



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



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 44870-5569

To the Governing Board:

We have audited the accompanying financial statements of the Erie-Huron-Ottawa Educational Service Center, Erie County, Ohio, (the Service Center) as of and for the year ended June 30, 2000, as listed in the table of contents. 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-Huron-Ottawa Educational Service Center, Erie County, Ohio, as of June 30, 2000, 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.

On July 1, 1999 the Erie-Ottawa Educational Service Center and the Huron County Educational Service Center merged. The cash and investments of those two entities as of June 30, 1999, were combined to present the July 1, 1999 balances appearing in these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 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. 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 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

December 11, 2000

ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER
ERIE COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 2000

Cash and Investments \$4,753,375

CASH BALANCES BY FUND TYPES

Government Fund Type:	
General Fund	\$1,951,113
Special Revenue Funds	358,110
Capital Projects Funds	191,476
Proprietary Fund Type:	
Internal Service Funds	159,622
Fiduciary Fund Type:	
Expendable Trust Funds	18,926
Nonexpendable Trust Funds	2,645
Agency Funds	<u>2,071,483</u>
Total	<u><u>\$4,753,375</u></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 CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000**

	Governmental Fund Types	
	General	Special Revenue
Cash Receipts:		
Local Sources:		
Tuition	\$3,295,055	
Earnings on Investment	177,818	
Extracurricular Activities		
Classroom Materials and Fees	750	
Miscellaneous Receipts	332,391	
Intermediate Sources:		
Restricted Grants-In-Aid	29,866	\$23,502
State Sources:		
Unrestricted Grants-In-Aid	6,881,188	
Restricted Grants-In-Aid		1,051,046
Federal Sources:		
Unrestricted Grants-In-Aid	112,021	
Restricted Grants-In-Aid		640,606
Total Cash Receipts	10,829,089	1,715,154
Cash Disbursements:		
Instruction:		
Regular	71,871	82,182
Special	3,128,538	490,927
Support Services:		
Pupils	2,641,519	304,258
Instructional Staff	3,901,184	620,709
Board of Education	39,649	
Administration	399,149	295,814
Fiscal	242,882	16,301
Business	118,146	
Operation and Maintenance - Plant	142,532	1,280
Central	8,721	11,056
Operation of Non-Instructional Services:		
Community Services		24,752
Extracurricular Activities:		
Academic and Subject Oriented		
Sports Oriented		
Facilities Acquisition and Construction Services:		
Building Acquisition & Construction	11,790	
Other Facilities Acquisition and Construction	144,934	
Total Cash Disbursements	10,850,915	1,847,279
Excess of Cash Receipts Over (Under) Cash Disbursements	(21,826)	(132,125)
Other Financing Sources (Uses)		
Sale and Loss of Assets	1,252	
Refund of Prior Year's Expenditures	24,945	404
Refund of Prior Year's Receipts	(40,858)	(23,236)
Advances In		2,121
Advances Out	(2,121)	
Total Other Financing Sources (Uses)	(16,782)	(20,711)
Excess of Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	(38,608)	(152,836)
Fund Cash Balances at Beginning of Fiscal Year	1,989,721	510,946
Fund Cash Balances at End of Fiscal Year	\$1,951,113	\$358,110

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>	
		\$3,295,055
		177,818
	\$10,949	10,949
		750
\$35,000	33,502	400,893
		53,368
		6,881,188
		1,051,046
		112,021
		640,606
<u>35,000</u>	<u>44,451</u>	<u>12,623,694</u>
		154,053
	12,716	3,632,181
		2,945,777
79,455	3,000	4,604,348
		39,649
		694,963
		259,183
		118,146
		143,812
		19,777
		24,752
	28,012	28,012
	47	47
		11,790
		144,934
<u>79,455</u>	<u>43,775</u>	<u>12,821,424</u>
<u>(44,455)</u>	<u>676</u>	<u>(197,730)</u>
		1,252
		25,349
		(64,094)
		2,121
		(2,121)
		<u>(37,493)</u>
(44,455)	676	(235,223)
<u>235,931</u>	<u>18,250</u>	<u>2,754,848</u>
<u>\$191,476</u>	<u>\$18,926</u>	<u>\$2,519,625</u>

