



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**



**Mary Taylor, CPA**  
Auditor of State



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

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**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b>U.S. DEPARTMENT OF EDUCATION</b> <i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Education Agencies	133413-C1 S1 2006	84.010	\$ 497,395	\$ 506,779
Title I Grants to Local Education Agencies	133413-C1 S1 2007	84.010	2,687,518	2,261,234
Title I Grants to Local Education Agencies	133413-C1 SK 2007	84.010	1,500	-
Total Title I Grants to Local Education Agencies			<b>3,186,413</b>	<b>2,768,013</b>
Special Education Grants to States	133413-6C SF 2006	84.027	150,991	201,055
Special Education Grants to States	133413-6C SF 2007	84.027	1,540,274	1,170,283
Total Special Education Grants to States			<b>1,691,265</b>	<b>1,371,338</b>
Safe and Drug Free Schools and Communities State Grant	133413-DR S1 2006	84.186	7,167	-
Safe and Drug Free Schools and Communities State Grant	133413-DR S1 2007	84.186	35,951	72,751
Total Safe and Drug Free Schools and Communities State Grant			<b>43,118</b>	<b>72,751</b>
State Grants for Innovative Educational Program Strategies	133413-C2 S1 2007	84.298	17,633	14,715
Total State Grants for Innovative Educational Program Strategies			<b>17,633</b>	<b>14,715</b>
Education Technology State Grant	133413-TJ S1 2006	84.318	12,129	8,366
Education Technology State Grant	133413-TJ S1 2007	84.318	2,848	61,554
Total Education Technology State Grant			<b>14,977</b>	<b>69,920</b>
Improving Teacher Quality State Grants	133413-TR S1 2006	84.367	49,426	23,401
Improving Teacher Quality State Grants	133413-TR S1 2007	84.367	151,936	132,194
Total Improving Teacher Quality State Grants			<b>201,362</b>	<b>155,595</b>
Total U.S. Department of Education			<b>5,154,768</b>	<b>4,452,332</b>
<b>Total</b>			<b>\$5,154,768</b>	<b>\$4,452,332</b>

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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



# Mary Taylor, CPA

## Auditor of State

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

Electronic Classroom of Tomorrow  
Franklin County  
3700 South High Street, Suite 120  
Columbus, Ohio 43207

To the Board of Directors:

We have audited the basic financial statements of Electronic Classroom of Tomorrow, Franklin County, Ohio (ECOT) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered ECOT's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of ECOT's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of ECOT's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects ECOT's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that ECOT's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that ECOT's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe finding number 2007-001 is also a material weakness.

We also noted certain internal controls matters that we reported to ECOT's management in a separate letter dated November 19, 2007.

### **Compliance and Other Matters**

As part of reasonably assuring whether the ECOT's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

ECOT's responses to the findings identified in our audit are described in the accompanying schedule of finding. We did not audit ECOT's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, Board of Directors, Lucas County Educational Service Center, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

November 19, 2007





# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE THE MAJOR FEDERAL PROGRAM, INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, AND THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE

Electronic Classroom of Tomorrow  
Franklin County  
3700 South High Street, Suite 120  
Columbus, Ohio 43207

To the Board of Directors:

#### Compliance

We have audited the compliance of Electronic Classroom of Tomorrow, Franklin County, Ohio (ECOT) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies ECOT's major federal program. ECOT's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on ECOT's compliance based on our audit.

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

In our opinion, Electronic Classroom of Tomorrow complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2007-002.

#### Internal Control Over Compliance

ECOT's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered ECOT's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ECOT's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in ECOT's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects ECOT's ability to administer a federal program such that there is more than a remote likelihood that ECOT's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as finding 2007-002 to be a significant deficiency.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that ECOT's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We did not consider the deficiency described in the accompanying schedule of findings to be a material weakness.

#### **Federal Awards Receipts and Expenditures Schedule**

We have also audited the basic financial statements of Electronic Classroom of Tomorrow as of and for the year ended June 30, 2007, and have issued our report thereon dated November 19, 2007. Our audit was performed to form an opinion on the financial statements. The accompanying federal awards receipts and expenditures schedule provides additional information as required by OMB Circular A-133 and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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



**Mary Taylor, CPA**  
Auditor of State

November 19, 2007

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

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

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-001**

**Significant Deficiency/Material Weakness**

**Management Company – Altair Learning Management**

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

Per the executed agreement by and between ECOT and Altair effective July 1, 2003, Article V, Section A, ECOT shall pay Altair an annual amount based on each school year equal to 4% of all funds received by ECOT. ECOT paid Altair \$8,183,057 during the fiscal year ending June 30, 2007. As of June 30, 2007, ECOT had an outstanding balance and accounts payable with Altair Learning Management of \$814,105.

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

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

**Official’s Response:**

Altair Learning Management will provide detailed billings for services rendered beginning July 1, 2007.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
---------------------------------------

**FINDING NUMBER 2007-002**

<b>CFDA Title and Number</b>	<b>Title I Grants to Local Education Agencies, #84.010</b>
<b>Federal Award Number / Year</b>	133413-C1 S1 2006 133413-C1 S1 2007
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

**NONCOMPLIANCE/ SIGNIFICANT DEFICIENCY**

**Cash Management**

34 CFR 80.21 prescribes the basic standards and methods under which a federal agency will make payments to grantees, and grantees will make payments to sub grantees and contractors. 34 CRF 80.21 (b) states that “methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or sub grantee, in accordance with Treasury regulations at 31 CFR part 205.” Part (c) states “grantees and sub grantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or sub grantee.”

The Ohio Department of Education (ODE), the District’s pass through agent, requires as part of their on-line Project Cash Request Form guidelines that amounts requested on the Project Cash Request forms be expended within the period of time for which they are requested (e.g. funds requested for January should be expended during January). Additionally, ODE’s procedures limit cash requests to one month’s expenditures (up to 10% of the approved budget amount) plus any negative balance (amount by which program expenditures exceed project cash received to date). Interest earned on advances by local government grantee and sub-grantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses.

