



**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2003-2002



**Auditor of State
Betty Montgomery**

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the Northeast Ohio Network for Educational Technology (NEOnet), Summit County, as of and for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of 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 discussed in Note 1, NEOnet prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balance and reserve for encumbrances of NEOnet as of June 30, 2003 and 2002 and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2003, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

October 10, 2003

**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, 2003 AND 2002**

	2003	2002
Cash Receipts:		
Intergovernmental	\$481,721	\$609,764
Charges for Services	799,372	888,507
Total Cash Receipts	1,281,093	1,498,271
Cash Disbursements:		
Employee Wages and Benefits	787,855	747,442
Purchased Services	442,899	415,685
Supplies and Materials	140,413	76,797
Miscellaneous	28,261	24,380
Capital Outlay	108,476	293,559
Total Cash Disbursements	1,507,904	1,557,863
Total Receipts Under Disbursements	(226,811)	(59,592)
Cash Balances, July 1	1,592,581	1,652,173
Cash Balances, June 30	\$1,365,770	\$1,592,581
Reserve for Encumbrances, June 30	\$116,027	\$58,604

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

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**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

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.

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.

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2003 and 2002 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.

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

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>2003</u>	<u>2002</u>
Demand deposits and investments on deposit with SCESC	\$1,365,770	\$1,592,581

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.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended June 30, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,288,322	\$1,281,093	(\$7,229)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,867,005	\$1,623,931	\$243,074

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,422,276	\$1,498,271	\$75,995

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,845,222	\$1,616,467	\$228,755

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, 2003.

Contribution rates are also prescribed by the Ohio Revised Code. NEOnet's members are required to contribute 9% of their annual covered salary, and NEOnet is required to contribute 14% of the employees' salaries.

**NORTHEAST OHIO NETWORK FOR EDUCATIONAL TECHNOLOGY
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002
(Continued)**

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.

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>2002</u>	<u>2001</u>
Cash and investments	\$11,201,931	\$12,204,424
Actuarial liabilities	\$4,865,000	\$3,468,216



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Directors:

We have audited the accompanying financial statements of Northeast Ohio Network for Educational Technology (NEOnet) as of and for the years ended June 30, 2003 and 2002 and have issued our report thereon dated October 10, 2003. 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.

Compliance

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 and grants, 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*.

However, we noted a certain immaterial instance of noncompliance that we have reported to management of NEOnet in a separate letter dated October 10, 2003.

Internal Control 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 assurance 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 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.

However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of NEOnet in a separate letter dated October 10, 2003.

111 Second St., NW / Fourth Floor / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

October 10, 2003



**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
NOVEMBER 18, 2003**