

**ATHENS-MEIGS
EDUCATIONAL SERVICE CENTER**

Athens County, Ohio

Single Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAS, INC.
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**Auditor of State
Betty Montgomery**

Members of the Board
Athens-Meigs Educational Service Center
507 Richland Avenue, Suite 108
Athens, Ohio 45701

We have reviewed the *Independent Auditor's Report* of the Athens-Meigs Educational Service Center, Athens County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Athens-Meigs Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 10, 2005

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Athens-Meigs Educational Service Center

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Athens-Meigs Educational Service Center
507 Richland Avenue, Suite 108
Athens, Ohio 45701

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Athens-Meigs Educational Service Center (the Center), Athens County, as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions 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 the 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 opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2004, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2005, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The schedule of federal awards expenditures is presented for purposes of additional analysis as required by the 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 basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".



Balestra, Harr & Scherer, CPAs, Inc.

June 14, 2005

Athens-Meigs Educational Service Center
Athens, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Athens-Meigs Educational Service Center's (the Center) discussion and analysis of the annual financial report provides a review of the Center's financial performance for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the notes to the basic financial statements and basic financial statements to enhance their understanding of the Center's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not available. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

- The Center's assets exceeded its liabilities at June 30, 2004 by \$2,787,647.
- The Center's net assets of governmental activities increased \$1,176,269.
- General revenues accounted for \$603,210 in revenue or 7 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$5,935,400 or 69 percent of total revenues of \$8,541,053.
- The Center received donated assets of \$2,002,443, accounting for 24 percent of total revenues.
- The Center had \$7,364,784 in expenses related to governmental activities; \$5,935,400 of these expenses was offset by program specific charges for services and sales and operating grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Center's financial situation as a whole and also give a detailed view of the Center's financial activities.

Athens-Meigs Educational Service Center
Athens, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The Statement of Net Assets and Statement of Activities provide information about the activities of the Center as a whole and present a longer-term view of the Center's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column.

REPORTING THE CENTER AS A WHOLE

The analysis of the Center as a whole begins with the Statement of Net Assets and the Statement of Activities. These reports provide information that will help the reader to determine whether the Center is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Center's net assets and changes to those assets. This change informs the reader whether the Center's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the Center's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the Center has only one kind of activity.

- Governmental Activities. All of the Center's programs and services are reported here including instruction and support services.

REPORTING THE CENTER'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the Center's funds begins on page 7. Fund financial statements provide detailed information about the Center's major funds – not the Center as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the Center is meeting legal responsibilities for use of grants. The Center's major funds are the General Fund, Miscellaneous State Grants, and Head Start.

Athens-Meigs Educational Service Center
Athens, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Governmental Funds. All of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational support services. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

THE CENTER AS A WHOLE

As stated previously, the Statement of Net Assets provides the perspective of the Center as a whole. Table 1 provides a summary of the Center's net assets for 2004 compared to 2003.

Table 1
Net Assets

	2004	2003*
Assets:		
Current Assets	\$1,073,916	\$1,796,060
Capital Assets, Net	2,655,838	453,212
Total Assets	3,729,754	2,249,272
Liabilities:		
Current and Other Liabilities	788,936	580,949
Long-Term Liabilities	153,171	56,945
Total Liabilities	942,107	637,894
Net Assets:		
Invested in Capital Assets, Net of Related Debt	2,655,838	453,212
Restricted	352,138	95,636
Unrestricted	(220,329)	1,062,530
Total Net Assets	\$2,787,647	\$1,611,378

* As Restated – See Note 3

Total net assets of the Center as a whole increased \$1,176,269.

Athens-Meigs Educational Service Center
Athens, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year the Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 are not available.

Table 2
Change in Net Assets

	2004
Revenues	
Program Revenues:	
Charges for Services and Sales	\$2,945,814
Operating Grants & Contributions	2,989,586
Total Program Revenues	5,935,400
General Revenues:	
Grants and Entitlements	458,010
Gifts and Donations	51,858
Investment Earnings	7,143
Gain on Sale of Capital Assets	4,000
Miscellaneous	82,199
Total General Revenues	603,210
Extraordinary Item- Donated Capital Assets	2,002,443
Total Revenues	8,541,053
Program Expenses	
Instruction	
Regular	\$1,440,349
Special	1,473,680
Vocational	50
Adult/Continuing	59,141
Other	5,119
Support Services	
Pupil	1,632,574
Instructional Staff	986,046
Board of Education	104,938
Administration	637,966
Fiscal	264,215
Business	687
Operation and Maintenance of Plant	140,600
Pupil Transportation	394,986
Central	45,445
Operation of Non-Instructional Services	177,488
Extra-Curricular Activities	1,500
Total Expenses	7,364,784
Net Assets at Beginning of Year (As Restated – See Note 3)	1,611,378
Decrease in Net Assets	1,176,269
Net Assets at End of Year	\$2,787,647

Athens-Meigs Educational Service Center
Athens, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Governmental Activities

Charges for services and sales comprised 34 percent of revenue for governmental activities, while operating grants and contributions comprised 35 percent of revenue for governmental activities of the Center for fiscal year 2004.

