the fraction thereof in which the student was enrolled). ODE sought, without prior notice to the public, let alone eschools, to impose this durational requirement on select eschools for the first time in mid-school year 2015-2016. Then, after asserting for six months inconsistent positions to ECOT and other eschools regarding the applicability such standard for the 2015-2016 school year, ODE did not confirm its intent to impose it until July 2016—after the school year had ended. ODE also provided no guidance, until months after announcing its intent to claw back ECOT's funding, as to what information the department would actually consider/accept as satisfying its new standard.

ECOT believes that ODE's actions violated various laws, including the express language of R.C. 3314.08; the rule-making requirements of R.C. 3301.13 and Chapter 119 of the Revised Code; and a funding agreement ODE entered with ECOT in 2003.

Further, ODE's imposition of this new requirement is significant because it reflects a departure from Ohio's long-standing practice of funding all schools based on enrollment. Indeed, ODE entered into a 2003 "Funding Agreement" with ECOT that specifically employed an enrollment-based funding model. The agreement provided that ECOT would receive FTE funding for its students so long as, in pertinent part, it could document their period of enrollment, including any withdrawals under the 105-hour rule described in R.C. 3314.08. This has been verified through "teacher certifications" prepared annually by ECOT.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016  
(Continued)**

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

**FINDING NUMBER 2016-001 (Continued)**

***ECOT's Response: (Continued)***

Until 2016, ODE repeatedly advised the AOS that such certificates were sufficient to support ECOT's claimed FTE funding and otherwise historically employed the same "enrollment"-based funding standard under R.C. 3314.08(H), described above.

Finally, any recommendation by the AOS that ECOT review the current statutory requirements and guidance issued by ODE to determine what documentation is required to support the FTE date to be reported is not well taken and ignores reality. ECOT has acted consistent with the current statutory requirements. Further, the position taken by ODE is inconsistent with the guidance specifically provided by the AOS to community schools prior to the commencement of the 2015-2016 school year.

***Sponsor's Response:***

Community school contracts are not guidance documents. Rather, like all contracts, they are negotiated agreements between two independent parties to define their relationship and respective duties. Chapter 3314 of the Ohio Revised Code mandates the including of numerous provisions in community school contracts and provides sponsors with express means of enforcing those cited laws. The contract at issue in this Finding is wholly compliant with state law. Not only does it include all required provisions from the Ohio Revised Code, but, in Section 4.1, it also provides that the school shall be subject to the current effective version of all cited statutes.

Notably, Chapter 3314 of the Revised Code does not require community school contracts to set forth "criteria and documentation requirements for student participation" for funding purposes.

Keeping in mind state law's mandate that ODE and the Auditor must *jointly establish* auditing methods for eschool funding, the discrepancy between each agency's approach indicates that no applicable standards had ever been created for the 2016 fiscal year, and in turn undermines the basic premise behind paragraph nine of Finding 2016-001.

Finally, the Finding's insistence that standards for documenting student participation be included in the community school contract makes little sense given that such standards plainly did not exist. Including such terms would therefore have given the School a false assumption that compliance with the contract would ensure full funding, thereby rendering the School's compliance with ODE purported funding requirements even less likely.

**Auditor of State's Conclusion:**

In early 2016, the AOS's staff became aware of additional FTE support documentation ODE was asking for from various schools that were having FTE reviews performed. At this time the AOS contacted ODE to determine what requirements had changed so the AOS could properly update the Ohio Compliance Supplement and provide proper guidance to audit staff. ODE did not initially respond to these inquiries. Later, they asserted that the FTE review criteria had not changed, even though it was clear to AOS that ODE required documentation had changed based on a different interpretation of the manual. A representative of the AOS has testified in court of the events that have occurred over the past year with regard to AOS understanding of the documentation needed to support the FTE's reported by schools.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016  
(Continued)**

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

**FINDING NUMBER 2016-001 (Continued)**

**Auditor of State's Conclusion: (Continued)**

With regard to the Sponsor contract, the AOS has attempted to explain to the Sponsor and ECOT that while the law does not explicitly require such language in contracts, the AOS believes providing such language would help clarify what is expected in order for schools to meet ODE's requirements to support the FTE's reported. Further, it would allow the Sponsor to monitor the school more effectively to determine whether the school is able to support the FTE's the school is submitting.

**3. FINDINGS FOR FEDERAL AWARDS**

None

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**CORRECTIVE ACTION PLAN  
2 CFR § 200.511(c)  
JUNE 30, 2016**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2016-001	ECOT submits that the record is clear that it has complied with the FTE funding provisions set forth in R.C. 3314.08 (and in a separate funding agreement), and ECOT is, therefore, entitled to its full, claimed FTE funding for 2015-2016. ECOT additionally submits that the record is clear that the Ohio Department of Education (“ODE”), in attempting to impose a durational requirement for 2015-2016 FTE funding, has violated R.C. 3314.08, 3301.13, and Chapter 119 of the Ohio Revised Code. As a result, ECOT believes it has complied with Ohio law, and thus, corrective action should not be required.	N/A	Rick Teeters



# Comprehensive Annual Financial Report

For the Year Ended June 30, 2016

ecot

Electronic Classroom of Tomorrow  
Columbus, OH

**ELECTRONIC CLASSROOM  
OF TOMORROW**

**Columbus, Ohio**

**Comprehensive Annual Financial Report**

**For The Year Ended  
June 30, 2016**

**Prepared by the Fiscal Officer and the School Finance Office Staff.**

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**For the Year Ended June 30, 2016**  
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# Introductory Section

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Electronic Classroom of Tomorrow

Columbus, OH

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February 21, 2017

To the Board of Directors and the Citizens of the Electronic Classroom of Tomorrow:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Electronic Classroom of Tomorrow (the School) for the fiscal year ended June 30, 2016. The CAFR is designed to assist and guide the reader in understanding its contents.

The School's management is responsible for the reliability of the data presented and the completeness of the presentation, including all disclosures. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the School. All disclosures necessary to enable the reader to gain an understanding of the School's financial activities have been included.

Further, the School has established a comprehensive framework that is designed to compile sufficient reliable information for the preparation of its financial statements in accordance with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the School's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

As required by GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", management is also responsible for preparing a discussion and analysis of the School. This Letter of Transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. This discussion follows the Independent Auditor's Report and provides an assessment of the School's finances for fiscal year 2016 and the outlook for the future.

### State Audit

Ohio law requires independent audits be performed on all financial operations of the School either by the Auditor of State or an independent public accounting firm in accordance with generally accepted accounting principles (GAAP) and generally accepted government auditing standards (GAGAS). The Auditor of State's Office rendered an opinion on the School's financial statements as of June 30, 2016 and the Independent Auditor's Report on the Basic Financial Statements is included in the Financial Section herein.

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[WWW.ECOTOHIO.ORG](http://WWW.ECOTOHIO.ORG)

## Profile of the Government

Ohio charter schools began operating after the passage of the 1997 State law. Charter schools, commonly referred to as “community schools” in Ohio, are public, non-profit, non-sectarian schools established to operate independently of any School District. These schools also are exempt from many of the education laws of the State allowing them to bring innovation and efficiency to the traditional education model. More importantly, the passage of this law made the concept of school choice a reality in Ohio. As required by law, each of these community schools must have a sponsor. The School is sponsored by the Educational Service Center of Lake Erie West. The Educational Service Center of Lake Erie West provides oversight and technical services to 58 schools throughout the State serving nearly 32,040 children.

The School, based in Columbus, Ohio, has provided students, grades K-12, throughout the state with a quality, online public education since the 2000-2001 school year. Statewide-based teachers, supported by a team of advisors, are committed to high performance standards and innovative educational methods. A growing number of graduates have earned their high school diplomas, and many more will follow in their footsteps.

As an online public school, the School provides its students with a flexible, tuition-free alternative to traditional public education. The School is a national leader in the growing trend of online public education.

The School educates over fifteen thousand students between the ages of five and twenty-one from every county in the state of Ohio. Running an online school requires as many resources as a traditional public school. In addition to teachers, a staff of counselors, school administrators, customer service specialists, computer programmers, database managers, school-funding experts, shipping handlers and consultants enable the School to work.

The School operates under the direction of an eight-member Board of Directors (the Directors). The Directors are responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Directors control the School’s one instructional/support facility staffed by four hundred thirty-eight (438) non-certified and seven hundred twenty-eight (728) certificated personnel who provide services to 15,322 students.

The School contracts with Altair Learning Management I, Inc. 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, equipment and facilities.

## Major Initiatives of ECOT

### **Mission**

The ECOT mission: *To maximize academic growth for students seeking a non-traditional educational alternative through individualized instruction delivered by a highly effective faculty and staff.*

The ECOT mission is one of taking students where they are and providing the educational opportunities, intervention and services to enable them to “close the gap,” and be on target to graduate, as well as to master the skills necessary in the 21<sup>st</sup> century.

## *ECOT Community*

One unique feature of ECOT is that it is an online school serving the entire state of Ohio and its very diverse population. Students live in large urban areas of Cleveland, Cincinnati, Columbus; Appalachian areas in southern Ohio, rural farm districts throughout the state, and wealthy suburban districts. Students enter ECOT looking for an alternative to what they have already received: typically they are disillusioned, disenfranchised and disappointed with their “bricks and mortar” public school experience. However, some students enter for medical reasons, or life choices of their parents.

This unique feature poses two of ECOT’s challenges:

- 1.) Orienting and teaching students (and parents) how to navigate the technology, as well as the self-discipline of logging on each day and attending school (live-sessions) is critical. Successful participation in an online school requires a unique set of skills and attitudes; therefore, the process of transitioning students from a traditional “bricks and mortar” school to an online environment is crucial in order to ensure success within the program that, in turn, will impact academic achievement and sustainability.
- 2.) Conducting mandatory State face-to-face testing regionally, within 50 miles of a student’s home, multiple times a year.

Another unique feature of ECOT is the diversity of the student body in Grades K-12. Some students may have left their previous district if the flexibility was not available to move at a quicker pace, graduate in three years, and/or take advantage of Post-Secondary School Options (PSOE). The majority, however have struggled. Students in Grades 4-8 begin at ECOT in the bottom quintile of the state according to state test data. High school students have been held back one or more years and are not with their cohort group, are credit-deficient, and not in line to graduate within the four-year graduation rate formula.

