



**ERIE OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Governing Board:

We have audited the accompanying financial statements of the Erie Ottawa Educational Service Center, Erie County, Ohio, (the Service Center) as of and for the year ended June 30, 1999. 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 generally accepted auditing standards 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 § 117-2-01 requires the Service Center to prepare its financial report in accordance with generally accepted accounting principles. However, as described in Note 1, the Service Center prepares its financial report 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 Ottawa Educational Service Center, Erie County, Ohio, as of June 30, 1999, and its combined cash receipts and disbursements 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 January 21, 2000 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.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Service Center, 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, 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.

Jim Petro
Auditor of State

January 21, 2000

**COMBINED STATEMENT OF CASH, INVESTMENTS AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 1999**

Cash and Investments	<u><u>\$4,423,039</u></u>
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CASH BALANCES BY FUND TYPES

Government Fund Type:

General Fund	\$1,736,825
Special Revenue Funds	362,149
Capital Projects Funds	235,931

Proprietary Fund Type:

Internal Service Funds	126,924
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Fiduciary Fund Type:

Expendable Trust Funds	18,225
Nonexpendable Trust Funds	2,645
Agency Funds	<u>1,940,340</u>

Total	<u><u>\$4,423,039</u></u>
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The notes to the financial statements are an integral part of this statement.

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Cash Receipts:		
Local Sources:		
Tuition	\$2,895,773	\$0
Earnings on Investment	138,184	
Extracurricular Activities		
Classroom Materials and Fees	881	
Miscellaneous Receipts	223,863	
Intermediate Sources:		
Restricted Grants-In-Aid	20,000	8,000
State Sources:		
Unrestricted Grants-In-Aid	4,797,329	
Restricted Grants-In-Aid		130,735
Federal Sources:		
Unrestricted Grants-In-Aid	118,257	
Restricted Grants-In-Aid		735,895
Total Cash Receipts	<u>8,194,287</u>	<u>874,630</u>
Cash Disbursements:		
Instruction:		
Regular	68,964	47,283
Special	2,345,592	65,931
Support Services:		
Pupils	1,914,210	40,410
Instructional Staff	2,812,071	156,667
Board of Education	31,832	
Administration	220,792	198,830
Fiscal	185,109	6,998
Business	127,292	
Operation and Maintenance - Plant	143,427	
Central	6,291	11,156
Operation of Non-Instructional Services:		
Community Services		77,090
Extracurricular Activities:		
Academic and Subject Oriented		
Facilities Acquisition and Construction Services:		
Building Acquisition & Construction	9,509	
Other Facilities Acquisition and Construction	80,703	
Total Cash Disbursements	<u>7,945,792</u>	<u>604,365</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	<u>248,495</u>	<u>270,265</u>
Other Financing Sources (Uses)		
Transfers In		2,078
Transfers Out	(19,329)	
Refund of Prior Year's Expenditures	18,322	427
Advances In	8,843	
Advances Out		(8,843)
Total Other Financing Sources (Uses)	<u>7,836</u>	<u>(6,338)</u>
Excess of Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	256,331	263,927
Fund Cash Balances at Beginning of Fiscal Year	1,480,494	98,222
Fund Cash Balances at End of Fiscal Year	<u>\$1,736,825</u>	<u>\$362,149</u>

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

Governmental Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
Capital Projects	Expendable Trust	
\$0	\$0	\$2,895,773
		138,184
	9,171	9,171
		881
47,032	31,641	302,536
	3,000	31,000
		4,797,329
		130,735
		118,257
		735,895
47,032	43,812	9,159,761
	508	116,755
	12,764	2,424,287
	300	1,954,920
411,915		3,380,653
		31,832
		419,622
		192,107
	93	127,385
		143,427
		17,447
		77,090
	32,240	32,240
		9,509
		80,703
411,915	45,905	9,007,977
(364,883)	(2,093)	151,784
		2,078
		(19,329)
	43	18,792
		8,843
		(8,843)
0	43	1,541
(364,883)	(2,050)	153,325
600,814	20,275	2,199,805
\$235,931	\$18,225	\$2,353,130

