

Central State University
(a component unit of the State of Ohio)

Financial Report
Including Supplemental Information
June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Central State University

We have reviewed the Independent Auditor's Report of the Central State University, Greene County, prepared by Plante & Moran, PLLC 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.

As part of the audit, the Auditor of State became aware that David L. Gray misappropriated assets in the amount of Three Hundred and Thirteen Thousand Nine Hundred and Seventy Six Dollars and Ninety One Cents (\$313,976.91) from the operating and federal loan drawdown account to his personal account. The University has received insurance proceeds during fiscal year 2005 of Two Hundred and Fourteen Thousand Dollars (\$214,000) to offset the loss that occurred. This misappropriation of assets constitute a Finding for Recovery, partially repaid under audit, for the loss not recovered through insurance, which will be issued against David L. Gray in the amount of Ninety Nine Thousand Nine Hundred and Seventy Six Dollars and Ninety One Cents (\$99,968.91) and in favor of the Central State University.

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 Central State University is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 16, 2005

This Page is Intentionally Left Blank.

Central State University

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Statement of Net Assets - University	9
Statement of Revenues, Expenses, and Changes in Net Assets - University	10
Statement of Cash Flows - University	11-12
Consolidated Statement of Financial Position - Discretely Presented Component Unit - Foundation	13
Consolidated Statement of Activities and Changes in Net Assets - Discretely Presented Component Unit - Foundation	14
Notes to Financial Statements	15-32
Supplemental Information	
Schedule of Expenditures of Federal Awards	33-36
Notes to Schedule of Expenditures of Federal Awards	37
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38-39
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	40-41
Schedule of Findings and Questioned Costs	42-49
Summary Schedule of Prior Audit Findings	50-51
Corrective Action Plan	52-55

This Page is Intentionally Left Blank.



Plante & Moran, PLLC
Suite 600
65 E. State St.
Columbus, OH 43215
Tel: 614.849.3000
Fax: 614.221.3535
plante Moran.com

Independent Auditor's Report

To the Board of Trustees
Central State University

We have audited the accompanying basic financial statements of Central State University (a component unit of the State of Ohio) and its discretely presented component unit as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Central State University and its discretely presented component unit as of June 30, 2003 were audited by other auditors, whose reports dated October 10, 2003 and December 15, 2003, respectively, expressed unqualified opinions.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Central State University and its discretely presented component unit as of June 30, 2004 and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

For the year ended June 30, 2004, Central State University adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The impact of this statement was to bring in its component unit, Central State University Foundation, as discretely presented. The Foundation follows a different basis of accounting, and therefore is disclosed on a separate page to the financial statements.

In accordance with *Government Auditing Standards*, we also have issued our report dated May 25, 2005 on our consideration of Central State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements for the year ended June 30, 2004. 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 opinions on the internal control 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.

A member of



A worldwide association of independent accounting firms

To the Board of Trustees
Central State University

The accompanying schedule of expenditures of federal awards is presented for the purpose 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 part of the basic financial statements. Such information has been subjected to the 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.

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

Plante & Moran, PLLC

May 25, 2005

Central State University

Management's Discussion and Analysis - Unaudited

The discussion and analysis of Central State University's (the "University") annual financial statements provide an overview of the University's financial activities for the year ended June 30, 2004. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the University administration.

Using this Report

The University's annual report consists of a series of financial statements prepared in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statements focus on the financial condition, the results of operations, and the impact on cash flows of the University as a whole.

One of the most important questions asked about the University's finances is whether the University as a whole is better off, or worse off, as a result of the current year's activities. The keys to understanding this question are the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. These statements present financial information in a form similar to that used by corporations. The University's net assets are one indicator of its financial health. Over time, increases or decreases in net assets reflect the improvement or erosion of the University's financial health when considered with nonfinancial facts (such as enrollment levels, changes in State funding, facility changes, etc.).

The statement of net assets includes all assets and liabilities of the University, and is prepared using the accrual basis of accounting. Revenues and assets are recognized when services are provided and expenses and liabilities are recognized when others provide the goods or services, regardless of when cash is exchanged.

The statement of revenues, expenses, and changes in net assets presents the revenues earned and the expenses incurred during the year. Activities are reported either as operating or nonoperating. The financial reporting model reflects treatment of State and local appropriations, as well as gifts, as nonoperating revenues. Since dependency on State of Ohio and local aid is recognized as nonoperating under accounting principles generally accepted in the United States of America, a public university normally presents operating results as a deficit. The utilization of long-lived assets, primarily capital assets, is reflected in the financial statements as depreciation.

Another important factor to consider when evaluating the University's financial viability is its ability to meet financial obligations as they mature. One measure of this factor is the University's working capital, or the relationship of its current assets less its current liabilities.

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

The statement of cash flows presents the information related to cash inflows and outflows. These cash inflows and outflows are summarized by operating, capital and noncapital financing, and investing activities, and illustrate the University's sources and uses of cash.

Analysis of Results of Operations

Total revenues for the years ended June 30, 2004 and 2003 were \$49.3 million and \$45.3 million, respectively, of which operating revenues amounted to \$31.6 million and \$26.0 million, respectively. Operating revenue increased \$5.6 million, or 21.5 percent. Total expenses for the years ended June 30, 2004 and 2003 were \$49.6 million and \$46.8 million, respectively. Operating expenses increased \$2.8 million, or 5.9 percent. The University's operating loss amounted to \$18.0 million during 2004 compared to \$20.8 million in 2003, which represented a favorable decrease of \$2.8 million, or 13.5 percent. The decrease in net assets for fiscal 2004 was \$348,383, from \$57.7 million to \$57.3 million.

