



Dave Yost • Auditor of State

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

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Dave Yost • Auditor of State

Northern Buckeye Education Council
Fulton County
209 Nolan Parkway, P.O. Box 407
Archbold, Ohio 43502-0407

To the Board of Directors:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While 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. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Dave Yost
Auditor of State

January 17, 2013

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Northern Buckeye Education Council
Fulton County
209 Nolan Parkway, P.O. Box 407
Archbold, Ohio 43502-0407

To the Board of Directors:

We have audited the accompanying financial statements of Northern Buckeye Education Council, Fulton County, Ohio (the Council), as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Council has prepared 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 GAAP, we presume they are material. In addition, the Council failed to adopt the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* as mandated by Auditor of State Bulletin 2011-004 for regulatory financial statements.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Council's larger (i.e. major) funds separately. While the Council does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Council has elected not to follow GAAP statement formatting requirements. 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, 2012 and 2011 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2012 and 2011, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, except for any adjustments that may have been required had the Council adopted Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of June 30, 2012 and 2011 of Northern Buckeye Education Council, Fulton County, Ohio, and its combined cash receipts and disbursements for the fiscal years then ended on the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2013, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Dave Yost
Auditor of State

January 17, 2013

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Intergovernmental		\$4,393	\$4,393
Classroom Materials and Fees	\$9,500		9,500
Earnings on Investments	833		833
Matching Funds	3,552		3,552
Total Cash Receipts	13,885	4,393	18,278
Cash Disbursements:			
Supporting Services:			
Administration	15,200	5,454	20,654
Fiscal Services	616	251	867
Central		4,167	4,167
Total Cash Disbursements	15,816	9,872	25,688
Total Disbursements Over Receipts	(1,931)	(5,479)	(7,410)
Fund Cash Balances, July 1	85,814	\$5,479	91,293
Fund Cash Balances, June 31	\$83,883		\$83,883

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

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$15,346,563	\$8,593,616	\$6,919,435	\$30,859,614
Miscellaneous		2,037	15,200	17,237
Total Operating Cash Receipts	15,346,563	8,595,653	6,934,635	30,876,851
Operating Cash Disbursements:				
Personal Services	106,378	3,752,453	948,558	4,807,389
Employee Fringe Benefits	305,155	1,189,246	248,396	1,742,797
Purchased Services	594,953	5,284,806	7,034,065	12,913,824
Supplies and Materials	7,490	36,719	1,866,676	1,910,885
Medical Benefits to Members' Employees	17,664,094			17,664,094
Miscellaneous		58,785	12,071	70,856
Total Operating Cash Disbursements	18,678,070	10,322,009	10,109,766	39,109,845
Operating Loss	(3,331,507)	(1,726,356)	(3,175,131)	(8,232,994)
Non-Operating Cash Receipts:				
Intergovernmental		2,083,828	3,066,633	5,150,461
Earnings on Investments	77,239	94,547	39,842	211,628
Refund of Prior Year Disbursements	313,675	273,050	59,818	646,543
Total Non-Operating Cash Receipts	390,914	2,451,425	3,166,293	6,008,632
Non-Operating Cash Disbursements:				
Capital Outlay		902,137	104,471	1,006,608
Refund of Prior Year Receipts	38,370	1,215,060	972,024	2,225,454
Pass Through			999,858	999,858
Total Non-Operating Cash Disbursements	38,370	2,117,197	2,076,353	4,231,920
Excess of Receipts Over/(Under) Disbursements Before Special Items, Interfund Transfers, and Advances	(2,978,963)	(1,392,128)	(2,085,191)	(6,456,282)
Special Item	(13,959,174)			(13,959,174)
Transfers-In			88,465	88,465
Transfers-Out			(88,465)	(88,465)
Advances-In		170,000		170,000
Advances-Out		(170,000)		(170,000)
Net Change in Fund Cash Balances	(16,938,137)	(1,392,128)	(2,085,191)	(20,415,456)
Fund Cash Balances, July 1	\$16,938,137	11,883,623	8,152,173	36,973,933
Fund Cash Balances, June 30	<u>\$10,491,495</u>	<u>\$6,066,982</u>	<u>\$6,066,982</u>	<u>\$16,558,477</u>