ECOT did not always spend the funds within the month requested which resulted in excess cash balances during the fiscal year. The following requests were not spent within the period of time for which it was requested and earned interest as follows:

Month of Project Cash Request	Cash on Hand at the Time of Request	Amount Requested	Amount Spent for the Month	Cash Remaining at End of the Month	Average Monthly Interest of 5% APR
Sep-06	\$0	\$274,926	\$154,399	\$120,527	\$495
Feb-07	111,822	274,926	265,595	121,153	465
Mar-07	121,163	274,926	298,974	97,115	412
Apr-07	177,590	386,688	452,562	111,716	459
May-07	248,111	386,688	365,631	269,168	1,143
Jun-07	390,890	386,688	351,293	426,285	1,752
			Total		<u><u>\$4,726</u></u>

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007  
(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS (Continued)**

**FINDING NUMBER 2007-002 (Continued)**

**NONCOMPLIANCE/ SIGNIFICANT DEFICIENCY (Continued)**

**Cash Management (Continued)**

We recommend that ECOT develop procedures for the disbursement of funds to ensure that Federal cash on hand is kept at a minimal balance. We also recommend that ECOT calculate monthly interest earned for the Title I monies and post to the proper fund accordingly. Furthermore, ECOT should contact the Ohio Department of Education to determine what action should be taken regarding the excess interest earned but not previously remitted to the Ohio Department of Education.

**Official's Response:**

| ECOT will request funds that will be spent in the month of the cash request. Controls are in place to ensure compliance in the future.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2006-001	ECOT received no breakout of what services or charges were contained in the management fee paid or owed to Altair.	No	Not Corrected- reissued as 2007-01
2006-002	ECOT did not have an adequate internal audit function.	No	Not Fully Corrected- reissued in management letter

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY**

**CORRECTIVE ACTION PLAN  
JUNE 30, 2007**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2007-001	Altair Learning Management will provide detailed billings for services rendered beginning July 1, 2007.	July 1, 2007	Michele Smith, Treasurer
2007-002	ECOT will request funds that will be spent in the month of the cash request. Controls are in place to ensure compliance in the future.	July 1, 2007	Michele Smith, Treasurer



# Comprehensive Annual Financial Report

For the Year Ended June 30, 2007



Electronic Classroom of Tomorrow  
Columbus, Ohio



**ELECTRONIC CLASSROOM  
OF TOMORROW**

**Columbus, Ohio**

**Comprehensive Annual Financial Report**

**For The Year Ended  
June 30, 2007**

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



**ELECTRONIC CLASSROOM OF TOMORROW  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Year Ended June 30, 2007**

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# Introductory Section



Electronic Classroom of Tomorrow  
Columbus, Ohio







November 19, 2007

Electronic Classroom of Tomorrow  
Members of Board of Directors

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Electronic Classroom of Tomorrow (EOCT) for the fiscal year ended June 30, 2007. The CAFR is designed to assist and guide the reader in understanding its contents. The report consists of three major sections:

Introductory Section

The Introductory Section includes the Transmittal Letter, a list of our Board members and Organizational Chart.

Financial Section

The Financial Section consists of the Independent Accountants' Report, Management's Discussion and Analysis, and the Basic Financial Statements as well as the Notes to the Basic Financial Statements that provide an overview of the School's financial position and operating results.

Statistical Section

The Statistical Section includes selected financial and demographic information about ECOT on a multi-year basis.

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.

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 auditing standards (GAAS). The Auditor of State's Office rendered an opinion on the School's financial statements as of June 30, 2007 and the Independent Accountants' Report on the Basic Financial Statements is included in the Financial Section herein.

3700 SOUTH HIGH STREET, SUITE 95, COLUMBUS, OHIO 43207-9902

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

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 Accountants’ Report and provides an assessment of the School’s finances for fiscal year 2007 and the outlook for the future.

### 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. ECOT is sponsored by the Lucas County Educational Service Center. Lucas County Educational Service Center provides oversight and advisory services to 72 community schools throughout the State serving nearly 17,000 children.

The Electronic Classroom of Tomorrow (ECOT), 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. Regionally-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, ECOT provides its students with a flexible, tuition-free alternative to traditional public education. ECOT is a national leader in this growing trend.

ECOT educates over seven 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 our teachers, a staff of counselors, school administrators, customer service specialists, computer programmers, database managers, school-funding experts, shipping handlers and consultants enable ECOT to work.

ECOT operates under the direction of a six-member Board of Directors (the Directors). The Directors are responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Directors control ECOT’s one instructional/support facility staffed by one hundred eight (108) non-certified and three hundred thirty-nine (339) certificated full time teaching personnel who provide services to 7,165 students.

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

### 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 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, ECOT was funded on 7,165 full-time equivalent students for fiscal year 2007 as compared to 6,597 in fiscal year 2006. ECOT has continued to experience strong enrollment. Based on ECOT's consistent enrollment, coupled with increases in State funding, it is expected that revenues for fiscal year 2008 will exceed those of fiscal year 2007.

Acknowledgements

ECOT would like to acknowledge and thank the finance department staff for their assistance in the preparation of this report; Marcia Speck, Connie Brown, Sue Phillips and Christopher Meister.