This then presents the ultimate challenge for ECOT:

“Re-engaging” or motivating students who may not have previously been engaged in their education is difficult in any school, but is particularly difficult for those students who may feel that they cannot succeed. The critical challenge for ECOT teachers and administrators is the mission to close the gap in student academic performance, ensure growth and assure graduation.

ECOT demographic data mirrors State data relative to minority population, but in terms of economic data, seventy percent of our students live in poverty.

## **Vision**

*Vision: ECOT will be the leader in online learning by offering a flexible education based on individual needs of students in a supportive non-threatening environment.*

The ECOT vision is one of steadily improving learners whose achievement trajectories project future academic success, culminating in a diploma. This vision is translated into a measurable goal and benchmarks so that each student’s growth may be measured and support provided wherever it is needed.

## **State Testing**

The State of Ohio administers summative achievement tests in reading and mathematics in the spring for grades 3 – 8, as well as science tests at grades 5 and 8. In high school, the state also provides tests for student graduation and end-of-course exams.

School districts are evaluated by both the achievement levels demonstrated by their students and the degree to which the students display growth. The most important measure of achievement is the Performance Index (PI), an average score across grades and content areas of all full-year students on all required tests. Theoretically, the range of the Index is from zero (if all students failed to attend all tests) to 120 (if all students were to score advanced on all tests).

With respect to the measurement of academic growth, the state is committed to employing value-added to measure that students growth from year to year.

## **Formative Assessment and Intervention**

ECOT relies heavily on formative assessment to monitor achievement throughout the school year. The district provides a standardized assessment in reading and mathematics at the start of the year and following each unit taught. The assessments employ items from item banks provided by test publishers. Items are aligned to state indicators. Their validity is verified by correlating assessment results with the state tests taken at the end of the school year.

Teachers receive training in the development, administration and interpretation of short-cycle assessments as well as in the interpretation of group item analysis. Based on the data supplied by the standardized and short-cycle assessments, teachers determine what re-teaching is necessary and which students need intervention.

## **Challenges**

As a virtual school whose model student comes to the district with large academic deficits, ECOT is constantly challenged. For one thing, as a virtual school with no school buildings, motivating students to travel to test sites to take state tests is always a monumental endeavor for staff.

Federal law requires that at least 95% of all students registered at the time of testing take the reading and mathematics tests. State law does not demand a specific percentage, but assigns a zero to the district's Performance Index whenever a required test is missed. If a student misses all sections of the test, the district will receive a zero in each individual testing section.

ECOT's testing task each year is clear: to get as many students as possible to the test sites. Remarkably, ECOT has maintained a testing participation rate of approximately 98% each spring. The district manages to meet federal requirements, obtain few zeros, and test a sample of students that is truly representative of the entire student body. In fact, ECOT tests virtually the entire student population.

To accomplish this annual task, the central office staff and teachers maintain contact throughout the year with an assigned group of students. Teachers and staff attend the test administration sites throughout the state, serving as site coordinators, proctors, and drivers (where needed). When a student fails to show up, a staff member is on the phone immediately to that student, offering transportation to the site or, if necessary, scheduling a make-up.

A second challenge has been to ensure the improvement of our students in reading and mathematics. State data tell us that the large majority come to ECOT in the bottom quintile of the state in mathematics and the bottom quartile in reading. In many cases, ECOT is their last hope.

ECOT's goal is to ensure that all students are growing throughout the school year, which the school monitors through formative assessment. Each year ECOT strives for value added gains. Using the data that comes from state testing, teachers and administrators carefully examine the score trajectories to ensure that the scores are improving.

The bottom line: ECOT overcomes difficulties to obtain data that is representative and ensures that students are growing, regardless of where they are when they enroll in ECOT.

## **Conclusion**

In conclusion, ECOT's mission of maximizing academic growth for students seeking a non-traditional educational alternative through individualized instruction is what the district continually strives to deliver.

As an online school, ECOT believes that its highly effective faculty and staff provide a wonderful public service to the state of Ohio and to its school community by truly serving a need that was not being served before ECOT's existence. The promise of truly customized learning and non-traditional delivery of instruction continues to provide academic growth to students who need help.

ECOT is proud to serve a diverse student population, including many students whose academic needs were not met by their previous school. In elementary and middle school, ECOT students typically come to us in the bottom quintile of the state academically. In high school, they come to ECOT credit deficient and unlikely to graduate.

A large number of students choose ECOT because of their desire to learn at home or for the flexibility the school can provide in scheduling. Many have been bullied at their previous school. Others have health problems that prohibit them from attending traditional schools. Still others work to support their families. Some are artists, musicians or athletes, whose careers make it impossible to attend a traditional school.

ECOT's founder was moved to open the school in response to the personal needs of his own two children. During the past 16 years, ECOT has attracted tens of thousands of students with unique needs who struggled in a traditional school environment. At ECOT, many of them have thrived in an online, non-traditional environment and were able to graduate from high school and contribute to their local communities and beyond.

ECOT graduates more students than any other school or school district in the state of Ohio each year. In fact, over 5% of all high school graduates in Ohio are ECOT graduates.

## **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 the School and its Sponsor (The Educational Service Center of Lake Erie West) does prescribe an annual budget requirement and sets forth a requirement to prepare a five-year forecast that is to be updated semi-annually.

## Financial Policies and Procedures

ECOT has several financial policies that are made available to employees in the ECOT Employee Handbook. All ECOT policies are approved by the Board of Directors before they are implemented. The policies promote a centralized control of expenses with multiple levels of authorization required for all expenses exceeding \$500.

ECOT procedures are designed to promote adherence to school policies, State legislation, Sponsor agreements and Ohio Department of Education (ODE) requirements. ECOT follows procedures that allow for academic and financial success to be achieved.

To ensure financial success and transparency, the School Treasurer, the Vice President of Finance, the Superintendent and the Chief of Staff meet regularly with the Management Company, which includes its Chief Executive Officer and Chief Financial Officer, to analyze how ECOT is performing against its budget (forecast) and to make appropriate adjustments. Per the requirements of Ohio legislation, a five-year forecast is submitted to ODE and ECOT's Sponsor every October and May. Annually, mainly in June, the Board of Directors is presented with ECOT's budget for the upcoming twelve months, beginning on July 1. Additionally, the Board has contracted with a CPA firm, Whalen & Company, to perform an internal audit function.

ECOT's adherence to policies and procedures is reflected by several earned awards. ECOT is a nine year recipient of the Certificate of Achievement for Excellence in Financial Report from the Government Finance Officers Association and the Certificate of Excellence in Financial Reporting from the Association of School Business Officials International for the fiscal years ended June, 30, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015. ECOT also received the Ohio Auditor of State Award of Distinction for the fiscal years ended June 30, 2012, 2013 and 2015.

## Long Term Financial Planning

ECOT plans to maintain its current share of the e-school market through effective marketing and retention plans. While most of ECOT's enrollment results from word-of-mouth referrals from existing students, ECOT augments its growth as required to meet its goals through advertising, supported by data obtained through analytics. ECOT continues to focus on improving its retention rates by delivering better services and socialization opportunities to its students.

## Economic Issues

Since the enactment of the community school legislation, the School has been funded solely on the per pupil funding set forth by State of Ohio (see the Statistical Section for historical funding levels). Although per pupil funding in the State, for the most part, has increased over the past several years, this amount is still less than the amount that traditional school districts in the State receive per pupil, primarily because community schools are not authorized by statute to levy taxes in the communities where they operate.

As discussed later, the School was funded on 15,322 full-time equivalent students for fiscal year 2016 as compared to 15,087 in fiscal year 2015. The School has continued to experience strong enrollment. Based on the School's consistent enrollment, coupled with increases in State funding, it is expected that revenues for fiscal year 2017 will exceed those of fiscal year 2016.

## Awards and Acknowledgements

As mentioned previously, the Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the School for its comprehensive annual financial report for the year ended June 30, 2015. This was the ninth consecutive year that the School has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and effectively organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The School also received a Certificate of Excellence in Financial Reporting from the Association of School Business Officials International (ASBO) for its CAFR for the fiscal year ended June 30, 2015. This was the ninth consecutive year that the School has achieved this prestigious award. The award, the highest recognition for school district financial operations offered by ASBO, is only conferred to school systems that have met or exceeded the standards of the program. This award is granted only after an intense review of the financial reports by an expert panel of certified public accountants and practicing school business officials.

The School received the Ohio Auditor of State Award with Distinction for its CAFR for the fiscal year ended June 30, 2015. This was the third year that the School achieved this prestigious award. Entities that receive the award must meet the following criteria of a "clean" audit report: (1) the entity must file timely financial reports with the Auditor of State's office in the form of a CAFR (Comprehensive Annual Financial Report); (2) the audit report does not contain any findings for recovery, material citations, material weaknesses, significant deficiencies, Single Audit findings or questioned costs; (3) the entity's management letter contains no comments related to ethics referrals, questioned costs less than \$10,000, lack of timely report submission, reconciliation, failure to obtain a timely Single Audit, findings for recovery less than \$500, public meetings or public records.

The School would like to acknowledge and thank the finance department staff for their assistance in the preparation of this report: Amy Elliott, Jill Riggs and Chris Meister.