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

**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, 2000**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Internal Service	Nonexpendable Trust	Agency	
Operating Receipts:				
Extracurricular Activities	\$15,891			\$15,891
Charges for Services			\$1,087,418	1,087,418
Total Operating Receipts	15,891		1,087,418	1,103,309
Operating Disbursements:				
Employees Salaries and Wages	55,154		611,002	666,156
Employees Retirement and Insurance	15,856		177,990	193,846
Purchased Services	92,368		1,088,051	1,180,419
Supplies and Materials	9,480		23,918	33,398
Capital Outlay	2,525		141,066	143,591
Other Objects			20,291	20,291
Total Operating Disbursements	175,383		2,062,318	2,237,701
Excess of Operating Receipts Over (Under) Operating Disbursements	(159,492)		(974,900)	(1,134,392)
Non-Operating Receipts:				
Earning on Investments			84,098	84,098
Miscellaneous	101,680		133,190	234,870
Sale and Loss of Assets			700	700
Intermediate Sources			25,446	25,446
State Sources	90,500		1,070,756	1,161,256
Refund of Prior Year Expenditure	12		7,297	7,309
Total Non-Operating Receipts	192,192		1,321,487	1,513,679
Non-Operating Expenses:				
Refund of Prior Years Receipts			238,187	238,187
Excess of Receipts Over (Under) Expenses Before Interfund Transfers	32,700		108,400	141,100
Operating Transfer In				
Net Excess of Revenues Over/(Under) Expenses	32,700		108,400	141,100
Fund Cash Balances at Beginning of Fiscal Year	126,922	\$2,645	1,963,083	2,092,650
Fund Cash Balances at End of Fiscal Year	\$159,622	\$2,645	\$2,071,483	\$2,233,750

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, 2000**

	<u>Budget</u>	<u>Actual</u>	Variance: Favorable (Unfavorable)
Government Fund Type:			
General Fund	\$10,616,988	\$10,855,286	\$238,298
Special Revenue Funds	1,808,035	1,715,558	(92,477)
Capital Projects Funds		35,000	35,000
Proprietary Fund Type:			
Internal Service Fund	198,500	208,083	9,583
Fiduciary Fund Type:			
Trust	<u>50,100</u>	<u>44,451</u>	<u>(5,649)</u>
Total	<u>\$12,673,623</u>	<u>\$12,858,378</u>	<u>\$184,755</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, 2000**

	<u>2000 Appropriations</u>	<u>Actual 2000 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/00</u>	<u>Total</u>	<u>Variance: Favorable (Unfavorable)</u>
Government Fund Type:					
General	\$12,606,709	\$10,891,773	\$138,499	\$11,030,272	\$1,576,437
Special Revenue	2,318,833	1,870,515	97,042	1,967,557	351,276
Capital Projects	235,931	79,455	37,454	116,909	119,022
Proprietary Fund Type:					
Internal Service	325,422	175,383	28,144	203,527	121,895
Fiduciary Fund Type:					
Trust	68,350	43,775	1,510	45,285	23,065
Total	<u>\$15,555,245</u>	<u>\$13,060,901</u>	<u>\$302,649</u>	<u>\$13,363,550</u>	<u>\$2,191,695</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

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

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 (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, 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. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

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, 2000.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

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 the 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 institutions to secure the repayment of all public monies deposited with the institutions.

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 2 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 25 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

During fiscal year 2000, 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, 2000 was as follows:

Bank Deposits	
Demand Deposit	(\$461,836)
Investments:	
Repurchase Agreement	290,276
STAR Ohio	<u>4,924,935</u>
Total Investments	<u>5,215,211</u>
Total Bank Deposits and Investments	<u><u>\$4,753,375</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 \$(461,836) as shown above and the bank balance was \$172,472. 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.

	Category 3	Carrying Value	Market Value
Repurchase Agreement	\$290,276	\$290,276	\$290,276
STAR Ohio	<u>4,924,935</u>	<u>4,924,935</u>	<u>4,924,935</u>
Totals	<u><u>\$290,276</u></u>	<u><u>\$5,215,211</u></u>	<u><u>\$5,215,211</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

3. RETIREMENT SYSTEMS

A. School Employees Retirement System

The District'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 2000, members of SERS contributed 9 percent of their wages to the SERS. The District contributed an amount equal to 14 percent of their wages.