Sincerely,



Michele Smith  
Treasurer  
Electronic Classroom of Tomorrow



Stephen Brown  
President, Board of Directors  
Electronic Classroom of Tomorrow



Scott Kern  
Chief Financial Officer  
Electronic Classroom of Tomorrow



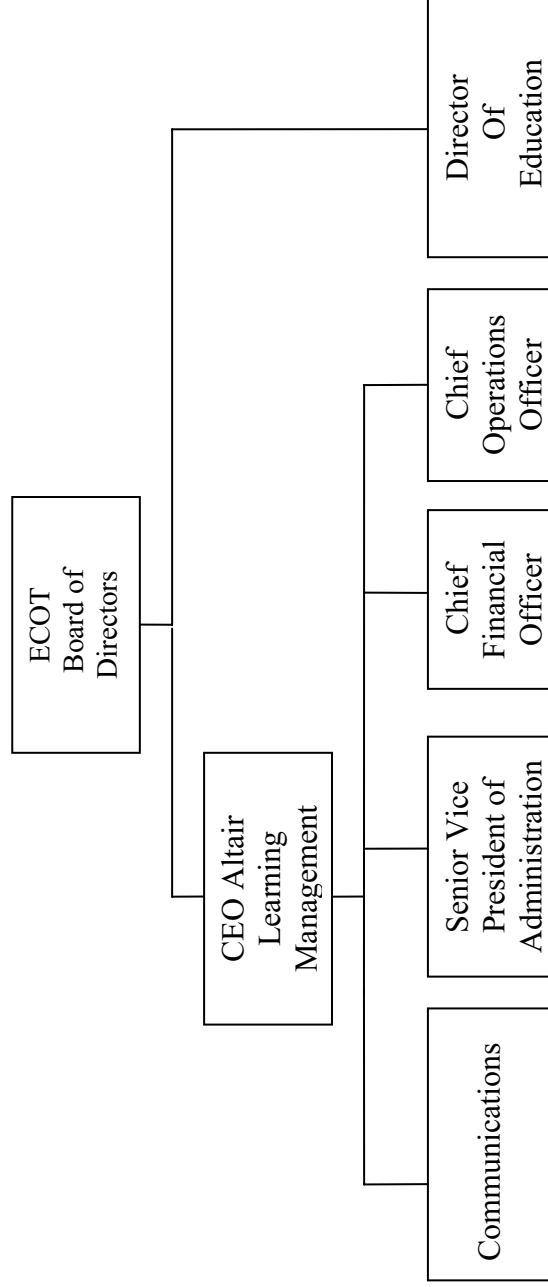
Janet Cadena  
Controller  
Electronic Classroom of Tomorrow

**Electronic Classroom of Tomorrow  
Board of Directors  
June 30, 2007**

---

Stephen Brown	Board President
Pam Bennett	1 <sup>st</sup> Vice President
Cyndy Rees	2 <sup>nd</sup> Vice President
Hubert Seifert	Board Member
Scott Burke	Parliamentarian
Karen Arnold	Board Member
Jeff Forster	Superintendent
Scott Kern	Chief Financial Officer
Steve Sellers	Chief Operations Officer
Michele Smith	Treasurer

**Electronic Classroom of Tomorrow  
Organizational Chart  
June 30, 2007**





# Financial Section



Electronic Classroom of Tomorrow  
Columbus, Ohio







# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Electronic Classroom of Tomorrow  
Franklin County  
3700 South High Street, Suite 120  
Columbus, Ohio 43207

To the Board of Directors:

We have audited the accompanying basic financial statements of Electronic Classroom of Tomorrow, Franklin County, Ohio (ECOT), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of ECOT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Classroom of Tomorrow, Franklin County, Ohio, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2007, on our consideration of ECOT's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506  
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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

We conducted our audit to opine on the financial statements that collectively comprise ECOT's basic financial statements. The introductory and statistical sections provide additional information and are not a required part of the basic financial statements. We did not subject the introductory and statistical sections to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

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

**Mary Taylor, CPA**  
Auditor of State

November 19, 2007

**Electronic Classroom of Tomorrow  
Franklin County**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
Unaudited*

The discussion and analysis of Electronic Classroom of Tomorrow (ECOT) financial performance provides an overall review of ECOT's financial activities for the year ended June 30, 2007. 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, 2007 are as follows:

Total Net Assets were \$12,401,772.

Total Operating Revenue was \$44,404,981.

Total Operating Expenses were \$47,670,230.

Change in Net Assets was \$2,447,742.

**Using this Annual Financial Report**

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

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

***Reporting ECOT***

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

The view of ECOT as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets answer this Question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

**Electronic Classroom of Tomorrow  
Franklin County**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
Unaudited*

These two statements report ECOT's net assets and changes in those assets. This change in net assets is important because it tells the reader whether, for ECOT as a whole, the financial position of ECOT has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**ECOT**

The Statement of Net Assets provides the perspective of ECOT as a whole. Table 1 provides a summary of ECOT's net assets for 2007 compared to 2006:

<b>Table 1 Statement of Net Assets</b>			
	2007	2006	Percentage Change
<b>Assets</b>			
Current Assets and Other Assets	\$ 13,129,133	\$ 10,611,226	24%
Capital Assets, Net of A/D	6,658,364	5,574,246	19%
Total Assets	19,787,497	16,185,472	22%
<b>Liabilities</b>			
Current Liabilities	6,271,132	5,053,662	24%
Long Term Liabilities	1,114,593	1,177,780	-5%
Total Liabilities	7,385,725	6,231,442	19%
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,551,690	2,845,586	25%
Restricted	4,983,180	2,268,409	120%
Unrestricted	3,866,902	4,840,035	-20%
Total Net Assets	\$ 12,401,772	\$ 9,954,030	25%

Total assets increased by \$3,602,025. While cash and cash equivalents increased by \$290,034, total receivables increased by \$261,139. Security deposits increased by \$1,978,642 due to addition of two leases included in current liabilities and a deposit of \$1,700,000 for a line of credit which will be used to purchase capital assets.

**Electronic Classroom of Tomorrow  
Franklin County**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
Unaudited*

ECOT's 2007 net assets increased by \$2,447,742 from current year activities. Restricted net assets increased by \$2,714,771 due the increases in security deposits and increases in intergovernmental receivable. Invested in Capital Assets, Net of Related Debt increased \$706,104 due to assets purchased in the current year offset by additional capital leases.

Table 2 shows the changes in net assets for fiscal year 2007 compared to 2006.

<b>Table 2</b>			
<b>Statement of Revenues, Expenses and Changes in Net Assets</b>			
	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
<b>Operating Revenue</b>			
Foundation Payments	\$ 39,390,237	\$ 36,071,852	9%
Special Education	4,868,640	3,771,914	29%
Extracurricular	5,275	8,452	-38%
Other Operating Revenues	140,829	90,071	56%
<b>Total Operating Revenues</b>	<u>44,404,981</u>	<u>39,942,289</u>	11%
<b>Operating Expenses</b>			
Salaries	15,623,636	13,288,012	18%
Fringe Benefits	4,662,075	3,672,413	27%
Purchased Services	14,888,917	19,440,520	-24%
Materials and Supplies	9,709,871	2,072,635	368%
Depreciation & Amortization Expense	2,511,356	2,199,468	14%
Other Operating Expenses	274,375	342,923	-20%
<b>Total Operating Expenses</b>	<u>47,670,230</u>	<u>41,015,971</u>	16%
<b>Non-Operating Revenues and Expenses</b>			
Non-Operating Grants	5,465,808	4,854,435	13%
Interest Revenue	531,086	243,809	118%
Gain (Loss) on Disposal of Assets	1,485	(103,913)	100%
Interest and Fiscal Charges	(285,388)	(258,715)	10%
<b>Total Non-Operating Revenues &amp; Expenses</b>	<u>5,712,991</u>	<u>4,735,616</u>	21%
<b>Change in Net Assets</b>	<u>\$ 2,447,742</u>	<u>\$ 3,661,934</u>	-33%

**Electronic Classroom of Tomorrow  
Franklin County**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
Unaudited*

***Operating Activities***

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

Total operating revenue increased by 11% in fiscal year 2007. This was due to an increase in State Aid which was attributable to increased student enrollment.