Sincerely,



Michele Smith  
Treasurer  
Electronic Classroom of Tomorrow



Brittny Pierson  
Chief of Staff  
Electronic Classroom of Tomorrow



Rick Teeters  
Superintendent  
Electronic Classroom of Tomorrow

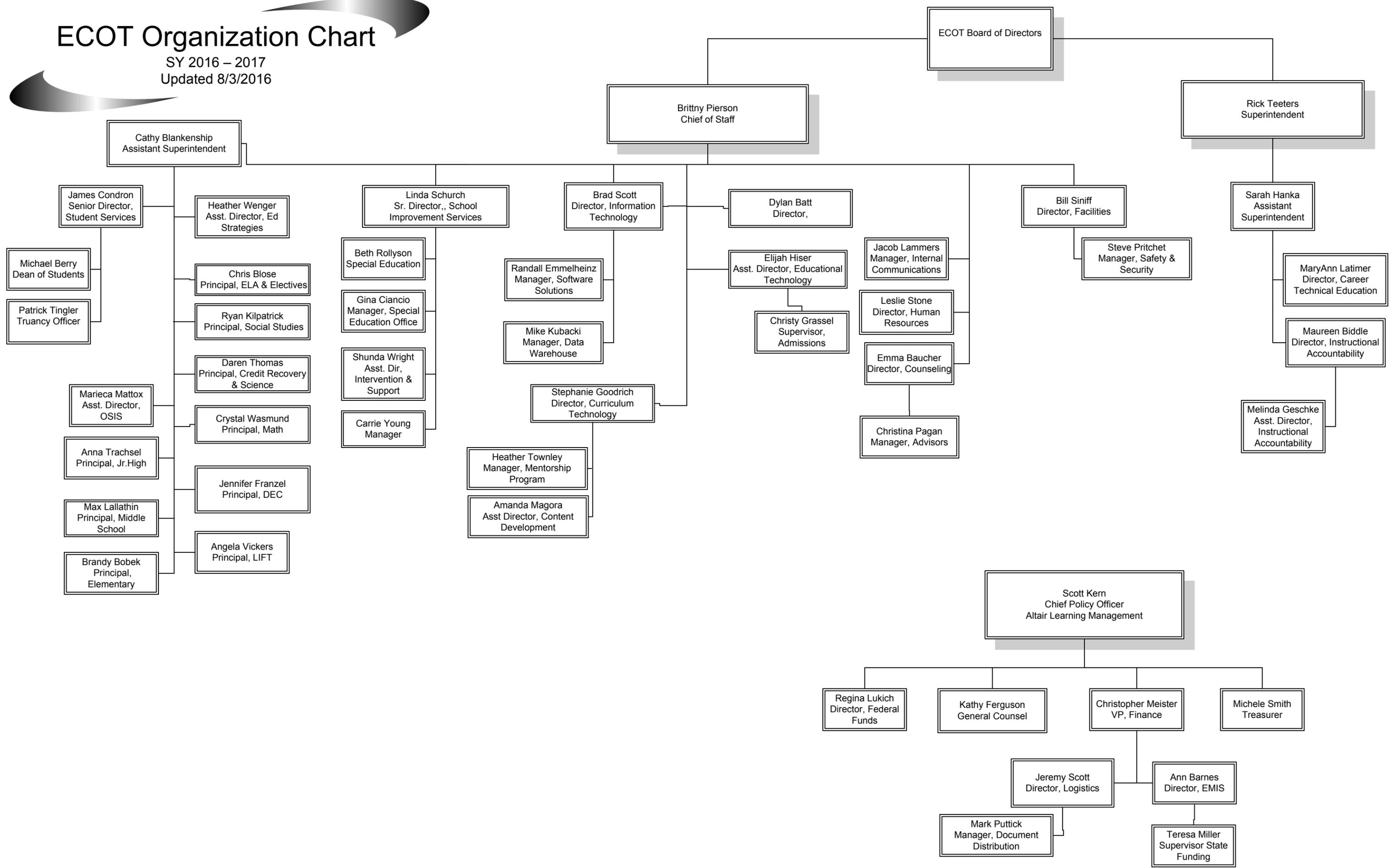
**Electronic Classroom of Tomorrow  
Board of Directors  
June 30, 2016**

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Nicholas Coenen	Board President
Andrew Brush	1 <sup>st</sup> Vice President
Christopher Stock	2 <sup>nd</sup> Vice President
Matthew Ottiger	Parliamentarian
Shirley Spellman	Board Member
Pam Bennett	Board Member
Vince Resor	Board Member
Joseph Tonges	Non-voting Board Member
Donna Wihl	Board Secretary
Rick Teeters	Superintendent
Brittney Pierson	Chief of Staff
Michele Smith	Treasurer

# ECOT Organization Chart

SY 2016 – 2017  
Updated 8/3/2016





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Electronic Classroom of Tomorrow  
Ohio**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO



ASSOCIATION OF  
SCHOOL BUSINESS OFFICIALS  
INTERNATIONAL

**The Certificate of Excellence in Financial Reporting Award  
is presented to**

## **Electronic Classroom of Tomorrow**

**for its Comprehensive Annual Financial Report (CAFR)  
for the Fiscal Year Ended June 30, 2015**

The CAFR has been reviewed and met or exceeded  
ASBO International's Certificate of Excellence standards



*Brenda Burkett*

Brenda R. Burkett, CPA, CSBA, SFO  
President

*John D. Musso*

John D. Musso, CAE, RSBA  
Executive Director



Financial Section

ecot

Electronic Classroom of Tomorrow  
Columbus, OH



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Electronic Classroom of Tomorrow  
Franklin County  
3700 South High Street  
Suite 95  
Columbus, Ohio 43207

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Electronic Classroom of Tomorrow, Franklin County, Ohio (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

***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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 16 to the financial statements, the Ohio Department of Education (ODE) conducted a Full-Time Equivalency (FTE) review over student FTE amounts reported by the School for the year ended June 30, 2016. As a result of the review, ODE made a determination that the School overstated FTE amounts for the year and ODE would require repayment of approximately \$59 million. As of the date of this letter, the School is in the appeals process regarding this matter. We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the School's basic financial statements taken as a whole.

The introductory section and the statistical section information present additional analysis and are not a required part of the basic financial statements.

We did not subject the introductory section and statistical section information to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017, on our consideration of the School'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 21, 2017

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**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2016  
Unaudited*

The discussion and analysis of Electronic Classroom of Tomorrow's (ECOT) financial performance provides an overall review of ECOT's financial activities for the year ended June 30, 2016. 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 financial statements to enhance their understanding of ECOT's financial performance.

**Financial Highlights**

Key Financial Highlights of ECOT for the year ended June 30, 2016 are as follows:

Total Net Position was \$(64,098,574).

Total Operating Revenue was \$109,355,713.

Total Operating Expenses were \$119,977,980.

Change in Net Position was \$(5,059,978).

**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 the School as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

***Reporting ECOT***

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

The view of ECOT as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Revenue, Expenses and Changes in Position 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 position and changes in that position. This change in net position 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, OHIO**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2016  
Unaudited*

**ECOT**

The Statement of Net Position provides the perspective of ECOT as a whole. Table 1 provides a summary of ECOT's net position for 2016 compared to 2015:

<b>Table 1 Statement of Net Position</b>			
	2016	2015	Percentage Change
<b><u>Assets</u></b>			
Current Assets and Other Assets	\$ 38,172,517	\$ 38,259,503	0%
Capital Assets, Net of A/D - (See Note 5)	12,407,090	7,047,717	76%
Total Assets	<u>50,579,607</u>	<u>45,307,220</u>	<u>12%</u>
<b><u>Deferred Outflows of Resources</u></b>			
Pension	12,992,376	7,104,414	83%
Total Deferred Outflows of Resources	<u>12,992,376</u>	<u>7,104,414</u>	<u>83%</u>
<b><u>Liabilities</u></b>			
Current Liabilities	11,368,248	10,347,840	10%
Long Term Liabilities	110,007,013	83,996,616	31%
Total Liabilities	<u>121,375,261</u>	<u>94,344,456</u>	<u>29%</u>
<b><u>Deferred Inflows of Resources</u></b>			
Pension	6,295,296	17,105,774	-63%
Total Deferred Inflows of Resources	<u>6,295,296</u>	<u>17,105,774</u>	<u>-63%</u>
<b><u>Net Position</u></b>			
Investment in Capital Assets	12,407,090	7,047,717	76%
Restricted	7,985,826	9,387,472	-15%
Unrestricted	(84,491,490)	(75,473,785)	12%
Total Net Position	<u>\$ (64,098,574)</u>	<u>\$ (59,038,596)</u>	<u>9%</u>

Total assets increased by \$5,272,387. Capital assets increased by \$5,359,373 (see Note 5), cash and cash equivalents increased by \$1,695,019, total receivables increased by \$138,418, inventory supplies decreased by \$1,875,783, and prepaid items decreased by \$50,617.

Total current liabilities increased by \$1,020,408. Accounts payable decreased by \$472,778, accrued wages and benefits payable increased by \$449,871 due to staffing increases, notes payable increased by \$794,045 (see Note 12), and intergovernmental payable increased by \$207,164.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2016  
Unaudited*

Total long term liabilities increased by \$26,010,397. Net pension liability increased by \$23,199,060 (see Note 7), notes payable increased by \$2,715,139 and compensated absences increased by \$96,198.

ECOT's 2016 net position decreased by \$5,059,978 from current year activities. Restricted net position decreased by \$1,407,622 due to decreases in intergovernmental receivables. Investment in capital assets increased by \$5,359,373 due to additional purchases.

Table 2 shows the changes in net position for fiscal year 2016 compared to 2015.

<b>Table 2</b>			
<b>Statement of Revenues, Expenses and Changes in Net Position</b>			
	2016	2015	Percentage Change
<b><u>Operating Revenue:</u></b>			
Foundation Payments	\$ 90,323,543	\$ 87,816,565	3%
Special Education	17,555,184	16,915,916	4%
Extracurricular	14,428	21,512	-33%
Other Operating Revenues	1,462,558	332,037	340%
Total Operating Revenues	<u>109,355,713</u>	<u>105,086,030</u>	4%
<b><u>Operating Expenses:</u></b>			
Salaries	47,163,397	44,382,042	6%
Fringe Benefits	17,383,388	16,009,268	9%
Purchased Services	27,584,753	28,257,692	-2%
Materials and Supplies	25,013,349	23,553,183	6%
Depreciation & Amortization Expense	2,084,392	1,657,289	26%
Merit Incentives	611,870	579,024	6%
Other Operating Expenses	136,831	856,372	-84%
Total Operating Expenses	<u>119,977,980</u>	<u>115,294,870</u>	4%
<b><u>Non-Operating Revenues and Expenses:</u></b>			
Non-Operating Grants	11,344,612	11,970,364	-5%
Casino Revenue	782,764	767,887	2%
Interest Revenue	139,298	92,017	51%
Pension	(6,500,620)	(4,605,396)	41%
Interest and Fiscal Charges	(203,765)	(124,088)	64%
Total Non-Operating Revenues & Expenses	<u>5,562,289</u>	<u>8,100,784</u>	-31%
Change in Position	(5,059,978)	(2,108,056)	140%
Net Position at Beginning of Year	<u>(59,038,596)</u>	<u>(56,930,540)</u>	4%
Net Position at End of Year	<u><u>\$(64,098,574)</u></u>	<u><u>\$(59,038,596)</u></u>	9%

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2016  
Unaudited*

**Operating Activities**

The Statement of Revenues, Expenses and Changes in Net Position show 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.