B. State Teachers Retirement System

The District'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 2000, members of STRS contributed 9.3 percent of their wages to the SERS. The District 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; and
- Business Auto.

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, 2000
(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 The Erie-Huron-Ottawa County Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

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 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, 2000, the Service Center received \$6,598,719 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County 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 appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2000**

Federal Grantor <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disburse- ments
United States Department of Justice				
<i>Passed Through Ottawa County Commissioners:</i>				
Juvenile Justice and Delinquency Prevention Grant	16.540	98-JJ-DP2-0394	\$4,177	\$4,195
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-99 125690-C1-ST-00P	28,350 145,000	36,497 108,731
Total Title I Grants to Local Education Agencies			<u>173,350</u>	<u>145,228</u>
Special Education Preschool Grants	84.173	125690-PG-S1-99P 047704-PG-S1-99P 125690-PG-S1-00P 047704-PG-S1-00P	35,860 27,860	3,341 17,149 35,860 13,649
Total Special Education Preschool Grants			<u>63,720</u>	<u>69,999</u>
Safe and Drug-Free Schools and Communities Grants	84.186	125690-DR-S1-99 125690-DR-S1-00	30,123	349 30,101
Total Safe and Drug-Free Schools and Communities Grants			<u>30,123</u>	<u>30,450</u>
Even Start	84.213	047704-EV-S1-98 047704-EV-S1-98C 047704-EV-S2-99C 047704-EV-S3-00	53,585 71,433	39 3,603 61,055 49,676
Total Even Start			<u>125,018</u>	<u>114,373</u>
Goals 2000 - State and Local Education System Improvem	84.276	125690-G2-S3-2000 125690-G2-S9-2000 125690-G2-S3-99 125690-G2-S5-99	100,000 30,000 71,719 49,772	100,000 13,020 71,719 90,034
Total Goals 2000 - State and Local Education System Improvements Grants			<u>179,772</u>	<u>274,773</u>
Eisenhower Professional Development State Grants	84.281	047704-MS-S1-98C 125690-MS-S1-98C 047704-MS-S1-99 125690-MS-S1-99 125690-MS-S4-99P 125690-MS-S1-2000	19,738	73 16,639 10,127 24,641 67,645 5,080
Total Eisenhower Professional Development State Grants			<u>19,738</u>	<u>124,205</u>
Innovative Education Program Strategies	84.298	125690-C2-S1-99 125690-C2-S1-98C	330	1,872 911
Total Innovative Education Program Strategies			<u>330</u>	<u>2,783</u>
<i>Passed Through Ohio Department of Health:</i>				
Early Intervention Programs	84.181	62-5-01-F-AN-392	18,122	24,752 600
Total Early Intervention Programs			<u>18,122</u>	<u>25,352</u>
Total U.S. Department of Education			610,173	787,163
Corporation for National Service				
<i>Passed Through Governor's Community Service Council:</i>				
Learn and Serve America Funds	94.004	95LCSOH008-98-RSLC06	\$11,606	\$11,606
<i>Passed Through Ohio Department of Education:</i>				
Learn and Serve America Funds	94.004	047704-S6-S3-2000	\$15,000	\$14,040
Total Corporation for National Service			<u>26,606</u>	<u>25,646</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$640,956	\$817,004

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
JUNE 30, 2000**

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 44870-5569

To the Governing Board:

We have audited the financial statements of the Erie-Huron-Ottawa Educational Service Center, Erie County, Ohio, (the Service Center) as of and for the year ended June 30, 2000, and have issued our report thereon dated December 11, 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 2000-10522-001. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Service Center in a separate letter dated December 11, 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, 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

December 11, 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-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, 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 its major federal program for the year ended June 30, 2000. 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 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 its major federal program for the year ended June 30, 2000.

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. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 11, 2000.

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

December 11, 2000

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2000**

1. SUMMARY OF AUDITOR'S RESULTS
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(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 2000-10522-001

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 (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.

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.

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-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 09, 2001**