Salaries and Fringe Benefits comprise 43% of total operating expenses. Interest and fiscal charges expense was \$285,388, 0.01% of total expenses. Interest expense was attributable to capital leases for computers and equipment.

Total operating expenses increased by 16% in fiscal year 2007. This was primarily due to increases in Salaries and Fringe Benefits and purchases of curriculum included in Materials and Supplies.

**Budgetary Process**

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

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of 2007 ECOT had \$6,658,364 (net of \$9,000,024 in accumulated depreciation and amortization) invested in computers, furniture, equipment and software. See Note 5 for more detailed information.

Table 3 shows 2007 balances compared to 2006:

**Electronic Classroom of Tomorrow  
Franklin County**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
Unaudited*

<b>Table 3</b>			
<b>Capital Assets (net of depreciation) at June 30</b>			
	2007	2006	Percentage Change
Computer Equipment	\$ 2,953,539	\$ 3,616,928	-18%
Laptops	270,976	357,919	-24%
Other Computer Equipment	2,093,502	436,294	380%
Furniture & Equipment	773,509	578,096	34%
Software	566,838	585,009	-3%
Totals	\$ 6,658,364	\$ 5,574,246	19%

Acquisitions were greater than depreciation this year by \$1,084,118. For the fiscal year ended June 30, 2007, ECOT had \$3,595,473 in purchases of student computers, furniture and equipment and software. Depreciation for the fiscal year 2007 was \$2,511,356.

***Debt***

At June 30, 2007 ECOT had \$3,273,717 in Capital Leases and Compensated Absences. At June 30 \$2,159,124 of this debt was due within one year. Table 4 summarizes the debt outstanding. Please refer to Note 11 for more detailed information.

<b>Table 4</b>			
<b>Outstanding Debt, at June 30</b>			
	2007	2006	Percentage Change
Capital Leases	\$ 3,106,674	\$ 3,043,780	2%
Compensated Absences	167,043	141,805	18%
Totals	\$ 3,273,717	\$ 3,185,585	5%

**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 7,165 students enrolled. ECOT receives its finances mostly from state aid. State per pupil aid for this period amounted to \$5,403 per student.

**Electronic Classroom of Tomorrow  
Franklin County**

*Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
Unaudited*

**Contacting ECOT's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of ECOT's finances and to show ECOT's accountability for the money it receives. If you have questions about this report or need additional information contact Michele Smith of the Electronic Classroom of Tomorrow, 3700 South High Street, Suite 120, Columbus, OH 43207 or e-mail at [michele.smith@ecotoh.org](mailto:michele.smith@ecotoh.org).



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**ELECTRONIC CLASSROOM OF TOMORROW  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2007**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 7,900,043
Intergovernmental Receivable	1,972,028
Prepaid Items	210,290
Inventory Supplies	<u>35,620</u>

Total Current Assets 10,117,981

Noncurrent Assets:

Security Deposits	3,011,152
Capital Assets, Net	<u>6,658,364</u>

Total Noncurrent Assets 9,669,516

Total Assets 19,787,497

Liabilities

Current Liabilities:

Accounts Payable	1,348,707
Accrued Wages & Benefits Payable	2,238,844
Unclaimed Monies Payable	262,698
Intergovernmental Payable	261,759
Capital Leases Payable	<u>2,159,124</u>

Total Current Liabilities 6,271,132

Noncurrent Liabilities:

Capital Leases Payable	947,550
Compensated Absences Payable	<u>167,043</u>

Total Noncurrent Liabilities 1,114,593

Total Liabilities 7,385,725

Net Assets

Invested in Capital Assets, Net of Related Debt	3,551,690
Restricted for Security Deposits	3,011,152
Restricted for Grants	1,972,028
Unrestricted	<u>3,866,902</u>

Total Net Assets \$ 12,401,772

See Accompanying Notes to the Basic Financial Statements.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2007**

Operating Revenues:

Foundation Payments	\$ 39,390,237
Special Education	4,868,640
Extracurricular	5,275
Other Operating Revenues	<u>140,829</u>
 Total Operating Revenues	 44,404,981

Operating Expenses:

Salaries	15,623,636
Fringe Benefits	4,662,075
Purchased Services	14,888,917
Materials and Supplies	9,709,871
Depreciation and Amortization	2,511,356
Other Operating Expenses	<u>274,375</u>
 Total Operating Expenses	 <u>47,670,230</u>

Operating (Loss) (3,265,249)

Non-Operating Revenues and (Expenses):

Non-Operating Grants	5,465,808
Interest Revenue	531,086
Gain on Disposal of Capital Assets	1,485
Interest and Fiscal Charges	<u>(285,388)</u>

Total Non-Operating Revenues and (Expenses) 5,712,991

Change in Net Assets 2,447,742

Net Assets at Beginning of Year	<u>9,954,030</u>
Net Assets at End of Year	<u><u>\$ 12,401,772</u></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, 2007**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$ 44,258,877
Cash Received from Extracurricular Activities	5,275
Cash Received from Other Operating Sources	327,293
Cash Payments to Suppliers for Goods and Services	(25,820,884)
Cash Payments to Employees for Services	(15,493,201)
Cash Payments for Employee Benefits	(4,590,371)
Cash Payments for Other Operating Uses	<u>(292,462)</u>
Total Cash Flows used for Operating Activities	<u>(1,605,473)</u>
<u>Cash Flows from Non-capital Financing Activities</u>	
Non-Operating Grants	<u>5,190,476</u>
Total Cash Flows from Non-capital Financing Activities	<u>5,190,476</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Proceeds from Sale of Capital Assets	1,485
Payments for Capital Acquisitions	(1,022,646)
Principal Payments	(2,509,934)
Interest Payments	<u>(285,388)</u>
Total Cash Flows used for Capital and Related Financing Activities	<u>(3,816,483)</u>
Cash Flows from Investing Activities	
Interest on Investments	<u>521,515</u>
Total Cash Flows from Investing Activities	521,515
Net Increase in Cash and Cash Equivalents	290,034
Cash and Cash Equivalents at Beginning of Year	<u>7,610,009</u>
Cash and Cash Equivalents at End of Year	<u>\$ 7,900,043</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, 2007**