Total operating revenue increased by 4% in fiscal year 2016. This was due to an increase in State Aid, attributable to the increased student enrollment and facilities funding.

Salaries and Fringe Benefits comprise 54% of total operating expenses. Interest and fiscal charges expense was \$203,765, 0.17% of total expenses. Interest expense was attributable to notes payable for computers, peripherals and servers.

Total operating expenses increased by 4% in fiscal year 2016. ECOT increased non-certificated staff by 44 employees and increased certificated personnel by 37 employees resulting in an increase in salaries and fringe benefits. Materials and supplies increased by 6%. Purchased services decreased by 2%. Depreciation and amortization expense increased by 26% (see Note 5).

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of 2016 ECOT had \$17,429,602 (less \$5,022,511 in accumulated depreciation and amortization) invested in buildings, building improvements, land improvements, vehicles, other computer equipment, furniture, equipment and software. See Note 5 for more detailed information.

Table 3 shows 2016 balances compared to 2015:

<b>Table 3</b>			
<b>Capital Assets (net of depreciation &amp; amortization) at June 30</b>			
	2016	2015	Percentage Change
Buildings and Improvements	\$ 5,187,351	\$ 2,208,782	135%
Land	1,120,000	1,120,000	- %
Land Improvements	798,009	822,894	-3%
Vehicles	28,741	17,178	67%
Other Computer Equipment	2,302,150	1,651,439	39%
Furniture & Equipment	903,628	724,727	25%
Software	2,067,212	502,697	311%
Totals	<u>\$ 12,407,091</u>	<u>\$ 7,047,717</u>	<u>76%</u>

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2016  
Unaudited*

Acquisitions were more than depreciation this year by \$5,359,374. For the fiscal year ended June 30, 2016, ECOT had \$7,443,766 in purchases of building improvements, land improvements, vehicles, furniture and equipment, software, and other computer equipment. Depreciation and amortization for the fiscal year 2016 was \$2,084,392.

**Debt**

At June 30, 2016 ECOT had \$5,389,634 in Notes Payable. At June 30, \$2,388,917 of this debt was due within one year. Table 4 summarizes the debt outstanding. Please refer to Note 12 for more detailed information.

<b>Table 4 Outstanding Debt, at June 30</b>			
	<u>2016</u>	<u>2015</u>	Percentage Change
Notes Payable	<u>5,389,634</u>	<u>1,880,450</u>	<u>187%</u>

**Current Financial Issues**

In conclusion, ECOT has committed itself to financial excellence. All of ECOT's financial abilities will be needed to meet the challenges of the future. During the fiscal year, there were approximately 15,322 students enrolled. ECOT receives its finances mostly from state aid. State per pupil aid for this period amounted to \$5,900 per student.

**Contacting ECOT's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of ECOT's finances and to show ECOT's accountability for the money it receives. If you have questions about this report or need additional information contact Michele Smith, Treasurer of the Electronic Classroom of Tomorrow, 3700 South High Street, Columbus, OH 43207 or e-mail at [michele.smith@ecotoh.org](mailto:michele.smith@ecotoh.org).

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 25,726,939
Intergovernmental Receivable	4,260,988
Prepaid Items	1,266,852
Inventory Supplies	809,026
Accounts Receivable	699,921
Total Current Assets	<u>32,763,726</u>
Noncurrent Assets:	
Security Deposits	5,408,791
Non-Depreciable Capital Assets	1,120,000
Capital Assets, Net	11,287,090
Total Noncurrent Assets	<u>17,815,881</u>
Total Assets	<u>50,579,607</u>
<u>Deferred Outflows of Resources</u>	
Pension	12,992,376
Total Deferred Outflows of Resources	<u>12,992,376</u>
<u>Liabilities</u>	
Current Liabilities:	
Accounts Payable	573,684
Accrued Wages & Benefits Payable	6,649,430
Unclaimed Monies Payable	250,025
Intergovernmental Payable	840,042
Merit Incentives Payable	611,870
Notes Payable – Current	2,388,917
Compensated Absences Payable – Current	54,280
Total Current Liabilities	<u>11,368,248</u>
Noncurrent Liabilities:	
Net Pension Liability	106,542,197
Notes Payable	3,000,717
Compensated Absences Payable	464,099
Total Noncurrent Liabilities	<u>110,007,013</u>
Total Liabilities	<u>121,375,261</u>
<u>Deferred Inflows of Resources</u>	
Pension	6,295,296
Total Deferred Inflows of Resources	<u>6,295,296</u>
<u>Net Position</u>	
Investment in Capital Assets	12,407,090
Restricted for Security Deposits	5,408,791
Restricted for Grants	2,577,035
Unrestricted	(84,491,490)
Total Net Position	<u>\$ (64,098,574)</u>

See Accompanying Notes to the Basic Financial Statements.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016**

Operating Revenues:

Foundation Payments	\$ 90,323,543
Special Education	17,555,184
Extracurricular	14,428
Other Operating Revenues	<u>1,462,558</u>
Total Operating Revenues	109,355,713

Operating Expenses:

Salaries	47,163,397
Fringe Benefits	17,383,388
Purchased Services	27,584,753
Materials and Supplies	25,013,349
Merit Incentives	611,870
Depreciation and Amortization	2,084,392
Other Operating Expenses	<u>136,831</u>
Total Operating Expenses	<u>119,977,980</u>

Operating (Loss)	(10,622,267)
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Non-Operating Revenues and (Expenses):

Non-Operating Grants	11,344,612
Casino Revenue	782,764
Interest Revenue	139,298
Pension Expense	(6,500,620)
Interest and Fiscal Charges	<u>(203,765)</u>
Total Non-Operating Revenues and (Expenses)	<u>5,562,289</u>

Change in Net Position	(5,059,978)
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Net Position at Beginning of Year	<u>(59,038,596)</u>
Net Position at End of Year	<u>\$ (64,098,574)</u>

See Accompanying Notes to the Basic Financial Statements.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 107,231,370
Cash Received from Extracurricular Activities	14,428
Cash Received from Other Operating Sources	11,008,073
Cash Payments to Suppliers for Goods and Services	(50,733,415)
Cash Payments to Employees for Services	(47,302,108)
Cash Payments for Employee Benefits	(17,216,395)
Cash Payments for Other Operating Uses	<u>(4,836,755)</u>

Total Cash Flows used for Operating Activities (1,834,802)

Cash Flows from Non-Capital Financing Activities

Payment of Notes Payable	(1,594,872)
Non-Operating Grants	11,858,421
Casino Revenue	782,764
Interest on Notes Payable	<u>(203,766)</u>

Total Cash Flows from Non-capital Financing Activities 10,842,547

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(7,443,766)</u>
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Total Cash Flows used for Capital and Related Financing Activities (7,443,766)

Cash Flows from Investing Activities

Interest on Investments	<u>131,040</u>
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Total Cash Flows from Investing Activities 131,040

Net Increase in Cash and Cash Equivalents	1,695,019
Cash and Cash Equivalents at Beginning of Year	<u>24,031,920</u>

Cash and Cash Equivalents at End of Year \$ 25,726,939

See Accompanying Notes to the Basic Financial Statements.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016**

Reconciliation of Operating Loss to  
Net Cash Used for Operating Activities:

Operating Loss	\$ (10,622,267)
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Adjustments to Reconcile Operating  
Loss to Net Cash Used for Operating Activities:

Depreciation & Amortization	2,084,392
Proportionate Share of Pension Expense	(6,500,620)
Change in Assets and Liabilities:	
Increase in Account Receivable	(649,944)
Decrease in Prepaid Items	50,617
Change in Inventory of Supplies	6,979,838
Decrease in Accounts Payable	(472,778)
Increase in Accrued Wages & Benefits	449,872
Increase in Unclaimed Monies Payable	18,441
Increase in Intergovernmental Payable	207,164
Increase in Merit Incentives Payable	32,846
Increase in Net Pension Liability	23,199,060
Increase in Compensated Absences Payable	87,017
Change in Deferred Outflows of Resources – Pension	(5,887,962)
Change in Deferred Inflows of Resources – Pension	(10,810,478)
 Total Adjustments	 <u>8,787,465</u>
 Net Cash Used for Operating Activities	 <u><u>\$ (1,834,802)</u></u>

See Accompanying Notes to the Basic Financial Statements.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the School District**

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 Educational Service Center of Lake Erie West (the Sponsor) for a period of five academic years commencing after July 1, 2000. The Sponsor is responsible for evaluating the performance of ECOT and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The contract was extended indefinitely on July 12, 2012.

ECOT operates under the direction of an eight-member Board of Directors (the Directors), of which seven are voting and one is a non-voting member. 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 four hundred thirty-eight (438) non-certified and seven hundred twenty-eight (728) certificated teaching personnel who provide services to 15,322 students.

ECOT contracts with Altair Learning Management I, Inc. for a variety of services including management of personnel and human resources, the program of instruction, purchasing, strategic planning, public relations, financial report, recruiting, compliance issue, budgets, contracts, and equipment and facilities. (See Note 15).

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Reporting Entity**

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

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.

**C. Basis of Presentation**

ECOT's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows.

**Financial Statements**

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position display information about ECOT. These statements include the financial activities of the primary government, which are considered business-type activities.

**D. 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 Position. The Statement of Revenue, Expenses, and Changes in Net Position present increases and decreases in net position. The Statement of Cash Flows provides information about how ECOT finances and meets the cash flow needs of its business-type activities.

**E. 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.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenues - Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

**Expenses**

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

**F. Budgetary Process**

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

**G. Cash and Investments**

During fiscal year 2016, ECOT's investments were limited to repurchase agreements, State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, and United States Treasury Notes.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on June 30, 2016.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interest revenue credited during fiscal year 2016 amounted to \$139,298, which includes \$131,040 non-operating interest revenue in addition to \$2,282 interest included in accounts receivable and \$5,976 security deposits' interest.

**H. Intergovernmental Revenues**

The School currently participates in the State Foundation Program and Special Education which are reflected on the Statement of Revenues, Expenses, and Changes in Net Position. Revenues received from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and contributions. Grants, entitlements and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Amounts awarded under the above programs for the 2016 school year totaled \$119,223,339.