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

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Intergovernmental		\$79,353	\$79,353
Classroom Materials and Fees	\$10,500		10,500
Earnings on Investments	1,072		1,072
Matching Funds	34,249	26,526	60,775
	<u>45,821</u>	<u>105,879</u>	<u>151,700</u>
Total Cash Receipts			
Cash Disbursements:			
Supporting Services:			
Administration	15,960		15,960
Fiscal Services	617		617
Central		100,400	100,400
	<u>16,577</u>	<u>100,400</u>	<u>116,977</u>
Total Cash Disbursements			
Total Receipts Over Disbursements	<u>29,244</u>	<u>5,479</u>	<u>34,723</u>
Fund Cash Balances, July 1	<u>56,570</u>		<u>56,570</u>
Fund Cash Balances, June 31	<u><u>\$85,814</u></u>	<u><u>\$5,479</u></u>	<u><u>\$91,293</u></u>

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

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$31,015,878	\$8,082,704	\$8,408,373	\$47,506,955
Miscellaneous			26,345	26,345
Total Operating Cash Receipts	31,015,878	8,082,704	8,434,718	47,533,300
Operating Cash Disbursements:				
Personal Services	156,000	3,610,286	928,712	4,694,998
Employee Fringe Benefits	503,408	1,118,441	234,981	1,856,830
Purchased Services	1,248,080	5,419,223	7,034,634	13,701,937
Supplies and Materials	8,161	65,854	1,503,141	1,577,156
Medical Benefits to Members' Employees	29,661,803			29,661,803
Miscellaneous		63,331	13,081	76,412
Total Operating Cash Disbursements	31,577,452	10,277,135	9,714,549	51,569,136
Operating Loss	(561,574)	(2,194,431)	(1,279,831)	(4,035,836)
Non-Operating Cash Receipts:				
Intergovernmental		4,552,954	3,395,621	7,948,575
Earnings on Investments	223,540	141,229	62,859	427,628
Refund of Prior Year Disbursements	409,143	7,466	825,400	1,242,009
Sale of Capital Assets		13,800		13,800
Total Non-Operating Cash Receipts	632,683	4,715,449	4,283,880	9,632,012
Non-Operating Cash Disbursements:				
Capital Outlay	466	894,321	208,421	1,103,208
Refund of Prior Year Receipts		1,892,750	18,526	1,911,276
Pass Through			803,100	803,100
Total Non-Operating Cash Disbursements	466	2,787,071	1,030,047	3,817,584
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	70,643	(266,053)	1,974,002	1,778,592
Transfers-In			504,569	504,569
Transfers-Out			(504,569)	(504,569)
Advances-In		220,000	200,000	420,000
Advances-Out		(220,000)	(200,000)	(420,000)
Net Change in Fund Cash Balances	70,643	(266,053)	1,974,002	1,778,592
Fund Cash Balances, July 1	16,867,494	12,149,676	6,178,171	35,195,341
Fund Cash Balances, June 30	\$16,938,137	\$11,883,623	\$8,152,173	\$36,973,933

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

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 1- REPORTING ENTITY

Description of the Entity

The Northern Buckeye Education Council (the "Council") 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. The Council is a 40 entity consortium organized under Chapter 167 of the Ohio Revised Code as a not-for-profit Council of Governments and is directed by a thirteen member Board of Directors. The purpose of the Council is to provide educational entities in greater northwestern Ohio access to a variety of cooperative administrative services thereby reducing the cost of obtaining these services. Currently the Council provides data processing and internet access services through its Northwest Ohio Computer Association (NWOCA) subsidiary; assists in the preparation of financial reports and offers in-service training sessions to employees of its member entities. The Council managed life, dental, and health insurance programs through December 31, 2011. The Council's management believes these financial statements present all activities for which the Council is financially accountable.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Council's financial statements are prepared using another comprehensive basis of accounting, as prescribed or permitted by the Auditor of State. Receipts are recorded in the Council's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. As a result of the use of this other comprehensive basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Fund Accounting

The Council uses fund accounting to segregate cash and investments that are restricted as to use.

The Council classifies its funds into the following types:

General Fund — The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

Special Revenue Funds — These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Council had the following significant special revenue funds:

NWOCA Library Services and Technology Act (LSTA) Grant Fund - Accounts for the activity of the LSTA grant awarded to NWOCA by the State Library of Ohio for a training project.

Data Driven Decisions for Academic Achievement (D3A2) Fund – Accounts for the activity of a state grant.

Enterprise Funds — The funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Council had the following significant enterprise fund:

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011
(Continued)**

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Partially Self-Funded Health Insurance Fund - Accounts for the activity of providing medical insurance benefits to employees of member entities.