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

Operating Loss	\$ (3,265,249)
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Adjustments to Reconcile Operating  
Loss to Net Cash Used for Operating Activities:

Depreciation	2,511,356
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Change in Assets and Liabilities:

Decrease in Accounts Receivable	14,193
Decrease in Prepaid Items	8,354
Decrease in Inventory of Supplies	3,555
(Increase) in Security Deposits	(1,969,070)
Increase in Accounts Payable	893,388
Increase in Accrued Wages	94,320
Increase in Intergovernmental Payable	78,438
Increase in Compensated Absences Payable	25,241

Total Adjustments	1,659,776
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Net Cash Used for Operating Activities	\$ (1,605,473)
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Non-Cash Transactions:

ECOT entered into two capital leases in the amount of \$2,642,142 for the purchase of software and office equipment.

See Accompanying Notes to the Basic Financial Statements.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 1 -- DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

ECOT was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five academic years commencing after July 1, 2000. The Sponsor is responsible for evaluating the performance of ECOT and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The contract was renewed for an additional three year term on June 30, 2006.

ECOT operates under the direction of a six-member Board of Directors (the Directors). The Directors are responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Directors control ECOT's one instructional/support facility staffed by one hundred eight (108) non-certified and three hundred thirty-nine (339) certificated full time teaching personnel who provide services to 7,165 students.

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

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

ECOT's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets and statement of cash flows.

**Financial Statements**

The statement of net assets and the statement of revenues, expenses, and changes in net assets display information about ECOT. These statements include the financial activities of the primary government, which are considered business-type activities.

**B. Measurement Focus**

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

**C. Basis of Accounting**

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

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

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Expenses/Expenditures**

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

**D. Budgetary Process**

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

**E. Cash and Investments**

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. All cash received by the School is maintained in demand deposit accounts and sweep investment accounts.

During fiscal year 2007, ECOT's investments were limited to repurchase agreements. This investment was reported at cost.

Interest revenue credited during fiscal year 2007 amounted to \$531,086.

**F. Intergovernmental Revenues**

The School currently participates in the State Foundation Program and Special Education which is reflected under "Foundation Payments" on the Statement of Revenues, Expenses, and Changes in Net Assets. Revenue received from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 2007 school year totaled \$49,724,685.

**G. Inventory of Supplies**

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

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2007, 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.

**I. Capital Assets**

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

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Other Equipment	5
Computers	5
Software and Curriculum	3

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Compensated Absences**

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

**K. 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 \$3,011,152.

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by ECOT or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. ECOT presently reports \$4,983,180 of restricted net assets, all of which is imposed by external restrictions.

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

**M. Estimates**

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

**N. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**O. 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 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.

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

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

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

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 hundred five percent of the deposits being secured.

**Investments**

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

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

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

Investments of ECOT as of June 30, 2007 were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Investment Maturity 3 Months or less</u>
Repurchase Agreements	\$10,295,762	\$10,295,762

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

*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 carry a rating of AAA by Moody's and Standard and Poor's. ECOT has no policy regarding credit risk.

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

**NOTE 4 -- RECEIVABLES**

Receivables at June 30, 2007, 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:

<b><u>Intergovernmental Receivables</u></b>	<b><u>Amount</u></b>
Entry Year	\$ 3,584
IDEA B	559,405
Title I	1,179,359
Title I School Improvement	13,500
Title V	3,713
Title IV A	49,734
Title II A	102,497
Title II D	60,236
Total Intergovernmental Receivables	<u>\$ 1,972,028</u>

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**NOTE 5 -- CAPITAL ASSETS**

Capital asset activity for fiscal year ended June 30, 2007, was as follows:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
<b>Capital Assets, Net</b>				
Computer Equipment	\$ 7,783,822	\$ 770,050	\$ 496,860	\$ 8,057,012
Laptops	593,561	70,476	107,524	556,513
Other Computer Equipment	1,584,217	1,787,301	39,442	3,332,076
Furniture & Equipment	801,642	375,984	-	1,177,626
Curriculum	520,190	-	-	520,190
Software	1,423,309	591,663	-	2,014,972
Total at Historical Cost	<u>12,706,741</u>	<u>\$ 3,595,474</u>	<u>643,826</u>	<u>\$15,658,389</u>
<b>Less Accumulated Depreciation and Amortization:</b>				
Computer Equipment	4,166,894	1,433,439	496,860	5,103,473
Laptops	235,642	157,419	107,524	285,537
Other Computer Equipment	1,147,923	130,093	39,442	1,238,574
Furniture & Equipment	223,546	180,571	-	404,117
Curriculum	511,099	9,091	-	520,190
Software	847,391	600,743	-	1,448,134
Total Accumulated Depreciation	<u>7,132,495</u>	<u>2,511,356</u>	<u>643,826</u>	<u>9,000,025</u>
Capital Assets, Net	<u>\$ 5,574,246</u>	<u>\$ 1,084,118</u>	<u>-</u>	<u>\$ 6,658,364</u>

**NOTE 6 -- RISK MANAGEMENT**

**A. Insurance Coverage**

ECOT is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2007, ECOT contracted with Indiana Insurance for property and general liability insurance. Additionally, there have been no insurance settlements that have exceeded insurance coverage in any of the past three years.

The School Leaders Errors and Omissions policy covers errors and omissions. This policy is protected by National Union Fire Insurance Company of Pittsburgh, PA. with a \$1,000,000 single occurrence limit, a \$2,000,000 aggregate limit and a \$10,000 deductible.