Student enrollment increased 14.4 percent in fall fiscal year 2004 compared to fall fiscal year 2003; tuition, fees, room, and board rates for 2004 increased 6.0 percent when compared to 2003 amounts. Of the \$5.6 million increase in operating revenues, \$1.3 million was related to net auxiliary revenue increases, \$1.1 million was related to tuition and fee increases, net (\$0.7 million of which was related to enrollment increases and \$0.4 million of which was related to rate increases), federal grants increased \$2.7 million, State grants and contracts increased \$0.6 million, and indirect cost recovery and other sources decreased \$0.1 million. A breakdown and comparison of operating revenues are provided below.

Operating Revenues (in millions)	<u>2004</u>	<u>2003</u>
Tuition and fees - Net	\$ 4.3	\$ 3.1
Federal grants and contracts	17.6	14.9
State grants and contracts	3.2	2.6
Indirect cost recovery	0.6	0.7
Auxiliary activities - Net	5.2	3.9
Other sources	<u>0.7</u>	<u>0.8</u>
Total	<u>\$ 31.6</u>	<u>\$ 26.0</u>

The University's nonoperating revenues are comprised primarily of State of Ohio (State) appropriations. State appropriations include core funding (the State's Share of Instructional Support (SSIS) and the Central State University Supplement), funding for the International Center for Water Resources, and a small capital component.

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

A breakdown and comparison of State appropriation revenues are as follows:

State Appropriations (in millions)	<u>2004</u>	<u>2003</u>
State Share of Instruction	\$ 6.0	\$ 6.0
Central State Supplement	11.0	11.0
Other	0.1	0.2
Senate Bill 6 Appropriations	<u>0.0</u>	<u>0.4</u>
Total	<u>\$ 17.1</u>	<u>\$ 17.6</u>

The change in State of Ohio funding from 2003 to 2004 was primarily attributable to the discontinuation of Senate Bill 6 funding.

Operating expenses include educational and general, auxiliary enterprises, restricted funding from grants and contracts, and depreciation. A breakdown and comparison of these expenses are as follows:

Expense (in millions)	<u>2004</u>	<u>2003</u>
Instruction	\$ 8.1	\$ 7.3
Research	1.1	1.3
Student services	3.5	3.4
Academic support	4.7	4.4
Public services	8.6	8.4
Institutional administration	7.7	7.3
Operation and maintenance of plant	4.5	4.2
Auxiliary enterprises	6.6	5.9
Student aid	2.1	1.8
Depreciation	<u>2.7</u>	<u>2.8</u>
Total	<u>\$ 49.6</u>	<u>\$ 46.8</u>

Central State University's educational and general operating expenses during 2004 reflected a \$2.8 million increase in operating expenses, totaling \$49.6 million in 2004 as compared to \$46.8 million in 2003. The increase in expenses was primarily related to increased student enrollment and focus on academic areas (\$0.8 million in instruction, \$0.1 million in student services, \$0.4 million in academic support, \$0.3 million in operation and maintenance of plant, \$0.7 million in auxiliary enterprises, and \$0.3 million in student aid).

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

Analysis of Overall Financial Position

At June 30, 2004, current assets amounted to \$14.4 million, as compared to \$14.2 million at June 30, 2003, an increase of \$0.2 million. Current liabilities at June 30, 2004, as compared to June 30, 2003, amounted to \$8.9 million and \$8.8 million, respectively, an increase of \$0.1 million. The University's working capital ratio at June 30, 2004 and June 30, 2003 was 1.62 percent and 1.61 percent, respectively. The increase in current liabilities was primarily attributable to a \$0.4 million increase in accrued salaries, wages, and benefits, a \$0.2 million increase in accounts payable, and a \$0.5 million decrease in deferred revenue.

Noncurrent assets are comprised of capital assets and restricted cash and cash equivalents. The \$0.7 million decrease in the University's capital assets is associated with current year depreciation expense exceeding additions.

The total of University noncurrent liabilities is \$0.1 million less than the prior year.

The University's net assets were \$57.3 million and \$57.7 million at June 30, 2004 and 2003, respectively. The \$0.4 million decrease in net assets was primarily attributable to the recognition of \$2.7 million in depreciation expense, which was partially offset by improvement to operating revenues, and the control of operating expenses.

Capital Assets and Long-term Debt Activity

The University utilizes State capital appropriations for capital asset expenditures. State capital appropriations are on a biennium basis, and individual institution's capital funding allocations are based largely on enrollment. During 2004, the University utilized \$540,363 in State capital appropriations.

The University's long-term debt is comprised of its general revenue bonds, notes payable to Housing and Urban Development and the Department of Education, and capital lease obligations. During 2004, the University did not issue any new debt or capital lease obligations and paid \$0.3 million in connection with debt maturities. The University is in compliance with all of its contractual long-term debt requirements and covenants.

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

A breakdown and comparison of the University's balance sheets as of June 30, 2004 and 2003 are provided below.

Balance Sheet (in millions)	<u>2004</u>	<u>2003</u>
Assets:		
Current assets	\$ 14.4	\$ 14.2
Noncurrent assets	<u>54.7</u>	<u>55.3</u>
Total assets	<u>\$ 69.1</u>	<u>\$ 69.5</u>
Liabilities:		
Current liabilities	\$ 8.9	\$ 8.8
Noncurrent liabilities	<u>2.9</u>	<u>3.0</u>
Total liabilities	11.8	11.8
Net assets:		
Invested in capital assets - Net	51.1	51.6
Restricted for:		
Nonexpendable	1.9	1.9
Expendable	0.0	0.2
Unrestricted	<u>4.3</u>	<u>4.0</u>
Total net assets	<u>57.3</u>	<u>57.7</u>
Total liabilities and net assets	<u>\$ 69.1</u>	<u>\$ 69.5</u>

Statement of Cash Flows

Net cash used in operating activities was \$15.5 million and \$18.7 million in 2004 and 2003, respectively. Cash flows from operating activities were primarily comprised of grants and contracts (\$19.8 million), tuition and fees (\$4.4 million), and other receipts (\$1.3 million), which was partially offset by payments to suppliers and employees of \$39.4 million and auxiliary enterprise charges of \$1.6 million.

