OHIO AUDITOR OF STATE
KEITH FABER

ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY
JUNE 30, 2018

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OHIO AUDITOR OF STATE
KEITH FABER

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INDEPENDENT AUDITOR'S REPORT

Electronic Classroom of Tomorrow
Franklin County
Educational Service Center of Lake Erie West, Sponsor
2275 Collingwood Boulevard
Toledo, Ohio 43620

To the Electronic Classroom of Tomorrow:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Electronic Classroom of Tomorrow, Franklin County, Ohio (ECOT), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise ECOT's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Because of the matters described in the Basis for Disclaimer of Opinion paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management has not provided certain written representations required by Auditing Standard AU-C Section 580, *Written Representations*, including but not limited to, management's responsibility for preparing the financial statements in conformity with ECOT's financial reporting framework, the availability of original financial records and related data, the completeness and availability of all minutes of the governing body and committee meetings; management's responsibility of ECOT's compliance with laws and regulations; the identification and disclosure of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of fraud involving management or employees with significant roles in internal control; compliance with laws, regulations, and provisions of contracts and grant agreements, including budget laws, compliance with any debt covenants, the identification of all Federal assistance programs, and compliance with Federal grant requirements.

Additionally, the June 30, 2018, financial statements do not accurately report the financial position of ECOT. ECOT had bank account balances of $803,876 that were not reported as cash and cash equivalents on the Statement of Net Position. Also, Ohio Rev. Code § 3314.08(K) provides that the Ohio Department of Education conducts reviews of full-time equivalency (FTE). These reviews are conducted to ensure the calculated funding provided to ECOT is based on accurate full-time equivalency information reported for enrolled students. Based on its reviews of ECOT's data, the Ohio Department of Education determined ECOT was not entitled to a portion of the funding received fiscal years 2016 and 2017 and all the funding received in fiscal year 2018. ECOT also made contractual payments to various vendors based on a percentage of funding provided by the Ohio Department of Education. Since the reviews concluded that ECOT was not entitled to all the funding provided, these vendors owe monies back to ECOT. Material intergovernmental payable, accounts receivable, and intergovernmental receivable, in the amounts of $49,047,131, $463,037 and $5,591,440, respectively, were not reported on the Statement of Net Position. The unrecorded liabilities and receivables affect expenses, liabilities, revenue, assets and net position reported on the basic financial statements.

Disclaimer of Opinion

Due to the significance of the matters discussed in *the Basis for Disclaimer of Opinion* paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the year ended June 30, 2018.

Emphasis of Matters

As discussed in Note 2 to the financial statements, during 2018, ECOT adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

As discussed in Note 18 to the June 30, 2018 financial statements, the Sponsor suspended operations of ECOT effective January 19, 2018 and ECOT was closed on June 30, 2018.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph above, we are not able to obtain sufficient evidence to provide a basis for an opinion and accordingly we do not opine on the Schedule of Expenditures of Federal Awards.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2022, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an engagement performed in accordance with *Government Auditing Standards* in considering ECOT's internal control over financial reporting and compliance.

Keith Faber
Auditor of State
Columbus, Ohio

April 28, 2022

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ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The management's discussion and analysis of the Electronic Classroom of Tomorrow (ECOT), provides an overall review of ECOT's financial activities for fiscal year 2018. 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 for fiscal year 2018 are as follows:

- ECOT ceased operations on January 19, 2019 due to an unsustainable financial position that was a result of full-time equivalent (FTE) enrollment reviews of the 2015-2016 and 2016-2017 school year, resulting in the Ohio Department of Education issuing a "claw-back" of $60,350,791 of funding via prospective funding reductions.

- In total, net position was a deficit of $163,525,690 at June 30, 2018, which represented an 6.28% increase from 2017's restated net position.

- ECOT had operating revenues of $40,236,612, operating expenses of $28,006,570, non-operating revenues of $3,935,914, and non-operating expenses of $5,199,472 for fiscal year 2018. Total change in net position for the ECOT was an increase of $10,966,484.

Using this Annual Financial Report

This annual report consists of management's discussion and analysis, the basic financial statements and the notes to those statements. These statements are organized so the reader can understand ECOT's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provides information about the activities of ECOT, including all short-term and long-term financial resources and obligations.

Reporting ECOT's Financial Activities

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2018?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report ECOT's net position and changes in net position. This change in net position is important because it tells the reader that, for ECOT as a whole, the financial position of ECOT has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The statement of cash flows provides information about how ECOT finances and meets the cash flow needs of its operations.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning ECOT's net pension liability and net OPEB liability.

The table below provides a summary of the ECOT's net position for fiscal years 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.

Net Position

	2018	Restated 2017
Assets		
Current assets	$ 16,105,586	$ 41,023,856
Non-current assets	-	17,939,704
Total assets	16,105,586	58,963,560
Deferred Outflows of Resources		
Total deferred outflows of resources	28,231,256	25,827,116
Liabilities		
Current liabilities	75,009,074	50,700,116
Non-current liabilities:		
Net pension liability	102,075,411	137,390,193
Net OPEB liability	23,068,213	27,955,336
Other non-current liabilities	-	71,148,801
Total liabilities	200,152,698	287,194,446
Deferred Inflows of Resources		
Total deferred inflows of resources	7,709,834	-
Net Position		
Net investment in capital assets	-	12,522,684
Restricted	-	6,701,736
Unrestricted (deficit)	(163,525,690)	(193,716,594)
Total net position (deficit) (restated)	$ (163,525,690)	$ (174,492,174)

The net pension liability (NPL) is the largest single liability reported by the ECOT at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the ECOT adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the ECOT's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the ECOT's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the ECOT is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the ECOT's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the ECOT is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of $146,580,578 to a deficit of $174,492,174.

Net Position Analysis

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2018, ECOT's net position was a deficit of $163,525,690 compared to $174,492,174 at June 30, 2017 as restated.

Current assets include ECOT's demand deposit account, accounts receivable and intergovernmental receivables. Because ECOT closed during the year, most assets were liquidated prior to year-end. The land, building and associated improvements were reclassified to assets held for resale and were disposed of after year-end. The accounts receivable balance of $10,727,460 represents payments to vendors that ECOT should recapture based on the funding "claw-back". Of this $10,727,460, $2,145,492 is owed from Altair Learning Management and $8,581,968 is owed from IQ Innovations.

Deferred outflows of resources are reported in accordance with GASB Statement No. 68 and GASB Statement No. 75, see Note 7 and Note 8 to the basic financial statements for detail.

Current liabilities primarily include accounts payable due to vendors for goods and services, compensated absences related to payments of paid time off balances and intergovernmental payables for amounts due to the State of Ohio.

Long-term obligations include the ECOT's net pension liability and ECOT's net OPEB liability. Long-term liabilities decreased primarily due to a decrease in the net pension liability. This factor is outside of the control of the ECOT. The ECOT contributes its statutorily required contributions to the pension systems; however, it's the pension systems that collect, hold and distribute pensions to ECOT employees, not ECOT.

The table on the following page shows the changes in net position for fiscal years 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 2.

Change in Net Position

	2018	Restated 2017
Operating Revenues:		
Foundation payments	$ 39,924,084	$ 66,545,217
Special education	308,856	17,499,682
Extracurricular	449	15,576
Other	3,223	1,680,456
Total operating revenue	40,236,612	85,740,931
Operating Expenses:		
Salaries and wages	25,496,032	49,173,439
Fringe benefits	(27,382,712)	29,876,517
Purchased services	17,041,846	26,848,230
Materials and supplies	8,010,276	8,084,924
Depreciation	4,177,835	4,223,287
Other	663,293	93,821
Total operating expenses	28,006,570	118,300,218
Non-operating Revenues (Expenses):		
Non-operating grants	3,834,129	9,671,621
Casino revenue	-	773,497
Interest revenue	97,535	155,619
Donations and contributions	4,250	-
Intergovernmental expense	-	(60,350,791)
Loss on disposal of capital assets	(5,199,472)	-
Interest expense	-	(172,663)
Total non-operating revenues (expenses)	(1,263,558)	(49,922,717)
Change in net position	10,966,484	(82,482,004)
Net position (deficit) at beginning of year (restated)	(174,492,174)	N/A
Net position (deficit) at end of year	$ (163,525,690)	$ (174,492,174)

Operating expenses decreased $90,293,648 or 76.33%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the ECOT reported pension expense and OPEB expense mainly due to these benefit changes by the retirement systems. Fluctuations in the pension expense reported under GASB 68 makes it difficult to compare financial information between years. Pension expense is a component of program expenses reported on the statement of activities. To assess fluctuations in program expenses, the increase or decrease in pension expense should be factored into the analysis. Pension expense reported in 2018 represents a decrease from pension expense reported in 2017. Pension expense is reported as a component of fringe benefits expense.

Capital Assets and Long-Term Debt Obligations

There were no capital assets reported at June 30, 2018. ECOT had $12,522,684 in capital assets, net of depreciation at June 30, 2017. As a result of the closure, ECOT's assets were liquidated and any remaining assets were reported as assets held for resale. Note 6 to the basic financial statements for detail.

ECOT's long-term liabilities consisted of net pension liability, net OPEB liability, intergovernmental payables and compensated absences. The notes outstanding at June 30, 2018 of $4,613,479 were either repaid, liquidated with security deposits, or converted to accounts payable as part of the court proceedings.

Current Financial Related Activities

The Sponsor voted to suspend ECOT's operations as a result of "an unsustainable financial position". ECOT closed on January 19, 2019.

Contacting ECOT's Financial Management

This financial report is designed to provide citizens, taxpayers and creditors with a general overview of ECOT's finances and to show ECOT's accountability for the money it receives.

ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY

STATEMENT OF NET POSITION
JUNE 30, 2018

Assets:	
Current assets:	
Equity in pooled cash	
and cash equivalents	$ 1,818,067
Receivables:	
Accounts	10,727,460
Intergovernmental.	415,062
Assets held for resale	3,144,997
Total assets.	16,105,586
Deferred outflows of resources:	
Pension	26,997,507
OPEB	1,233,749
Total deferred outflows of resources	28,231,256
Liabilities:	
Current liabilities:	
Accounts payable.	378,922
Compensated absences.	384,495
Intergovernmental payable	74,245,657
Total current liabilities	75,009,074
Non-current liabilities:	
Net pension liability	102,075,411
Net OPEB liability	23,068,213
Total non-current liabilities	125,143,624
Total liabilities	200,152,698
Deferred inflows of resources:	
Pension	4,836,719
OPEB	2,873,115
Total deferred inflows of resources	7,709,834
Net position:	
Unrestricted (deficit)	(163,525,690)
Total net position (deficit).	$ (163,525,690)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Operating revenues:		
State foundation	$	39,924,084
Charges for services		449
Other		3,223
Special education.		308,856
Total operating revenues		40,236,612
Operating expenses:		
Salaries and wages.		25,496,032
Fringe benefits.		(27,382,712)
Purchased services.		17,041,846
Materials and supplies		8,010,276
Other operating expenses.		663,293
Depreciation		4,177,835
Total operating expenses.		28,006,570
Operating income		12,230,042
Non-operating revenues (expenses):		
Intermediate, state and federal grants		3,834,129
Earnings on investments		97,535
Loss on disposal of capital assets		(5,199,472)
Donations and contributions		4,250
Total non-operating revenues (expenses)		(1,263,558)
Change in net position		10,966,484
Net position at beginning of year (restated)		(174,492,174)
Net position at end of year	$	(163,525,690)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:	
Cash received from foundation	$ 27,974,924
Cash received from charges for services.	449
Cash received from other operations	3,223
Cash payment for personnel services	(34,465,512)
Cash payments for purchased services	(9,503,832)
Cash payments to suppliers for goods and supplies	(6,051,331)
Cash payments for other expenses	(883,541)
Net cash used in operating activities	(22,925,620)
Cash flows from noncapital financing activities:	
Cash received from intermediate, state and federal grants	6,413,662
Cash received from donations and contributions	4,250
Net cash provided by noncapital financing activities.	6,417,912
Cash flows from capital and related financing activities:	
Gain on sale of capital assets.	380
Net cash provided by capital and related financing activities.	380
Cash flows from investing activities:	
Interest received	97,535
Net cash provided by investing activities	97,535
Net change in cash and cash equivalents	(16,409,793)
Cash and cash equivalents at beginning of year	18,227,860
Cash and cash equivalents at end of year	$ 1,818,067
Reconciliation of operating income to net cash used in operating activities:	
Operating income	$ 12,230,042
Adjustments:	
Depreciation	4,177,835
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Materials and supplies inventory	1,958,945
Accounts receivable	5,707,139
Intergovernmental receivable	641,925
Prepayments	765,932
Deferred outflows of resources - pension	(1,214,131)
Deferred outflows of resources - OPEB	(1,190,009)
Accounts payable.	(415,320)
Accrued wages and benefits	(6,764,536)
Intergovernmental payable	(6,208,429)
Unclaimed monies.	(220,248)
Compensated absences payable.	(137,540)
Severance payable.	(568,695)
Notes payable.	(4,613,479)
Security deposit.	5,417,020
Net pension liability	(35,314,782)
Net OPEB liability	(4,887,123)
Deferred inflows of resources - pension	4,836,719
Deferred inflows of resources - OPEB	2,873,115
Net cash used in operating activities	$ (22,925,620)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the School District

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

ECOT was approved for operation under a contract with the Educational Service Center of Lake Erie West (the Sponsor) for a period of five academic years commencing after July 1, 2000. The Sponsor is responsible for evaluating the performance of ECOT and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The contract was extended indefinitely on July 12, 2012. ECOT modified the Ohio Community School Contract with the Sponsor for the 2017-2018 school year to receive a dropout prevention and recovery designation. Due to financial difficulties, the sponsor suspended ECOT's operations effective January 19, 2018.

ECOT operates under the direction of a seven-member Board of Directors (the Directors). The Directors are responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

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

B. Reporting Entity

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

The financial statements of ECOT have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

C. Basis of Presentation

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

Financial Statements

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

D. Measurement Focus

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

E. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

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

Expenses

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

F. Budgetary Process

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

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

G. Cash and Investments

During fiscal year 2018, ECOT's investments were limited to repurchase agreements, State Treasury Asset Reserve of Ohio (STAR Ohio), and federal agency securities. Except for STAR Ohio, discussed below, investments are reported at fair value which is based on quoted market prices. ECOT did not have any investments at year end.

During fiscal year 2018, ECOT invested in STAR Ohio (the State Treasurer Asset Reserve of Ohio), which is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants." ECOT measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Interest revenue credited during fiscal year 2018 amounted to $97,535.

H. Intergovernmental Revenues

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

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

Amounts awarded under the above programs for the 2018 school year totaled $40,232,940.

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 acquisition value. ECOT maintains a capitalization threshold of $5,000. ECOT does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Estimated Lives
Land Improvements	10 to 20 years
Buildings	5 to 45 years
Furniture and Other Equipment	5 to 7 years
Vehicles	6 years
Software	3 years

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

J. Deferred Outflows/Inflows of Resources

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

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

K. Pensions/Other Postemployment Benefits (OPEB)

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

L. 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 paid time off up to a maximum of fifteen days at 50% for twelve month employees and 25% of unused sick time for teachers approaching retirement eligibility.

M. Net Position

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

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by ECOT or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. ECOT applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

N. 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.

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

O. Assets Held for Resale

At June 30, 2018, land and buildings and improvements owned by ECOT have been reclassified from Capital Assets to Assets Held for Resale on the Statement of Net Position and are no longer being depreciated.

P. 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 2018.

Q. Operating Revenue and Expenses

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

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT OF NET POSITION

For fiscal year 2018, ECOT has implemented GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, GASB Statement No. 81 “Irrevocable Split-Interest Agreements” GASB Statement No. 85, “Omnibus 2017” and GASB Statement No. 86, “Certain Debt Extinguishments”.

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected ECOT’s postemployment benefit plan disclosures and added required supplementary information which is presented after the notes to the basic financial statements.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of ECOT.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of ECOT.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of ECOT.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT OF NET POSITION -(Continued)

A net position restatement is required in order to implement GASB Statement No 75. Net position has been restated as follows:

Net position as previously reported	$(146,580,578)
Deferred outflows - payments subsequent to measurement date	43,740
Net OPEB liability	(27,955,336)
Restated net position at June 30, 2017	$(174,492,174)

Other than employer contributions subsequent to the measurement date, ECOT made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 3 - 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.

At June 30, 2018, the carrying amount of all ECOT deposits was $1,818,067. Based on criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, $1,527,663 of ECOT's bank balance of $1,822,663 was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, ECOT will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the

Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of ECOT.

NOTE 3-DEPOSITS - (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 105% of the deposits being secured.

ECOT did not have any investments at June 30, 2018.

NOTE 4- RECEIVABLES

Receivables at June 30, 2018 consisted of accounts receivable and intergovernmental receivable. All receivables are considered collectible in full.

ECOT payments to IQ Innovations, LLC and Altair Learning Management I, Inc. are based on a percentage of funds received. The IQ Innovations, LLC receivable of $8,581,968 represent 16% and the Altair Learning Management I, Inc.receivable of $2,145,492 represent 4% of the $79,584,900 FY16 and FY17 Ohio Department of Education FTE review adjustment. (See Note 16).

ECOT pays the Educational Service Center of Lake Erie West (ESCLEW) sponsorship fees based on a percentage of foundation payments. The ESCLEW receivable represents 1.5% of the $79,584,900 FY16 and FY17 Ohio Department of Education FTE review adjustment less payments made during fiscal year 2018. In June 2019, the Sponsor entered into a settlement agreement with the State and made repayment of the funds.

NOTE 5- 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. There have been no insurance settlements that exceeded insurance coverage in the last three years. In addition, there have been no significant reductions in insurance coverage from the prior year.

NOTE 5- RISK MANAGEMENT- (Continued)

For the fiscal year ended 2018, ECOT contracted with several insurance carriers including Philadelphia Insurance Company, National Union Fire Insurance Company/AIG, Illinois National Insurance Company/AIG and Indemnity Insurance Company of North America/ACE Group for various policies. ECOT had the following insurance coverage:

Coverage	Limits of Coverage
General liability:	
Each occurrence	$ 1,000,000
General aggregate	2,000,000
Sexual abuse and molestation	1,000,000
Educator's legal liability	1,000,000
Security and privacy liability	2,000,000
Professional liability for employed lawyers	1,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	10,000,000
Aggregate	10,000,000
Crime:	
Employee theft	1,750,000
Computer fraud	2,000,000
Funds transfer theft	2,000,000

B. Workers' Compensation

ECOT pays the Ohio Bureau of Workers' Compensation 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. In addition, ECOT maintains a Workers' Compensation and Employers Liability Policy through The Hartford to cover out of state workers.

NOTE 6- CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance 6/30/17	Additions	Deductions	Balance 6/30/18
Capital assets, not being depreciated:				
Land	$ 1,120,000	$ -	$ (1,120,000)	$ -
Total capital assets, not being depreciated	1,120,000	-	(1,120,000)	-
Capital assets, being depreciated:				
Buildings and improvements	5,682,754	-	(5,682,754)	-
Land improvements	984,284	-	(984,284)	-
Vehicles	51,367	-	(51,367)	-
Other computer equipment	4,409,451	-	(4,409,451)	-
Furniture and equipment	1,535,818	-	(1,535,818)	-
Software	6,481,841	-	(6,481,841)	-
Total capital assets being depreciated	19,145,515	-	(19,145,515)	-
Less: accumulated depreciation				
Buildings and improvements	(774,840)	(323,118)	1,097,958	-
Land improvements	(235,489)	(49,214)	284,703	-
Vehicles	(31,187)	(8,561)	39,748	-
Other computer equipment	(2,256,570)	(760,302)	3,016,872	-
Furniture and equipment	(782,897)	(216,647)	999,544	-
Software	(3,661,848)	(2,819,993)	6,481,841	-
Total accumulated depreciation	(7,742,831)	(4,177,835)	11,920,666	-
Capital assets, net	$ 12,522,684	$(4,177,835)	$ (8,344,849)	$ -

NOTE 7 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

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

NOTE 7- DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and ECOT is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund. ECOT's contractually required contribution to SERS was $865,017 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. ECOT was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

ECOT's contractually required contribution to STRS was $2,689,028 for fiscal year 2018.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. ECOT's proportion of the net pension liability was based on ECOT's share of contributions to the pension plan relative to the projected contributions of all participating entities.

