



**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Erie-Huron-Ottawa Educational Service Center
Erie County
2900 Columbus Avenue
Sandusky, Ohio 44870-5554

To the Governing Board:

We have audited the accompanying financial statements of the Erie-Huron-Ottawa Educational Service Center (the Service Center) as of and for the year ended June 30, 2001. These financial statements are the responsibility of the Service Center'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.

Ohio Administrative Code §117-2-03 requires the Service Center to prepare its financial report in accordance with generally accepted accounting principles. However, as described Note 1, the Service Center prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the Erie-Huron-Ottawa Educational Service Center, Erie County, Ohio, as of June 30, 2001, and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2001 on our consideration of the Service Center'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.

We performed our audit to form an opinion on the financial statements of the Service Center, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, the Governing Board, federal awarding agencies, pass-through entities, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 30, 2001

ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 2001

Cash and Investments \$4,891,880

CASH BALANCES BY FUND TYPES

Government Fund Type:

General Fund	\$2,219,015
Special Revenue Funds	268,279
Capital Projects Funds	4,090

Proprietary Fund Type:

Internal Service Funds	302,131
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Fiduciary Fund Type:

Expendable Trust Funds	33,616
Nonexpendable Trust Funds	2,645
Agency Funds	<u>2,062,104</u>

Total \$4,891,880

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

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types	
	General	Special Revenue
Cash Receipts:		
Local Sources:		
Tuition	\$526,596	
Earnings on Investment	123,791	
Extracurricular Activities		
Classroom Materials and Fees	945	
Shared Costs Charges to Other District's	8,330,346	
Miscellaneous Receipts	320,213	\$55,020
Intermediate Sources:		
Restricted Grants-In-Aid	15,984	30,700
State Sources:		
Unrestricted Grants-In-Aid	3,269,166	
Restricted Grants-In-Aid		1,170,428
Federal Sources:		
Unrestricted Grants-In-Aid	85,715	
Restricted Grants-In-Aid		504,845
Total Cash Receipts	<u>12,672,756</u>	<u>1,760,993</u>
Cash Disbursements:		
Instruction:		
Regular	82,308	98,558
Special	3,320,536	467,717
Support Services:		
Pupils	3,164,014	441,909
Instructional Staff	4,737,916	482,792
Board of Education	60,414	
Administration	362,145	336,627
Fiscal	215,441	10,535
Business	130,694	
Operation and Maintenance - Plant	188,596	459
Pupil Transportation		10,713
Central	9,475	1,712
Operation of Non-Instructional Services:		
Enterprise Operations		
Extracurricular Activities:		
Academic and Subject Oriented		
Facilities Acquisition and Construction Services:		
Building Acquisition and Construction	67,968	
Other Facilities Acquisition and Construction	125,520	
Total Cash Disbursements	<u>12,465,027</u>	<u>1,851,022</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	<u>207,729</u>	<u>(90,029)</u>
Other Financing Sources (Uses)		
Transfers In		2,121
Transfers Out		(2,121)
Refund of Prior Year's Expenditures	61,869	3,243
Refund of Prior Year's Receipts	(1,696)	(3,048)
Advances In	2,121	
Advances Out	(2,121)	
Total Other Financing Sources (Uses)	<u>60,173</u>	<u>195</u>
Excess of Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	267,902	(89,834)
Fund Cash Balances at Beginning of Fiscal Year	<u>1,951,113</u>	<u>358,113</u>
Fund Cash Balances at End of Fiscal Year	<u>\$2,219,015</u>	<u>\$268,279</u>

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

<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Capital Projects</u>	<u>Expendable Trust</u>	
		\$526,596
	\$278	124,069
	15,741	15,741
		945
		8,330,346
	55,190	430,423
		46,684
		3,269,166
		1,170,428
		85,715
		504,845
	<u>71,209</u>	<u>14,504,958</u>
		1,143
	14,401	3,802,654
		3,605,923
\$187,386	250	5,408,344
		60,414
		698,772
		225,976
	1,295	131,989
		189,055
		10,713
		11,187
	6,242	6,242
	33,194	33,194
		67,968
		125,520
<u>187,386</u>	<u>56,525</u>	<u>14,559,960</u>
<u>(187,386)</u>	<u>14,684</u>	<u>(55,002)</u>
		2,121
		(2,121)
	6	65,118
		(4,744)
		2,121
		(2,121)
	<u>6</u>	<u>60,374</u>
(187,386)	14,690	5,372
<u>191,476</u>	<u>18,926</u>	<u>2,519,628</u>
<u>\$4,090</u>	<u>\$33,616</u>	<u>\$2,525,000</u>