Cash flows from noncapital financing activities were \$17.2 million and \$17.5 million in 2004 and 2003, respectively. In 2004, these were comprised of State of Ohio appropriations of \$17.2 million, and offsetting federal family education loan receipts and disbursements of \$7.0 million. The variance between the two years is comprised of Senate Bill 6 appropriations of \$353,191 in 2003, the last year funding from that source was received.

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

Cash flows from capital and related financing activities for 2004 and 2003 were (\$1.8) million and (\$0.9) million, respectively. The decrease in cash flows is primarily attributable to a \$1.2 million decrease in capital grants and gifts received. Cash flows from investing activities decreased \$0.2 million in 2004, and are related to the change in net proceeds from sales and maturities of investments from the prior year.

The net decrease in cash and cash equivalents for 2004 and 2003 was \$0.1 million and \$1.8 million, respectively. Year-end cash and cash equivalents for 2004 were comparable to 2003, and were \$9.8 million and \$9.9 million, respectively.

A breakdown and comparison of the University's statement of cash flows for the years ended June 30, 2004 and 2003 are provided below.

Cash Flow Activities (in millions)	<u>2004</u>	<u>2003</u>
Cash flows from operating activities	(\$ 15.5)	(\$ 18.7)
Cash flows from noncapital financing activities	17.1	17.6
Cash flows from capital and related financing activities	(1.8)	(1.0)
Cash flows from investing activities	<u>0.1</u>	<u>0.3</u>
Net decrease in cash and cash equivalents	(0.1)	(1.8)
Cash and cash equivalents - Beginning of year	<u>9.9</u>	<u>11.7</u>
Cash and cash equivalents - End of year	<u><u>\$ 9.8</u></u>	<u><u>\$ 9.9</u></u>

Factors Impacting Future Periods

Due to increased student enrollment, additional student housing was necessary to meet demand. Therefore, a new, 384-bed residence hall was constructed during 2004, and was opened for students in fall 2004. Construction for the new Center for Education and Natural Sciences also is underway. Further, planning has been initiated for a new student center.

The University places significant reliance on State appropriations, particularly the State Share of Instruction and the Central State University Supplement to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. Stability of State support and funding increases are essential for the University to continue to provide access to underserved populations and expand program offerings to meet the educational needs of students.

Central State University

Statement of Net Assets

	June 30	
	2004	2003
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 8,787,814	\$ 8,917,407
Accounts receivable - Net of allowance of approximately \$6.5 million at June 30, 2004 and \$5.1 million June 30, 2003	4,438,029	4,883,466
Notes receivable - Net of allowance of approximately \$270,000 and \$1,020,000 at June 30, 2004 and 2003, respectively	860,729	43,027
Prepaid assets	322,212	341,082
Total current assets	14,408,784	14,184,982
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	1,037,850	976,861
Capital assets - Net (Note 3)	53,636,124	54,331,543
Total noncurrent assets	54,673,974	55,308,404
Total assets	<u>\$ 69,082,758</u>	<u>\$ 69,493,386</u>
Liabilities and Net Assets		
Current Liabilities		
Deposits	\$ 214,234	\$ 240,368
Accounts payable	3,113,331	2,926,462
Accrued salaries, wages, and benefits	2,605,967	2,217,468
Deferred student fee revenue	187,885	104,613
Current portion of long-term debt (Note 5)	195,418	182,089
Other liabilities	154,922	188,757
Other deferred revenue	2,409,321	2,938,500
Total current liabilities	8,881,078	8,798,257
Noncurrent Liabilities		
Long-term debt (Note 5)	2,340,403	2,521,340
Long-term liabilities (Note 4)	550,696	514,825
Total noncurrent liabilities	2,891,099	3,036,165
Total liabilities	11,772,177	11,834,422
Net Assets		
Invested in capital assets - Net of related debt	51,100,303	51,628,114
Restricted for:		
Nonexpendable	1,850,277	1,850,277
Expendable - Grants	62,445	182,185
Unrestricted	4,297,556	3,998,388
Total net assets	57,310,581	57,658,964
Total liabilities and net assets	<u>\$ 69,082,758</u>	<u>\$ 69,493,386</u>

Central State University

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Operating Revenues		
Tuition and fees	\$ 6,629,698	\$ 4,935,932
Less grants and scholarships	(2,359,463)	(1,800,172)
Federal grants and contracts	17,623,159	14,934,376
State, local, and private grants and contracts	3,214,451	2,627,550
Indirect cost recovery	663,982	722,128
Auxilliary activities	7,959,519	5,993,239
Less grants and scholarships	(2,802,345)	(2,109,347)
Other sources	664,847	744,109
Total operating revenues	31,593,848	26,047,815
Operating Expenses		
Instruction	8,077,423	7,325,797
Research	1,052,641	1,246,899
Student services	3,511,203	3,416,927
Academic support	4,770,790	4,413,494
Public services	8,571,078	8,389,750
Institutional administration	7,696,186	7,324,868
Operation and maintenance of plant	4,471,444	4,243,069
Auxiliary enterprises	6,613,492	5,892,849
Student aid	2,105,601	1,747,025
Depreciation	2,729,590	2,829,481
Total operating expenses	49,599,448	46,830,159
Operating Loss	(18,005,600)	(20,782,344)
Nonoperating Revenues and Expenses		
State appropriations	17,168,239	17,196,608
Senate Bill 6 appropriations	-	353,191
Investment Income	83,000	143,945
Interest expenses on capital asset - Related debt	(134,385)	(151,799)
Net nonoperating revenues	17,116,854	17,541,945
Loss - Before other revenues	(888,746)	(3,240,399)
Other Revenues - State capital appropriations	540,363	1,704,009
Decrease in Net Assets	(348,383)	(1,536,390)
Net Assets - Beginning of year	57,658,964	59,195,354
Net Assets - End of year	\$ 57,310,581	\$ 57,658,964