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.38863380%	0.33114038%	
Proportion of the net pension liability current measurement date	0.41759800%	0.32466494%	
Change in proportionate share	0.02896420%	-0.00647544%	
Proportionate share of the net pension liability	$ 24,950,558	$ 77,124,852	$ 102,075,410
Pension expense	$ (2,091,404)	$ (26,046,745)	$ (28,138,149)

At June 30, 2018, ECOT reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 1,073,787	$ 2,978,200	$ 4,051,987
Changes of assumptions	1,290,213	16,868,053	18,158,266
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	1,233,209	-	1,233,209
ECOT contributions subsequent to the measurement date	865,017	2,689,028	3,554,045
Total deferred outflows of resources	$ 4,462,226	$ 22,535,281	$ 26,997,507

$3,554,045 reported as deferred outflows of resources related to pension resulting from ECOT contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Deferred inflows of resources			
Differences between expected and actual experience	$ -	$ 621,596	$ 621,596
Net difference between projected and actual earnings on pension plan investments	118,435	2,545,209	2,663,644
Changes of assumptions			-
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	-	1,551,479	1,551,479
Total deferred inflows of resources	$ 118,435	$ 4,718,284	$ 4,836,719

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ 1,413,407	$ 3,083,294	$ 4,496,701
2020	1,932,222	6,545,656	8,477,878
2021	714,795	4,539,553	5,254,348
2022	(581,650)	959,466	377,816
Total	$ 3,478,774	$ 15,127,969	$ 18,606,743

Actuarial Assumptions - SERS

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

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

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA. For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of ECOT's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate **-** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
ECOT's proportionate share of the net pension liability	$ 34,624,891	$ 24,950,558	$ 16,846,331

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, ,2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

***Sensitivity of ECOT's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* -** The following table presents ECOT's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what ECOT's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
ECOT's proportionate share of the net pension liability	$ 110,555,851	$ 77,124,852	$ 48,964,247

NOTE 8 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting.

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - ECOT contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, ECOT's surcharge obligation was $35,418.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. ECOT's contractually required contribution to SERS was $67,456 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. ECOT's proportion of the net OPEB liability was based on ECOT's share of contributions to the respective retirement systems relative to the contributions of all participating entities.

Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.35945727%	0.33114038%	
Proportion of the net OPEB liability current measurement date	0.38755600%	0.32466494%	
Change in proportionate share	0.02809873%	-0.00647544%	
Proportionate share of the net OPEB liability	$ 10,400,985	$ 12,667,228	$ 23,068,213
OPEB expense	$ 778,266	$ (3,914,827)	$ (3,136,561)

At June 30, 2018, ECOT reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ -	$ 731,231	$ 731,231
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	435,062	-	435,062
ECOT contributions subsequent to the measurement date	67,456	-	67,456
Total deferred outflows of resources	$ 502,518	$ 731,231	$ 1,233,749

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

	SERS	STRS	Total
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	$ 27,466	$ 541,427	$ 568,893
Changes of assumptions	986,999	1,020,387	2,007,386
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	-	296,836	296,836
Total deferred inflows of resources	$ 1,014,465	$ 1,858,650	$ 2,873,115

$67,456 reported as deferred outflows of resources related to OPEB resulting from ECOT contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (206,845)	$ (233,023)	$ (439,868)
2020	(206,845)	(233,023)	(439,868)
2021	(158,848)	(233,023)	(391,871)
2022	(6,865)	(233,022)	(239,887)
2023	-	(97,666)	(97,666)
Thereafter	-	(97,662)	(97,662)
Total	$ (579,403)	$ (1,127,419)	$ (1,706,822)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

NOTE 8- DEFINED BENEFIT OPEB PLANS - (Continued)

In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of ECOT's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
ECOT's proportionate share of the net OPEB liability	$ 12,560,513	$ 10,400,985	$ 8,690,087

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
ECOT's proportionate share of the net OPEB liability	$ 8,439,620	$ 10,400,985	$ 12,996,885

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of ECOT's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
ECOT's proportionate share of the net OPEB liability	$ 17,005,550	$ 12,667,228	$ 9,238,536

	1% Decrease	Current Trend Rate	1% Increase
ECOT's proportionate share of the net OPEB liability	$ 8,800,647	$ 12,667,228	$ 17,756,101

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining paid time off are derived from negotiated agreements and State laws. Classified employees earn fifteen to twenty-five days of paid time off per year, depending upon length of service. Accumulated unused paid time off is paid to classified employees upon termination of employment up to 15 days at 50% of leave balance. Teachers and administrators, who are not on a twelve-month contract, do not earn paid time off. Teachers and counselors earn sick leave at a rate of one day per month. Sick leave may be accumulated up to thirty days for teachers and counselors. Accumulated unused sick leave is paid to teachers upon retirement up to 15 days at 25% of leave balance. ECOT reported a liability of $384,495 for paid time off owed to employees after the closure. This amount was paid in July 2018.

B. Employee Medical, Dental and Vision Benefits

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

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security. As of June 30, 2018, no ECOT employees contributed to Social Security.

NOTE 10 - PURCHASED SERVICES

For fiscal year ended June 30, 2018, purchased services expenses were as follows:

Professional and technical services	$ 9,683,614
Property services	2,413,648
Travel and meetings	142,760
Communications	4,259,301
Utilities	203,974
Contracted trade	12,215
Tuition	52,695
Other	273,639
Total	$ 17,041,846

NOTE 11 - LONG-TERM LIABILITIES

The beginning balances of the long-term obligations were restated for the implementation of GASB 75 as described in Note 2. The changes in ECOT's long-term obligations during the fiscal year consist of the following:

	Restated Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Net pension liability	$ 137,390,193	$ -	$(35,314,782)	$ 102,075,411	$ -
Net OPEB liability	27,955,336	155,123	(5,042,246)	23,068,213	-
Intergovernmental Payable	80,661,635	11,172,495	(17,588,473)	74,245,657	74,245,657
Compensated Absences	522,035	-	(137,540)	384,495	384,495
Notes Payable	4,613,479	-	(4,613,479)	-	-
Total long-term obligations	$ 169,959,008	$ 155,123	$(44,970,507)	$ 125,143,624	$ -

The intergovernmental payable represents ECOT's calculated share of ODE's full-time equivalency (FTE) enrollment review adjustments.

The net pension liability represents ECOT's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position (See Note 7). The net OPEB liability represents ECOT's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position (See Note 8).

Compensated absences, representing ECOT's contractually required vested paid time off which ECOT has entered into, is paid when an employee leaves ECOT's services. The entire balance was paid in July 2018.

ECOT entered into a line of credit in an amount not to exceed $3,000,000 with JP Morgan Chase on June 27, 2014 for the purpose of construction work on the building and property at 3700 South High Street. The line of credit was secured by a $2,265,231 security deposit with PNC Bank. ECOT surrendered the security deposit as settlement of the line of credit

NOTE 12 - NOTES PAYABLE

ECOT entered into numerous notes payable for the purchase of non-capitalized assets including student computers and peripherals. The amounts paid represent more than 90% of the fair market value of the computers and peripherals. All of the capital assets were abandoned as part of the closing procedures and the notes payable because part of the accounts payable liability, as creditors filed claims through court proceedings. Because of the school closure, there is no future obligations related to the notes payable.

NOTE 13 - OPERATING LEASES

ECOT entered into a lease agreement with St. Vincent DePaul for the use of property as office space and extra storage. The term of the lease extension commenced July 1, 2016 and matured June 30, 2017. The lease was extended on July 1, 2017 for an additional period of one year.

ECOT also entered into a lease agreement with Cologix, Inc. for the use of property, equipment, and security of ECOT's server equipment. The term of the lease commenced March 30, 2007 and matured March 30, 2009, thereafter automatically renewed on a month-to-month basis at the then-current rate. This lease was continued after the closure to ensure that the information on the server equipment was available.

ECOT also entered into a lease agreement with Harvest Investors, OSB, LLC for the use of property as office space and extra storage. The term of the leases commenced January 1, 2015 and matures December 31, 2017.

ECOT also entered into several lease agreements with Xerox, ABS, and ComDoc for the use of copiers and office equipment.

Due to the school closure, ECOT was unable to fulfill financial commitments related to the lease agreements.

NOTE 14 - TAX EXEMPT STATUS

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

NOTE 15 - MANAGEMENT COMPANY

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

Per the management agreement with ECOT, Altair is entitled to 4% of all funds received except federal funding. Altair is also entitled to .5% interest on any outstanding balance. The management fee for the fiscal year ended 2018 was $754,088. As of June 30, 2018, 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. ECOT is presently unaware of any such disallowed claims and/or the prospect of the same. Moreover, in the opinion of management, any such disallowed claims would not have a material effect on any of the financial statements or on the overall financial position of ECOT at June 30, 2018.

B. School Funding

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Prior to FY16, the FTE Reviews were conducted by ODE based on documentation supporting dates of enrollment and withdrawal for a selected sample of students. In July 2016, the Ohio Department of Education (ODE) was scheduled to and eventually conducted an "FTE Review" to evaluate ECOT's funding for the 2015-2016 school year. ECOT did not receive definitive communication from ODE until July 5, 2016, in which ODE notified ECOT that it planned on discontinuing prior practice (which was performed in a manner consistent with both a signed Funding Agreement between ODE and ECOT and, ECOT submits, the plain language of Ohio Revised Code § 3314.08(H)(3)) and would instead review and adjust ECOT's FTEs based upon documentation of student login durations along with certification of offline time students spent on educational activities.