As indicated by governmental program expenses, instruction and support services for the benefit of the pupils are emphasized. Support services for pupils comprised 22 percent of governmental program expenses with regular instruction comprising 19 percent of governmental expenses and special instruction comprising 20 percent of government expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements and other general revenues. Comparisons to 2003 have not been made since they are not available.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2004	
	Total Cost of Services	Net Cost of Services
Instruction	\$2,978,339	\$367,743
Support Services	4,207,457	1,032,503
Operation of Non-Instructional Services	177,488	28,903
Extracurricular Activities	1,500	235
Total Expenses	\$7,364,784	\$1,429,384

THE CENTER'S FUNDS

Major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and all other financing sources of \$6,488,242 and expenditures and all other financing sources of \$7,507,214. The net change in fund balance for the year was most significant in the Head Start Fund.

The fund balance of the Head Start Fund decreased by \$405,854. This decrease was primarily due to the Center receiving less grant money than in prior year.

Athens-Meigs Educational Service Center
Athens, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

BUDGET HIGHLIGHTS

The Center is not legally required to adopt a budget, however, a budget is adopted by the Board for fiscal monitoring purposes. The Center's budget is prepared based on accounting for certain transactions on a cash basis for receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2004, the Center amended its General Fund budget several times. For the General Fund, there was no change in budget basis revenue from the original to the final. Final budgeted expenditures were \$4,093,111, representing a \$776,583 increase from the original budget estimates of \$3,316,528. The final budget reflected a 23% increase from the original budgeted amount.

CAPITAL ASSETS

At the end of fiscal year 2004, the Center had \$2,655,838 invested in its capital assets. Table 4 shows the fiscal year 2004 balances compared to 2003.

Table 4
Capital Assets
(Net of Accumulated Depreciation)

Governmental Activities

	2004	2003
Land	\$8,230	\$0
Land Improvements	26,576	16,316
Buildings and Building Improvements	2,199,750	138,475
Furniture and Equipment	421,282	298,421
Totals	<u>\$2,655,838</u>	<u>\$453,212</u>

Changes in capital assets from the prior year resulted mainly from the addition of a donated building and depreciation expense. See Note 6 to the basic financial statements for more detailed information related to capital assets.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Center's financial condition and to show the Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bryan Swann, Treasurer, Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Athens-Meigs Educational Service Center
Statement of Net Assets
June 30, 2004

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 506,587
Investments	10,328
Accounts Receivable	297
Intergovernmental Receivable	556,704
Noncurrent Assets:	
Non-Depreciable Capital Assets	8,230
Depreciable Capital Assets, net	2,647,608
<i>Total Assets</i>	3,729,754
LIABILITIES:	
Current Liabilities:	
Accounts Payable	15,943
Accrued Wages and Benefits	633,857
Intergovernmental Payable	129,262
Matured Compensated Absences Payable	9,874
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	27,610
Due in More Than One Year	125,561
<i>Total Liabilities</i>	942,107
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	2,655,838
Restricted for:	
Other Purposes	352,138
Unrestricted (Deficit)	(220,329)
<i>Total Net Assets</i>	\$ 2,787,647

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

Athens-Meigs Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	<u>Program Revenues</u>			Net(Expense) and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 1,440,349	\$ 314,816	\$ 949,201	\$ (176,332)
Special	1,473,680	911,195	381,169	(181,316)
Vocational	50	31	-	(19)
Adult/Continuing	59,141	10,218	39,647	(9,276)
Other	5,119	885	3,434	(800)
Support Services:				
Pupils	1,632,574	630,748	573,397	(428,429)
Instructional Staff	986,046	413,488	299,303	(273,255)
Board of Education	104,938	61,508	5,030	(38,400)
Administration	637,966	311,711	125,017	(201,238)
Fiscal	264,215	124,287	58,650	(81,278)
Business	687	4,453	-	3,766
Operation and Maintenance of Plant	140,600	35,624	80,609	(24,367)
Pupil Transportation	394,986	84,988	329,467	19,469
Central	45,445	11,154	25,520	(8,771)
Operation of Non-Instructional Services	177,488	30,448	118,137	(28,903)
Extracurricular Activities	1,500	260	1,005	(235)
<i>Total Governmental Activities</i>	<u>7,364,784</u>	<u>2,945,814</u>	<u>2,989,586</u>	(1,429,384)
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				458,010
Gifts and Donations				51,858
Investment Earnings				7,143
Gain on sale of capital assets				4,000
Miscellaneous				82,199
<i>Total General Revenues</i>				603,210
Extraordinary Item- Donated Capital Assets				2,002,443
<i>Total General Revenues and Extraordinary Item</i>				2,605,653
<i>Change in Net Assets</i>				1,176,269
<i>Net Assets Beginning of Year (As Restated - See Note 3)</i>				1,611,378
<i>Net Assets End of Year</i>				<u>\$ 2,787,647</u>