Central State University

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Tuition and fees	\$ 4,366,305	\$ 3,002,974
Grants and contracts	19,777,723	16,247,779
Payments to suppliers and employees	(39,378,899)	(36,902,704)
Auxiliary enterprise charges	(1,618,000)	(2,164,939)
Other	1,328,829	1,145,819
Net cash used in operating activities	(15,524,042)	(18,671,071)
Cash Flows from Noncapital Financing Activities		
State appropriations	17,168,239	17,196,608
Senate Bill 6 appropriations	-	353,191
Federal family education loan receipts	8,217,387	5,340,892
Federal family education loan disbursements	(8,217,387)	(5,340,892)
Net cash provided by noncapital financing activities	17,168,239	17,549,799
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received	540,363	1,704,009
Purchase of capital assets and construction	(2,034,171)	(2,040,544)
Principal paid on capital debt	(167,608)	(489,015)
Interest paid on capital debt	(134,385)	(151,799)
Net cash used in capital and related financing activities	(1,795,801)	(977,349)
Cash Flows from Investing Activities		
Net proceeds from sales and maturities of investments	-	203,275
Interest on investments	83,000	143,945
Net cash provided by investing activities	83,000	347,220
Net Decrease in Cash and Cash Equivalents	(68,604)	(1,751,401)
Cash and Cash Equivalents - Beginning of year	9,894,268	11,645,669
Cash and Cash Equivalents - End of year	\$ 9,825,664	\$ 9,894,268

Central State University

Statement of Cash Flows (Continued)

	Years Ended June 30	
	2004	2003
Reconciliation of net operating loss to net cash from operating activities:		
Operating loss	\$ (18,005,600)	\$ (20,782,344)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	2,729,590	2,829,481
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	445,437	(1,735,102)
Inventories, prepaids, and other assets	18,870	(22,143)
Notes receivable	(817,702)	8,905
Accounts payable	186,869	1,270,973
Accrued salaries, wages, and benefits	424,370	33,611
Other liabilities	(33,835)	(80,794)
Deferred revenue and student deposits	(472,041)	(193,658)
Net cash used in operating activities	<u>\$ (15,524,042)</u>	<u>\$ (18,671,071)</u>

Central State University

Consolidated Statement of Financial Position Discretely Presented Component Unit - Foundation

	June 30	
	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$ 927,542	\$ 2,621,371
Investments (Note 2)	3,674,391	1,312,354
Contributions receivable	228,778	92,297
Other receivables	99,119	-
Prepaid expenses	<u>4,332</u>	<u>3,333</u>
Total current assets	4,934,162	4,029,355
Restricted cash and cash equivalents (Note 2)	3,644,450	879,431
Fixed assets - Net (Note 3)	15,756,619	7,107,178
Financing costs - Net	<u>2,237,954</u>	<u>825,164</u>
Total assets	<u>\$ 26,573,185</u>	<u>\$ 12,841,128</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 96,767	\$ 132,458
Construction payable	1,293,646	-
Accrued interest payable	450,869	229,104
Current portion of long-term debt (Note 5)	<u>95,000</u>	<u>-</u>
Total current liabilities	1,936,282	361,562
Long-term debt (Note 5)	<u>20,377,724</u>	<u>8,577,499</u>
Total liabilities	22,314,006	8,939,061
Net Assets		
Unrestricted	272,637	439,487
Temporarily restricted	2,518,610	2,041,206
Permanently restricted	<u>1,467,932</u>	<u>1,421,374</u>
Total net assets	<u>4,259,179</u>	<u>3,902,067</u>
Total liabilities and net assets	<u>\$ 26,573,185</u>	<u>\$ 12,841,128</u>

Central State University

Consolidated Statement of Activities and Changes in Net Assets Discretely Presented Component Unit - Foundation

	Year Ended June 30	
	2004	2003
Revenue		
Rental revenues	\$ 990,340	\$ 816,945
Contributions	1,557,122	659,636
Reimbursements	14,143	54,264
Other	82,203	38,560
Unrealized gain (loss) on investments	64,030	(23,026)
Investment income	189,447	50,962
Transferred from Central State University	-	1,064,088
	<hr/>	<hr/>
Total revenue	2,897,285	2,661,429
Expenses		
Programs:		
Scholarship programs	421,052	188,074
Athletic programs	229,730	84,896
Academic programs	198,313	152,556
Institutional programs	201,878	131,701
Support activities:		
Management fees	63,371	57,186
Operating expenses	246,775	293,348
Depreciation expense	277,701	244,929
Interest expense	690,068	376,549
Other	211,285	-
	<hr/>	<hr/>
Total expenses	2,540,173	1,529,239
Increase in Net Assets	357,112	1,132,190
Net Assets - Beginning of year	<hr/>	<hr/>
	3,902,067	2,769,877
Net Assets - End of year	<hr/>	<hr/>
	\$ 4,259,179	\$ 3,902,067

Note 1 - Basis of Presentation and Significant Accounting Policies

Central State University (the "University") is a coeducational, degree-granting university located in Wilberforce, Ohio. The University was originally established in 1887 by the General Assembly of the State of Ohio. The University continued to expand degree programs, which resulted in a granting of University status in 1965 by Statutory Act under Chapter 3343 of the Ohio Revised Code and is a component unit of the State of Ohio as a state university. The University is governed by a board of trustees appointed by the governor with the advice and consent of the State Senate. The University offers undergraduate degrees in arts and science, business, teacher education, and technology. The University also has a branch facility, CSU-West, located in Dayton, Ohio.