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>		Totals (Memorandum Only)
	Internal Service	Nonexpendable Trust	Agency	
Operating Receipts:				
Extracurricular Activities	\$9,785			\$9,785
Charges for Services	151,642		\$1,217,534	1,369,176
Total Operating Receipts	161,427		1,217,534	1,378,961
Operating Disbursements:				
Employees Salaries and Wages	70,616		664,449	735,065
Employees Retirement and Insurance	22,421		167,247	189,668
Purchased Services	129,457		1,111,582	1,241,039
Supplies and Materials	11,059		25,091	36,150
Capital Outlay	6,250		445,888	452,138
Capital Outlay - Replacement			40,316	40,316
Other Objects			24,634	24,634
Total Operating Disbursements	239,803		2,479,207	2,719,010
Excess of Operating Receipts Over (Under) Operating Disbursements	(78,376)		(1,261,673)	(1,340,049)
Non-Operating Receipts:				
Earning on Investments			126,775	126,775
Miscellaneous	135,094		30,442	165,536
Sale and Loss of Assets			50	50
Intermediate Sources - Restricted			13,668	13,668
State Sources - Unrestricted			556,488	556,488
State Sources - Restricted			595,889	595,889
Refund of Prior Year Expenditure	11,692		4,701	16,393
Total Non-Operating Receipts	146,786		1,328,013	1,474,799
Non-Operating Expenses:				
Refund of Prior Years Receipts			(1,619)	(1,619)
Total Non-Operating Expenses			(1,619)	(1,619)
Net Excess of Revenues Over (Under) Expenses	68,410		64,721	133,131
Fund Cash Balances at Beginning of Fiscal Year	233,721	\$2,645	1,997,383	2,233,749
Fund Cash Balances at End of Fiscal Year	\$302,131	\$2,645	\$2,062,104	\$2,366,880

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

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Budget</u>	<u>Actual</u>	<u>Variance: Favorable (Unfavorable)</u>
Government Fund Type:			
General Fund	\$12,531,821	\$12,734,625	\$202,804
Special Revenue Funds	1,874,681	1,764,236	(110,445)
Proprietary Fund Type:			
Internal Service Fund	248,937	308,213	59,276
Fiduciary Fund Type:			
Agency	2,299,195	2,545,547	246,352
Trust	68,890	71,215	2,325
Total	<u>\$17,023,524</u>	<u>\$17,423,836</u>	<u>\$400,312</u>

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

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Prior Year Carryover Appropriations</u>	<u>2001 Appropriations</u>
Government Fund Type:		
General	\$138,499	\$14,299,435
Special Revenue	97,042	2,135,924
Capital Projects	37,454	154,022
Proprietary Fund Type:		
Internal Service	28,644	455,568
Fiduciary Fund Type:		
Agency	140,182	4,146,396
Trust	1,510	88,951
Total	<u>\$443,331</u>	<u>\$21,280,296</u>

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

<u>Total</u>	<u>2001 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/01</u>	<u>Total</u>	<u>Variance: Favorable (Unfavorable)</u>
\$14,437,934	\$12,466,723	\$122,592	\$12,589,315	\$1,848,619
\$2,232,966	1,856,191	75,467	1,931,658	301,308
\$191,476	187,386	4,090	191,476	
\$484,212	239,803	10,209	250,012	234,200
\$4,286,578	2,480,826	59,109	2,539,935	1,746,643
91,971	56,525	3,304	59,829	32,142
<u>\$21,725,137</u>	<u>\$17,287,454</u>	<u>\$274,771</u>	<u>\$17,562,225</u>	<u>\$4,162,912</u>

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**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of The Entity

The Erie-Huron-Ottawa Educational Service Center (the Service Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Service Center is an Education Service Center as defined by § 3311.05 of the Ohio Revised Code. The Service Center operates under an elected Governing Board of Education (thirteen members) and is responsible for the provision of public education to residents of the local school districts that it services.

The Service Center is the result of the July 1, 1997, merger of the Erie County Educational Service Center and the Ottawa County Educational Service Center, and the July 1, 1999, merger of the Erie-Ottawa Educational Service Center and the Huron County Educational Service Center, under the authority of Ohio Revised Code §§ 3311.053 and 3311.054 and resolutions made by the Governing Boards. The current Governing Board consists of members of the former Service Centers. All members are serving terms commencing on July 1, 1999, and terminating on December 31, 2001.

The Service Center acts as fiscal agent for the Bay Area Council of Governments and the Northern Ohio Educational Computer Association. Amounts received and disbursed on behalf of these entities are reflected in the agency funds.

B. Funds Reported

1. General Fund

The general fund is the operating fund of the Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than capital project and trust funds) that are legally restricted to expenditure for specified purposes.

3. Capital Projects Funds

Capital project funds account for financial resources to be used for the acquisition or construction of major capital facilities.