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

Athens-Meigs Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>Head Start</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Equity in Pooled Cash and Cash Equivalents	\$ 230,079	\$ 96,238	\$ -	\$ 180,270	\$ 506,587
Investments	10,328	-	-	-	10,328
Accounts Receivable	-	-	-	297	297
Interfund Receivable	147,294	-	-	-	147,294
Intergovernmental Receivable	-	55,177	300,428	201,099	556,704
<i>Total Assets</i>	<u>\$ 387,701</u>	<u>\$ 151,415</u>	<u>\$ 300,428</u>	<u>\$ 381,666</u>	<u>\$ 1,221,210</u>
LIABILITIES:					
Accounts Payable	7,778	39	-	8,126	15,943
Accrued Wages and Benefits	396,309	7,977	125,327	104,244	633,857
Interfund Payable	-	-	46,097	101,197	147,294
Intergovernmental Payable	40,968	845	19,352	4,137	65,302
Matured Compensated Absences Payable	9,874	-	-	-	9,874
Deferred Revenue	-	-	82,228	17,244	99,472
<i>Total Liabilities</i>	<u>454,929</u>	<u>8,861</u>	<u>273,004</u>	<u>234,948</u>	<u>971,742</u>
Equity:					
FUND BALANCES:					
Reserved:					
Reserved for Encumbrances	23,337	246	79,889	8,868	112,340
Unreserved, Undesignated (Deficit), Reported in:					
General Fund	(90,565)	-	-	-	(90,565)
Special Revenue Funds	-	142,308	(52,465)	137,850	227,693
<i>Total Fund Balances</i>	<u>(67,228)</u>	<u>142,554</u>	<u>27,424</u>	<u>146,718</u>	<u>249,468</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 387,701</u>	<u>\$ 151,415</u>	<u>\$ 300,428</u>	<u>\$ 381,666</u>	<u>\$ 1,221,210</u>

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

Athens-Meigs Educational Service Center
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total Governmental Fund Balances	\$	249,468
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,655,838
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Intergovernmental		99,472
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds		(63,960)
Long-Term Liabilities, including bonds, capital lease obligations, long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences		<u>(153,171)</u>
Net Assets of Governmental Activities	\$	<u>2,787,647</u>

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

Athens-Meigs Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Miscellaneous State Grants	Head Start	All Other Governmental Funds	Total Governmental Funds
REVENUES:					
Intergovernmental	\$ 838,779	\$ 123,602	\$ 1,751,858	\$ 672,989	\$ 3,387,228
Interest	6,919	-	-	224	7,143
Tuition and Fees	1,927,004	-	-	297	1,927,301
Gifts and Donations	-	-	282	51,576	51,858
Customer Sales and Services	346,428	-	-	672,085	1,018,513
Miscellaneous	81,617	-	582	-	82,199
<i>Total Revenues</i>	<u>3,200,747</u>	<u>123,602</u>	<u>1,752,722</u>	<u>1,397,171</u>	<u>6,474,242</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	114,468	3,104	895,313	377,515	1,390,400
Special	1,480,445	-	-	597	1,481,042
Vocational	50	-	-	-	50
Adult/Continuing	-	-	-	57,723	57,723
Other	-	-	-	5,119	5,119
Support Services:					
Pupils	769,794	23,707	77,848	733,715	1,605,064
Instructional Staff	511,581	63,129	65,909	307,961	948,580
Board of Education	98,830	-	7,498	-	106,328
Administration	432,125	-	179,549	2,297	613,971
Fiscal	173,810	-	64,437	21,574	259,821
Business	7,323	-	-	-	7,323
Operation and Maintenance of Plant	24,418	-	110,390	9,775	144,583
Pupil Transportation	118	-	488,367	14,376	502,861
Central	7,512	-	30,554	7,491	45,557
Operation of Non-Instructional Services	-	-	93,901	84,581	178,482
Extracurricular Activities	-	-	-	1,500	1,500
Capital Outlay	-	-	148,810	-	148,810
<i>Total Expenditures</i>	<u>3,620,474</u>	<u>89,940</u>	<u>2,162,576</u>	<u>1,624,224</u>	<u>7,497,214</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(419,727)</u>	<u>33,662</u>	<u>(409,854)</u>	<u>(227,053)</u>	<u>(1,022,972)</u>
OTHER FINANCING SOURCES AND USES:					
Transfers In	-	-	-	10,000	10,000
Proceeds from Sale of Fixed Assets	-	-	4,000	-	4,000
Transfers Out	(10,000)	-	-	-	(10,000)
<i>Total Other Financing Sources and Uses</i>	<u>(10,000)</u>	<u>-</u>	<u>4,000</u>	<u>10,000</u>	<u>4,000</u>
<i>Net Change in Fund Balances</i>	(429,727)	33,662	(405,854)	(217,053)	(1,018,972)
<i>Fund Balance at Beginning of Year (As Restated - See Note 3)</i>	<u>362,499</u>	<u>108,892</u>	<u>433,278</u>	<u>363,771</u>	<u>1,268,440</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (67,228)</u>	<u>\$ 142,554</u>	<u>\$ 27,424</u>	<u>\$ 146,718</u>	<u>\$ 249,468</u>