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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

**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.

**NOTE 7 -- DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and ECOT is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. ECOT's required contribution for pension obligations to SERS for fiscal years June 30, 2007, 2006, and 2005 were \$243,243, \$335,846 and \$315,476, respectively; 100 percent has been contributed for fiscal years 2007, 2006 and 2005.

**B. State Teachers Retirement Systems of Ohio**

ECOT participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 2274090, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

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

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. ECOT was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal, year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent of members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

ECOT's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006 and 2005, were \$1,185,087, \$1,053,893 and \$1,043,637, respectively; 100 percent has been contributed for fiscal years 2007, 2006, and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$1,670,976 made by ECOT and \$1,152,593 made by the plan members.



**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**NOTE 8-- POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For ECOT, this amount equaled \$108,969, for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For EOCT, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$284,856.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year end June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

**NOTE 9 -- OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn fifteen to twenty-five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment up to 10 days. Teachers and administrators, who are not on a twelve-month contract, do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one day per month. Sick leave may be accumulated up to thirty days for all employees. ECOT assumes no liability for sick leave payout when an employee leaves service.

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

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

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System/State Teachers Retirement System have an option to choose Social Security. As of June 30, 2007, ECOT has no employees or members of the governing board, which contribute to Social Security.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**NOTE 10 – PURCHASED SERVICES**

For the period July 1, 2006 through June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional & Technical Services	\$ 7,802,821
Property Services	790,494
Travel Mileage/Meeting Expenses	354,878
Communications	5,275,255
Utilities	44,493
Contracted Trade Services	239,950
Pupil Transportation	3,148
Other Purchased Services	377,878
Total Purchased Services	<u>\$ 14,888,917</u>

**NOTE 11- LONG-TERM LIABILITIES**

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

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>June 30, 2006</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2007</b>	<b>Due Within</b>
					<b>One Year</b>
Compensated Absences	\$ 141,802	\$ 25,241	\$ 0	\$ 167,043	-
Capital Leases Payable	3,043,780	2,642,142	2,579,249	3,106,674	2,159,124
Total Long-Term Liabilities	<u>\$ 3,185,582</u>	<u>\$2,667,383</u>	<u>\$ 2,579,249</u>	<u>\$ 3,273,717</u>	<u>\$2,159,124</u>

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

ECOT has entered into a guidance line of credit in the amount of \$3,000,000 with National City Commercial Capital on June 29, 2007 for the purpose of future equipment funding requirements for the school. The line of credit was secured by a \$1,700,000 security deposit with National City Bank. The guidance line period is from June 29, 2007 through June 29, 2008.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**NOTE 12—CAPITAL LEASES**

ECOT entered into numerous capital leases for the purchase of student computers, computer equipment and telephone systems. The lease terms range from three to five years and the amounts paid represent more than 90% of the fair market value of the equipment. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of the future minimum lease payments as of the inception date.

The annual requirements to amortize all leases outstanding as of June 30, 2007, including interest are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Capital Lease June 30, 2007</u>
2008	\$ 2,327,544
2009	832,114
2010	166,069
Total Minimum Lease Payments	3,325,727
Less Amount Representing Interest	(219,053)
Total Capital Lease Payable	<u>\$ 3,106,674</u>

**NOTE 13 -- OPERATING LEASES**

ECOT entered into lease agreements with Bob Evans Farms, Inc. for use of space in the property commonly known as Southland Mall. The term of the original leases commenced August 1, 2002 and will mature July 31, 2007. For fiscal year 2007 ECOT paid \$187,955 in operating leases for the Southland Mall properties. ECOT also paid \$975 in 2007 for use of meeting facilities at Bob Evans Corporate offices.

ECOT also entered into a lease agreement with St. Vincent DePaul for the use of property as extra storage. The term of the leases commenced July 1, 2006 and will mature June 30, 2008. For fiscal year 2007, ECOT paid \$31,332 in operating leases for the extra storage.

ECOT also entered into a lease agreement with Bradley & Company for the use of property as extra storage. The term of the leases commenced August 1, 2006 and matured on March 31, 2007. For fiscal year 2007, ECOT paid \$2,250 in operating leases for the extra storage.

ECOT also entered into a lease agreement with the Ohio Police Athletic League for the use of property at 3705 Lee Road, Shaker Heights, Ohio for use as office space. The term of the leases commenced September 26, 2006 and matured on June 30, 2007. For fiscal year 2007, ECOT paid \$17,100 in operating leases for the office space. This lease was renewed on July 1, 2007.

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

ECOT also entered into several lease agreements with Xerox Corporation, Toshiba Financial Services and Pitney Bowes for the use of copiers and office equipment. The terms of these leases are from 36 to 60 months.

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

<u>Fiscal Year Ending June 30</u>	
2008	\$ 78,057
2009	70,782
2010	52,477
2011	12,032
Total Minimum Lease Payments	\$ 213,348

**NOTE 14 -- TAX EXEMPT STATUS**

ECOT has not obtained, but is seeking approval for its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. ECOT has made no provision for any potential future tax liability from not obtaining the Section 501(c)(3) tax-exempt status.

**NOTE 15 -- MANAGEMENT COMPANY**

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

Per the management agreement with ECOT, Altair is entitled to 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 2007 was \$1,789,608. As of June 30, 2007, 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

**ELECTRONIC CLASSROOM OF TOMORROW  
FRANKLIN COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

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, 2007.

**B. Pending Litigation**

On May 14, 2001 a lawsuit challenging the constitutionality of charter schools (Ohio Federation of Teachers (OFT) vs. Ohio Board of Education, et al and State ex rel. Page vs. State of Ohio) was filed in the Franklin County Common Pleas Court. Oral arguments were heard in the fall of 2005 and the Ohio Supreme Court announced its decision on October 25, 2006 upholding the constitutionality of charter schools; in effect, ending the dispute.

**C. School Funding**

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE's review of ECOT's fiscal year 2007 student enrollment resulted in a receivable to its state funding of \$168,221.