Ultimately, ODE issued a "Final Determination" letter, in which it sought to claw back approximately 59-percent of ECOT's funding for 2015-2016. ODE filed an administrative "appeal" from that Determination, and ODE's self-appointed Hearing Officer recommended that the Ohio State Board of Education authorize ODE to claw back $60,350,791 of such funding via prospective funding reductions. The State Board of Education voted to approve the $60,350,791 clawback at its June 2017 meeting, and such clawbacks—amortized over 24 months—began in July 2017.

Subsequently, due to the circumstances surrounding the June 2017 Board meeting and vote, ECOT filed an action against the Board for violating the Ohio Open Meetings Act. Electronic Classroom of Tomorrow v. Ohio State Board of Education, Franklin County, Ohio Common Pleas Court Case No. 17-CVH06-5315 The trial court granted a motion for judgment on the pleadings in favor of the Board, finding that the Board's action was "quasi-judicial," and thus, not subject to the OMA. However, ECOT appealed that decision to the Tenth District Court of Appeals, and the case is now awaiting decision. Electronic Classroom of Tomorrow v. Ohio State Board of Education, Tenth District Court of Appeals Case No. 17AP00510.

Given the inconsistent positions taken by ODE and the Board, ECOT also filed a separate, R.C. Chapter 119 appeal from the Board's June 2017 vote with the Franklin County Common Pleas Court. The trial court dismissed that appeal, finding that no Chapter 119 appeal rights exist even though the Board's action was purportedly "quasi-judicial." Electronic Classroom of Tomorrow v. The Ohio State Board of Education, et al., Franklin County, Ohio Common Pleas Court Case No. 167CV005773. ECOT has appealed that decision to the Tenth District, as well. Electronic Classroom of Tomorrow v. The Ohio State Board of Education, et al., Tenth District Court of Appeals Case No. 17AP000767**.** That appeal remains pending. ECOT separately filed an action for writ of mandamus with the Ohio Supreme Court, however, the Court dismissed that action without explanation.

NOTE 16 - CONTINGENT LIABILITIES - (Continued)

As for the 2016-2017 school year, ODE advised ECOT that it would be subject to an FTE review again in 2017, and that ODE would again be imposing a durational funding standard. However, ODE failed to comply with the notification/meeting provisions included in its own 2017 FTE Handbook. Ultimately, ODE in May 2017 provided ECOT with a tool/spreadsheet for reporting/calculating durational FTEs. In addition, at the urging of the State Auditor, ODE elected to unilaterally begin reducing ECOT's monthly funding, starting in July 2017, based on ODE's estimate of ODE's additional FTE shortfall for 2016-2017, and 2017-2018, even before completing its FTE review in July 2017. ODE unilaterally increased that additional withholding beginning in October 2017.

Moreover, in conjunction with its July 2017 FTE review of ECOT, ODE rejected the results compelled by application of the tool it provided to ECOT in May 2017—100- percent funding. Upon realizing that ECOT would be entitled to full funding, ODE changed its guidance and repeatedly asked ECOT to complete different calculations using different assumptions. Ultimately, in September 2017, ODE issued a "final determination" in which it determined that ECOT was entitled to only 81.5-percent of its claimed FTE funding for 2016-2017, and that it would seek to claw back the same.

ECOT timely filed an appeal from that "determination," and the matter has been set for an "informal hearing" to begin in early December 2017.

C. Litigation

ECOT brought suit in the Franklin County Common Pleas Court against the ODE on July 8, 2016, to prevent ODE from imposing, as part of its review and evaluation of ECOT's state funding for the 2015-2016 school year, a duration requirement. This action was taken in response to an improperly promulgated FTE Handbook that ties such funding to new uncommunicated documentation requirements of the actual time ECOT students spent participating in learning opportunities, in violation of the plain and unambiguous language of various statutes, including R.C. 3314.08. On September 30, 2016, the trial court rejected ECOT's request for a preliminary injunction. The trial court issued a final decision and judgment against ECOT on

December 14, 2016. The court's decision simply reiterated, with the exception of certain preliminary injunction factors, the findings and conclusions that supported its earlier decision denying ECOT's motion for preliminary injunction.

ECOT filed a notice of appeal from that decision on December 15, 2016. On June 29, 2017, the Tenth District Court of Appeals issued a decision affirming the Trial Court's decision, based on the same analysis employed by the Trial Court.

ECOT thereafter filed a jurisdictional appeal of the Tenth District's decision with the Ohio Supreme Court. Although the Supreme Court declined to enjoin ODE's claw back of funds pending the appeal, on September 13, 2017 the Ohio Supreme Court agreed to accept ECOT's appeal on the issue of whether ODE was statutorily authorized, under Ohio Revised Code § 3314.08, to impose a durational requirement or standard as a basis for calculation an e-school's FTE funding. That appeal has now been fully briefed. If ECOT succeeds in this appeal, the funding claw back imposed by ODE for 2015-16, the "Final Determination" for 2016-2017, and the unilateral claw backs implemented at the urging of the Auditor would all be deemed unlawful.

Separately, as described above in the context of funding, ECOT has initiated litigation against the State Board of Education arising from its June 2017 vote to adopt the hearing officer's report and recommendation.

NOTE 17 - RELATED PARTY TRANSACTIONS

ECOT contracts with IQ Innovations, LLC for the purchase of curriculum services for ECOT students. The cost of services for fiscal year ended 2018 was $4,473,153 IQ Innovations, LLC and ECOT's management company, Altair Learning Management I, Inc., have common ownership.

ECOT has a consulting agreement with Third Wave Communications, LLC for consulting, videos, social media and graduation services. The cost of services in all four areas for fiscal year ending June 2018 was $626,414

NOTE 18 – SCHOOL CLOSURE AND SUBSEQUENT EVENTS

On October 30, 2017, the Sponsor requested a remedial plan in accordance with the Sponsorship Agreement to address financial difficulties resulting from the ODE reduction in funding and the repayment schedule. ECOT determined in writing to the Sponsor and the Ohio Supreme Court that reductions in funding and repayment obligations imposed by ODE left ECOT in an "unsustainable financial position." On January 18, 2018, the Governing Board of the Educational Service Center of Lake Erie West voted to Suspend ECOT's operations. ECOT ceased operations on January 19, 2019. In a court filing, the ESC requested and was granted a court appointed receiver to take charge of, manage, operate and wind down operations of ECOT.

Capital assets were disposed of by Court order, including the abandonment of most equipment. The land and building were classified as assets held for resale, and were sold at an auction and transferred ownership in July 2018.

ECOT has followed ODE closing procedures regarding notices, student records and property owned by ECOT. ECOT has a cash balance maintained in escrow by the receiver of $4,617,190 as of February 28, 2020.

ECOT had the following cash receipts and disbursements from July 1, 2018 through February 28, 2020

Subsequent Receipts

Type	Amount
Sale of assets	$ 3,505,668
Miscellaneous refunds	29,033
COBRA	21,444
STRS Refund	61,483
ESC of Lake Erie West	879,099
Total	4,496,727

NOTE 18 – SCHOOL CLOSURE AND SUBSEQUENT EVENTS

Subsequent Disbursements

Description	Amount
TechR2, LLC	$ 1,068,619
Payroll Costs (Paychex)	169,108
Gryhpon USA, LTD.	109,192
Navis Pack and Ship	107,040
SERS	77,816
Insurance (various vendors)	77,532
Strip Hoppers Leithart	
McGrath & Terlecky Co.	66,225
Dinsmore	63,862
Other vendors	340,957
Total	2,080,351

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REQUIRED SUPPLEMENTARY INFORMATION

ELECTRONIC CLASSROOM OF TOMORROW

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ECOT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
ECOT's proportion of the net pension liability	0.41759800%	0.38863380%	0.37648910%	0.36079300%	0.36079300%
ECOT's proportionate share of the net pension liability	$ 24,950,558	$ 30,668,059	$ 24,275,845	$ 16,644,223	$ 18,259,528
ECOT's covered payroll	$ 13,275,657	$ 12,069,521	$ 11,334,286	$ 10,483,929	$ 9,072,936
ECOT's proportionate share of the net pension liability as a percentage of its covered payroll	187.94%	254.10%	214.18%	158.76%	201.25%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the ECOT's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

ELECTRONIC CLASSROOM OF TOMORROW

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ECOT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
ECOT's proportion of the net pension liability	0.32466494%	0.33114038%	0.31672402%	0.31427590%	0.31427590%
ECOT's proportionate share of the net pension liability	$ 77,124,852	$ 106,722,133	$ 82,266,351	$ 66,698,913	$ 76,442,776
ECOT's covered payroll	$ 35,692,929	$ 34,842,332	$ 33,044,845	$ 32,110,312	$ 30,458,636
ECOT's proportionate share of the net pension liability as a percentage of its covered payroll	216.08%	306.30%	248.95%	207.72%	250.97%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the ECOT's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

ELECTRONIC CLASSROOM OF TOMORROW

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ECOT PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 865,017	$ 1,858,592	$ 1,689,733	$ 1,586,800
Contributions in relation to the contractually required contribution	(865,017)	(1,858,592)	(1,689,733)	(1,586,800)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ECOT's covered payroll	$ 6,407,533	$ 13,275,657	$ 12,069,521	$ 11,334,286
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

	2014		2013		2012		2011		2010		2009
$	1,467,750	$	1,270,211	$	1,147,336	$	1,040,773	$	863,292	$	814,748
	(1,467,750)		(1,270,211)		(1,147,336)		(1,040,773)		(863,292)		(814,748)
$	-	$	-	$	-	$	-	$	-	$	-
$	10,483,929	$	9,072,936	$	8,195,257	$	7,434,093	$	6,166,371	$	5,819,629
	14.00%		14.00%		14.00%		14.00%		14.00%		14.00%