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

Athens-Meigs Educational Service Center
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (1,018,972)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Current Year Additions	2,330,139	
Current Year Depreciation	<u>(127,513)</u>	2,202,626

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Intergovernmental		60,368
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Increase in Compensated Absences	(96,226)	
Decrease in Intergovernmental Payable	<u>28,473</u>	

Total		<u>(67,753)</u>
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Net Change in Net Assets of Governmental Activities \$ 1,176,269

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

Athens-Meigs Educational Service Center
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2004

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 158,412
<i>Total Assets</i>	<u>158,412</u>
LIABILITIES:	
Undistributed Monies	<u>158,412</u>
<i>Total Liabilities</i>	<u>158,412</u>

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

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE CENTER AND REPORTING ENTITY

Description of the Entity:

The Athens-Meigs Educational Service Center (the 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 Center is a County Educational Service Center as defined by Section 3311.05 of the Ohio Revised Code. The Center is an administrative entity providing supervision and certain other services to the local school districts located within Athens and Meigs Counties. It currently operates under a locally elected Governing Board form of government consisting of seven members elected in the following manner: six members from sub-districts composed of the 6 school districts in Athens and Meigs Counties; and one member at large from sub-districts composed of the 6 school districts in Athens and Meigs Counties.

The financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Center's significant accounting policies are described below.

Reporting Entity:

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations for which the Center approves the budget, the issuance of debt or levying of taxes. As of June 30, 2004, the Center had no component units.

The Center serves as a fiscal agent for Southeast Ohio Special Education Regional Resource Center (SEO-SERRC). The Center administers grants awarded to SEO-SERRC as its fiscal agent. Accordingly, this jointly governed organization is presented as an agency fund within the Center's financial statements. The financial statement of the Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center's accounting policies are described below.

The Center is associated with three other jointly governed and one public entity risk pool. These organizations are discussed in Note 10 and Note 11 to the basic financial statements. These organizations are:

Jointly Governed:

- Southeast Ohio Voluntary Education Cooperative (SEOVEC)
- Tri-County Career Center
- Athens County School Employees Health and Welfare Benefit Association

Public Entity Risk Pools:

- Ohio School Boards Association Workers' Compensation Group Rating Plan

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government. The statement of net assets presents the financial condition of governmental activities of the Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program. Revenues which are not classified as program revenues are presented as general revenues of the Center. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Center.

Fund Financial Statements:

During the year, the Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Center at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

The basic financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Center's accounting policies are described below.

B. Fund Accounting

The Center's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific Center functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

Governmental Funds:

Governmental funds are those through which all governmental functions of the Center are financed. The acquisition, use, and balances of the Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Center's major governmental funds:

General Fund - The General Fund is the operating fund of the 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 Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Miscellaneous State Grants Fund - The Miscellaneous State Grants Fund accounts for various monies received from state agencies which are not classified elsewhere.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Head Start Fund – The Head Start Fund is used to account for monies received from the federal head start grant.

The other governmental funds of the Center account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's programs. Agency funds are custodial in nature (assets equals liabilities) and does not involve the measurement of results of operations. The Center's only fiduciary funds are agency funds. The Center's largest agency fund accounts for resources held for Southeast Ohio Special Education Regional Resource Center (SEO-SERCC). See Note 10 for more information regarding this jointly governed organization.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The fiduciary fund is reported using the economic resources measurement focus.

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using the modified accrual basis of accounting for governmental funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: interest, grants, tuition and fees and customer sales and services.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements, as of June 30, 2004, have been recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

D. Budgetary Process

Although not legally required, the Center's Board adopts a budget for all funds, other than agency funds for fiscal monitoring purposes. The adopted budget includes the estimated resources and expenditures for each fund and consists of three parts: Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

The Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

Throughout the fiscal year, estimated resources and appropriations may be amended or supplemented as circumstances warrant.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the Center is pooled. Monies for all funds are maintained in this pool, with the exception of one Special Revenue Fund that is held in a certificate of deposit, and a portion of the General Fund held in the form of common stock. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2004, investments were limited to certificates of deposits, STAR Ohio, and common stock. The common stock was received as a donation and is held in the General Fund. Investments are recorded at fair value that is based upon quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$6,919.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents (Continued)

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Capital Assets and Depreciation

All capital assets of the Center are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$500. The Center does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15-20 years
Buildings and Building Improvements	10-15 years
Furniture and Equipment	5-10 years

G. Intergovernmental Revenues

In governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred and the funding is available.

H. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

I. Compensated Absences

GASB Statement No. 16, *Accounting for Compensated Absences*, specifies the methods used to accrue liabilities for leave benefits. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive termination benefits in the future. The amount is based on accumulated sick leave and employees wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences (Continued)

For governmental funds, the Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The Center records a liability for accumulated unused sick leave for employees based on age and years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities, once incurred, that are paid in full and in a timely manner from current financial resources, are reported as obligations of the funds. However, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. The Center had long-term obligations at June 30, 2004 as disclosed in Note 5.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved, undesignated portions of fund equity reflected for Governmental Funds are available for use within the specific purpose of those funds.

M. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Extraordinary Item

The Center was donated a building and land from the Meigs Local School District for a Head Start site.

P. Flow-Through Grants

The Center is the primary recipient of grants, which are passed-through to or spent on the behalf of other governmental agencies. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

Changes in Accounting Principles:

For the Fiscal year 2004, the Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments : Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*. GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government. The implementation of this statement had no effect on the presentation of budgetary statements by the Center for fiscal year 2004.

The restated fund balance amount for government programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by certain adjustments. The implementation of these Statements and other corrections required that certain adjustments be recorded to the June 30, 2003, fund balances of major and non-major funds of the Center as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented. In addition, a restatement of \$20,360 was made to the beginning balance of the capital assets due to increasing the capitalization threshold from \$300 to \$500 and due to omissions in the prior year’s ending balance.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE
(Continued)

	<u>General</u>	<u>Misc. State Grants</u>	<u>Head Start</u>	<u>Non-major</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$313,308	\$108,892	\$385,551	\$331,387	\$1,139,138
Interpretation 6 Adjustments	8,318	-	-	-	8,318
Intergovernmental Payable	40,873	-	47,727	3,833	92,433
Reclassification of Expendable Trust Fund	-	-	-	28,551	28,551
Restated Fund Balances, June 30, 2003	<u>\$362,499</u>	<u>\$108,892</u>	<u>\$433,278</u>	<u>\$363,771</u>	1,268,440
Capital Assets					453,212
Intergovernmental Payable					(92,433)
Deferred Revenue					39,104
Compensated Absences					<u>(56,945)</u>
Governmental Activities Net Assets, June 30, 2003					<u>\$1,611,378</u>

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The Center maintains a cash and investment pool used by all funds. Each fund’s portion of this pool is displayed on the balance sheet as “Equity in Pooled Cash and Cash Equivalents” and “Investments.” State statutes classify monies held by the 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 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 Center 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 deposits are deposits of interim monies. 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 accounts, including passbook accounts.

Protection of the 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.

Interim monies may 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;

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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. Bond 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) 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' acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, 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 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

Deposits At fiscal year end, the carrying amount of the Center's deposits was \$557,133 and the bank balance was \$640,185. Of the bank balance \$230,276 was covered by federal depository insurance. \$409,909 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

Investments The Center's investments are required to be categorized to give an indication of the level of risk assumed by the Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterpart's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Center's name. The Center's investments in STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 1	Unclassified	Fair/Carrying Value
Stocks	\$10,328	\$0	\$10,328
STAR Ohio	-	107,866	107,866
Total Investments	\$10,328	\$107,866	\$118,194

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$664,999	\$10,328
STAR Ohio	(107,866)	107,866
GASB Statement No. 3	<u>\$557,133</u>	<u>\$118,194</u>

NOTE 5 - LONG-TERM LIABILITIES

The changes in the Center's long-term liabilities during fiscal year 2004 were as follows:

	Balance at 6/30/2003 *	Increase	Decrease	Balance at 6/30/2004	Amount Due In One Year
Compensated Absences	\$56,945	\$153,171	\$56,945	\$153,171	\$27,610
Total Long-Term Liabilities	<u>\$56,945</u>	<u>\$153,171</u>	<u>\$56,945</u>	<u>\$153,171</u>	<u>\$27,610</u>

*As Restated, See Note 3

Compensated Absences are paid from the fund from which the employee is paid.

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2004, was as follows:

	Beginning Balance 6/30/2003 *	Additions	Deletions	Ending Balance 6/30/2004
<i>Governmental Activities:</i>				
Capital Assets, Not Being Depreciated				
Land	\$ -	\$ 8,230	\$ -	\$ 8,230
Total Capital Assets, Not Being Depreciated	<u>-</u>	<u>8,230</u>	<u>-</u>	<u>8,230</u>
Capital Assets Being Depreciated				
Land Improvements	19,111	12,460	-	31,571
Buildings and Building Improvements	146,011	2,175,952	-	2,321,963
Furniture and Equipment	662,348	133,497	(58,698)	737,147
Total Capital Assets, Being Depreciated	<u>827,470</u>	<u>2,321,909</u>	<u>(58,698)</u>	<u>3,090,681</u>
Less Accumulated Depreciation:				
Land Improvements	(2,795)	(2,200)	-	(4,995)
Building and Building Improvements	(7,536)	(114,677)	-	(122,213)
Furniture and Equipment	(363,927)	(10,636)	58,698	(315,865)
Total Accumulated Depreciation	<u>(374,258)</u>	<u>(127,513)</u>	<u>58,698</u>	<u>(443,073)</u>
Total Depreciable Capital Assets, Net	<u>453,212</u>	<u>2,194,396</u>	<u>-</u>	<u>2,647,608</u>
Governmental Activities Capital Assets, Net	<u>\$ 453,212</u>	<u>\$ 2,202,626</u>	<u>\$ -</u>	<u>\$ 2,655,838</u>