Internal Service Funds - These funds account for financing of goods or services provided by the Council to member entities. The Council had the following significant internal service fund:

Northwest Ohio Computer Association (NWOCA) Fund - Accounts for the activity of providing data processing services to member entities.

Fiduciary Funds (Agency Fund,) - Funds for which the Council is acting in an agency capacity are classified as agency funds. The Council had the following significant agency funds:

MCOECN Fund - Accounts for the financial activity of the Management Council of the Ohio Education Computer Network (MCOECN). The Northern Buckeye Education Council acts as fiscal agent for MCOECN.

Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively. Certificates of deposit account registry service (CDARS), repurchase agreements and government agency obligations are valued at cost. The money market mutual funds include STAROhio (the State Treasurer's investment pool) are recorded at share values the mutual funds report.

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.

Unpaid Vacation and Sick 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 the Council.

NOTE 3 - PRIOR PERIOD RESTATEMENT OF FUND BALANCES

The beginning fund balances of the Special Revenue Funds and the Internal Service Funds of the Council have been restated to more accurately report the fund balance of the NWOCA electronic student information system (eSIS) special education fund as an internal service fund instead of a special revenue fund:

	Special Revenue Funds	Internal Service Funds
Fund Balance at June 30, 2010	\$289,517	\$11,860,159
Prior period restatement of fund balances	(289,517)	289,517
Restated Fund Balance at July 1, 2010	\$289,517	\$12,149,676

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The Council maintains a cash and investments pool used by all funds. The carrying amount of cash and investments at June 30, 2012 and 2011 was as follows:

	2012	2011
Demand deposits	(\$1,269,192)	(\$301,361)
CDARS	2,056,222	2,056,222
Total deposits	787,030	1,754,861
U.S. Government Agency Securities	11,865,759	26,281,618
STAR Ohio	1,508,715	3,446,208
Repurchase agreement	2,415,463	4,349,273
Money Market Fund	65,393	1,233,266
Total investments	15,855,330	35,310,365
Total deposits and investments	\$16,642,360	\$37,065,226

Deposits

Deposits are either insured by the Federal Depository Insurance Corporation or secured by collateralized pools securing all public funds on deposit with specific financial institutions.

Investments

The Federal Reserve holds the Council's U.S. Government Agency securities in book-entry form, in the name of the Council's financial institution. The financial institution maintains records identifying the Council as owner of these securities. Investments in STAR Ohio and money market mutual funds are not evidenced by securities that exist in physical or book-entry form. Securities subject to an overnight repurchase agreement are held by the Council's financial institution, but not in the Council's name.

The Council invests in various investments. Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and those changes could materially affect the amounts reported in the financial statements.

NOTE 5 - RETIREMENT SYSTEMS

Certified teachers employed by the Council participate in the State Teachers Retirement System of Ohio (STRS). The Council's other employees belong to the School Employees Retirement System of Ohio (SERS). STRS and SERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. Contribution rates are also prescribed by the Ohio Revised Code. For the years ended June 30, 2012 and 2011, STRS members contributed 10.00 percent of their wages and the Council contributed an amount equal to 14.00 percent of participants' gross salaries. SERS members contributed 10.00 percent of their wages and the Council contributed an amount equal to 14.00 percent of participants' gross salaries. The Council has paid all required contributions through June 30, 2012.

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011
(Continued)**

NOTE 6 - RISK MANAGEMENT

The Council has obtained commercial insurance for the following risks:

- Education Liability
- General Liability
- Automobile Liability

The Council managed a self-insurance benefit plan for its members through December 31, 2011. The plan provided life, dental and health insurance benefits.

Effective January 1, 2012, the self-insurance benefit plan and its assets was divested from Northern Buckeye Education Council (NBEC) to the Northern Buckeye Health Plan (NBHP) operated under the Optimal Health Initiative Consortium (OHI). All liabilities of the NBEC Health Plan were assumed by the NBHP-OHI on January 01, 2012.