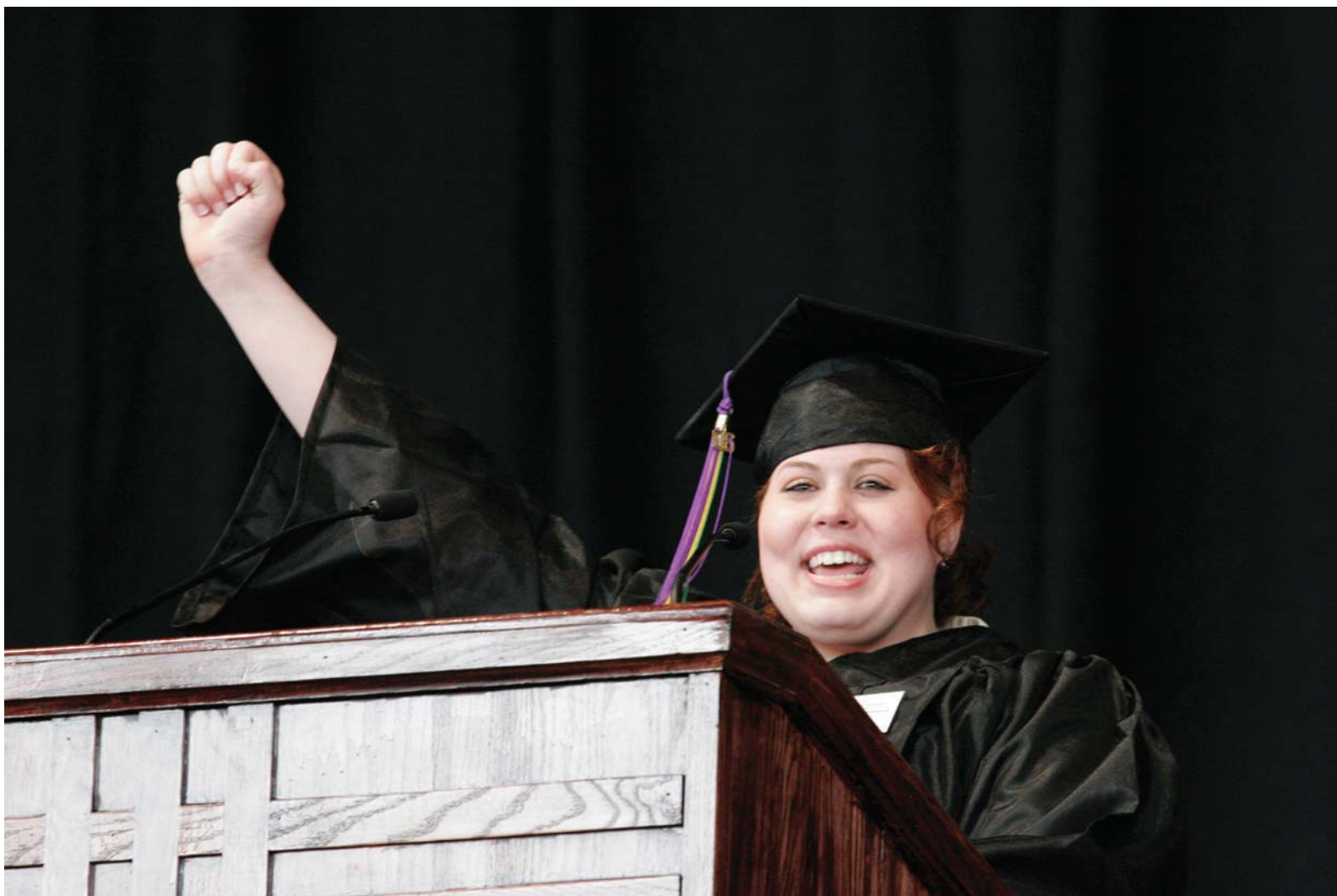
**NOTE 17 -- RELATED PARTY TRANSACTIONS**

ECOT contracts with Altair Learning Management, LLC (Altair) for the purchase of curriculum. The license fee for fiscal year ended 2007 was \$7,198,274. As of June 30, 2007, \$814,105 was outstanding and payable.

**NOTE 18 -- SUBSEQUENT EVENTS**

In August 2007 ECOT entered into a new capital lease with National City Commercial Capital Company, LLC in the amount of \$437,294 for the purchase of computer equipment.

# Statistical Section



Electronic Classroom of Tomorrow  
Columbus, Ohio





**Electronic Classroom of Tomorrow  
Operating and Non-Operating Expenses  
Fiscal Years 2001 to 2007**

<b>Year</b>	<b>Salaries</b>	<b>Fringe Benefits</b>	<b>Purchased Services</b>	<b>Materials &amp; Supplies</b>	<b>Depreciation &amp; Amortization</b>	<b>Other</b>	<b>Total</b>	<b>FTE Enrollment</b>	<b>Per Pupil Expense</b>
2007	\$15,623,636	\$ 4,662,075	\$14,888,917	\$ 9,709,871	\$ 2,511,356	\$274,375	\$47,670,230	7,165	\$6,653
2006	\$13,288,012	\$ 3,672,413	\$19,440,520	\$ 2,072,635	\$ 2,199,468	\$342,923	\$41,015,971	6,597	\$6,217
2005	\$11,197,208	\$ 3,023,087	\$21,062,010	\$ 1,322,854	\$ 2,365,288	\$629,549	\$39,599,996	6,167	\$6,421
2004	\$ 7,884,746	\$ 1,930,406	\$16,243,804	\$ 1,645,256	\$ 1,877,980	\$228,706	\$29,810,898	4,824	\$6,180
2003	\$ 5,285,256	\$ 1,420,948	\$10,092,931	\$ 2,953,082	\$ 1,060,987	\$172,836	\$20,986,040	4,038	\$5,197
2002	\$ 3,536,068	\$ 760,132	\$ 5,832,514	\$ 2,678,057	\$ 862,630	\$164,613	\$13,834,014	2,799	\$4,942
2001	\$ 3,079,414	\$ 726,584	\$ 6,923,822	\$ 510,236	\$ 743,053	\$ 81,867	\$12,064,976	2,461	\$4,902

Note 1: The School began enrolling students in FY01.

Source: School Financial Records.