* As Restated – See Note 3

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation Expense was charged to governmental functions as follows:

Regular Instruction	117,650
Adult/Continuing Instruction	36
S.S. - Pupils	1,360
S.S. - Instructional Staff	81
S.S. - Board of Education	87
S.S. - Administration	133
S.S. - Fiscal	269
S.S. - Business	118
S.S. - Pupil Transportation	6,286
S.S. - Operation and Maintenance of Plant	123
Operation of Non-Instructional Services	<u>1,370</u>
Total Depreciation Expense	<u>127,513</u>

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues - publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$318,790, \$255,701, and \$122,101, respectively; 64 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$115,712 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The Center contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan Options –New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

B. State Teachers Retirement System (Continued)

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year 2004 plan members are required to contribute 10% of their annual covered salaries. The Center was required to contribute 14%. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$341,623, \$329,529, and \$196,880, respectively; 98% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$6,384 represents the unpaid contribution for fiscal year 2004 and is recorded as a liability within the respective funds.

NOTE 8 - POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$25,400. Health care benefits are financed on a pay-as-you-go basis.

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 150 percent of the annual health care expenses, before premium reduction. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9- RISK MANAGEMENT

A. Property and Liability

The Center is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2004, the Center's property was covered by the insurance coverage maintained by the Athens County Commissioners, the Meigs County Commissioners and additional coverage purchased through Nationwide/Wausau Insurance Company.

Professional liability is protected by the Nationwide/Wausau Insurance Company with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate with a \$2,500 deductible.

Ohio Farmer's Insurance Company maintains a \$25,000 public official bond for the Treasurer, a \$10,000 public official bond for the Superintendent, A \$10,000 public official bond for the Executive Secretary and a \$10,000 public official bond for the Secretary to the Treasurer. The Center also purchased a blanket bond rider on a liability policy purchased through Nationwide/Wausau Insurance.

The Center has had no significant reductions in any of its insurance coverage from that maintained in prior years. Additionally, there have been no insurance settlements that have exceeded insurance coverage in any of the past three years.

B. Workers Compensation

For fiscal year 2004, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating School Districts is calculated as one experience and a common premium rate is applied to all School Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

The Center provides health and major medical insurance for all eligible employees through the Athens County School Employees Health and Welfare Benefit Association, a jointly governed organization (see Note 11). The Center pays 90.5% of monthly premiums for family coverage and 100% of premiums for individual coverage. Premiums are paid from the same funds that pay the employees' salaries.

The Center provides prescription drug insurance to all eligible employees through the Association. This plan utilizes a \$5 per prescription deductible. The Center also provides some dental and vision coverage to eligible employees through the Association. The premiums for these are \$49.26 and \$16.42, respectively, and are paid in full by the Center.

NOTE 10 - JOINTLY GOVERNED ORGANIZATION

Southeast Ohio Voluntary Education Cooperative – The Southeast Ohio Voluntary Education Cooperative (SEOVEC) was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a governing board, which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. To obtain financial information, write to Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - JOINTLY GOVERNED ORGANIZATION (Continued)

Tri-County Career Center – The Tri-County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven appointed representatives from the eight participating school districts and the Center. The Board possesses its own budgeting and taxing authority. The degree of control exercised by any participating school district is limited to its representation on the Board. To obtain financial information write to the Tri-County Career Center, Laura Carney, Treasurer, at 15676 State Route 691, Nelsonville, Ohio 45764.

Athens County School Employees Health and Welfare Benefit Association – The Center is a participant in a consortium of seven districts to operate the Athens County School Employees Health and Welfare Benefit Association. The Association was created to provide health care and dental benefits for the employees and eligible dependents of employees of participating districts. The Association has contracted with Anthem Insurance Company to be the health care provider for medical benefits as well as to provide aggregate and specific stop-loss insurance coverage, and Coresource to provide administration of its dental benefits. A Board of Directors consisting of one representative of each of the participating districts governs the Association. Financial information for the Association can be obtained from the administrators at Combs & Associates, 9525 TR 50, Dola, Ohio 45835-0098.

Southeastern Ohio Special Education Regional Resource Center – The Southeastern Ohio Special Education Regional Resource Center (SEO-SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their families.