**I. Inventory of Supplies**

Inventories are stated at cost. Cost is determined using the FIFO method and are determined by physical count. Inventories consist of consumable supplies, and new computers and peripherals that have not been deployed to students.

**J. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2016, 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. An expense is reported in the year in which services are consumed.

**K. Capital Assets**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. ECOT maintains a capitalization threshold of \$5,000. 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.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All reported capital assets, with the exception of land, 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>
Land Improvements	10 to 20 years
Buildings	5 to 45 years
Furniture and Other Equipment	5 to 7 years
Vehicles	6 years
Software	3 years

**L. Deferred Outflows/Inflows of Resources**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources related to pension are explained in Note 7.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For ECOT, deferred inflows of resources include pension. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are explained in Note 7.

**M. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**N. 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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

benefits through paid time off or some other means. ECOT records a liability for vested paid time off up to a maximum of fifteen days at 50% for twelve month employees and 25% of unused sick time for teachers approaching retirement eligibility.

**O. Security Deposits**

ECOT entered into several leases for the use of the building for administration, for computer start-up costs and computer equipment; a line of credit deposit; 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 are \$5,408,791.

**P. Net Position**

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows.

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by ECOT or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. ECOT presently reports \$(64,098,574) as net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings for the acquisition, construction or improvement of those assets. ECOT applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Q. Estimates**

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

**R. 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 2016.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**S. Operating Revenue and Expenses**

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

**NOTE 2 - NEW PRONOUNCEMENTS**

The GASB issued **Statement 72**, *Fair Value Measurement and Application* in February 2015. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements and provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015.

The GASB issued **Statement 73**, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* in June 2015. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pension that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

The GASB issued **Statement 74**, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* in June 2015. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

The GASB issued **Statement 75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in June 2015. This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 2 - NEW PRONOUNCEMENTS (Continued)**

Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

The GASB issued **Statement No. 76**, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* in June 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015.

The GASB issued **Statement 77**, *Tax Abatement Disclosures* in August 2015. This Statement is intended to improve financial reporting by requiring disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

**Deposits**

State statutes classify monies held by ECOT into three categories.

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

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

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

At June 30, 2016, the carrying amount of all ECOT deposits was \$16,531,345. Based on criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$15,003,174 of ECOT's bank balance of \$25,714,726 was exposed to custodial risk as discussed below, while \$15,814,013 was covered by the Federal Deposit Insurance Corporation.

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

ECOT has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with ECOT's fiscal agent or a qualified trustee by the financial institution as security for repayment, or by collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least on 105% of the deposits being secured.

**Investments**

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

1. United States Treasury bills, bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality;

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

3. Written repurchase agreements for a period not to exceed thirty days, in securities listed above that mature within five years from the date of purchase;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

Investments of ECOT as of June 30, 2016 were as follows:

Investment Type	Fair Value	Investment Maturities			
		6 Months or Less	7 to 12 Months	13 to 18 Months	19 to 24 Months
FHLB	1,004,060	0	501,356	0	502,704
FFCB	250,004	0	0	250,004	0
FHLMC	501,749	0	0	0	501,749
FNMA	751,996	0	0	0	751,996
US Treasury Notes	500,137	0	500,137	0	0
Repurchase Agreements	6,187,648	6,187,648	0	0	0
	<u>\$9,195,594</u>	<u>\$6,187,648</u>	<u>\$1,001,493</u>	<u>\$ 250,004</u>	<u>\$1,756,449</u>

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

*Credit Risk:* The Collateralized Mortgage Obligations, underlying securities for Repurchase Agreements and Federal Agency Securities, carry a rating of AAa by Moody's and AAA by Standard and Poor's. ECOT has no policy regarding credit risk.

*Concentration of Credit Risk:* ECOT places no limit on the amount it may invest in any one issuer. The following table includes the percentage of each investment type held by ECOT at June 30, 2016:

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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Repurchase Agreements	\$ 6,187,648	67.28%
FHLB	1,004,060	10.92
FNMA	751,996	8.18
FHLMC	501,749	5.46
US Treasury Notes	500,137	5.44
FFCB	<u>250,004</u>	<u>2.72</u>
Total	<u>\$ 9,195,594</u>	<u>100.00%</u>

For fiscal year 2016, Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application", was effective. These GASB pronouncements had no effect on beginning net position. Accordingly, ECOT has categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies ECOT's recurring fair value measurements as of June 30, 2016. All of the School District's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2016, consisted of intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amount</u>
IDEA B	\$ 1,191,301
School Improvement Grant	198,470
Title III	15,333
Title I	2,833,216
Title IIA	<u>22,668</u>
Total Intergovernmental Receivables	<u>\$ 4,260,988</u>

**ELECTRONIC CLASSROOM OF TOMORROW  
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**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for fiscal year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
<b>Capital Assets</b>				
Buildings and Improvements	\$ 2,385,516	\$ 3,253,557	\$ (0)	\$ 5,639,073
Land Improvements	960,354	23,930	(0)	984,284
Vehicles	33,584	17,783	(0)	51,367
Other Computer Equipment	3,226,285	1,296,199	(126,031)	4,396,453
Furniture & Equipment	1,269,272	366,962	(82,382)	1,553,852
Software	1,835,504	2,485,335	(636,266)	3,684,573
Total at Historical Cost	<u>9,710,515</u>	<u>7,443,766</u>	<u>(844,679)</u>	<u>16,309,602</u>
<b>Less Accumulated Depreciation and Amortization:</b>				
Buildings and Improvements	176,734	274,988	(0)	451,722
Land Improvements	137,460	48,815	(0)	186,275
Vehicles	16,406	6,220	(0)	22,626
Other Computer Equipment	1,574,846	645,488	(126,031)	2,094,303
Furniture & Equipment	544,545	188,061	(82,382)	650,224
Software	1,332,807	920,820	(636,266)	1,617,361
Total Accumulated Depreciation and Amortization	<u>3,782,798</u>	<u>2,084,392</u>	<u>(844,679)</u>	<u>5,022,511</u>
Capital Assets, Net	<u>\$ 5,927,717</u>	<u>\$ 5,359,374</u>	<u>\$ (0)</u>	<u>\$ 11,287,091</u>

Non-depreciable capital asset activity for fiscal year ended June 30, 2015, was as follows:

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 1,120,000	\$ 0	\$ (0)	\$ 1,120,000
Non-Depreciable Capital Assets	<u>\$ 1,120,000</u>	<u>\$ 0</u>	<u>\$ (0)</u>	<u>\$ 1,120,000</u>

**NOTE 6 - RISK MANAGEMENT**

**A. Insurance Coverage**

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 2016, ECOT contracted with Philadelphia Indemnity Insurance Company (Philadelphia) for property, crime, equipment, general liability, automobile and sexual abuse & molestation insurance. The general liability policy is protected by Philadelphia with a \$1,000,000 each occurrence limit and a \$2,000,000 general aggregate limit. The automobile insurance includes coverage for ECOT's

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**NOTE 6 - RISK MANAGEMENT (Continued)**

four owned vehicles, a 2002 Chevrolet Cavalier and a 2011 Toyota Sienna, a 2003 Chevrolet Silverado 3500 (added 3-28-16) and a 2009 Dodge Charger (added 4-18-16). The automobile insurance liability combined single limit is \$1,000,000 with deductibles of \$500 for comprehensive, \$1,000 for collision owned automobiles and \$1,000 for collision hired automobiles. The sexual abuse & molestation insurance coverage provides a \$1,000,000 each claim limit and a \$1,000,000 aggregate limit. Additionally, it should be noted that there were no significant reductions in insurance coverage from the prior year and no insurance settlements have exceeded insurance coverage in any of the past three years

In addition to the crime coverage provided through Philadelphia, ECOT also has an excess crime policy through National Union Fire Insurance Company / AIG. This policy has the following limits / deductibles: employee theft - \$1,750,000 (limit) / \$250,000 deductible; computer fraud - \$2,000,000 / \$10,000; and funds transfer - \$2,000,000 / \$10,000.

The educator's legal liability policy covers errors and omissions. This policy is protected by National Union Fire Insurance Company of Pittsburgh, PA / AIG, with a \$1,000,000 single occurrence limit, a \$1,000,000 aggregate limit and a \$75,000 deductible.

The security & privacy liability policy covers claims arising from ECOT's cyberspace activities. Illinois National Insurance Company / AIG protects this policy with a \$2,000,000 limit and a \$50,000 deductible.

ECOT also has an additional miscellaneous professional liability policy for the coverage of employed lawyers. This policy is protected by Philadelphia with a \$1,000,000 aggregate limit and a \$10,000 deductible.

Providing an additional layer of risk protection, ECOT has an umbrella policy through Indemnity Insurance Company of North America / ACE Group that has a limit of liability for each incident and an annual aggregate limit of \$10,000,000. The umbrella policy provides additional coverage over all policies except the employed lawyers' policy and the security & privacy liability policy.

Also, it should be noted that to mitigate risk for one employee in Kentucky, two employees in Michigan and two employees in Pennsylvania, ECOT maintains a Workers Compensation and Employers Liability Policy through The Hartford.

**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.

**ELECTRONIC CLASSROOM OF TOMORROW  
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**NOTE 7 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions--between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

The School's contractually required contribution to SERS was \$1,689,733 for fiscal year 2016. Of this amount \$28,422 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$4,877,926 for fiscal year 2016. Of this amount \$704,739 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$24,275,845	\$82,266,351	\$106,542,196
Proportion of the Net Pension Liability	0.376489%	0.3167240%	
Pension Expense	\$2,286,219	\$4,214,401	\$6,500,620

At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$2,434,305	\$3,990,412	\$6,424,717
School contributions subsequent to the measurement date, June 30, 2015	<u>1,689,733</u>	<u>4,877,926</u>	<u>6,567,659</u>
Total Deferred Outflows of Resources	<u>\$4,124,038</u>	<u>\$8,868,338</u>	<u>\$12,992,376</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$0</u>	<u>\$6,295,296</u>	<u>\$6,295,296</u>
Total Deferred Inflows of Resources	<u>\$0</u>	<u>\$6,295,296</u>	<u>\$6,295,296</u>

\$6,567,659 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	(\$433,066)	\$1,414,113	\$981,047
2018	(433,066)	1,414,113	981,047
2019	(433,066)	1,414,113	981,047
2020	<u>(\$1,135,106)</u>	<u>(\$1,937,455)</u>	<u>(3,072,561)</u>
Total	<u>(\$2,434,304)</u>	<u>\$2,304,884</u>	<u>(\$129,420)</u>

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target		Long-Term Expected	
	Allocation		Real Rate of Return	
Cash	1.00	%	0.00	%
US Stocks	22.50		5.00	
Non-US Stocks	22.50		5.50	
Fixed Income	19.00		1.50	
Private Equity	10.00		10.00	
Real Assets	10.00		5.00	
Multi-Asset Strategies	15.00		7.50	
Total	100.00	%		

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	Current		
	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$33,661,873	\$24,275,845	\$16,372,035

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
<b>Total</b>	<b>100.00 %</b>	

***Discount Rate*** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

***Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$114,274,167	\$82,266,351	\$52,239,462

***Changes Between Measurement Date and Report Date***

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School's net pension liability is expected to be significant.