The Central State University Foundation (the "Foundation") is being discretely presented as part of the University reporting entity (although it is a legally separate entity and governed by its own board of directors) because its sole purpose is to provide support for the University. This is being done for the first time this year in accordance with GASB Statement No. 39. Separate statements for the Foundation may be obtained through the State of Ohio auditor's web site.

The Foundation is an Ohio nonprofit corporation and exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed to receive contributions, which are to be used to support the educational undertakings of Central State University. Marauder, an Ohio limited liability corporation, was formed to develop property for the use of Central State University. The financial operations of Marauder Development, LLC, which maintains a fiscal year end of August 31, have been consolidated within these financial statements. The Foundation operates exclusively for the benefit of the University. The University provides certain administrative and payroll services for the Foundation.

Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)

Financial Statement Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America for publicly owned colleges and universities, and are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The College follows the "business-type" activities requirements of GASB Statement No. 34. This approach requires the following components of the University's financial statements:

- Management's discussion and analysis;
- Basic financial statements, including a statement of net assets, statement of revenues, expenses, and changes in net assets, and a statement of cash flows for the University as a whole; and
- Notes to the financial statements.

GASB Statement No. 34 established standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- **Invested in Capital Assets - Net of Related Debt** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets
- **Restricted Assets - Nonexpendable** - Net assets which represent endowment contributions from donors that are permanently restricted as to principal. Income generated from these funds may be designated for student scholarships, loans, instruction, research, and other specific University needs.
- **Restricted Net Assets - Expendable** - Net assets whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time
- **Unrestricted** - Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the board of trustees (the "board") or may otherwise be limited by contractual agreements with outside parties.

Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)

Cash and Cash Equivalents - Cash and cash equivalents include cash and money market funds, stated at cost (which approximates market).

Capital Assets - Capital assets are recorded at cost or, if acquired by gift, at fair value at the date of the gift. When capital assets are disposed of, the net carrying value of such assets is removed from the accounts and the invested in capital assets component of net assets is adjusted as appropriate. Capital assets, with the exception of land, are depreciated on the straight-line method over the following estimated lives:

Buildings	40 years
Building improvements	20 years
Automobiles, machinery, and equipment	5-15 years

Deferred Student Fee Income - Deferred student fee income consists of the unearned portion of student tuition and fees for the summer sessions.

Operating Versus Nonoperating Revenues and Expenses - The University defines operating activities as reported on the statement of revenues, expenses, and changes in net assets as those that generally result from exchange transactions such as payments received for providing goods or services. All of the University's expenses are from exchange transactions. Certain significant revenue streams relied on for operations are reported as nonoperating revenues as required by GASB Statement No. 35, including state appropriations, investment income, and state capital grants.

Grants and Scholarships - Student tuition and fees and auxiliary revenues are presented net of grants and scholarships applied directly to students' accounts. Grants and scholarships consist primarily of awards to students from the Federal Pell Grant Program, Federal Supplemental Educational Opportunity Grant Program, and the Ohio Instructional Grant Program. Payments made directly to students from grants and scholarships are presented as student aid.

Use of 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 disclosure in the footnotes. Actual results could differ from the estimates.

Income Taxes - The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The University would be subject to taxes on unrelated business income; however, any taxable income would be minimal.

Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)

Risk Management

The University is exposed to various risks of loss from torts, theft of, damage to and destruction of assets; business interruption; errors or omissions; employee injuries and illnesses; national disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for any of the preceding three years. The University is self-insured for student health insurance claims; the recorded liability for these claims is \$35,000 as of June 30, 2004 and 2003.

Note 2 - Cash and Cash Equivalents and Investments

In accordance with the State of Ohio's and the University's policy, the University is authorized to invest in obligations of the U.S. Treasury, agencies and instrumentalities, municipal and state bonds, certificates of deposit collateralized at market value, repurchase agreements, reverse repurchase agreements, and forward commitments. Statutes also authorize the University to invest endowment funds in the above investments, as well as commercial paper rated A-1 by Standard and Poor's bonds, common and preferred stock, mutual funds, and real estate upon specific authorization by the board of trustees. The classification of cash and cash equivalents and investments in the financial statements is based on the criteria set forth in GASB Statement No. 3. Cash equivalents are defined to include investments with original maturities of three months or less.

At June 30, 2004, bank balances for the cash deposits were \$11,232,429. Of this amount, \$400,000 was covered by federal depository insurance. These arrangements are in compliance with the Ohio Revised Code.

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of risk assumed by the entity at year end.

These categories are as follows:

- **Category 1** - Investments that are insured or registered or for which securities are held by the University or its agent in the name of the University
- **Category 2** - Uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the University
- **Category 3** - Uninsured and unregistered investments for which securities are held by the broker or dealer, or by its trust department or agent but which are not in the University's name

Central State University

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Cash and Cash Equivalents and Investments (Continued)

The fair value of investments at June 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Money market account (included in restricted cash and cash equivalents)	\$ 765,182	\$ 732,439

The money market investments are held by the custodial banks or their agents who internally designate the investments as owned by or pledged to the University (Category 3). The money market account held at June 30, 2004 and 2003 is restricted for debt reserve payments.