SEO-SERRC is governed by a board of eighteen members made up of thirteen Superintendents, ten of which are from one of the districts located in each county included in SEO-SERRC’s service area. SEO-SERRC serves the following counties: Athens, Gallia, Hocking, Jackson, Meigs, Monroe, Morgan, Perry, Vinton, and Washington. The other three Superintendents are appointed from a Joint Vocational School District in the region, a County Board of MR/DD in the region and the Superintendent of the Center. The remaining five members are comprised of a University/College Representative, two Parent Representatives (parents of disabled children), a representative from a Chartered/Non-Public School in the region, and a representative from the Southeast Regional Professional Developmental Center. In the case of the Superintendents and the University/College representatives, an alternate is also appointed to attend meetings should the original designee not be able to attend. The degree of control exercised by any of the participating school districts is limited to its representation on the Board. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701. The financial activity of SEO-SERRC is as follows:

<u>Beginning</u> <u>Cash Balance</u>	<u>Fiscal YTD</u> <u>Receipts</u>	<u>Fiscal YTD</u> <u>Expended</u>	<u>Year End</u> <u>Balance</u>
\$123,056	\$1,278,168	\$1,291,941	\$109,283

NOTE 11 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers’ Compensation Group Rating Plan - The Center participates in the Ohio School Boards Association Workers’ Compensation Group Rating Plan (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.

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 12 - SCHOOL FUNDING COURT DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "the Ohio General Assembly to enact a school funding scheme that is thorough and efficient".

The Center is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 13 - CONTINGENCIES

A. Grants

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. Management is unable to estimate possible claims from such audits until the audits have been completed. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2004.

B. Litigation

The Center is party to legal proceedings. The Center is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the Center.

NOTE 14 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts (rent, billings for user charged services, and student fees) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Major Funds:	<u>Amount</u>
Misc. State Grants	\$55,177
Head Start	300,428
Non-Major Funds:	
Public Preschool	99,985
EHA Preschool Grant	14,822
Martha Jennings	<u>86,292</u>
Total All Funds	<u><u>\$556,704</u></u>

Athens-Meigs Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 15 - INTERFUND ACTIVITY

A. Interfund Payables/Receivables

As of June 30, 2004, receivables and payables that resulted from various interfund transactions were as follows:

Fund	Interfund Receivable	Interfund Payables
General Fund	\$147,294	\$0
Head Start	-	46,097
Total Major Funds	147,294	46,097
<i>Non - Major Funds:</i>		
Public Preschool	-	37,347
EHA Preschool Grant	-	36,563
Misc. Federal Grants	-	599
Martha Jennings	-	26,688
Total All Funds	\$147,294	\$147,294

During the year, the Center's General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

B. Interfund Transfers

Transfers made during the year ended June 30, 2004, were as follows:

Fund	Transfer From	Transfer To
<i>Major Funds:</i>		
General Fund	\$10,000	\$0
<i>Non-Major Funds:</i>		
Building Improvement Fund	-	10,000
Total All Funds	\$10,000	\$10,000

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

NOTE 16 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability - Fund Balance Deficits

At June 30, 2004, the General Fund had fund balance deficits of \$67,228 which was created by the application of accounting principles generally accepted in the United States of America. The Head Start Fund also had a deficit cash balance of \$125,988 that was not created by GAAP. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Athens-Meigs Educational Service Center
Athens County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
<i>Passed through Ohio Department of Education:</i>				
Child and Adult Care Food Program	CCCP/CCMO	10.558	<u>\$97,457</u>	<u>\$97,457</u>
Total United States Department of Agriculture			<u>97,457</u>	<u>97,457</u>
UNITED STATES DEPARTMENT OF LABOR				
<i>Passed through Ohio Department of Job and Family Services:</i>				
WIA Youth Activities	NA	17.259	<u>120,344</u>	<u>111,198</u>
Total United States Department of Labor			<u>120,344</u>	<u>111,198</u>
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed through Ohio Department of Education</i>				
Special Education Cluster:				
Special Education- Grants to States	6BSI	84.027	812,116	967,773
Special Education- Preschool	PGS1	84.173	<u>3,235</u>	<u>18,526</u>
Total Special Education Cluster			<u>815,351</u>	<u>986,299</u>
Adult Education State Grant Program	ABS1	84.002	29,770	65,792
Safe and Drug Free Schools and Communities National Program	T4S1	84.184C	27,064	23,110
Improving Teacher Quality State Grants	TRA2	84.367	<u>51,843</u>	<u>44,020</u>
Total United States Department of Education			<u>924,028</u>	<u>1,119,221</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through Ohio Department of Job and Family Services:</i>				
Temporary Assistance for Needy Families	NA	93.558	317,921	317,921
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	NA	93.778	92,586	92,586
<i>Direct from Federal Government:</i>				
Maternal and Child Health Federal Consolidated Programs	N	93.110	47,912	56,915
Head Start	N	93.600	<u>2,164,429</u>	<u>2,209,415</u>
Total Direct from Federal Government			<u>2,212,341</u>	<u>2,266,330</u>
Total United States Department of Health and Human Services			<u>2,622,848</u>	<u>2,676,837</u>
Total Federal Financial Assistance			<u>\$3,764,677</u>	<u>\$4,004,713</u>

NA = Pass through entity number could not be located.
N- Direct from Federal Government
See Notes to the Schedule of Federal Awards Expenditures.