ELECTRONIC CLASSROOM OF TOMORROW

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ECOT PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	2018	**2017**	**2016**	**2015**
Contractually required contribution	$ 2,689,028	$ 4,997,010	$ 4,877,926	$ 4,626,278
Contributions in relation to the contractually required contribution	(2,689,028)	(4,997,010)	(4,877,926)	(4,626,278)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ECOT's covered payroll	$ 19,207,343	$ 35,692,929	$ 34,842,332	$ 33,044,845
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014		2013		2012		2011		2010		2009	
$	4,495,444	$	4,264,209	$	3,388,527	$	2,946,367	$	2,608,741	$	2,385,916
	(4,495,444)		(4,264,209)		(3,388,527)		(2,946,367)		(2,608,741)		(2,385,916)
$	-	$	-	$	-	$	-	$	-	$	-
$	32,110,312	$	30,458,636	$	24,203,767	$	21,045,480	$	18,633,862	$	17,042,261
	14.00%		14.00%		14.00%		14.00%		14.00%		14.00%

ELECTRONIC CLASSROOM OF TOMORROW

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ECOT'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	2018	**2017**
ECOT's proportion of the net OPEB liability	0.38755600%	0.35945727%
ECOT's proportionate share of the net OPEB liability	$ 10,400,985	$ 10,245,862
ECOT's covered payroll	$ 13,275,657	$ 13,275,657
ECOT's proportionate share of the net OPEB liability as a percentage of its covered payroll	78.35%	77.18%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the ECOT's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

ELECTRONIC CLASSROOM OF TOMORROW

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ECOT'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	2018	**2017**
ECOT's proportion of the net OPEB liability	0.32466494%	0.33114038%
ECOT's proportionate share of the net OPEB liability	$ 12,667,228	$ 17,709,474
ECOT's covered payroll	$ 35,692,929	$ 35,692,929
ECOT's proportionate share of the net OPEB liability as a percentage of its covered payroll	35.49%	49.62%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the ECOT's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

ELECTRONIC CLASSROOM OF TOMORROW

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ECOT OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 67,456	$ 43,740	$ 34,380	$ 41,046
Contributions in relation to the contractually required contribution	(67,456)	(43,740)	(34,380)	(41,046)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ECOT's covered payroll	$ 6,407,533	$ 13,275,657	$ 12,069,521	$ 11,334,286
Contributions as a percentage of covered payroll	1.05%	0.33%	0.28%	0.36%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014		2013		2012		2011		2010		2009	
$	94,356	$	81,657	$	106,538	$	162,807	$	75,220	$	285,724
	(94,356)		(81,657)		(106,538)		(162,807)		(75,220)		(285,724)
$	-	$	-	$	-	$	-	$	-	$	-
$	10,483,929	$	9,072,936	$	8,195,257	$	7,434,093	$	6,166,371	$	5,819,629
	0.90%		0.90%		1.30%		2.19%		1.22%		4.91%

ELECTRONIC CLASSROOM OF TOMORROW

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ECOT OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ -	$ -	$ -	$ 3,355,550
Contributions in relation to the contractually required contribution	-	-	-	(3,355,550)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ECOT's covered payroll	$ 19,207,343	$ 35,692,929	$ 34,842,332	$ 33,044,845
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	1.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014	2013	2012	2011	2010	2009
$ 328,013	$ 305,547	$ 238,461	$ 201,466	$ 180,613	$ 170,423
(328,013)	(305,547)	(238,461)	(201,466)	(180,613)	(170,423)
$ -	$ -	$ -	$ -	$ -	$ -
$ 32,110,312	$ 30,458,636	$ 24,203,767	$ 21,045,480	$ 18,633,862	$ 17,042,261
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changed in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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ELECTRONIC CLASSROOM OF TOMORROW
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Title I Grants to Local Educational Agencies	84.010	2017	$ 1,237,912
Title I Grants to Local Educational Agencie	84.010	2018	2,841,868
Total Title I Grants to Local Educational Agencies			4,079,780
Special Education Cluster (IDEA):			
Special Education_Grants to State	84.027	2017	667,878
Special Education_Grants to State	84.027	2018	1,527,900
Total Special Education _Grants to States (IDEA, Part B			2,195,778
Total Special Education Cluster (IDEA			2,195,778
School Improvement Gran	84.377A	2017	96,568
Total School Improvement Grant			96,568
Improving Teacher Quality State Grant	84.367	2017	87
Improving Teacher Quality State Grant	84.367	2018	254,920
Total Improving Teacher Quality State Grants			255,007
Student Support and Academic Enrichment Prograr	84.424	2018	42,293
Total Supporting Effective Instruction State Grant			42,293
English Language Acquisition Grant	84.365	2017	11,569
English Language Acquisition Grant	84.365	2018	8,034
Total English Language Acquisition Grants - Title III			19,603
Total U.S. Department of Education			6,689,029
Total Federal Financial Assistance			$ 6,689,029

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

(A) This schedule includes the federal award activity of the Electronic Classroom of Tomorrow under programs of the federal government for t fiscal year ended June 30, 2018 and is prepared in accordance with the cash basis of accounting. The information on this schedule prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requiremer Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion the operations of the Electronic Classroom of Tomorrow, it is not intended to and does not present the financial position, changes in position or cash flows of the Electronic Classroom of Tomorrow

(B) CFR Section 200.414 of the Uniform Guidance allows a non-federal entity that has never received negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indire costs. The Electronic Classroom of Tomorrow has not elected to use the 10% de minimis indirect cost rat

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OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street
Columbus, Ohio 43215
ContactUs@ohioauditor.gov
(800) 282-0370

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

Electronic Classroom of Tomorrow
Franklin County
Educational Service Center of Lake Erie West, Sponsor
2275 Collingwood Boulevard
Toledo, Ohio 43620

To the Electronic Classroom of Tomorrow:

We were engaged to audit in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Electronic Classroom of Tomorrow, Franklin County, (ECOT) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2022, wherein we noted ECOT adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and ECOT's contract with its Sponsor was terminated on June 30, 2018. In addition, we did not opine on these financial statements because management did not provide the Auditor of State with certain representations as required by Auditing Standard AU-C Section 580, *Written Representations* and material cash and cash equivalents, intergovernmental payable, accounts receivable and intergovernmental receivable were not reported on the June 30, 2018 Statement of Net Position.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider material weaknesses. We consider findings 2018-001 through 2018-005 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether ECOT's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the financial statement. However, opining on compliance with those provisions was not an objective of our engagement and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2018-002 through 2018-006.

Purpose of this Report

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

Keith Faber
Auditor of State
Columbus, Ohio

April 28, 2022

OHIO AUDITOR OF STATE
KEITH FABER

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

Electronic Classroom of Tomorrow
Franklin County
Educational Service Center of Lake Erie West, Sponsor
2275 Collingwood Boulevard
Toledo, Ohio 43620

To the Electronic Classroom of Tomorrow:

Report on Compliance for the Major Federal Program

We were engaged to audit the Electronic Classroom of Tomorrow's (ECOT) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect ECOT's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs identifies ECOT's major federal program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on ECOT's compliance for ECOT's major federal program based on our engagement of the applicable compliance requirements referred to above. Our compliance engagement followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because of the matter described in the *Basis for Disclaimer of Opinion on Title I Grants to Local Educational Agencies* paragraph, we were unable to obtain sufficient appropriate evidence to opine on ECOT's major Federal program listed in the following section.

Basis for Disclaimer of Opinion on Title I Grants to Local Educational Agencies

Management has not provided the Auditor of State certain written representations required by Auditing Standard Section AU-C Section 580, Written Representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with ECOT's financial reporting framework, the availability of original financial records and related data, the completeness and availability of all minutes of the governing body and committee meetings; management's responsibility of ECOT's compliance with laws and regulations; the identification and disclosure of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of fraud involving management or employees with significant roles in internal control; compliance with laws, regulations, and provisions of contracts and grant agreements, including budget laws, compliance with any debt covenants, the identification of all Federal assistance programs, and compliance with Federal grant requirements.

In addition, as described in Finding 2018-007 through Finding 2018-009 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient appropriate documentation supporting ECOT's compliance with the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2018-007	84.010	Title I Grants to Local Educational Agencies	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Eligibility Equipment & Real Property Management Level of Effort Period of Performance Procurement, Suspension and Debarment Reporting Special Tests and Provisions
2018-008	84.010	Title I Grants to Local Educational Agencies	Activities Allowed or Unallowed Allowable Costs/Cost Principles Period of Performance Procurement, Suspension and Debarment
2018-009	84.010	Title I Grants to Local Educational Agencies	Level of Effort

Consequently we were unable to determine whether ECOT complied with those requirements applicable to that program.

Disclaimer of Opinion on Title I Grants to Local Educational Agencies

Because of the significance of the matters described in the *Basis for Disclaimer of Opinion on Title I Grants to Local Educational Agencies* paragraph, the scope of our work was insufficient to enable us to express, and we do not express, an opinion on ECOT's compliance with the compliance requirements applicable to *Title I Grants to Local Educational Agencies* for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses, described in the accompanying schedule of findings and questioned costs as items 2018-007 through 2018-009.

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

Keith Faber
Auditor of State
Columbus, Ohio

April 28, 2022

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR § 200.515
JUNE 30, 2018

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2018-001

Material Weakness

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

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

FINDING NUMBER 2018-001 (Continued)

Material Weakness (Continued)

The following audit adjustments had a significant impact on ECOT's financial position and were not reported within the June 30, 2018 financial statements and note disclosures.

- Cash and cash equivalents was understated by $457,730 and purchase services expenses were understated by the same amount due to incorrectly reporting the cash and cash equivalents balance as of May 31, 2018 rather than the balance as of June 30, 2018.
- On January 24, 2018, the Franklin County Court of Common Pleas appointed an Interim Master and an Assistant Interim Master to oversee and supervise the assets and closing procedures of ECOT. The Interim Master established and maintained a bank account for the purpose of closing out the financial transactions of ECOT. As of June 30, 2018, the bank balance of the trust bank account utilized to close out ECOT of $346,146 was not reported as part of the cash and cash equivalents on the Statement of Net Position.
- The June 30, 2018 Intergovernmental Payable, Accounts Receivable, and Intergovernmental Receivable were understated by $49,047,131, $5,591,440, and $463,037 respectively. ECOT did not properly report all amounts owed by ECOT to the Ohio Department of Education related to full time equivalency determinations for foundation revenues collected and related amounts owed to ECOT from vendors that received a percentage of foundation revenues as a result of contracts in place. (Refer to Findings Number 2018-002 and 2018-003.)
- The adjustments listed above have a significant impact on the note disclosures to the financial statements. The note disclosures related to receivables, deposits, and contingent liabilities did not reflect these audit adjustments. In addition, the contingent liabilities and subsequent events note disclosures did not accurately reflect the legal and financial transactions that occurred from July 1, 2018 through the date of this report. The subsequent events note disclosure did not include a detailed description of the status of the ODE close out procedures as of the date of the audit report.