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

***School Employees Retirement System***

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)**

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in

Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, zero (0) percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$35,800. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School's surcharge obligation was \$34,380.

The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014, and were \$0, \$15,868, and \$14,678, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

***State Teachers Retirement System***

Plan Description – ECOT participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year,

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)**

pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS zero (0) percent of covered payroll was allocated to health care. The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014, were \$0, \$335,550, and \$328,013, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

**NOTE 9 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining paid time off are derived from negotiated agreements and State laws. Classified employees earn fifteen to twenty-five days of paid time off per year, depending upon length of service. Accumulated unused paid time off is paid to classified employees upon termination of employment up to 15 days at 50% of leave balance. Teachers and administrators, who are not on a twelve-month contract, do not earn paid time off. Teachers and counselors earn sick leave at a rate of one day per month. Sick leave may be accumulated up to thirty days for teachers and counselors. Accumulated unused sick leave is paid to teachers upon retirement up to 15 days at 25% of leave balance.

**B. Employee Medical, Dental and Vision Benefits**

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

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security. As of June 30, 2016, no ECOT employees contributed to Social Security.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 10 - PURCHASED SERVICES**

For the period July 1, 2015 through June 30, 2016, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional & Technical Services	\$ 11,859,960
Property Services	3,360,174
Travel Mileage/Meeting Expenses	564,632
Communications	10,431,691
Utilities	263,980
Contracted Trade Services	63,180
Tuition and Other Similar Payments	231,451
Pupil Transportation	2,250
Other Purchased Services	807,435
Total Purchased Services	\$ 27,584,753

**NOTE 11 - LONG-TERM LIABILITIES**

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

	<b>Balance June 30, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2016</b>	<b>Amounts Due Within One Year</b>
Net Pension Liability	\$ 83,343,137	\$36,598,770	(\$13,399,710)	\$ 106,542,197	\$ 0
Compensated Absences	431,362	153,478	(66,461)	518,379	54,280
Notes Payable	1,880,450	6,648,318	(3,139,134)	5,389,634	2,388,917
Total Long-Term Liabilities	\$ 85,654,949	\$43,400,566	(\$16,605,305)	\$ 112,450,210	\$ 2,443,197

The net pension liability represents ECOT's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position (See Note 7).

Compensated absences, representing ECOT's contractually required vested paid time off which ECOT has entered into, is paid when an employee leaves ECOT's services. Compensated absences due within one year are \$54,280.

ECOT entered into a guidance line of credit in the amount of \$6,000,000 with National City Commercial Capital on June 29, 2007 for the purpose of future equipment funding requirements for the school. The line of credit is secured by a \$3,138,652 security deposit with PNC Bank. The guidance line renewal period was from June 30, 2016 through June 30, 2017. At June 30, 2016 ECOT had not borrowed on the line of credit.

ECOT entered into a line of credit in an amount not to exceed \$3,000,000 with JP Morgan Chase on June 27, 2014 for the purpose of construction work on the building and property at 3700 South High Street. The line of credit is secured by a \$2,259,583 security deposit with PNC Bank. On October 15, 2015 ECOT borrowed \$3,000,000 on the line of credit.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 12 – NOTES PAYABLE**

ECOT entered into numerous notes payable for the purchase of non-capitalized assets including student computers and peripherals. The amounts paid represent more than 90% of the fair market value of the computers and peripherals.

The annual requirements to amortize all notes outstanding as of June 30, 2016, including interest are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$2,388,917	\$159,306
2018	681,526	87,400
2019	279,529	75,013
2020	289,071	65,471
2021	<u>1,750,591</u>	<u>28,978</u>
Total annual requirements	<u>\$5,389,634</u>	<u>\$416,168</u>

**NOTE 13 - OPERATING LEASES**

ECOT also extended a lease agreement with St. Vincent DePaul for the use of property as office space and extra storage. The term of the lease extension commenced July 1, 2016 and matures June 30, 2017. For fiscal year 2016, ECOT paid \$48,399 in operating leases for office space and extra storage. The lease was extended on July 1, 2016 for an additional period of one year.

ECOT also entered into a lease agreement with Cologix, Inc. for the use of property, equipment, and security of ECOT's server equipment. The term of the lease commenced March 30, 2007 and matured March 30, 2009, thereafter automatically renewed on a month-to-month basis at the then-current rate. For fiscal year 2016, ECOT paid \$277,118 in operating leases for server equipment space.

ECOT also entered into a lease agreement with Harvest Investors, OSB, LLC for the use of property as office space and extra storage. The term of the leases commenced January 1, 2015 and matures December 31, 2017. For fiscal year 2016, ECOT paid \$33,878 in operating leases for office space and extra storage.

ECOT also entered into several lease agreements with Xerox, ABS, ComDoc and Océ for the use of copiers and office equipment. The terms of these leases are from 12 to 63 months.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 13 - OPERATING LEASES (Continued)**

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

<u>Fiscal Year Ending June 30</u>	
2017	\$ 107,534
2018	105,852
2019	97,329
2020	64,304
2021	52,745
Total Minimum Lease Payments	\$ 427,764

**NOTE 14 - TAX EXEMPT STATUS**

ECOT is approved under Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization.

**NOTE 15 - MANAGEMENT COMPANY**

ECOT contracts with Altair Learning Management I, Inc. (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 4% 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 2016 was \$4,382,104. As of June 30, 2016, all fees had been paid to Altair.

**NOTE 16 - CONTINGENT LIABILITIES**

**A. Grants**

ECOT receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of ECOT at June 30, 2016.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 16 - CONTINGENT LIABILITIES (Continued)**

**B. School Funding**

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Previous FTE Reviews were conducted by ODE based on documentation supporting dates of enrollment and withdrawal, and prorating FTE calculations based on the percent of the school year a student was enrolled. In July 2016, the Ohio Department of Education (ODE) was scheduled to and eventually conducted an "FTE Review" to evaluate ECOT's funding for the 2015-2016 school year. ECOT did not receive definitive communication from ODE until July 5, 2016, notifying ECOT that it planned on discontinuing prior practice (which was performed in a manner consistent with both a signed Funding Agreement between ODE and ECOT and Ohio Revised Code 3314.08(H)(3)) and would instead determine ECOT's FTEs based upon documentation of student records of login duration along with certification of offline time students spent on their lessons. ODE extrapolated a total FTE figure for ECOT, utilizing this new criterion, based only upon a small sample of student files.

ODE conducted its FTE review and advised ECOT on September 26, 2016, in a "Final Determination" letter, that ECOT's durational records submitted for the small sample of student files selected by ODE only substantiated 41.2% of ECOT's FTE claimed; and that approximately \$59 million will have to be repaid to the state for the 2015-2016 fiscal year. Not having been notified of these changes prior to the beginning of the school year, ECOT has appealed this decision to the State Board of Education in adherence with its administrative procedures. ODE has stated in Court that "no adjustment to ECOT's FTE number or funding will be made until ECOT exhausts its appeal right" and that such process could take six to nine months. ECOT plans to submit student engagement documentation and legal arguments during its administrative appeal in an effort to change or impact ODE's determination.

**C. Litigation**

ECOT brought suit in the Franklin County Common Pleas Court against the ODE on July 8, 2016, to prevent ODE from imposing, as part of its review and evaluation of ECOT's state funding for the 2015-2016 school year, a duration requirement. This action was taken in response to an improperly promulgated FTE Handbook that ties such funding to new uncommunicated documentation requirements of the actual time ECOT students spent participating in learning opportunities. On September 30, 2016, the trial court rejected ECOT's request for a preliminary injunction. Thereafter, ECOT took an interlocutory appeal to the Tenth District Court of Appeals, but such appeal was dismissed for want of jurisdiction. The trial court issued a final decision and judgment against ECOT on December 14, 2016. The court's decision simply reiterated, with the exception of certain preliminary injunction factors, the findings and conclusions that supported its earlier decision denying ECOT's motion for

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**NOTE 16 - CONTINGENT LIABILITIES (Continued)**

preliminary injunction. ECOT filed a notice of appeal from that decision on December 15, 2016. The appeal is currently pending before the Tenth District Court of Appeals.

ECOT is hopeful that the appellate court will give appropriate consideration to the actual evidence in the record and controlling law in evaluating and addressing what is believed to be ODE's unlawful conduct threatening the education of almost 40,000 Ohio students attending eSchools.

The school is of the opinion that the ultimate disposition of this legal proceeding would have a material effect on the financial condition of the School should it not improve its position either in court or the administrative appeals process to the State Board of Education. A repayment of \$59M over the two year payback period announced by ODE would result in a monthly repayment of \$2.46M which would materially reduce services to ECOT's students and severely impair its ability to compete with other eSchools not having undergone FTE reviews for 2015-2016 school year. These conditions, if successfully imposed by ODE in conjunction with a corresponding reduction in the FTEs, would create a closure scenario.

**NOTE 17 - RELATED PARTY TRANSACTIONS**

ECOT contracts with IQ Innovations, LLC for the purchase of curriculum services for ECOT students. The cost of services for fiscal year ended 2016 was \$17,538,916. As of June 30, 2016, \$0 was outstanding and payable. IQ Innovations, LLC and ECOT's management company, Altair Learning Management I, Inc., have common ownership.



