



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

Erie-Huron-Ottawa Educational Service Center
Erie County
2900 Columbus Avenue
Sandusky, Ohio 44870-5569

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, 2002. 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 (B) requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes 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, as of June 30, 2002, and its combined cash receipts and disbursements, 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 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2002, 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.

Our audit was performed for the purpose of forming an opinion on the financial statements of the District taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of 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. Such information has been subjected 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 § 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, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

December 4, 2002

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

**COMBINED STATEMENT OF CASH, INVESTMENTS AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 2002**

Cash and Investments	<u><u>\$4,895,242</u></u>
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CASH BALANCES BY FUND TYPE

Government Fund Types:

General Fund	\$2,105,126
Special Revenue Funds	217,412
Capital Projects Funds	6,595

Proprietary Fund Type:

Internal Service Funds	974,053
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Fiduciary Fund Types:

Expendable Trust Funds	35,820
Nonexpendable Trust Funds	2,645
Agency Funds	<u>1,553,591</u>

Total	<u><u>\$4,895,242</u></u>
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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, 2002**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Cash Receipts:			
Local Sources:			
Tuition	\$4,880,750		
Earnings on Investment	71,020		
Extracurricular Activities			
Shared Costs Charges to Other Districts	5,449,975		
Miscellaneous Receipts	190,097	\$99,864	
Intergovernmental - Intermediate Sources	13,695	18,090	
Intergovernmental - State	2,373,277	1,132,053	\$6,595
Intergovernmental - Federal	392,784	494,840	
Total Cash Receipts	<u>13,371,598</u>	<u>1,744,847</u>	<u>6,595</u>
Cash Disbursements:			
Instruction:			
Regular	16,268	70,453	
Special	3,433,498	500,581	
Support Services:			
Pupils	3,494,589	275,331	
Instructional Staff	5,252,534	731,268	4,090
Board of Education	51,243		
Administration	394,876	279,702	
Fiscal	242,175	5,628	
Business	208,404		
Operation and Maintenance - Plant	206,014		
Pupil Transportation		4,605	
Central	11,230		
Operation of Non-Instructional Services		4,621	
Extracurricular Activities			
Facilities Services	113,069		
Total Cash Disbursements	<u>13,423,900</u>	<u>1,872,189</u>	<u>4,090</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	<u>(52,302)</u>	<u>(127,342)</u>	<u>2,505</u>
Other Financing Sources and (Uses):			
Sale and Loss of Assets	47		
Transfers In		11,383	
Transfers Out	(11,383)		
Refund of Prior Year's Expenditures	19,348	359	
Refund of Prior Year's Receipts		(4,866)	
Advances In	2,121	71,720	
Advances Out	(71,720)	(2,121)	
Total Other Financing Sources (Uses)	<u>(61,587)</u>	<u>76,475</u>	
Excess of Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	<u>(113,889)</u>	<u>(50,867)</u>	<u>2,505</u>
Fund Cash Balances, July 1, 2001	<u>2,219,015</u>	<u>268,279</u>	<u>4,090</u>
Fund Cash Balances, June 30, 2002	<u>\$2,105,126</u>	<u>\$217,412</u>	<u>\$6,595</u>