NOTE 7 - COMMITMENTS, RISKS AND CONTINGENCIES

Commitments

During the year ended June 30, 2002, the Council undertook feasibility studies and solicited bids for a dedicated fiber optic line connecting all the member districts to NWOCA. This project was completed in three geographic areas (phases), that were all finalized prior to June 30, 2004. Construction, maintenance and leasing costs for this network are to be financed by fees assessed the member districts. The Council committed to lease a part of the fiber optic line in Phase One of the network and construct the remainder. The leased portion of Phase One calls for maintenance charges totaling \$28,800 over the remaining twelve-year term of the lease. The Council committed to leasing the fiber optic line in Phase Two, for which the Council entered into two lease agreements. The first lease agreement runs twenty years, and remaining maintenance charges under the agreement totaled \$150,800 to be paid over the next thirteen years. The second lease agreement covering Phase Two calls for maintenance fees totaling \$279,200 to be paid over the next nine years. There are no commitments related to Phase Three after completion of its construction.

The Council leases office space under a non-cancelable lease. On June 30, 2010 the Council entered into an amended lease agreement that expires August 17, 2034. Under the terms of the agreement, the Council pays annual lease payments of \$200,964 starting August 15, 2010 and continuing for 20 years. After 20 years, the Council will pay an annual management fee of \$10,964. The Council is also responsible for paying a portion of the utilities, building and ground maintenance, garbage and refuse service, assessments, and insurance. The total lease disbursements, including additional fees, for fiscal year 2012 and 2011 were \$299,443 and \$322,494 respectively.

Contingencies

The Council receives substantial financial assistance from various federal, state and local 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 of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the Council at June 30, 2012 and 2011.

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011
(Continued)**

NOTE 8 – SPECIAL ITEM

Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. The Council ended the self-insurance program as of December 31, 2011 and transferred \$13,959,174, the remaining balance of the self-insurance program, to Optimal Health Initiative Consortium. This was reported on the financial statements as a special item disbursement.

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Dave Yost • Auditor of State

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

Northern Buckeye Education Council
Fulton County
209 Nolan Parkway, P.O. Box 407
Archbold, Ohio 43502-0407

To the Board of Directors:

We have audited the financial statements of Northern Buckeye Education Council, Fulton County, Ohio (the Council), as of and for the fiscal years ended June, 30, 2012 and 2011, and have issued our report thereon dated January 17, 2013 wherein we noted the Council followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Council did not adopt the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2012-001 and 2012-002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

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

We also noted certain matters not requiring inclusion in this report that we reported to the Council's management in a separate letter dated January 17, 2013.

We intend this report solely for the information and use of management, the Board of Directors, and others within the Council. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

January 17, 2013

**NORTHERN BUCKEYE EDUCATION COUNCIL
FULTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Material Weakness – Monitoring of Financial Statements

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The Council's financial statements for the years ended June 30, 2012 and 2011, contained posting errors, such as the following:

- \$803,100 and \$999,858 of E-rate receipts remitted to other entities were recorded as negative intergovernmental revenues in the E-Rate Agency Fund instead of pass-through disbursements in fiscal year 2011 and 2012, respectively.
- \$13,959,174 remitted to the Northern Buckeye Health Plan to close out the self-insurance program was reported as refund of prior year receipts in the Insurance Enterprise Funds instead of a special item disbursement in fiscal year 2012.

As a result, the financial statements were materially misstated. Audit adjustments were made to the Council's financial statements and accounting records to correct these discrepancies. Inaccurate posting of transactions impedes the ability of management officials to accurately assess the financial status of the Council.

We recommend financial transactions only be included in the proper fund and account codes as specified in the Uniform School Accounting System's Manual. Furthermore, the Council should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and the Board of Directors to help ensure errors and omissions are detected and corrected.

FINDING NUMBER 2012-002

Material Weakness – Implementation of GASB 54

The Council failed to adopt the provisions of the Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* for the years ended June 30, 2012 and 2011 as mandated by the Auditor of State Bulletin 2011-004. Under GASB No. 54, fund balance is divided into five classifications based primarily on the extent to which the Council must observe constraints imposed upon the use of its governmental-fund resources. Those classifications include: Non-spendable, Restricted, Committed, Assigned, and Unassigned. In addition, GASB No. 54 provides additional clarity on how governmental funds should be classified.

By not implementing GASB No. 54, the Council is not fully disclosing the manner in which fund balances are restricted. Noncompliance could also affect the classification of funds and increase the risk fund balances may be improperly spent.

We recommend the Council adopt the provisions of GASB No. 54 as specified in Auditor of State Bulletin 2011-004.

**FINDING NUMBER 2012-002
(Continued)**

Officials' Response:

We did not receive a response from Officials to the findings reported above.



Dave Yost • Auditor of State

NORTHERN BUCKEYE EDUCATION COUNCIL

FULTON 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 5, 2013**