Supplementary  
Information Section

ecot

Electronic Classroom of Tomorrow  
Columbus, OH

**Electronic Classroom of Tomorrow  
Schedule of the School's Proportionate Share of Net Pension Liability  
School Employees Retirement System of Ohio  
Last Three Fiscal Years (1)**

	2015	2014	2013
ECOT's Proportion of Net Pension Liability	0.3764891%	0.360793%	0.360793%
ECOT's Proportionate Share of the Net Pension Liability	\$24,275,845	\$16,644,223	\$18,259,528
ECOT's Covered-Employee Payroll	\$11,334,286	\$10,483,929	\$9,072,936
ECOT's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	214.18%	158.76%	201.25%
Plan Fiduciary Net Position as Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

Note 1: Information prior to 2013 is not available

Source: School Employees Retirement System and school records

**Electronic Classroom of Tomorrow  
Schedule of the School's Proportionate Share of Net Pension Liability  
State Teachers Retirement System of Ohio  
Last Three Fiscal Years (1)**

	2015	2014	2013
ECOT's Proportion of Net Pension Liability	0.31672402%	0.3142759%	0.3142759%
ECOT's Proportionate Share of the Net Pension Liability	\$82,266,351	\$66,698,913	\$76,442,776
ECOT's Covered-Employee Payroll	\$33,044,845	\$32,110,312	\$30,458,636
ECOT's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	248.95%	207.72%	250.97%
Plan Fiduciary Net Position as Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

Note 1: Information prior to 2013 is not available

Source: State Teachers Retirement System and school records

**ELECTRONIC CLASSROOM OF TOMORROW**  
Schedule of School District Contributions  
School Employees Retirement System of Ohio  
Last Eight Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 1,689,733	\$ 1,586,800	\$ 1,467,750	\$ 1,270,211	\$ 1,147,336	\$ 1,040,773	\$ 863,292	\$ 814,748
Contributions in Relation to the Contractually Required Contribution	<u>(1,689,733)</u>	<u>(1,586,800)</u>	<u>(1,467,750)</u>	<u>(1,270,211)</u>	<u>(1,147,336)</u>	<u>(1,040,773)</u>	<u>(863,292)</u>	<u>(814,748)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
School District Covered-Employee Payroll	\$12,069,521	\$11,334,286	\$10,483,929	\$9,072,936	\$8,195,257	\$7,434,093	\$6,166,371	\$5,819,629
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

Note 1: Information prior to 2009 is not available  
Source: School Employees Retirement System

**ELECTRONIC CLASSROOM OF TOMORROW**  
 Schedule of School District Contributions  
 State Teachers Retirement System of Ohio  
 Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 4,877,926	\$ 4,626,278	\$ 4,495,444	\$ 4,264,209	\$ 3,388,527	\$ 2,946,367	\$ 2,608,741	\$ 2,385,916	\$ 1,859,082	\$ 1,613,630
Contributions in Relation to the Contractually Required Contribution	<u>(4,877,926)</u>	<u>(4,626,278)</u>	<u>(4,495,444)</u>	<u>(4,264,209)</u>	<u>(3,388,527)</u>	<u>(2,946,367)</u>	<u>(2,608,741)</u>	<u>(2,385,916)</u>	<u>(1,859,082)</u>	<u>(1,613,630)</u>
Contribution Deficiency (Excess)	<u>\$0</u>									
School District Covered-Employee Payroll	\$34,842,332	\$33,044,845	\$32,110,312	\$30,458,636	\$24,203,767	\$21,045,480	\$18,633,862	\$17,042,261	\$13,279,156	\$11,525,927
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

Source: State Teachers Retirement System



# Statistical Section



Electronic Classroom of Tomorrow  
Columbus, OH

# Statistical Section

This part of the School's Comprehensive Annual Financial Report represents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the School's overall financial health.

<b>Contents</b>	<b>Page(s)</b>
<b>Financial Trends</b>	
These schedules contain trend information to help the reader understand how the School's financial position has changed over time.	48-51
<b>Revenue Capacity</b>	
These schedules contain information to help the reader understand and access the factors affecting the School's ability to generate its most significant revenue sources.	52-55
<b>Debt Capacity</b>	
This schedule presents information to help the reader assess the affordability of the School's current levels of outstanding debt and the School's ability to issue additional debt in the future.	56
<b>Demographic and Economic Information</b>	
These schedules offer economic and demographic indicators to help the reader understand the environment within which the School's financial activities take place and to provide information that facilitates comparison of financial information over time.	57-58
<b>Operating Information</b>	
These schedules contain data to help the reader understand how the School's financial report relates to the services the School provides and the activities it performs.	59-60

**Electronic Classroom of Tomorrow  
Operating Expenses  
Fiscal Years 2007 to 2016**

Year	Salaries	Fringe Benefits	Purchased Services	Materials & Supplies	Merit Incentives	Depreciation/Amortization	Judgments	Other	Total	FTE Enrollment	Per Pupil Expense
2016	\$47,163,397	\$17,383,388	\$27,584,753	\$25,013,349	\$ 611,870	\$2,084,392	\$ 0	\$136,831	\$119,977,980	15,322	\$7,830
2015	\$44,382,042	\$16,009,268	\$28,257,692	\$23,553,183	\$ 579,024	\$1,657,289	\$ 0	\$856,372	\$115,294,870	15,087	\$7,642
2014	\$42,538,404	\$14,882,477	\$30,957,632	\$20,816,196	\$ 966,014	\$1,591,393	\$ 0	\$925,983	\$112,678,099	14,561	\$7,738
2013	\$38,426,868	\$13,537,698	\$24,585,349	\$19,364,690	\$ 783,393	\$1,660,108	\$ 0	\$462,935	\$ 98,821,041	13,721	\$7,202
2012	\$33,275,317	\$11,265,463	\$19,979,516	\$23,618,004	\$ 576,805	\$1,482,566	\$ 0	\$280,233	\$ 90,477,904	12,208	\$7,411
2011 As Restated	\$28,463,938	\$ 8,776,774	\$19,276,657	\$14,729,058	\$ 991,456	\$3,247,243	\$ 0	\$368,186	\$ 75,853,312	10,404	\$7,291
2010	\$24,985,760	\$ 8,538,126	\$15,187,314	\$12,601,919	\$ 0	\$2,439,126	\$1,311,373	\$583,371	\$ 65,646,989	9,214	\$7,125
2009	\$23,414,937	\$ 7,108,112	\$13,937,395	\$12,930,344	\$ 0	\$3,105,639	\$ 0	\$405,389	\$ 60,901,816	8,742	\$6,967
2008	\$19,644,908	\$ 5,947,555	\$14,297,000	\$12,324,862	\$ 0	\$3,234,316	\$ 0	\$393,316	\$ 55,841,957	7,954	\$7,021
2007	\$15,623,636	\$ 4,662,075	\$14,888,917	\$ 9,709,871	\$ 0	\$2,511,356	\$ 0	\$274,375	\$ 47,670,230	7,165	\$6,653

Source: School Financial Records.

**Electronic Classroom of Tomorrow  
Non-Operating Expenses  
Fiscal Years 2007 to 2016**

<u>Year</u>	<u>Pension Expense</u>	<u>Interest and Fiscal Charges</u>	<u>Loss on Disposal of Capital Assets</u>	<u>Total</u>
2016	\$ 6,500,620	\$ 203,765	\$ 0	\$ 6,704,385
2015	\$ 4,605,396	\$ 124,088	\$ 0	\$ 4,729,484
2014	\$ 0	\$ 128,614	\$ 0	\$ 128,614
2013	\$ 0	\$ 126,159	\$ 0	\$ 126,159
2012	\$ 0	\$ 87,972	\$ 0	\$ 87,972
2011	\$ 0	\$ 74,725	\$ 0	\$ 74,725
2010	\$ 0	\$ 136,776	\$ 155,657	\$ 292,433
2009	\$ 0	\$ 187,216	\$ 0	\$ 187,216
2008	\$ 0	\$ 236,014	\$ 0	\$ 236,014
2007	\$ 0	\$ 285,388	\$ 0	\$ 285,388

Source: School Financial Records

**Electronic Classroom of Tomorrow  
Net Position  
Fiscal Years 2007 to 2016**

<u>Year</u>	<u>Investment in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total End of Year Net Position</u>	<u>Fiscal Year Change in Net Position</u>
2016	\$ 12,407,090	\$ 7,985,826	\$(84,491,490)	\$(64,098,574)	\$(5,059,978)
2015	\$ 7,047,717	\$ 9,387,472	\$(75,473,785)	\$(59,038,596)	\$(2,108,056)
2014 As Restated	\$ 6,472,316	\$ 12,394,084	\$(75,796,940)	\$(56,930,540)	\$ 2,147,894
2013	\$ 5,687,774	\$ 7,070,271	\$ 16,902,621	\$29,660,666	\$ 3,118,068
2012	\$ 6,113,444	\$ 6,137,664	\$ 14,291,490	\$26,542,598	\$(2,239,649)
2011 As Restated	\$ 5,940,970	\$ 8,514,791	\$ 14,326,486	\$28,782,247	\$ 7,427,677
2010	\$ 4,128,719	\$ 6,660,369	\$ 10,565,482	\$21,354,570	\$ 4,794,223
2009	\$ 2,384,323	\$ 4,425,969	\$ 9,750,055	\$16,560,347	\$ 3,270,977
2008	\$ 4,552,501	\$ 4,774,790	\$ 3,962,079	\$13,289,370	\$ 887,598
2007	\$ 3,551,690	\$ 4,983,180	\$ 3,866,902	\$12,401,772	\$ 2,447,742

Source: School Financial Records

**Electronic Classroom of Tomorrow  
Full-Time Equivalent (FTE) Enrollment  
Fiscal Years 2007 to 2016**

<u>YEAR</u>	<u>FTE Enrollment</u>
2016	15,322
2015	15,087
2014	14,561
2013	13,721
2012	12,208
2011	10,404
2010	9,214
2009	8,742
2008	7,954
2007	7,165

Source: Ohio Department of Education

**Electronic Classroom of Tomorrow  
Operating Revenues  
Fiscal Years 2007 to 2016**

<b>Year</b>	<b>Foundation Payments</b>	<b>Special Education</b>	<b>Other</b>	<b>Total</b>
2016	\$ 90,323,543	\$ 17,555,184	\$ 1,476,986	\$ 109,355,713
2015	\$ 87,816,565	\$ 16,915,916	\$ 1,121,436	\$ 105,853,917
2014	\$ 83,643,884	\$ 15,631,818	\$ 942,835	\$ 100,218,537
2013	\$ 78,004,989	\$ 10,413,423	\$ 1,507,017	\$ 89,925,429
2012	\$ 69,714,436	\$ 9,059,848	\$ 177,536	\$ 78,951,820
2011	\$ 55,143,440	\$ 7,280,627	\$ 1,504,647	\$ 63,928,714
2010	\$ 49,302,474	\$ 6,519,598	\$ 409,788	\$ 56,231,860
2009	\$ 50,401,427	\$ 7,141,838	\$ 222,173	\$ 57,765,438
2008	\$ 44,655,229	\$ 6,075,226	\$ 227,845	\$ 50,958,300
2007	\$ 39,390,237	\$ 4,868,640	\$ 146,104	\$ 44,404,981

Source: School Financial Records.