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

<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Expendable Trust</u>	
	\$4,880,750
\$347	71,367
14,284	14,284
	5,449,975
46,193	336,154
3,150	34,935
	3,511,925
	887,624
<u>63,974</u>	<u>15,187,014</u>
158	86,879
19,313	3,953,392
	3,769,920
56	5,987,948
	51,243
	674,578
	247,803
3,222	211,626
	206,014
	4,605
	11,230
8,955	13,576
30,145	30,145
	113,069
<u>61,849</u>	<u>15,362,028</u>
<u>2,125</u>	<u>(175,014)</u>
	47
	11,383
	(11,383)
79	19,786
	(4,866)
	73,841
	(73,841)
<u>79</u>	<u>14,967</u>
2,204	(160,047)
33,616	2,525,000
<u>\$35,820</u>	<u>\$2,364,953</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, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	<u>Agency</u>	
Operating Receipts:				
Charges for Services	\$3,697,905		\$1,579,582	\$5,277,487
Miscellaneous	23,154			23,154
Total Operating Receipts	<u>3,721,059</u>		<u>1,579,582</u>	<u>5,300,641</u>
Operating Disbursements:				
Personal Services- Salaries	84,465		746,241	830,706
Employees Retirement and Insurance	32,233		181,912	214,145
Purchased Services	3,087,965		1,350,264	4,438,229
Supplies and Materials	11,967		42,118	54,085
Capital Outlay	112		635,852	635,964
Other Objects	20,000		22,139	42,139
Total Operating Disbursements	<u>3,236,742</u>		<u>2,978,526</u>	<u>6,215,268</u>
Excess of Operating Receipts Over (Under) Operating Disbursements	<u>484,317</u>		<u>(1,398,944)</u>	<u>(914,627)</u>
Non-Operating Receipts:				
Earning on Investments			49,823	49,823
Miscellaneous	134,975		14,150	149,125
Intermediate Sources	7,500		6,836	14,336
State Sources	45,000		933,733	978,733
Refund of Prior Year Expenditure	130		11,676	11,806
Total Non-Operating Receipts	<u>187,605</u>		<u>1,016,218</u>	<u>1,203,823</u>
Non-Operating Disbursements:				
Refund of Prior Years Receipts			<u>(125,787)</u>	<u>(125,787)</u>
Excess of Receipts Over (Under) Disbursements	671,922		(508,513)	163,409
Fund Cash Balances, July 1, 2001	<u>302,131</u>	<u>\$2,645</u>	<u>2,062,104</u>	<u>2,366,880</u>
Fund Cash Balances, June 30, 2002	<u>\$974,053</u>	<u>\$2,645</u>	<u>\$1,553,591</u>	<u>\$2,530,289</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 RECEIPTS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Budget</u>	<u>Actual</u>	<u>Variance: Favorable (Unfavorable)</u>
Government Fund Types:			
General Fund	\$13,349,431	\$13,390,993	\$41,562
Special Revenue Funds	1,846,288	1,756,589	(89,699)
Capital Projects Funds	6,595	6,595	
Proprietary Fund Type:			
Internal Service Fund	3,927,804	3,908,664	(19,140)
Fiduciary Fund Types:			
Expendable Trust Funds	61,670	64,053	2,383
Nonexpendable Trust Funds			
Agency Funds	2,459,954	2,595,800	135,846
Total	<u>\$21,651,742</u>	<u>\$21,722,694</u>	<u>\$70,952</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 YEAR ENDED JUNE 30, 2002**

	<u>Prior Year Carryover Appropriations</u>	<u>2002 Appropriations</u>
Government Fund Types:		
General	\$122,592	\$15,445,853
Special Revenue	75,467	2,039,098
Capital Projects	4,090	6,595
Proprietary Fund Type:		
Internal Service	10,209	4,219,726
Fiduciary Fund Types:		
Expendable Trust Funds	3,304	91,981
Nonexpendable Trust Funds		2,645
Agency Funds	59,109	4,462,950
Total	<u>\$274,771</u>	<u>\$26,268,848</u>

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

<u>Total</u>	<u>2002 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/02</u>	<u>Total</u>	<u>Variance: Favorable (Unfavorable)</u>
\$15,568,445	\$13,435,283	\$71,648	\$13,506,931	\$2,061,514
2,114,565	1,877,055	58,268	1,935,323	179,242
10,685	4,090		4,090	6,595
4,229,935	3,236,742	11,354	3,248,096	981,839
95,285	61,849	2,891	64,740	30,545
2,645				2,645
4,522,059	3,104,313	693,122	3,797,435	724,624
<u>\$26,543,619</u>	<u>\$21,719,332</u>	<u>\$837,283</u>	<u>\$22,556,615</u>	<u>\$3,987,004</u>

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

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

1. 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 Educational 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Service Center chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. 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).

These statements include adequate disclosures of material matters, in accordance with the basis of accounting described in the preceding paragraph.

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

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.

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

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

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, or to other governmental units, on a cost reimbursement basis.

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. 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. 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.

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

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

2. 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, 2002.

3. 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.

4. 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.