Athens-Meigs Educational Service Center
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the Center federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – SPECIAL EDUCATION CLUSTER

The Special Education Cluster is administered by the Southeastern Ohio Special Education Regional Resource Center (SEO-SERRC). SEO-SERRC is a ten-county special education service center which selects its own board, adopts its own budget and receives direct Federal and State grant for its operation.

Although not directly controlled by the Educational Service Center, the financial transactions of SEO-SERRC are handled by the Treasurer of the Center and are included on in the financial statements as Agency Funds. The Ohio Department of Education requires the Center to include on their Schedule of Federal Awards Expenditures the federal receipts and expenditures of the Southeastern Ohio Special Education Regional Resource Center.

NOTE C- MATCHING REQUIREMENTS

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

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Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board

Athens-Meigs Educational Service Center

507 Richland Avenue, Suite 108

Athens, Ohio 45701

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Athens-Meigs Educational Service Center (the Center), as of and for the year ended June 30, 2004, and have issued our report thereon dated June 14, 2005, wherein we noted the Center adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, 39, 41 and Interpretation 6. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

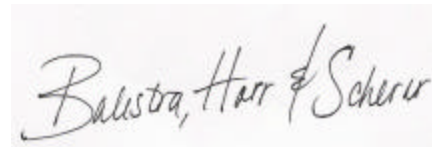
Athens-Meigs Educational Service Center
Athens County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

We noted certain matters that we reported to management of the Center in a separate letter dated June 14, 2005.

This report is intended solely 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.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

June 14, 2005

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Members of the Board
Athens-Meigs Educational Service Center
507 Richland Avenue, Suite 108
Athens, Ohio 45701

Compliance

We have audited the compliance of the Athens-Meigs Educational Service Center (the 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, 2004. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 of the Center's compliance with those requirements.

In our opinion, the 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, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2004-001. We also noted another matter that we reported to the management of the Center in a separate letter dated June 14, 2005.

Members of the Board

Athens-Meigs Educational Service Center

Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

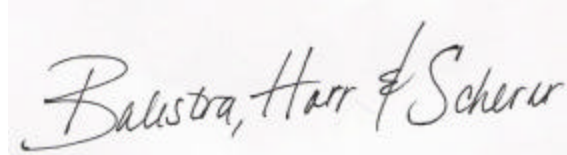
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Internal Control Over Compliance

The management of the 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 Centers 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 the 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 reportable 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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a 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 operations that we consider to be material weaknesses.

This report is intended solely 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.



Balestra, Harr & Scherer CPAs, Inc.

June 14, 2005

**ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS COUNTY
JUNE 30, 2004**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

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 noncompliance at the financial statement level (GAGAS)?	No
(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 section .510?	Yes
(d)(1)(vii)	Major Programs (list):	Head Start, CFDA #93.600 Temporary Assistance for Needy Families, CFDA #93.558
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Not Low Risk

**ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS COUNTY
JUNE 30, 2004**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS	
Finding Number	2004-001
CFDA Title and Number	Head Start, CFDA #93.600
Federal Award Number/Year	2004
Federal Agency	Department of Health and Human Services
Pass-Through Agency	N/A, Direct Funding

40 USC 276a to 276a-7 states that when required by the Davis Bacon Act, the Department of Labor's (DOL) government wide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wages rates) by the DOL.

From the federal Head Start program funds, the Center paid the following contractors in excess of \$2,000 as part of renovating the Bradbury Head Start building: Hendrix Heating and Cooling, \$32,500; Homecreek Enterprises, \$44,122; and Snouffer's Fire & Safety, \$12,959. These total contract amounts included labor. No monitoring was performed by the Center to ensure that prevailing wages were paid to the laborers of the contractors nor were we able to determine whether prevailing wages, at a minimum, were paid.

The Center should monitor that contract laborers are being compensated no less than the applicable prevailing wage, where applicable.

**ATHEN-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS COUNTY
JUNE 30, 2004**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 SECTION 315(b)**

**Not Corrected, Partially
Corrected;
Significantly Different
Corrective Action Taken; or
Finding No Longer Valid;
Explain:**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Lack of prior certification of the Treasurer prior to a commitment being incurred, Ohio Rev. Code Section 5705.41(D).	Yes	Fully Corrected.
2003-002	Budgeted amounts recorded in the accounting system were not supported by estimated revenues and appropriations approved by the Board.	Yes	Fully Corrected.
2003-003	Incomplete capital asset records.	No	Partially Corrected. See current year management letter comment.



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ATHENS-MEIGS EDUCATIONAL SERVICE CENTER

ATHENS 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
AUGUST 23, 2005**