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Internal Service	Nonexpendable Trust	Agency	
Operating Receipts:				
Extracurricular Activities	\$18,394	\$0	\$0	\$18,394
Charges for Services			2,381,006	2,381,006
Total Operating Receipts	18,394	0	2,381,006	2,399,400
Operating Disbursements:				
Employees Salaries and Wages	48,621		522,019	570,640
Employees Retirement and Insurance	19,942		130,515	150,457
Purchased Services	38,290		1,961,546	1,999,836
Supplies and Materials	8,339		20,019	28,358
Capital Outlay	1,275		161,941	163,216
Other Objects	321		26,560	26,881
Total Operating Disbursements	116,788	0	2,822,600	2,939,388
Excess of Operating Receipts Over (Under) Operating Disbursements	(98,394)	0	(441,594)	(539,988)
Non-Operating Receipts:				
Earning on Investments			77,736	77,736
Miscellaneous	90,298			90,298
Intermediate Sources	2,067			2,067
State Sources			909,717	909,717
Refund of Prior Year Expenditure			1,171	1,171
Total Non-Operating Receipts	92,365	0	988,624	1,080,989
Non-Operating Expenses:				
Pass Through			1,539	1,539
Refund of Prior Years Receipts			228,213	228,213
Total Non-Operating Expenses	0	0	229,752	229,752
Excess of Receipts Over (Under) Expenses Before Interfund Transfers	(6,029)		317,278	311,249
Operating Transfer In	17,251			17,251
Net Excess of Revenues Over / (Under) Expenses	11,222	0	317,278	328,500
Fund Cash Balances at Beginning of Fiscal Year	115,702	2,645	1,623,062	1,741,409
Fund Cash Balances at End of Fiscal Year	\$126,924	\$2,645	\$1,940,340	\$2,069,909

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

**COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 1999**

	Budget	Actual	Variance: Favorable (Unfavorable)
Government Fund Type:			
General Fund	\$8,046,266	\$8,212,609	\$166,343
Special Revenue Funds	977,602	877,135	(100,467)
Capital Projects Funds	98,000	47,032	(50,968)
Proprietary Fund Type:			
Internal Service Fund	125,851	128,010	2,159
Fiduciary Fund Type:			
Trust	49,375	43,855	(5,520)
Total	\$9,297,094	\$9,308,641	\$11,547

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

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Prior Year Carryover Appropriations</u>	<u>1999 Appropriations</u>	<u>Total</u>
Government Fund Type:			
General	\$76,706	\$9,450,055	\$9,526,761
Special Revenue	54,755	1,029,099	1,083,854
Capital Projects	296,730	402,084	698,814
Proprietary Fund Type:			
Internal Service	1,245	240,308	241,553
Fiduciary Fund Type:			
Trust	918	71,677	72,595
Total	<u><u>\$430,354</u></u>	<u><u>\$11,193,223</u></u>	<u><u>\$11,623,577</u></u>

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

<u>Actual 1999 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/99</u>	<u>Total</u>	<u>Variance: Favorable (Unfavorable)</u>
\$7,965,121	\$82,812	\$8,047,933	\$1,478,828
604,365	169,174	773,539	310,315
411,915	64,030	475,945	222,869
116,778	13,757	130,535	111,018
45,905	601	46,506	26,089
<u>\$9,144,084</u>	<u>\$330,374</u>	<u>\$9,474,458</u>	<u>\$2,149,119</u>

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(As Required by Various Statutes)

A. Description of The Entity

The Erie 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 (ten 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, under the authority of Ohio Revised Code §§ 3311.053 and 3311.054 and resolutions made by the two Governing Boards. The current Governing Board consists of members of the two former Service Centers. All members are serving terms commencing on July 1, 1997 and terminating on December 31, 1999.

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. The general fund balance is available to the Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(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 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

Ohio Administrative Code § 117-2-01 requires the Service Center to prepare its financial statements in accordance with generally accepted accounting principles. The Service Center chooses to prepare 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. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The Service Center recognizes receipts when cash is received rather than when earned and recognizes disbursements when cash is 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, 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. All funds, other than agency, are appropriated. 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 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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 may not exceed estimated resources. Appropriations were amended by the Governing Board for the year ended June 30, 1999.
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. 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 Board of Education 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(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 1999, 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

The carrying amount of cash and investments at June 30, 1998 was as follows:

Bank Deposits	
Demand Deposit	(\$223,467)
Investments:	
Repurchase Agreement	63,362
STAR Ohio	<u>4,583,144</u>
Total Investments	<u>4,646,506</u>
Total Bank Deposits and Investments	<u><u>\$4,423,039</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 \$(223,467) as shown above and the bank balance was \$166,786. 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 by the Service Center 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.

	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
Repurchase Agreement	\$63,362	\$63,362	\$63,362
STAR Ohio		<u>4,583,144</u>	<u>4,583,144</u>
Totals	<u>\$63,362</u>	<u>\$4,646,506</u>	<u>\$4,646,506</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

3. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Service Center contributes 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. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Service Center is required to contribute 14 percent; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually.

