

***Northeast Ohio Network for Educational Technology
(NEOnet), SUMMIT COUNTY***

AUDIT REPORT

For the Years Ended June 30, 2005 and 2004

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Board of Trustees
Northeast Ohio Network for Educational Technology
420 Washington Avenue
Cuyahoga Falls, Ohio 44221

We have reviewed the *Report of Independent Accountants* of the Northeast Ohio Network for Educational Technology, Summit County, prepared by Charles E. Harris & Associates, Inc. for the audit period July 1, 2003 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State's Office (AOS). Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the AOS permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northeast Ohio Network for Educational Technology is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 26, 2006

This Page is Intentionally Left Blank.

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY
TABLE OF CONTENTS
For the Years Ended June 30, 2005 and 2004**

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1-2
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - General Fund - For the Years Ended June 30, 2005 and 2004	3
Notes to the Financial Statements	4-8
Report on Internal Control Over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9-10
Status of Prior Year's Citations and Recommendations	11

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

**Board of Trustees
Northeast Ohio Network for Educational Technology
Summit County, Ohio**

We have audited the accompanying financial statements of Northeast Ohio Network for Educational Technology (NEOnet), as of and for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the NEOnet's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, NEOnet prepares these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require NEOnet to reformat its financial statement presentation and make other changes effective for the year ended June 30, 2005. Instead of the combined funds the accompanying financial statements present for 2005 (and 2004), the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2005. While the NEOnet does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. NEOnet has elected not to reformat its statements. Since NEOnet does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above, for the year ended June 30, 2005, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of NEOnet as of June 30, 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of NEOnet, Summit County, as of June 30, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires NEOnet to include Management's Discussion and Analysis for the year ended June 30, 2005 and 2004. NEOnet has not presented Management's Discussion and Analysis, which the accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of its financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2005 on our consideration of NEOnet's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
December 30, 2005

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND CASH
BALANCE - GENERAL FUND
For the years ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash Receipts:		
Intergovernmental	\$ 451,394	\$ 463,979
Charges for Services	1,438,006	1,478,929
Total Cash Receipts	<u>1,889,400</u>	<u>1,942,908</u>
Cash Disbursements:		
Employee Wages and Benefits	829,500	795,105
Purchased Services	560,822	436,462
Supplies and Materials	276,724	331,220
Miscellaneous	21,866	20,223
Capital Outlay	414,817	161,159
Total Cash Disbursements	<u>2,103,729</u>	<u>1,744,169</u>
Total Receipts Over/(Under) Disbursements	(214,329)	198,739
Cash Balance July 1	<u>1,564,509</u>	<u>1,365,770</u>
Cash Balances. June 30	<u>\$ 1,350,180</u>	<u>\$ 1,564,509</u>
Reserve for Encumbrances, June 30	<u>\$ 63,475</u>	<u>\$ 471,757</u>

The notes to the financial statements are an integral part of these statements.

NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Northeast Ohio Network for Educational Technology (NEOnet), Summit County, is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Section 3313.92 of the Ohio Revised Code.

NEOnet is a not-for-profit computer service organization owned and operated by seventeen school districts in the Ohio counties of Summit and Portage. The superintendents of these member districts comprise NEOnet's General Assembly. The primary function of NEOnet is to provide information services to its member school districts with major emphasis being placed on accounting, payroll and inventory control services.

NEOnet is one of twenty-three regional service organizations serving over 600 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as the "Data Acquisition Sites." The OECN is a collective group of Data Acquisitions Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member school districts. Such sites, in conjunction with the Ohio Department of Education, comprise a statewide delivery system to provide comprehensive, cost-efficient accounting, and other administrative and instructional computer services for participating Ohio school districts. Funding for this network, which includes NEOnet, is derived from the State of Ohio and user fees assessed to the respective member districts.

The laws governing OECN require that a board of education serve as fiscal agent for Data Acquisition Sites receiving state funds. Agreements entered into pursuant to Section 3313.92 of the Ohio Revised Code must be approved by the State Superintendent of Public Instruction who has interpreted this revised code section to require a board of education to serve as a fiscal agent for a Data Acquisition Site receiving funds from OECN. For this reason, the Summit County Educational Service Center (SCESC) serves as fiscal agent for NEOnet and performs certain functions to ensure funding from OECN. Essentially, these functions are to apply for and maintain the Data Acquisition Site permit for the central data processing equipment and to hold legal title to the central data processing equipment. NEOnet is located in the Summit County Educational Service Center's building in Cuyahoga Falls, Ohio.

NEOnet's management believes these financial statements present all activities for which NEOnet is financially accountable.

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2005 and 2004**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

In accordance with the Ohio Revised Code and the agreement between NEOnet and SCESC, NEOnet's cash is held and invested by the Treasurer of SCESC, who acts as a custodian for NEOnet's monies. NEOnet's monies are held in SCESC's cash and investment pool and are valued at SCESC's reported carrying amount.

D. Fund Accounting

With the assistance of SCESC, NEOnet maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements in separate funds. NEOnet uses the General Fund to account for its operations.

E. Budgetary Process

NEOnet is not required to follow the budgetary process but has decided to adopt a formal budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control. The Board annually approves appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of July 1.

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2005 and 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Encumbrances

NEOnet reserves (encumbers) appropriations when commitments are made. Encumbrances outstanding at year end are carried over and need not be reappropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by NEOnet.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Treasurer of SCESC is the statutory fiscal officer for NEOnet. SCESC maintains cash and investments in a pool used by all funds.

	<u>2004</u>	<u>2005</u>
Demand deposits and investments on deposits with SCESC	1,564,509	1,350,180

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments: The financial institution maintains records identifying the SCESC as owner of these securities.

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2005 and 2004**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended June 30, 2005 and 2004 follows:

2005 Budgeted vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 2,008,028	\$ 1,889,400	\$ (118,628)

2005 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 2,355,100	\$ 2,167,204	\$ 187,896

2004 Budgeted vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,941,838	\$ 1,942,908	\$ 1,070

2004 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 2,480,793	\$ 2,215,926	\$ 264,867

4. RETIREMENT SYSTEMS

NEOnet's full-time employees belong to the School Employees Retirement System (SERS) of Ohio. SERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including post retirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. NEOnet has paid all contributions required through June 30, 2005.

Contribution rates are also prescribed by the Ohio Revised Code. NEOnet's members are required to contribute 10% of their annual covered salary, and NEOnet is required to contribute 14% of the employees' salaries.

5. RISK MANAGEMENT

A. Commercial Insurance

NEOnet is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2005 and 2004**

5. RISK MANAGEMENT (CONTINUED)

B. Risk Pool Membership

NEOnet is a member of the Stark County Schools Council of Government, which is a shared risk pool for health insurance provided to its member employees.

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of June 30 (the latest information available):

	<u>2004</u>	<u>2003</u>
Cash and investments	\$11,306,366	16,143,143
Actuarial liabilities	\$6,841,000	\$5,089,000

Charles E. Harris & Associates, Inc
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-163
Fax - (216) 436-2411

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Northeast Ohio Network for Educational Technology
Summit County, Ohio

We have audited the financial statements of Northeast Ohio Network for Educational Technology (NEOnet), as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated December 30, 2005, wherein we noted that NEOnet prepared its financial statements using accounting practices the Auditor of State established rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered NEOnet's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NEOnet's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and NEOnet Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
December 30, 2005

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2003 and 2002, did not include material citations or recommendations.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 9, 2006**