4. Internal Service Funds

Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the Service Center on a cost reimbursement basis.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

5. Expendable Trust Funds

Expendable trust funds account for assets held in trust where both principal and interest can be spent.

6. Nonexpendable Trust Funds

Nonexpendable trust funds account for assets held in trust where the corpus is not expendable.

7. Agency Funds

Agency funds are used to account for custodial funds held by the Service Center acting as the agent for another government, organization, individual, or fund.

C. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03 to prepare its financial statements in accordance with generally accepted accounting principles, the Service Center chooses to prepare its financial report on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting 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).

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the Service Center in a Fiscal Caution Status. This status requires the Service Center to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education

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

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources. The primary level of budgetary control is at the object code function level within each fund. Budgetary modifications may only be made by resolution of the Governing Board.

- 1. Budget** - Annually, on or before the date designated by the State Board of Education, the Service Center shall prepare a budget of operating expenses for the ensuing fiscal year for the Governing Board on forms prepared and furnished by the State Board of Education, and shall certify the same to the State Board of Education together with such other information as the State Board may require. Such budget shall consist of two parts: Part (A) shall

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

include the cost of salaries, employer's retirement contributions and travel expenses of supervisory teachers approved by the State Board; Part (B) shall include the cost of all other lawful expenditures of the Service Center.

2. **Estimated Resources** - The Service Center estimates its breakdown of revenues to the State Board of Education by January 20 of each year. This breakdown then serves as the State Board's basis for determining the revenue to be received by the Service Center. This breakdown is also used as the basis for the annual appropriation measure.
3. **Appropriations** - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 through June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations were amended by the Governing Board for the year ended June 30, 2001.
4. **Encumbrances** - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.
5. **Lapsing of Appropriations** - As the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

2. EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Service Center Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Governing Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

Protection of Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

State Statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

During fiscal year 2001, the Service Center's investments were limited to overnight repurchase agreements and STAR Ohio. During the fiscal year, all investments of the Service Center had a maturity of two years or less.

The carrying amount of cash and investments at June 30, 2001 was as follows:

Bank Deposits:	
Demand Deposits	<u>\$290,440</u>

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

Investments:	
Repurchase Agreement	243,136
STAR Ohio	<u>4,358,304</u>
Total Investments	<u>4,601,440</u>
Total Bank Deposits and Investments	<u><u>\$4,891,880</u></u>

The following information classifies deposits and investments by categories of risk.

A. Deposits

At year-end, the carrying amount of the Service Center's deposits was \$290,440 as shown above and the bank balance was \$757,576. The bank balance was covered by federal depository insurance and by collateral held by a qualified third party trustee in single institution collateral pools securing all public funds on deposit with specific depository institutions.

B. Investments

The Service Center's investments are categorized below to give an indication of the level of risk assumed at fiscal year end. Investments are usually categorized into three categories of credit risk:

- Category 1: Securities held by the Service Center or its agent in the Service Center's name.
- Category 2: Securities held by the counter party's trust department or agent in the Service Center's name.
- Category 3: Securities held by the counter party, or by its trust department or agent but not in the Service Center's name.

The Service Center's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Market Value
Repurchase Agreement	\$243,136	\$243,136	\$243,136
STAR Ohio	<u>4,358,304</u>	<u>4,358,304</u>	<u>4,358,304</u>
Totals	<u><u>\$243,136</u></u>	<u><u>\$4,601,440</u></u>	<u><u>\$4,601,440</u></u>

3. RETIREMENT SYSTEMS

A. School Employees Retirement System

The Service Center's non-teaching employees belong to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
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**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2001, members of SERS contributed 9 percent of their wages to the SERS. The Service Center contributed an amount equal to 14 percent of their wages.

B. State Teachers Retirement System

The Service Center's teaching employees belong to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Contributions rates are also prescribed by the Ohio Revised Code. For fiscal year 2001, members of STRS contributed 9.3 percent of their wages to the SERS. The Service Center contributed an amount equal to 14 percent of their wages.

4. RISK MANAGEMENT

A. Comprehensive

The Service Center has obtained commercial insurance for the following risks:

- Commercial property
- Inland marine
- Business liability
- Business personal property
- Business Auto
- Education Liability

B. Workers' Compensation

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

C. Health Benefits

The Service Center provides employee health care benefits through the Huron-Erie School Employees Insurance Association. However, employees originally employed by the former Ottawa County Educational Service Center have benefits provided through the San-Ott School Employees Welfare Benefit Association.

The Huron-Erie School Employees Insurance Association is a shared risk pool, with participants from Erie and Huron Counties. The Association is governed by an assembly which consists of one representative from each participant. The assembly elects officers for two year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Association. All Association revenues are generated from charges for services. Financial

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

information can be obtained by writing to Glen Szana, 1616 East Wooster, Box B, Bowling Green, Ohio 43402.