The Foundation, through Marauder, maintains restricted cash balances in the following accounts as of June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Restricted cash:		
Debt interest account	\$ 750,179	\$ 229,451
Debt principal account	95,298	-
Debt issuance account	21,432	29,216
Repair and replacement fund	60,896	-
Construction account	1,280,518	2,001
Debt reserve fund	<u>1,436,127</u>	<u>618,763</u>
Total restricted cash	<u>\$ 3,644,450</u>	<u>\$ 879,431</u>

Foundation investments are managed by a professional investment manager. The investment manager is subject to the Foundation's investment policies which contain objectives, guidelines, and restrictions designed to provide for preservation of capital with emphasis on providing current income and achieving long-term growth of the funds. Investments consist of money market funds, mutual funds, and equity securities.

Central State University

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Cash and Cash Equivalents and Investments (Continued)

The following summarizes the Foundation's investments by type as of June 30:

	<u>2004</u>	<u>2003</u>
Equities	\$ 399,422	\$ 143,047
Equity mutual funds	1,656,372	591,872
Bonds	106,784	38,058
Bond mutual funds	<u>1,511,813</u>	<u>539,377</u>
Total investments	<u>\$ 3,674,391</u>	<u>\$ 1,312,354</u>

Note 3 - Capital Assets

Capital assets activity for the University for the years ended June 30, 2004 and 2003 is summarized as follows:

	<u>2004</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	
Depreciable assets:				
Buildings and improvements	\$ 93,080,937	\$ 711,007	\$ -	\$ 93,791,944
Automobiles, machinery, and equipment	10,768,236	1,280,011	-	12,048,247
Nondepreciable assets:				
Land improvements	308,650	-	-	308,650
Construction in progress	<u>608,658</u>	<u>55,153</u>	<u>(12,000)</u>	<u>651,811</u>
Total capital assets	104,766,481	2,046,171	(12,000)	106,800,652
Less accumulated depreciation:				
Buildings and improvements	41,907,940	1,900,894	-	43,808,834
Automobiles, machinery, and equipment	<u>8,526,998</u>	<u>828,696</u>	-	<u>9,355,694</u>
Total accumulated depreciation	<u>50,434,938</u>	<u>\$ 2,729,590</u>	<u>\$ -</u>	<u>53,164,528</u>
Capital assets - Net	<u>\$ 54,331,543</u>			<u>\$ 53,636,124</u>

Note 3 - Capital Assets (Continued)

	2003			Ending Balance
	Beginning Balance	Additions	Retirements	
Depreciable assets:				
Building and building improvements	\$ 91,812,880	\$ 1,268,057	\$ -	\$ 93,080,937
Furniture, fixtures, and equipment	10,721,790	221,446	(175,000)	10,768,236
Nondepreciable assets:				
Land improvements	308,650	-	-	308,650
Construction in progress	<u>57,617</u>	<u>551,041</u>	<u>-</u>	<u>608,658</u>
Total capital assets	102,900,937	2,040,544	(175,000)	104,766,481
Less accumulated depreciation:				
Building and building improvements	39,955,706	1,952,234	-	41,907,940
Furniture, fixtures, and equipment	<u>7,824,751</u>	<u>877,247</u>	<u>(175,000)</u>	<u>8,526,998</u>
Total accumulated depreciation	<u>47,780,457</u>	<u>\$ 2,829,481</u>	<u>\$ (175,000)</u>	<u>50,434,938</u>
Capital assets - Net	<u>\$ 55,120,480</u>			<u>\$ 54,331,543</u>

Commitments for construction contracts at June 30, 2004 were approximately \$536,000. Since this work has not yet been performed, no liability has been recorded at year end.

Capital assets activity for the Foundation for the years ended June 30, 2004 and 2003 is summarized as follows:

	2004	2003
Land	\$ 75,330	\$ 75,330
Building	6,903,766	6,903,766
Furniture	859,653	350,789
Construction in progress	<u>8,363,285</u>	<u>-</u>
Total fixed assets	16,202,034	7,329,885
Less accumulated depreciation	<u>(445,415)</u>	<u>(222,707)</u>
Net	<u>\$ 15,756,619</u>	<u>\$ 7,107,178</u>

Note 4 - Long-term Liabilities

Long-term liability (other than long-term debt) activity for the years ended June 30, 2004 and 2003 is summarized as follows:

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 1,226,371	\$ 1,073,509	\$ 899,606	\$ 1,400,274	\$ 899,606
Other liabilities	76,345	708	27,025	50,028	-
Total	<u>\$ 1,302,716</u>	<u>\$ 1,074,217</u>	<u>\$ 926,631</u>	<u>\$ 1,450,302</u>	<u>\$ 899,606</u>
	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 1,121,176	\$ 893,086	\$ 787,891	\$ 1,226,371	\$ 787,891
Other liabilities	54,885	21,460	-	76,345	-
Workers' compensation	135,400	-	135,400	-	-
Total	<u>\$ 1,311,461</u>	<u>\$ 914,546</u>	<u>\$ 923,291</u>	<u>\$ 1,302,716</u>	<u>\$ 787,891</u>

The current portion of long-term liabilities is included in accrued salaries, wages, and benefits.