**Electronic Classroom of Tomorrow  
Operating and Non-Operating Revenues  
Fiscal Years 2001 to 2007**

<b>Year</b>	<b>Foundation Payments</b>	<b>Non-Operating Grants</b>	<b>Other</b>	<b>Total</b>
2007	\$ 44,258,877	\$ 5,465,808	\$ 678,675	\$ 50,403,360
2006	\$ 39,843,766	\$ 4,854,435	\$ 342,332	\$ 45,040,533
2005	\$ 38,384,828	\$ 5,363,512	\$ 342,954	\$ 44,091,294
2004	\$ 28,698,245	\$ 2,685,009	\$ 77,538	\$ 31,460,792
2003	\$ 22,389,601	\$ 1,232,963	\$ 15,437	\$ 23,638,001
2002	\$ 15,460,245	\$ 647,115	\$ 37,222	\$ 16,144,582
2001	\$ 8,784,285	\$ 113,750	\$ 55,259	\$ 8,953,294

Note: The School began enrolling students in FY01.

Source: School Financial Records.

**Electronic Classroom of Tomorrow  
Full-Time Equivalent (FTE) Enrollment  
Fiscal Years 2001 to 2007**

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<u>YEAR</u>	<u>FTE Enrollment</u>
2007	7,165
2006	6,597
2005	6,167
2004	4,824
2003	4,038
2002	2,799
2001	2,461

Note: ECOT began enrolling students in FY01.

Source: Ohio Department of Education

**Electronic Classroom of Tomorrow  
Grant Revenue By Source  
Fiscal Years 2001 to 2007**

<b>Year</b>	<b>TITLE I</b>	<b>TITLE II</b>	<b>TITLE IV</b>	<b>TITLE VI</b>	<b>IDEA-B GRANT</b>	<b>SUBGRANT</b>	<b>OTHER</b>	<b>TOTAL</b>
2007	\$ 3,331,459	\$ 105,909	\$ 90,226	\$ 218,995	\$ 1,719,219	\$ 0	\$ 0	\$ 5,465,808
2006	\$ 2,810,173	\$ 37,922	\$ 72,835	\$ 209,802	\$ 1,454,698	\$ 0	\$ 269,004	\$ 4,854,434
2005	\$ 3,218,062	\$ 100,641	\$ 43,103	\$ 213,010	\$ 1,156,655	\$ 150,000	\$ 632,040	\$ 5,513,511
2004	\$ 1,697,682	\$ 138,086	\$ 20,676	\$ 96,084	\$ 357,156	\$ 150,000	\$ 375,325	\$ 2,835,009
2003	\$ 708,543	\$ 19,008	\$ 7,218	\$ 231,595	\$ 241,697	\$ 0	\$ 24,902	\$ 1,232,963
2002	\$ 434,994	\$ 6,004	\$ 0	\$ 19,014	\$ 103,632	\$ 0	\$ 83,471	\$ 647,115
2001	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Note: ECOT began enrolling students in FY01.

Source: School Financial Records.

**Electronic Classroom of Tomorrow  
Net Assets  
Fiscal Years 2001 to 2007**

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<b>Year</b>	<b>Invested in Capital Assets, Net of Related Debt</b>	<b>Restricted</b>	<b>Unrestricted</b>	<b>Total</b>	<b>Change in Net Assets</b>
2007	\$ 3,551,690	\$ 4,983,180	\$ 3,866,902	\$12,401,772	\$ 2,447,742
2006	\$ 2,845,586	\$ 2,268,409	\$ 4,840,035	\$ 9,954,030	\$ 3,661,934
2005	\$ 3,087,440	\$ 0	\$ 3,204,656	\$ 6,292,096	\$ 3,621,763
2004	\$ 2,916,899	\$ 0	\$ (246,566)	\$ 2,670,333	\$ 1,497,975
2003	\$ 1,337,081	\$ 0	\$ (164,723)	\$ 1,172,358	\$ 2,830,249
2002	\$ 809,226	\$ 0	\$(2,467,117)	\$(1,657,891)	\$ 1,983,357
2001	\$ (211,716)	\$ 0	\$(3,429,532)	\$(3,641,248)	\$(3,641,248)

Note: ECOT began enrolling students in FY01.

Source: School Financial Records

**Electronic Classroom of Tomorrow  
State Basic Aid – Per Pupil Funding Amount  
Fiscal Years 2001 to 2007**

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<b>Year</b>	<b>Per Pupil Funding</b>	<b>Cost of Doing Business Factor</b>	<b>Total Per Pupil Funding</b>
2007	\$ 5,403	1.0161	\$ 5,490
2006	\$ 5,283	1.0318	\$ 5,451
2005	\$ 5,169	1.0476	\$ 5,415
2004	\$ 5,058	1.0466	\$ 5,294
2003	\$ 4,949	1.0459	\$ 5,176
2002	\$ 4,814	1.0468	\$ 5,039
2001	\$ 4,294	1.0832	\$ 4,651

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 will be eliminated.

Note 2: ECOT began enrolling students in FY01.

Source: Ohio Department of Education

**Electronic Classroom of Tomorrow  
Ratios of Outstanding Debt by Type  
Fiscal Years 2001 to 2007**

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<b>Fiscal Year</b>	<b>Capital Leases</b>	<b>Per ADM</b>
2007	\$ 3,106,674	\$ 434
2006	\$ 3,043,780	\$ 461
2005	\$ 2,635,014	\$ 427
2004	\$ 2,066,936	\$ 428
2003	\$ 2,732,764	\$ 677
2002	\$ 2,114,392	\$ 755
2001	\$ 3,669,798	\$ 1,491

Note: ECOT began enrolling students in FY01.

Source: School Financial Records

**Electronic Classroom of Tomorrow  
Student Population by Resident District  
2007 Fiscal Year**

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<u>Resident District</u>	<u>Percent</u>
Cincinnati Public	3.89%
Cleveland	5.60%
Columbus City	13.33%
Dayton	3.19%
Groveport Madison	1.12%
Mansfield	1.47%
Parma	1.27%
South-Western	3.51%
Toledo	1.71%
All Other Districts	64.92%

Note: The School draws its student population from 553 school districts. Districts 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  
Miscellaneous Statistics**

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**School Address:** 3700 S. High Street  
Columbus, OH

**Square Footage:** 44,652

**Date of Incorporation:** February 11, 2000

**Number of FY07  
Instructional Staff:** 339

**Total FY07 Staff:** 447

**Instructional Staff/  
Student Ratio:** 21:1

**Number of graduates  
since inception:** 2,285

Source: School Records





**Mary Taylor, CPA**  
Auditor of State

**ELECTRONIC CLASSROOM OF TOMORROW**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 31, 2008**