The San-Ott School Employees Welfare Benefit Association is a shared risk pool, with participants from Sandusky and Ottawa counties. The Association is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly exercises control over the operation of the Association. All Association revenues are generated from charges for services. Financial information can be obtained by writing to The San-Ott Consortium, Jay Valasek, Treasurer of Vanguard-Sentinel Vocational Schools, at 1306 Cedar Street, Fremont, Ohio 43420.

5. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 30, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the Service Center is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

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**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disburse- ments
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title 1, Part A, ESEA Grants to Local Educational Agencies	84.010	125690-C1-ST-2000P 125690-C1-ST-01P	\$145,000	\$36,269 105,362
Total Title 1, Part A, ESEA Grants to Local Educational Agencies			145,000	141,631
Special Education - Preschool Grants	84.173	047707-PG-S1-2000P 125690-PG-S1-2002P 125690-PG-SC-00P	63,576 4,522	14,211 59,976 4,522
Total Special Education Preschool Grants			68,098	78,709
Safe and Drug-Free Schools - State Grants, Title IV, Part A,	84.186	125690-DR-S1-00		22
Even Start, Part A, IASA	84.213	047704-EV-S3-00 047704-EV-S4-2001	62,345 34,402	84,102 23,420
Total Even Start, Part A, IASA			96,747	107,522
Goals 2000 - State and Local Education Systemic Improvem	84.276	125690-B2-S3-2001 125690-G2-S9-2001 125690-G2-S5-99 125690-G2-A2-2000 125690-G2-S9-2000	147,000 20,000 12,730	96,821 20,000 37,238 4,265 16,980
Total Goals 2000 - State and Local Education Systemic Improvement Grants			179,730	175,304
Eisenhower Professional Development State Grants, Title II,	84.281	047704-MS-S1-99 125690-MS-S1-2000 125690-MS-S1-99	18,000	3,611 24,550 20,996
Total Eisenhower Professional Development State Grants, Title II, Part B			18,000	49,157
Innovative Education Program Strategies	84.298	125690-C2-S1-99		330
Total Department of Education			507,575	552,675
HEALTH CARE FINANCING ADMINISTRATION				
<i>Passed Through Ohio Department of MRDD:</i>				
Medical Assistance Program (Medicaid: Title XIX)	93.778		85,715	85,715
Total Health Care Financing Administration			85,715	85,715
CORPORATION FOR NATIONAL SERVICE				
<i>Passed Through Ohio Department of Education:</i>				
Learn and Serve America Funds	94	047704-S6-S3-2000 125690-SV-S4-2001	10,000	960 9,869
Total Corporation for National Service			10,000	10,829
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$603,290	\$649,219

The accompanying notes are an integral part of this schedule.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain federal programs require that the Service Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Service Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



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

Erie-Huron-Ottawa Educational Service Center
Erie County
2900 Columbus Avenue
Sandusky, Ohio 44870-5554

To the Governing Board:

We have audited the financial statements of the Erie-Huron-Ottawa Educational Service Center (the Service Center) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 30, 2001, in which we noted that the Service Center has prepared its annual financial report on a basis other than generally accepted accounting principles. 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 the Service Center'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10522-001. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the Service Center in a separate letter dated November 30, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center'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 the management of the Service Center in a separate letter dated November 30, 2001.

Erie-Huron-Ottawa Educational Service Center
Erie County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, the Governing Board, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 30, 2001



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Erie-Huron-Ottawa Educational Service Center
Erie County
2900 Columbus Avenue
Sandusky, Ohio 44870-5554

To the Governing Board:

Compliance

We have audited the compliance of the Erie-Huron-Ottawa Educational Service Center (the Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001

Internal Control Over Compliance

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Governing Board, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 30, 2001

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Goals 2000 - State and Local Education Systemic Improvement Grants (CFDA # 84.276)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2001-10522-001

Noncompliance Citation

Ohio Administrative Code § 117-2-03(B) requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, as described in Note 1, the Service Center prepares its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, and fund equities, and disclosures that, while material, cannot be determined at this time. The Service Center can be fined and various other administrative remedies may be taken against the Service Center.

**FINDING NUMBER 2001-10522-001
(Continued)**

Officials of the Service Center are aware of this requirement, but have delayed the implementation of GAAP until they have completed the mergers with Ottawa and Huron Counties.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the Service Center in a Fiscal Caution Status. This status requires the Service Center to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10522-001	OAC § 117-2-01 failure to report in accordance with GAAP	No	Not Corrected - Reissued as finding number 2001-10522-001



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ERIE-HURON-OTTAWA EDUCATIONAL SERVICES CENTER

ERIE 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
DECEMBER 18, 2001**