

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

AUDIT REPORT

For the Years Ended June 30, 2007 and 2006

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



Mary Taylor, CPA

Auditor of State

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, 2005 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 29, 2008

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**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY
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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Northeast Ohio Network for Educational Technology
Summit County
420 Washington Avenue
Cuyahoga Falls, Ohio 44221

To the Board of Trustees:

We have audited the accompanying financial statements of the Northeast Ohio Network for Educational Technology (NEOnet), as of and for the years ended June 30, 2007 and 2006. 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 years ended June 30, 2007 and 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2007 and 2006. 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 years ended June 30, 2007 and 2006, 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, 2007 and 2006, 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 and reserves for encumbrances of NEOnet, Summit County, as of June 30, 2007 and 2006, 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 years ended June 30, 2007 and 2006. 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 November 30, 2007 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.
November 30, 2007

**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, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Cash Receipts:		
Intergovernmental	\$ 467,269	\$ 661,565
Charges for Services	2,017,992	1,899,911
Total Cash Receipts	2,485,261	2,561,476
Cash Disbursements:		
Employee Wages and Benefits	920,417	839,738
Purchased Services	1,099,104	866,407
Supplies and Materials	421,130	257,693
Miscellaneous	22,693	36,329
Capital Outlay	162,711	206,541
Total Cash Disbursements	2,626,055	2,206,708
Total Receipts Over/(Under) Disbursements	(140,794)	354,768
Cash Balance July 1	1,704,948	1,350,180
Cash Balances. June 30	\$ 1,564,154	\$ 1,704,948
Reserve for Encumbrances, June 30	\$ 116,372	\$ 302,691

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, 2007 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Northeast Ohio Network for Educational Technology (NEOnet), Summit County, is a not-for-profit computer service organization owned and operated by twenty educational entities in the Ohio counties of Cuyahoga, Portage, and Summit. The superintendents of these member districts comprise NEOnet's General Assembly who are responsible for governing the organization. The primary function of NEOnet is to provide information technology services to its member school districts with major emphasis being placed on fiscal, student, and internet services.

NEOnet is one of twenty-three computer service organizations serving more than 890 educational entities and 1.4 million students in the State of Ohio. These service organizations, know as Information Technology Centers (ITCs), and their users make up the Ohio Educational Computer Network (OECN). The OECN is a collective group of ITCs, authorized pursuant to Section 3301.075 of the Ohio Revised Code. Such sites, in conjunction with the Ohio Department of Education, comprise a statewide delivery system to provide comprehensive, cost-efficient software services, and other administrative and instructional computer services for participating Ohio educational entities. Funding for this network, which includes NEOnet, is derived from the State of Ohio and user fees assessed to the respective member districts.

ITCs are organized as either consortia under Ohio 3313.92 or Council of Governments (COG) under Ohio Revised Code 167. Ohio Revised Code 3313.92 allows for school districts to create a partnership (a consortia) to resolve mutual needs. One of the members of the consortia is designated as the fiscal agent. A "COG" under Ohio Revised Code chapter 167 allows for one or more governmental entities to join together to form a new legal entity. A COG can have its own treasurer, make its own purchases, hire, staff, and have debt obligations. NEOnet is a subsidiary of the Metropolitan Regional Service Council (MRSC) which is a council of governments. The governing board of the Summit County Educational Service Center serves as the fiscal agent for NEOnet. They provide all accounting, payroll, and personnel services for the council. 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, 2007 and 2006**

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, 2007 and 2006**

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 2007 and 2006 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>2007</u>	<u>2006</u>
Demand deposits and investments on deposits with SCESC	\$1,564,154	\$1,704,948

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, 2007 and 2006

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended June 30, 2007 and 2006 follows:

2007 Budgeted vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 2,380,131	\$ 2,485,261	\$ 105,130

2007 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 2,844,196	\$ 2,742,427	\$ 101,769

2006 Budgeted vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 2,323,728	\$ 2,561,476	\$ 237,748

2006 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 2,575,156	\$ 2,509,399	\$ 65,757

4. RETIREMENT SYSTEM

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, 2007.

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, 2007 and 2006**

5. RISK MANAGEMENT (CONTINUED)

B. Risk Pool Membership

NEOnet is a member of the Stark County Schools Council of Governments, 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>2006</u>	<u>2005</u>
Cash and investments	\$22,630,345	\$13,544,585
Actuarial liabilities	\$ 9,510,000	\$ 7,554,000

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

**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**

Northeast Ohio Network for Educational Technology
Summit County
420 Washington Avenue
Cuyahoga Falls, Ohio 44221

To the Board of Trustees:

We have audited the financial statements of Northeast Ohio Network for Educational Technology, Summit County (NEOnet) as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated November 30, 2007, wherein we noted NEOnet followed accounting practices prescribed or permitted by the Auditor of State of Ohio. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NEOnet's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NEOnet's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by NEOnet's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, grants 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 for the information and use of management and the 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.
November 30, 2007

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY
For the years ended June 30, 2007 and 2006**

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2005 and 2004, did not report material citations or recommendations.



Mary Taylor, CPA
Auditor of State

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 12, 2008**