The following adjustments and reclassifications were not made; however, did not significantly impact ECOT's financial position reported on the June 30, 2018 financial statements.

- The June 30, 2018 amounts reported for Deferred Outflows of Resources: Pension (understated by $3,678,487), Net Pension Liability (understated by $532,158), Fringe Benefits Expenses (overstated by $3,107,678), and Deferred Inflows of Resources: Pension (understated by $38,651) were not properly calculated in accordance with GASB 68—Accounting and Financial Reporting for Pensions (as codified in GASB Cod. P50).
- ECOT reported $697,055 in Casino Revenue as part of State Foundation operating receipts rather than as non-operating receipts.

ECOT did not provide written representations required by Auditing Standard Section AU-C Section 580 and did not take responsibility to ensure that the audit adjustments were made to the June 30, 2018 financial statements and the note disclosures. Therefore, the financial statements and note disclosures included in this report have not been adjusted for the above items and a disclaimer of opinion has been issued.

ECOT should have ensured the financial statements presented as of the date of closure of June 30, 2018 accurately represented ECOT's financial position as of that date and included complete note disclosures that provided pertinent additional information to support the financial statements presented and the financial transactions that occurred after the closure date of June 30, 2018.

Officials' Response
We did not receive a response from Officials to this finding.

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

FINDING NUMBER 2018-002

Finding for Recovery-Noncompliance / Material Weakness

Ohio Rev. Code § 3314.08 provides the provisions upon which community schools are funded on a full-time equivalent basis.

Ohio Rev. Code § 3314.08(H) requires, in relevant part, the Ohio Department of Education (ODE) to adjust the amounts subtracted and paid under division (C) of that section to reflect the enrollment in community schools of students for less than the equivalent of a full school year.

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

Ohio Rev. Code § 3314.08(I) provides the department of education shall reduce the amounts paid under this section to reflect payments made to colleges under section 3365.07 of the Revised Code.

Further, **Ohio Rev. Code Chapter 3365** outlines the College Credit Plus Program. **Ohio Rev. Code § 3365.07** states the Department of Education shall calculate and pay state funds to colleges for participants in the College Credit Plus Program. **Ohio Rev. Code § 3365.07(F)(1)** provides payments made for public secondary school participants under this section shall be deducted from the school foundation payments made to the participant's school district or, if the participant is enrolled in a community school, a STEM school, or a college-preparatory boarding school, from the payments made to that school under section 3314.08, 3326.33, or 3328.34 of the Revised Code.

Ohio Rev. Code § 3314.08(K)(1) provides, in part, if the department determines that a review of a community school's enrollment is necessary, such review shall be completed and written notice of findings shall be provided to the governing authority of the community school and its sponsor within ninety days of the end of the community school's fiscal year, unless extended for a period not to exceed thirty additional days due to a reason identified in the statute.

Ohio Rev. Code § 3314.08(K)(2) provides, in part, if the review results in a finding that the community school owes moneys to the state, the following procedure shall apply:

(a) Within ten business days of the receipt of the notice of findings, the community school may appeal the department's determination to the state board of education or its designee.
(b) The board or its designee shall conduct an informal hearing on the matter within thirty days of receipt of such an appeal and shall issue a decision within fifteen days of the conclusion of the hearing.
(c) If the board has enlisted a designee to conduct the hearing, the designee shall certify its decision to the board. The board may accept the decision of the designee or may reject the decision of the designee and issue its own decision on the matter.
(d) Any decision made by the board under this division is final.

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

FINDING NUMBER 2018-002 (Continued)

Finding for Recovery-Noncompliance / Material Weakness

ODE continued to adjust the FTE used for the funding formula as the school updates its information throughout the year. ECOT received an FTE review from ODE for fiscal years 2016, 2017, and 2018, in which ODE noted the percent of time based on the reported documented learning opportunities did not match what was reported in EMIS. Additionally, at the close of the school's fiscal year end, ODE reconciled the Final FTE Foundation payments and determined ECOT had a corresponding payable due to ODE based upon the accumulation of student FTEs throughout the year.

ECOT was approved by the Sponsor to commence operations on July 1, 2000 and remained in operation until January 19, 2018; at which time, ECOT was placed in suspension by their Sponsor, the Educational Service Center of Lake Erie West, and was subsequently moved to closed status on June 30, 2018. Based on its review of ECOT's data, ODE determined ECOT was not entitled to a portion of the funding it had received in fiscal years 2016 and 2017 as well as none of the funding received in fiscal year 2018. In a letter dated January 15, 2019, on behalf of ODE, the Ohio Attorney General's Office summarized the total amount due for collection related to the statutorily required full-time equivalency determinations for fiscal years 2016, 2017, and 2018 of $106,389,580, Ohio Attorney General statutory collection costs of $10,658,473, and amounts owed from the College Credit Plus Program of $195,148, for a total owed back to the state of $117,243,201. However, as of the date of this report, no portion of such funds had been remitted to ODE or the Ohio Attorney General.

Intergovernmental payables related to the fiscal year 2016 and 2017 amounts owed of $68,196,070 was reported on the June 30, 2018 financial statements and Finding Number 2018-001 reflects an audit adjustment of $49,047,131 to increase intergovernmental payable to properly report the fiscal year 2018 amount owed.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for public monies illegally expended is hereby issued against the Electronic Classroom of Tomorrow in the amount of $106,584,728 in favor of the Ohio Department of Education and $10,658,473 in favor of the Ohio Attorney General.

Officials' Response
We did not receive a response from Officials to this finding.

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

FINDING NUMBER 2018-003

Finding for Recovery Partially Repaid Under Audit-Noncompliance / Material Weakness

Ohio Rev. Code § 3314.08(H) requires, in relevant part, the Ohio Department of Education (ODE) to adjust the amounts subtracted and paid under division (C) of that section to reflect the enrollment in community schools of students for less than the equivalent of a full school year.

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

Article IX, section 9.7 of the Amended Contract Electronic Classroom of Tomorrow (ECOT) entered into with the Education Service Center of Lake Erie West (ESCLEW, formally Lucas County Educational Service Center, LCESC) states in part, that: For and in consideration of one and one-half percent (1.5%) of all state per-pupil foundation funds received by the School from the State of Ohio, the Sponsor shall provide the oversight required by law.

Section 4.1 of ECOTs License Agreement with IQ Innovations, LLC Learning Management I, Inc (IQ Innovations) states in part, that: ECOT shall pay IQ Innovations, LLC an annual license fee based on each school year, the fee being equal to 16% of all funds received by ECOT, subject to limitations. The fee shall be paid to IQ Innovations, LLC as and when governmental school aid, grants, or other funding payments are received, and within thirty (30) days from ECOT's receipts. Notwithstanding anything contained in this section to the contrary, IQ Innovations, LLC's fee shall not be based on: (1) Expense Reimbursement including E-rate Reimbursements; (2) Sale of Assets; (3) Employee Payroll Deductions or Payments for Benefits; (4) Fundraising Sales and Activities (i.e., School store, bake sale, etc.); (5) Payment of miscellaneous fees (excluding instructional related revenue including tuition) by or on the behalf of students (i.e. Prom); or (6) any other governmental school aid or grants where such payment is or would be prohibited by law including Federal Title Funds or by the specific terms of the aid or grant. IQ Innovations, LLC's fee shall be reduced by audit by the amount necessary to ensure that the total fees paid to IQ Innovations, LLC by ECOT under this license or any other agreement with IQ Innovations in any ECOT fiscal year does not exceed 16% of all funds received by ECOT during that fiscal year.

Article V, section A of the Management Agreement between ECOT and Altair Learning Management I, Inc. (Altair) states in part, that: ECOT shall pay Altair an annual amount based on each school year equal to 4% of all funds received by ECOT. The fee shall be paid to Altair as and when governmental school aid, grants, or other funding payments are received, and within thirty (30) days from ECOT's receipts. Altair's fee shall not be based on any governmental school aid or grants where the payment of the fee based on such governmental aid or grants is prohibited by law or by the terms of the aid or grant Notwithstanding anything contained herein to the contrary, Altair's fee shall not be based on: (1) Expense Reimbursement including E-rate Reimbursements; (2) Sale of Assets; (3) Employee Payroll Deductions or Payments for Benefits; (4) Fundraising Sales and Activities (i.e., School store, bake sale, etc.); (5) Payment of miscellaneous fees (excluding instructional related revenue including tuition) by or on the behalf of students (i.e. Prom); or (6) any other governmental school aid or grants where such payment is or would be prohibited

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

FINDING NUMBER 2018-003 (continued)

Finding for Recovery Partially Repaid Under Audit-Noncompliance / Material Weakness (continued)

by law including Federal Title Funds or by the specific terms of the aid or grant. Altair's fee shall be reduced by audit by the amount necessary to ensure that the total fees paid to Altair by ECOT under this or any other agreement in any ECOT fiscal year does not exceed 4% of all funds received by ECOT during that fiscal year.

For fiscal years 2016, 2017, and 2018; the result of the FTE reviews performed by ODE (and other enrollment adjustments made by ODE) resulted in foundation reductions in the amount of $106,584,728 (Refer to Finding Number 2018-002).

As a result of the fiscal years 2016, 2017, and 2018 foundation reductions, actual payments made by ECOT, and the terms of the agreements ECOT had with ESCLEW, IQ Innovations, and Altair, ECOT overpaid the three entities as follows:

- ESCLEW was overpaid in total in the amount of $1,146,463.70.
- IQ Innovations was overpaid in total in the amount of $15,917,676.81.
- Altair was overpaid in total in the amount of $3,979,419.20.