B. State Teachers Retirement System

The Service Center contributes 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. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

4. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the STRS, and to retired non-certified employees and their dependents through the SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

year, the Board allocated employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.156 billion at June 30, 1998 (the latest information available). For the year ended June 30, 1998 (the latest information available), net health care costs paid by STRS were \$219.224 million and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 4.21 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were \$111.9 million and the target level was \$139.9 million. At June 30, 1998 (the latest information available), SERS had net assets available for payment of health care benefits of \$160.3 million and SERS had approximately 50,000 participants receiving health care benefits.

5. RISK MANAGEMENT

A. Comprehensive

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

- Comprehensive property and general liability
- Vehicles
- Errors and omissions

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 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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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 The Erie Ottawa County Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

6. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Service Center. During the fiscal year ended June 30, 1999, the Service Center received \$4,797,330 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of, January 21, 2000 the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

7. YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Service Center's operations as early as fiscal year 1999.

The Service Center has assessed, remediated, validated and tested (as deemed necessary) the following computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting Service Center operations. The Service Center identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS)).

The Service Center uses the State of Ohio Uniform School Accounting System software for its financial reporting, and the State of Ohio Uniform Staff Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the Service Center in the form of state grant payments. Further, the State processes a significant amount of financial and non-financial information about the Association through EMIS. The State is responsible for remediating these systems.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

To the best of management's knowledge and belief, as of January 21, 2000, the Service Center experienced no interruption of operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the Association does business may also experience Year 2000 readiness issues that are as yet, unknown.

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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
United States Department of Justice				
<i>Passed Through Ottawa County Commissioners:</i>				
Juvenile Justice and Delinquency Prevention Grant	16.540	97-JJ-DP2-0394 98-JJ-DP2-0394	\$12,530 4,177	\$12,530 4,158
Total U.S. Department of Justice			16,707	16,688
United States Department of Education				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Education Agencies	84.010	125690-C1-ST-98 125690-C1-ST-99	27,104 112,000	27,333 103,853
Total Title I Grants to Local Education Agencies			139,104	131,186
Special Education Preschool Grants	84.173	125690-PG-S1-99	32,955	29,614
Safe and Drug-Free Schools and Communities Grants	84.186	046771-DR-S1-98 125690-DR-S1-99	36,879	4,750 36,530
Total Safe and Drug-Free Schools and Communities Grants			36,879	41,280
Goals 2000 - State and Local Education System Improvement Grants	84.276	125690-G2-S3-99 125690-G2-S5-99	100,000 100,000	22,500 28,281
Total Goals 2000 - State and Local Education System Improvements Grants			200,000	50,781
Eisenhower Professional Development State Grants	84.281	125690-MS-S4-99 046771-MS-S1-97 125690-MS-S1-98 125690-MS-S1-99 048918-MS-S1-97	140,000 33,105 48,684	72,355 6,275 30,457 6,815
Total Eisenhower Professional Development State Grants			221,789	115,902
Innovative Education Program Strategies	84.298	125690-C2-S1-99 046771-C2-S1-99	1,872 911	
Total Innovative Education Program Strategies			2,783	
<i>Passed Through Ohio Department of Health:</i>				
Early Intervention Programs	84.181	9199-A 9199-A	4,446 37,614	4,446 39,924
Total Early Intervention Programs			45,696	39,066
Total Department of Education			721,266	452,199
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$737,973	\$468,887

The notes to the schedule of federal awards expenditures are an integral part of this schedule.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards 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
OFFICE OF THE AUDITOR

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

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

To the Governing Board:

We have audited the financial statements of the Erie Ottawa Educational Service Center, Erie County, Ohio, (the Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 21, 2000, which included a paragraph indicating the Service Center has prepared its financial statements on a basis other than generally accepted accounting principals. We conducted our audit in accordance with generally accepted auditing standards 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 1999-10522-001. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Service Center in a separate letter dated January 21, 2000.

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, and 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

January 21, 2000



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

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

To the Governing Board:

Compliance

We have audited the compliance of the Erie Ottawa Educational Service Center, Erie County, Ohio, (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 each of its major federal programs for the year ended June 30, 1999. The Service Center's major federal programs are 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 each of its major federal programs 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 generally accepted auditing standards; 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 each of its major federal programs for the year ended June 30, 1999.

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, and 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

January 21, 2000

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 1999

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):	Title I Grants to Local Educational Agencies (CFDA# 84.010) Eisenhower Professional Development State Grant (CFDA# 84.281)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 1999-10522-001

Noncompliance Citation

Ohio Administrative Code § 117-2-01 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. 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 (GAAP).

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.

We recommend that the Service Center file their financial report in accordance with GAAP.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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ERIE 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
FEBRUARY 8, 2000**