**Electronic Classroom of Tomorrow  
Non-Operating Revenues  
Fiscal Years 2007 to 2016**

<b>Year</b>	<b>Non-Operating Grants</b>	<b>Interest</b>	<b>Other</b>	<b>Total</b>
2016	\$ 11,344,612	\$ 139,298	\$ 782,764	\$ 12,266,674
2015	\$ 11,970,364	\$ 92,017	\$ 0	\$ 12,062,381
2014	\$ 14,659,743	\$ 76,327	\$ 0	\$ 14,736,070
2013	\$ 12,065,892	\$ 73,947	\$ 0	\$ 12,139,839
2012	\$ 9,304,276	\$ 70,131	\$ 0	\$ 9,374,407
2011	\$ 19,348,755	\$ 68,497	\$ 9,748	\$ 19,427,000
2010	\$ 14,414,911	\$ 86,874	\$ 0	\$ 14,501,785
2009	\$ 6,446,335	\$ 137,216	\$ 11,020	\$ 6,594,571
2008	\$ 5,526,700	\$ 480,010	\$ 559	\$ 6,007,269
2007	\$ 5,465,808	\$ 531,086	\$ 1,485	\$ 5,998,379

Note: 2016 Other includes \$782,764 for Casino Revenue.

Source: School Financial Records.

**Electronic Classroom of Tomorrow  
Grant Revenue By Source  
Fiscal Years 2007 to 2016**

<b>Year</b>	<b>TITLE I</b>	<b>TITLE II</b>	<b>TITLE IV</b>	<b>TITLE V</b>	<b>IDEA-B GRANT</b>	<b>SUBGRANT</b>	<b>OTHER</b>	<b>SFSF Funds</b>	<b>ARRA Funds</b>	<b>TOTAL</b>
2016	\$ 7,563,087	\$ 98,629	\$ 0	\$ 0	\$ 3,456,976	\$ 0	\$ 225,920	\$ 0	\$ 0	\$ 11,344,612
2015	\$ 8,147,369	\$ 146,661	\$ 0	\$ 0	\$ 3,318,301	\$ 0	\$ 358,033	\$ 0	\$ 0	\$ 11,970,364
2014	\$ 7,244,471	\$ 119,309	\$ 0	\$ 0	\$ 3,078,838	\$ 0	\$ 4,217,125	\$ 0	\$ 0	\$ 14,659,743
2013	\$ 7,018,703	\$ 170,814	\$ 0	\$ 0	\$ 3,817,754	\$ 0	\$ 1,197,597	\$ 0	\$ (138,976)	\$ 12,065,892
2012	\$ 6,452,570	\$ 149,047	\$ 0	\$ 0	\$ 2,146,640	\$ 0	\$ 701,484	\$ 0	\$ (145,465)	\$ 9,304,276
2011	\$ 4,943,477	\$ 265,570	\$ 0	\$ 0	\$ 2,071,940	\$ 0	\$ 3,848,909	\$ 5,312,880	\$ 2,905,979	\$ 19,348,755
2010	\$ 5,262,019	\$ 327,232	\$ 52,488	\$ 0	\$ 1,977,319	\$ 0	\$ 47,977	\$ 3,834,215	\$ 2,913,661	\$ 14,414,911
2009	\$ 4,284,443	\$ 283,400	\$ 44,439	\$ 4,461	\$ 1,829,592	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,446,335
2008	\$ 3,075,394	\$ 229,244	\$ 60,489	\$ 13,906	\$ 2,009,755	\$ 0	\$ 137,912	\$ 0	\$ 0	\$ 5,526,700
2007	\$ 3,331,459	\$ 105,909	\$ 90,226	\$ 218,995	\$ 1,719,219	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,465,808

Note: 2016 Other includes (\$2,280) for Title I SI, (\$136,894) for Straight-A Grant, \$344,962 for School Improvement Grant, and \$20,132 for Title III.

Source: School Financial Records

**Electronic Classroom of Tomorrow  
State Basic Aid – Per Pupil Funding Amount  
Fiscal Years 2007 to 2016**

<b>Year</b>	<b>Per Pupil Funding</b>	<b>Cost of Doing Business Factor</b>	<b>Total Per Pupil Funding</b>
2016	\$ 5,900	N/A	\$ 5,900
2015	\$ 5,800	N/A	\$ 5,800
2014	\$ 5,745	N/A	\$ 5,745
2013	\$ 5,653	N/A	\$ 5,653
2012	\$ 5,653	N/A	\$ 5,653
2011	\$ 5,703	N/A	\$ 5,703
2010	\$ 5,718	N/A	\$ 5,718
2009	\$ 5,732	N/A	\$ 5,732
2008	\$ 5,565	N/A	\$ 5,565
2007	\$ 5,403	1.0161	\$ 5,490

Note 1: The Cost of Doing Business Factors are determined by the State of Ohio and vary by region. In FY08, the Cost of Doing Business Factor has been eliminated.

Source: Ohio Department of Education

**Electronic Classroom of Tomorrow  
Ratios of Outstanding Debt by Type  
Fiscal Years 2007 to 2016**

<u>Fiscal Year</u>	<u>Notes Payable</u>	<u>Capital Leases</u>	<u>Per ADM</u>
2016	\$ 5,389,634	\$ 0	\$ 352
2015	\$ 1,880,450	\$ 0	\$ 124
2014	\$ 2,162,587	\$ 0	\$ 148
2013	\$ 1,084,254	\$ 0	\$ 79
2012	\$ 1,977,893	\$ 0	\$ 162
2011	\$ 0	\$ 785,487	\$ 75
2010	\$ 0	\$ 408,212	\$ 44
2009	\$ 0	\$ 2,940,938	\$ 336
2008	\$ 0	\$ 1,549,268	\$ 195
2007	\$ 0	\$ 3,106,674	\$ 434

Source: School Financial Records

**Electronic Classroom of Tomorrow  
Student Population by Resident District  
2016 Fiscal Year**

<b>Resident District</b>	<b>Percent</b>
Columbus City	10.76%
Cleveland	6.52%
Dayton	3.53%
South-Western	2.82%
Cincinnati Public	2.56%
Toledo	1.79%
Akron	1.61%
Hamilton	1.25%
Groveport Madison	1.20%
Parma	1.08%
Elyria	1.01%
All Other Districts	65.87%

Note 1: The School draws its student population from 589 school districts. District representing less than 1% of the student population have been combined under the heading "All Other Districts". The school has open enrollment and draws its population from a large surrounding area. The traditional school district that the student resides in is referred to as the Resident District.

Source: Ohio Department of Education

**Electronic Classroom of Tomorrow  
Demographic And Economic Statistics  
Calendar Years 2005 to 2014**

Calendar Year	Population (in thousands)				Per Capita Personal Income			Civilian Labor Force			
	U.S.	Change From Prior Period	Ohio	Change From Prior Period	U.S.	Ohio	Ohio As a Percentage Of U.S.	Ohioans Employed (in thousands)	Ohio's Unemployment Rate	Public School Enrollment In Ohio (in thousands)	Motor Vehicles Registered In Ohio (in thousands)
2014	318,857	2,728	11,594	23	\$46,049	\$42,236	91.7%	6,753	5.7%	1,799	11,443
2013	316,129	2,215	11,571	27	\$44,543	\$40,865	91.7%	6,663	7.4%	1,845	11,998
2012	313,914	2,322	11,544	(1)	\$42,693	\$40,057	93.8%	6,617	7.2%	1,850	11,840
2011	311,592	2,242	11,545	9	\$41,663	\$37,791	90.7%	6,521	8.6%	1,860	11,788
2010	309,350	2,343	11,536	(7)	\$39,945	\$36,180	90.6%	6,454	10.1%	1,872	12,027
2009	307,007	2,947	11,543	57	\$39,138	\$35,381	90.4%	6,469	10.2%	1,893	11,792
2008	304,060	2,439	11,486	19	\$39,751	\$35,511	89.3%	6,819	6.5%	1,882	11,945
2007	301,621	2,223	11,467	(11)	\$38,611	\$34,874	90.3%	6,829	5.6%	1,890	12,022
2006	299,398	2,988	11,478	14	36,276	33,338	91.9%	6,894	5.5%	1,835	12,128
2005	296,410	2,755	11,464	5	34,495	31,867	92.4%	6,792	5.9%	1,845	12,018

Source: State of Ohio 2015 Comprehensive Annual Financial Statement. Calendar Year 2014 is the most current data available.

**Electronic Classroom of Tomorrow  
Miscellaneous Staff and Student Statistics  
Fiscal Years 2007 to 2016**

<u>Year</u>	<u>Instructional Staff</u>	<u>Total Staff</u>	<u>Instructional Staff/ Student Ratio</u>	<u>Number of Current Graduates</u>	<u>Number of Graduates Since Inception</u>
2016	728	1,166	21:1	2,466	19,545
2015	691	1,085	21:1	2,385	17,079
2014	680	1,078	21:1	2,394	14,694
2013	642	987	21:1	2,577	12,300
2012	560	885	22:1	2,266	9,723
2011	537	816	19:1	1,718	7,457
2010	458	682	20:1	1,565	5,739
2009	432	639	20:1	1,251	4,174
2008	379	576	21:1	955	2,923
2007	324	490	23:1	657	1,968

Source: School Records

**Electronic Classroom of Tomorrow  
Miscellaneous Facility Statistics**

School Address: 3700 South High Street  
Columbus, OH

Square Footage: 145,000

Date of Incorporation: February 11, 2000

Source: School Records



# Dave Yost • Auditor of State

**ELECTRONIC CLASSROOM OF TOMORROW**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 9, 2017**