Prior to closure of ECOT, a portion of these overpayments were collected through a reduction of payments made to these parties during fiscal year 2018, leaving the following amounts outstanding and due to ECOT at June 30, 2018:

- ESCLEW outstanding amount due to ECOT as of June 30, 2018 is $878,099.
- IQ Innovations outstanding amount due to ECOT as of June 30, 2018 is $13,055,120.
- Altair outstanding amount due to ECOT as of June 30, 2018 is $3,263,780.

Intergovernmental receivables of $415,062 and accounts receivable of $10,727,460 were reported on the June 30, 2018 financial statements and Finding Number 2018-001 reflects audit adjustments of $463,037 to increase intergovernmental receivable and $5,591,440 to increase accounts receivable to properly report the fiscal year 2018 amounts owed to ECOT.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies due but not collected is hereby issued against the following:

- Education Service Center of Lake Erie West in the amount of $878,099.
- IQ Innovations, LLC in the amount of $13,055,120.
- Altair Learning Management I, Inc. in the amount of $3,263,780.

These Findings are issued in favor of the Electronic Classroom of Tomorrow.

ECOT assets are currently under the oversight and supervision of the Franklin County Common Pleas Court, Case Number 18CV-000324. In that case matter, the Interim Master has been authorized to assign any and all claims ECOT and/or the Interim Master has against Altair Learning Management I, Inc., IQ Innovations, Inc. and The Educational Service Center of Lake Erie West to the State of Ohio (through the Ohio Attorney General's Office). Of note, this authorization did not include certain claims enumerated in a June 25, 2018 court order. On June 12, 2019, the Ohio Attorney General's Office entered into a settlement agreement with ESCLEW in the amount of $878,099 to resolve assigned claim(s) against ESCLEW. ESCLEW submitted payment to the Assistant Interim Master and it was deposited in the bank account utilized to account for ECOT close out transactions on June 25, 2019. As such, ESCLEW has repaid its

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

FINDING NUMBER 2018-003 (continued)

Finding for Recovery Partially Repaid Under Audit-Noncompliance / Material Weakness (continued)

above finding amount in full. ECOT has not received any repayments from IQ Innovations, LLC or Altair Learning Management I, Inc. as of the date of this report.

Officials' Response
The Interim Master assigned to the State of Ohio all of its rights to pursue claims against Altair Learning Management, LLC and IQ Innovations, LLC on behalf of ECOT in order to preserve assets.

FINDING NUMBER 2018-004

Noncompliance/Material Weakness

Maintaining organized documentation and support for financial transactions is essential in assuring the ECOT financial statements are not materially misstated and that all expenditures are made for a proper public purpose. Additionally, **Ohio Rev. Code § 149.351** requires all records that are the property of the public office shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Ohio Rev. Code §§ 149.38 through 149.42.

Upon suspension on January 19, 2018 and closure as of June 30, 2018, the financial records of ECOT were maintained by the Treasurer and Superintendent through December 2018. However, some records needed to complete testing of transactions between July 1, 2017 and June 30, 2018 were not made available when requested. ECOT did not maintain underlying documentation and support for the following financial transactions tested.

- ECOT did not maintain check image/EFT confirmation support for 16 out of 18 transactions selected for review. As a result, we were unable to confirm that checks were signed by authorized signatories or that EFT's were properly authorized.
- ECOT did not properly maintain an invoice or supporting documentation from two vendors. The total unsupported amount was $61,534.96. As a result, we were unable to confirm the expenditures were accurate, properly posted to the appropriate account codes or for a proper public purpose. Alternative procedures were completed to ensure vendors paid had traditionally provided educational services that supported ECOT's operations.
- ECOT did not properly maintain support of the approval of reimbursement requests or of supporting documentation for the expenditures to be reimbursed. No support was provided for the five reimbursement transactions tested. The total unsupported reimbursements amount is $564.51. We were unable to confirm proper authorization, whether reimbursements were compliant with ECOT's policies, or for a proper public purpose. Alternative procedures were completed to ensure the types of expenses being reimbursed were related to operational activities of ECOT.
- ECOT was unable to provide EFT documentation or third party confirmation to adequately confirm the remittance of Federal and State Tax withholdings as well as the remittance of State Teacher Retirement System withholdings for the month of December 2017, as requested for review.
- ECOT was unable to provide documentation of Board approved salaries, payroll reconciliation spreadsheets, and confirmation of Board approval for 18 out of 60 payroll disbursements tested that were disbursed from Title I federal monies. Refer to Finding Number 2018-008.

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

FINDING NUMBER 2018-004 (continued)

Noncompliance/Material Weakness (continued)

Failure to maintain organized underlying documentation and support of financial transactions can increase the risk of fraud, inaccurate financial statements, and expenditures that are not for a proper public purpose.

ECOT should have maintained all invoices, check image/EFT support, and other documents for all financial transactions and records should have been maintained in an orderly manner to support all transactions.

Officials' Response
We did not receive a response from Officials to this finding.

FINDING NUMBER 2018-005

Noncompliance/Material Weakness

Ohio Rev. Code § 3314.07(B)(1) provides a sponsor may choose not to renew a contract at its expiration or may choose to terminate a contract prior to its expiration for failure to meet student performance requirements stated in the contract; failure to meet generally accepted standards of fiscal management; violation of any provision of the contract or applicable state or federal law; or other good cause.

Ohio Rev. Code § 3314.023 provides, in part, if a community school closes or is permanently closed, the designated fiscal officer shall deliver all financial and enrollment records to the school's sponsor within thirty days of the school's closure. If the fiscal officer fails to provide the records in a timely manner, or fails to faithfully perform any of the fiscal officer's other duties, the sponsor has the right of action against the fiscal officer to compel delivery of all financial and enrollment records of the school and shall, if necessary, seek recovery of any funds owed as a result of any finding of recovery by the auditor of state against the fiscal officer.

Ohio Department of Education Community School: School Suspension and/or School Closing Procedures states in part: that sponsors must submit a Suspension and Closing Assurance Template for each closed community school. The updated Suspension and Closing Assurance Template shall be submitted to the Office of Community Schools quarterly, noting which activities are complete and which are not yet complete until the process is finished and closing assurances are submitted. The quarterly submissions shall include a narrative explaining any delays and the sponsor's target date for submitting the final closing assurances.

On January 24, 2018, the Franklin County Court of Common Pleas appointed an Interim Master and Assistant Interim Master for the Electronic Classroom of Tomorrow to oversee, control, and supervise all of the tangible and intangible assets of ECOT, real and personal, of whatever kind and description and performance of Closing Procedures, including ECOT's employees' efforts in complying with record-related requirements imposed upon a suspended community school. The agreed order outlined the Interim Master's powers and duties, which included in part, that the Interim Master would take immediate control, management, and charge of ECOT's accounting books and records of whatever nature and wherever located, including all information regarding the assets, liabilities, equity, income, and expenses of ECOT.

As outlined in Finding Number 2018-005, there were financial records of ECOT that were requested during the course of the final audit that were not able to be provided by ECOT. In addition, the Ohio Department

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

FINDING NUMBER 2018-005 (Continued)

Noncompliance/Material Weakness (Continued)

of Education Community School: School Suspension and/or School Closing Procedures, were tested to ensure procedures were adequately completed and the following was noted:

- ECOT was unable to provide accounting system ledgers subsequent to June 30, 2018. As such, we were unable to determine completeness of payables reported on the Statement of Net Position as of June 30, 2018. In addition, there is not an accounting trail supporting how ECOT's net position at June 30, 2018 was adequately liquidated and/or transferred over to the Interim Master/Assistant Interim Master to allow for oversight in accordance with the court order.
- ECOT was not able to provide documentation the bank accounts held and reported as cash and cash equivalents as of June 30, 2018 were appropriately closed and transferred over to the bank account maintained by the Interim Master/Assistant Interim Master to account for all closure related financial transactions. Additional evidence of closure of the bank accounts had to be obtained by the Auditor of State's Office through alternative procedures.

Based on the items noted above and known audit adjustments not being made to the financial statements and note disclosures (see Finding number 2018-001), the subsequent event note disclosure does not present complete and accurate information on the financial transactions and actions taken to close out ECOT.

Each quarter the Sponsor files a quarterly update regarding the Community Schools Suspension and/or School Closing Procedures with the Ohio Department of Education. In order to ensure these updates accurately reflect the steps that have been taken, documentation supporting these procedures should be maintained.

Officials' Response
The Interim Master was able to oversee all transactions for the PNC bank account, but was not a signer on the account and, as such, was not provided bank statements to reconcile transactions. PNC would not authorize either the Interim Master or the Assistant Interim Master as having signature authority without them becoming officers of ECOT. Clearly that request was not realistic. The Interim Master has issued a subpoena to PNC Bank to request the statements for 2018 through the present time. As for liquidation of assets and an accounting trail for such liquidation, the Interim Master has filed detailed accounting reports with the Franklin County Court of Common Pleas detailing each liquidation. The final liquidation of assets was completed in June, 2022. Detailed accounting records for this liquidation and the others are available upon request.

The Interim Master, Assistant Interim Master, and their staff have no record of requests for this information from Julian & Grube (Contracted accounting firm that compiled ECOT's financial statements).

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

FINDING NUMBER 2018-006

Noncompliance

Ohio Rev. Code § 117.38 provides that public offices reporting pursuant to generally accepted accounting principles must file annual reports with the Auditor of State within 150 days after the close of fiscal year end.

ECOT did not file its June 30, 2018, annual financial report with the Auditor of State until May 4, 2020, which was after the required filing date of November 27, 2018.