3. EQUITY IN POOLED CASH AND INVESTMENTS

The Service Center maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The bank carrying amount of cash and investments at June 30 was as follows:

	<u>2002</u>
Demand deposits	<u>(\$42,516)</u>
STAR Ohio	4,691,758
Repurchase Agreement	<u>246,000</u>
Total investments	<u>4,937,758</u>
Total deposits and investments	<u><u>\$4,895,242</u></u>

Deposits: At fiscal year end, the carrying amount of the Service Center's deposits was (\$42,516) and the bank balance was \$449,046. The bank balance is insured by the Federal Depository Insurance Corporation, collateralized by a letter of credit specifically pledged by the financial institution to the Service Center, and collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form and are valued at the amount reported by STAR Ohio. Securities subject to repurchase agreements are held by the Service Center's financial institution, but not in the Service Center's name. Repurchase agreements are reported at cost.

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

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

4. 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.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2002, 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. The Service Center has paid all contributions required through June 30, 2002.

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 2002, 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. The Service Center has paid all contributions required through June 30, 2002.

5. 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; and
- 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.

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

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

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 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.

6. 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.

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. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The School District is currently unable to determine what effect, if any, this decision 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 EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number	Receipts	Disburse- ments
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education- Preschool Grant	84.173	125690-PG-S1-02P	\$67,246	\$58,597
		125690-PG-S1-01P		3,600
		125690-PG-SC-01P	4,032	4,032
Total Special Education Preschool Grant			<u>71,278</u>	<u>66,229</u>
Grants to Local Educational Agencies (ESEA Title I)	84.010	125690-C1-ST-02P	172,428	103,725
		125690-C1-ST-01P		39,638
Total Title I			<u>172,428</u>	<u>143,363</u>
Even Start, Part A, IASA	84.213	125690-EVS4-01	80,270	91,252
Goals 2000 State and Local Education Systematic Improvement Grants	84.276	125690-G2U1-01	20,000	15,459
				50,179
				8,465
Total Goals 2000			<u>20,000</u>	<u>74,103</u>
Eisenhower Professional Development State Grant	84.281	125690-MSS1-00	28,054	36,163
Total U.S. Department of Education			<u>372,030</u>	<u>411,110</u>
HEALTH CARE FINANCING ADMINISTRATION				
<i>Passed Through Ohio Department of MRDD:</i>				
Medical Assistance Program (Medicaid Title XIX)	93.778		392,784	392,784
Total Health Care Financing Administration			<u>392,784</u>	<u>392,784</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
<i>Passed Through Ohio Department of Education:</i>				
Learn and Serve America Funds	94.004	125690-SVS4-01		131
Total Corporation for National and Community Service				<u>131</u>
LIBRARY SERVICES AND TECHNOLOGY GRANT				
<i>Passed through State Library of Ohio:</i>				
Automation Project LSTA	45.310		122,810	120,788
Total Library Services and Technology Grant			<u>122,810</u>	<u>120,788</u>
Total Federal Financial Assistance			<u>\$887,624</u>	<u>\$924,813</u>

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, 2002**

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.



STATE OF OHIO
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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 44870-5569

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, 2002, and have issued our report thereon dated December 4, 2002, in which we noted that the District has prepared its annual financial report on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). 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 2002-10522-001.

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.

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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

December 4, 2002



STATE OF OHIO
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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 44870-5569

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, 2002. 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, 2002.

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.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized loop at the end.

Jim Petro
Auditor of State

December 4, 2002

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

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):	Medical Assistance Program (Medicaid Title XIX) 93.778
(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 2002-10522-001

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, the Service Center prepared its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State for governmental entities not required to prepare annual reports in accordance with 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 2002-10522-001
(Continued)**

We recommend that the Service Center make arrangements to prepare and file their financial report in accordance with generally accepted accounting principles. Officials of the Service Center are aware of this requirement, and have had discussions in relation to contracting for conversion of their financial statements to the GAAP basis.

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, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10522-001	OAC § 117-2-03 (B) failure to report in accordance with GAAP	No	Not Corrected. Reissued as finding number 2002-10522-001



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ERIE-HURON-OTTAWA EDUCATIONAL SERVICE 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
JANUARY 2, 2003**