Officials' Response
We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Reporting- Schedule of Expenditures of Federal Awards

Finding Number:	**2018-007**
CFDA Number and Title:	**CFDA # 84.010 Title I Grants to Local Educational Agencies**
Federal Award Identification Number / Year:	**2017/2018**
Federal Agency:	**U.S. Department of Education**
Compliance Requirement:	**Activities Allowed or Unallowed Allowed Costs/Cost Principles Cash Management Eligibility Equipment & Real Property Management Level of Effort Period of Performance Procurement, Suspension, and Debarment Reporting Special Tests and Provisions**
Pass-Through Entity:	**Ohio Department of Education**
Repeat Finding from Prior Audit?	**No**

Noncompliance/Material Weakness

2 C.F.R. Subpart F § 200.510(b) requires the auditee prepare a Schedule of Expenditures of Federal Awards (the Schedule) for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with § 200.502.

At a minimum, the schedule must:

(1) List individual Federal programs by Federal agency.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Reporting- Schedule of Federal Expenditure Awards (Continued)

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
(4) Include the total amount provided to subrecipients from each Federal program.
(5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period.
(6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee has elected to use the 10 percent de minimis cost rate as covered in § 200.414 Indirect (F&A) costs.

The Title I Grants to Local Educational Agencies expenditures reported on the Schedule of Expenditures of Federal Awards was overstated by $529,970. Other non-major federal program expenditures were also overstated by amounts ranging from $3,499 to $269,844.

These errors resulted from reporting return of advances as federal expenditures; reporting expenditures made from the federal grant funds that were not reimbursed by federal revenues; and excluding from total federal expenditures those expenditures which occurred in June of 2018.

Errors and omissions on the Schedule of Expenditures of Federal Awards could have an adverse effect on future grant awards by the awarding agencies and inaccurate assessment of major federal programs. The adjustments identified above should have been made to the Schedule. However, management did not provide representations taking responsibility for the prepared June 30, 2018 Schedule of Expenditures of Federal Awards and the audit adjustments were not made. A disclaimer of opinion on Title I Grants to Local Educational Agencies and a disclaimer of opinion on the financial statements has been issued.

ECOT management should have implemented a system to review the Schedule for errors and omissions.

Officials' Response
We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Title I Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance, Procurement, Suspension and Debarment

Finding Number:	**2018-008**
CFDA Number and Title:	**CFDA # 84.010 Title I Grants to Local Educational Agencies**
Federal Award Identification Number / Year:	**2017/2018**
Federal Agency:	**U.S. Department of Education**
Compliance Requirement:	**Activities Allowed or Unallowed Allowable Costs/Cost Principles Period of Performance Procurement, Suspension and Debarment**
Pass-Through Entity:	**Ohio Department of Education**
Repeat Finding from Prior Audit?	**No**

Noncompliance/Questioned Costs/Material Weakness

2 C.F.R. § 3474.1 gives regulatory effect to the Department of Education for **2 CFR part 200**.

2 C.F.R. § 200.403 provides costs must meet the following general criteria in order to be allowable under Federal awards:

- Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federally - financed program in either the current or a prior period.
- Be adequately documented.

2 C.F.R. § 200.405(a) provides a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost: (1) Is incurred specifically for the Federal award; (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Title I Activities Allowed or Unallowed, Allowable Costs, /Cost Principles, Period of Performance, Procurement (Continued)

2 C.F.R. § 200.430 provides, in part, costs of compensation are allowable to the extent they satisfy the specific requirements of this Part, and the total compensation for individual employees is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities. In addition, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.

These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; be incorporated into the official records of the non-Federal entity; and reasonably reflect the total activity for which the employee is compensated by the non-Federal entity.

2 C.F.R. § 200.319(a) provides all procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of this section and § 200.320. **2 C.F.R. § 200.320 (a)** through **(f)** outlines the requirements for purchases that are procured by micro-purchases, small purchase procedures, sealed bids, by competitive proposals, and by noncompetitive proposals.

2 C.F.R. § 200.77 provides *Period of Performance* means the time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award. The Federal awarding agency or pass-through entity must include start and end dates of the period of performance in the Federal award.

We noted the following issues in regards to the organization of financial records as well as the underlying documentation and support of certain Title I transactions:

- ECOT was unable to provide documentation of Board approved salaries, payroll reconciliation spreadsheets, and confirmation of Board approval for Title I funding for 18 out of 60 Federal payroll transactions selected for review.
- ECOT did not properly maintain an invoice or supporting documentation from the vendor for an $11,000 expenditure to Flocabulary, LLC.

As a result, we were unable to confirm the expenditures were accurate, properly posted to the appropriate account codes and allowable per the Title I Federal Program which resulted in actual and projected expenditures of $31,331 and $1,677,792, respectively, to be considered a questioned cost. In addition, we were unable to confirm the expenditure was incurred within the period of performance or that the $11,000 expenditure noted above was properly procured. A disclaimer of opinion on Title I Grants to Local Educational Agencies has been issued.

Failure to maintain organized underlying documentation and support of financial transactions can increase the risk of fraud, inaccurate financial statements, and expenditures that are not allowable under Federal awards.

Officials' Response
We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Title I Level of Effort

Finding Number:	**2018-009**
CFDA Number and Title:	**CFDA # 84.010 Title I Grants to Local Educational Agencies**
Federal Award Identification Number / Year:	**2017/2018**
Federal Agency:	**U.S. Department of Education**
Compliance Requirement:	**Level of Effort**
Pass-Through Entity:	**Ohio Department of Education**
Repeat Finding from Prior Audit?	**No**

Noncompliance/Questioned Costs/Material Weakness

34 C.F.R. § 299.5(a) stipulates that a Local Educational Agency (LEA) receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the State Educational Agency (SEA) finds that either the combined fiscal effort per student or the aggregate expenses of State and local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenses for the second preceding fiscal year. This is commonly referred to as a Maintenance of Effort requirement. Subparts (d)(1) & (2) further provide that, in determining an LEA's compliance with paragraph (a) of this section, the SEA shall consider only the LEA's expenses from State and local funds for free public education. These include expenses for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenses to cover deficits for food services and student body activities. The SEA may not consider the following expenses in determining an LEA's compliance with the requirements in paragraph (a) of this section:

- Any expenses for community services, capital outlay, debt service or supplemental expenses made as a result of a Presidentially-declared disaster; or
- Any expenses made from funds provided by the Federal Government.

The Ohio Department of Education (ODE) requires LEA's to submit EMIS system reports to compute statewide Maintenance of Effort. Allowable maintenance of effort expenditures include state and local funds for free public education (administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities) made in accordance with the Per Pupil Categories. LEA's should exclude expenditures for community services, capital outlay, debt service, expenditures made as a fiscal agent, rotary, or supplemental expenses made as a result of a presidentially declared disaster and any expenditure made from funds provided by the Federal Government. A review over data at the local level is necessary to ensure accuracy of the statewide calculation which is used by ODE to calculate funding for Districts.

ECOT was unable to provide the EMIS Financial Expenditures per Pupil (EPP) Period H data which includes District and Building level financial information for aggregate "general expenditures". As a result, we were unable to confirm system integrity over the EMIS system and compliance with maintenance of effort requirements regarding allowability of included expenditures. As a result, ECOT's Title I expenditures as June 30, 2018, of $3,549,810 would be considered questioned costs. In addition, a disclaimer of opinion on Title I Grants to Local Educational Agencies has been issued.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Title I Level of Effort (continued)

Lack of internal controls over data files maintained in EMIS can result in incomplete or inaccurate reporting to the Ohio Department of Education.

Officials' Response
We did not receive a response from Officials to this finding.

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Electronic Classroom of Tomorrow

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2016-001 2017-001	Full-Time Equivalent (FTE) Reporting—Material Noncompliance/Material Weakness	Not Corrected	ECOT closed as of June 30, 2018. Reissued as 2018-002 and 2018-003.
2017-002	Quality and Reliability of Leaning Opportunities Documentation-Significant Deficiency	Not Corrected	ECOT closed as of June 30, 2018. Related Findings issued as 2018-002 and 2018-003
2017-003	Financial Reporting for Pension Expense-Significant Deficiency	Partially Corrected	Additional audit adjustments were noted on the June 30, 2018 financial statements and Finding 2018-001 was issued.
2017-004	Finding for Recovery-Ohio Rev. Code § 117.01(C)	Not Corrected	No additional information provided by ECOT.

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Electronic Classroom of Tomorrow

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2018

Finding Number: 2018-001
Planned Corrective Action: No corrective action plan was provided. ECOT closed as of June 30, 2018.
Anticipated Completion Date: N/A
Responsible Contact Person: N/A

Finding Number: 2018-002
Planned Corrective Action: No corrective action plan was provided. ECOT closed as of June 30, 2018.
Anticipated Completion Date: N/A
Responsible Contact Person: N/A

Finding Number: 2018-003
Planned Corrective Action: No corrective action plan was provided. ECOT closed as of June 30, 2018.
Anticipated Completion Date: N/A
Responsible Contact Person: N/A

Finding Number: 2018-004
Planned Corrective Action: No corrective action plan was provided. ECOT closed as of June 30, 2018.
Anticipated Completion Date: N/A
Responsible Contact Person: N/A

Finding Number: 2018-005
Planned Corrective Action: No corrective action plan was provided. ECOT closed as of June 30, 2018.
Anticipated Completion Date: N/A
Responsible Contact Person: N/A

Finding Number: 2018-006
Planned Corrective Action: No corrective action plan was provided. ECOT closed as of June 30, 2018.
Anticipated Completion Date: N/A
Responsible Contact Person: N/A

Finding Number: 2018-007
Planned Corrective Action: No corrective action plan was provided. ECOT closed as of June 30, 2018.
Anticipated Completion Date: N/A
Responsible Contact Person: N/A

Finding Number: 2018-008
Planned Corrective Action: No corrective action plan was provided. ECOT closed as of June 30, 2018.
Anticipated Completion Date: N/A
Responsible Contact Person: N/A

Finding Number: 2018-009
Planned Corrective Action: No corrective action plan was provided. ECOT closed as of June 30, 2018.
Anticipated Completion Date: N/A
Responsible Contact Person: N/A

OHIO AUDITOR OF STATE
KEITH FABER

ELECTRONIC CLASSROOM OF TOMORROW

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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

Certified for Release 6/28/2022

88 East Broad Street, Columbus, Ohio 43215
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