Central State University

Notes to Financial Statements June 30, 2004 and 2003

Note 5 - Long-term Debt

University:

Long-term debt for the University consists of the following for the years ended June 30, 2004 and 2003:

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bond payable:					
Central State University Revenue Bonds of 1970, Series F, 3.0%, payable in varying installments through December 1, 2010	\$ 272,550	\$ -	\$ 60,000	\$ 212,550	\$ 60,000
Notes payable:					
Note payable to HUD, 3.0%, payable in varying installments through June 12, 2010	171,682	-	22,190	149,492	23,067
Note payable to the Department of Education, 5.5%, payable in varying installments through November 1, 2021	2,208,047	-	71,424	2,136,623	75,195
Capital lease:					
Capital lease, 6.91%, payable in varying installments through September 1, 2004	51,150	-	13,994	37,156	37,156
Total	<u>\$ 2,703,429</u>	<u>\$ -</u>	<u>\$ 167,608</u>	<u>\$ 2,535,821</u>	<u>\$ 195,418</u>
	2003				
Bonds payable:					
Central State University Revenue Bonds of 1962	\$ 73,000	\$ -	\$ 73,000	\$ -	\$ -
Central State University Revenue Bonds of 1970, Series F, 3.0%, payable in varying installments through December 1, 2010	575,000	-	302,450	272,550	60,000
Notes payable:					
Note payable to HUD, 3.0%, payable in varying installments through June 12, 2010	193,415	-	21,733	171,682	22,390
Note payable to the Department of Education, 5.5%, payable in varying installments through November 1, 2021	2,275,509	-	67,462	2,208,047	71,224
Capital lease:					
Capital lease, 6.91%, payable in varying installments through September 1, 2004	75,520	-	24,370	51,150	28,475
Total	<u>\$ 3,192,444</u>	<u>\$ -</u>	<u>\$ 489,015</u>	<u>\$ 2,703,429</u>	<u>\$ 182,089</u>

Central State University

Notes to Financial Statements June 30, 2004 and 2003

Note 5 - Long-term Debt (Continued)

At June 30, 2004, maturities of long-term debt, including interest payments, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 195,418	\$ 128,237	\$ 323,655
2006	163,153	119,599	282,752
2007	173,297	112,579	285,876
2008	141,260	105,778	247,038
2009	119,406	99,669	219,075
2010-2014	578,064	407,812	985,876
2015-2019	723,106	235,397	958,503
2020-2022	442,117	37,134	479,251
Total	<u>\$ 2,535,821</u>	<u>\$ 1,246,205</u>	<u>\$ 3,782,026</u>

Revenues from student housing and dining facilities are pledged for the redemption of the notes and bonds.

The University is required to maintain a debt service payment account and a debt service reserve account under the Department of Education note. The University is required to deposit \$23,923 semiannually in the debt service payment account for the principal and interest payments. The University has accumulated the required reserve in the debt service reserve account (\$187,586). The University is now required to deposit \$28,010 annually into a repair and replacement reserve account until \$280,100 has been accumulated in that account (\$176,723 accumulated at June 30, 2004).

The University is required to maintain an operating reserve under the provisions of the revenue bonds. This reserve is required to be maintained at an amount adequate to provide working capital for the operation and maintenance of the dormitories; however, it should not exceed one-fourth of the operating and maintenance expenses of the dormitory facilities for the preceding 12 months, plus a reasonable amount for operating and maintenance expenses of the new dormitory facilities. Once the operating reserve is adequately funded, the University is required to maintain the following funds, in the order of priority.

- a. The University is required to make deposits on May 15 and November 15 of each year to the Debt Service Fund, in an amount equal to the principal plus interest payments due in the current year for certain series of revenue bonds.

Central State University

Notes to Financial Statements June 30, 2004 and 2003

Note 5 - Long-term Debt (Continued)

- b. The Debt Service Reserve Fund is equal to the maximum principal and interest requirements for any consecutive two-year certain series of dormitory revenue bonds.
- c. The Contingency Repair and Replacement Fund is equal to .25 percent of the cost of construction on all dormitory facilities then under construction plus 3 percent of the cost of movable equipment for all dormitory facilities.

The University is required to provide the trustees and the original purchasers of the bonds with an annual report of the accounts and operations of the dormitory facilities within 120 days after year end.

Central State University Foundation:

The Foundation's subsidiary, Marauder Development, LLC, has the following debt related to the financing of student dormitories. Information is for the subsidiary's year ended August 31, 2004:

	Interest Rate	Maturity	Balance September 1, 2003	Additions	Payments	Balance August 31, 2004
Revenue Bonds Series 2004	3.3%-5.1%	2035	\$ -	\$ 11,866,954	\$ -	\$ 11,866,954
Revenue Bonds Series 2002	3.0%-5.625%	2032	8,577,499	28,271	-	8,605,770
Total			<u>\$ 8,577,499</u>	<u>\$ 11,895,225</u>	<u>\$ -</u>	20,472,724
Less current portion						95,000
Long-term portion						<u>\$ 20,377,724</u>

	Interest Rate	Maturity	Balance September 1, 2002	Additions	Payments	Balance August 31, 2003
National City Bank	Prime + .5%		\$ 975,044	\$ 2,325,827	\$ 3,300,871	\$ -
Student Suites of Ohio	Prime + .5%		2,693,577	800,964	3,494,541	-
Revenue Bonds Series 2002	3.0%-5.625%	2032	-	8,577,499	-	8,577,499
Total			<u>\$ 3,668,621</u>	<u>\$ 11,704,290</u>	<u>\$ 6,795,412</u>	8,577,499
Less current portion						-
Long-term portion						<u>\$ 8,577,499</u>

Note 5 - Long-term Debt (Continued)

Principal and interest payments on long-term debt are as follows:

Years Ending August 31	Series 2002 Bonds		Series 2004 Bonds		Total
	Principal	Interest	Principal	Interest	
2005	\$ 95,000	\$ 455,834	\$ -	\$ 515,279	\$ 1,066,113
2006	160,000	451,059	-	587,026	1,198,085
2007	165,000	445,978	190,000	583,749	1,384,727
2008	170,000	440,321	200,000	576,471	1,386,792
2009	175,000	434,065	205,000	568,012	1,382,077
2010-2014	985,000	2,052,536	1,215,000	2,711,011	6,963,547
2015-2019	1,240,000	1,791,360	1,495,000	2,424,092	6,950,452
2020-2024	1,600,000	1,420,469	1,885,000	2,017,500	6,922,969
2025-2029	2,105,000	915,321	2,405,000	1,480,185	6,905,506
2030-2034	2,175,000	256,359	3,090,000	783,105	6,304,464
2035-2036	-	-	1,465,000	75,608	1,540,608
Total	<u>\$ 8,870,000</u>	<u>\$ 8,663,302</u>	<u>\$ 12,150,000</u>	<u>\$ 12,322,038</u>	<u>\$ 42,005,340</u>

Marauder issued Student Housing Revenue Bonds, Series 2002, dated December 1, 2002, to retire commercial loans used to finance the construction of the University Housing Project. The bond discount was \$264,230 at June 30, 2004, and is being amortized to interest expense on the interest method over the life of the bonds. The bonds mature on September 1 in various amounts ranging from \$95,000 on September 1, 2004 to \$620,000 on September 1, 2032, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 3.0 percent to 5.625 percent per annum, is payable semiannually on March 1 and September 1.

During 2004, Marauder issued \$12,150,000 in University Housing Revenue Bonds, Series 2004, to finance construction of the 2004 University Housing Project. The original bond discount totaled \$287,699, with an amortized balance of \$283,046 at August 31, 2004. The discount is being amortized to interest expense over the life of the bonds on the interest method. The bonds mature on September 1 in various amounts ranging from \$190,000 on September 1, 2006 to \$750,000 on September 1, 2035, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 3.3 percent to 5.1 percent per annum, is payable semiannually on March 1 and September 1.

Note 5 - Long-term Debt (Continued)

Bond legislation provides that Marauder Development, LLC will charge rates sufficient for the excess of revenue over expenditures to equal not less than 120 percent of the aggregate amount of principal and interest requirements on the bonds payable during the year (coverage ratio). As of August 31, 2004, Marauder was in compliance with this requirement.

Note 6 - Compensated Absences for Vacation and Sick Leave

The University has three classifications of employees: classified, contract, and faculty.

Classified employees are nonacademic, permanent, full-time employees. Classified employees are entitled to vacation leave based upon length of service. The employees may accumulate up to a maximum of 30 to 75 days of vacation leave, depending on number of years of service. Vacation leave becomes payable upon termination or retirement. Employees may accumulate an unlimited amount of sick leave. One-third of accumulated sick leave is payable to classified employees with 10 years or more of service upon termination or retirement.

Contract employees are nonacademic, contracted, full-time employees. Contract employees are entitled to vacation leave based upon length of service and/or classification. The employee may accumulate up to a maximum of 30 days of vacation leave. Vacation leave not to exceed 240 hours becomes payable upon termination or retirement. Contract employees accrue sick leave at a rate of 15 days per year. One-third of accumulated sick leave, not to exceed one-third of 120 days, is payable to contract employees with 10 years or more of service upon retirement.

Faculty employees are full-time, academic employees. Faculty employees accrue sick leave at a rate of 15 days per year. Faculty employees accruing vacation in excess of 30 days shall forfeit it. One-third of accumulated sick leave, not to exceed one-third of 120 days, is payable to faculty employees with 10 years or more of service upon retirement.

Vested or accumulated leave is recorded as an expenditure and liability of the current funds as the benefits accrue to employees.

Note 7 - State Support

The University is a state-assisted institution of higher education, which receives a student-based subsidy determined annually using a formula devised by the Ohio Board of Regents, and a supplement based on the University's special mission.

Note 7 - State Support (Continued)

In March 1997, the Ohio General Assembly approved a bill providing \$10.3 million additional appropriations for emergency aid to the University to pay past due bills and provide operating funds. The University made draws of \$0 and \$781,814 during the years ended June 30, 2004 and 2003, respectively, leaving an undrawn balance of \$0 as of June 30, 2004 and 2003. By approval of this bill, the State also forgave a \$1.5 million loan that was made in April 1995 by the State to the University.

In addition to the student subsidies and the special supplement, the State of Ohio provides the funding for construction of major plant facilities on the University campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn results in construction and subsequent transfer of the facility to the University by the Ohio board of regents.

University facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the treasurer of the state. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the state.

As a result of the above-described financial assistance provided by the State of Ohio to the University, outstanding debt issued by OPFC is not included on the University's balance sheet. In addition, the appropriations by the State's general assembly to the board of regents for payment of debt service are not recorded as appropriation revenue received by the University, and the related debt service payments are not recorded in the University's accounts.

Note 8 - Retirement Plans

University faculty participate in either the State Teachers Retirement System of Ohio ("STRS") or an alternative retirement plan ("ARP"). Substantially all other employees participate in either the Ohio Public Employees Retirement System ("OPERS") or the ARP.

The OPERS and STRS plans are statewide cost-sharing, multiple-employer, defined-benefit retirement plans. Each provides retirement, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The OPERS and STRS plans also provide health care benefits to vested retirees. Authority to establish and amend benefits for OPERS and STRS is provided by state statute by Chapters 145 and 3307, respectively, of the Ohio Revised Code.

Note 8 - Retirement Plans (Continued)

Each of the plans issues separate, publicly available financial reports that include balance sheets and required supplementary information. These reports may be obtained by contacting each system as follows:

OPERS
227 East Town Street
Columbus, Ohio 43215

STRS
275 East Board Street
Columbus, Ohio 43215

614.466.2085

614.227.4090

The Ohio Revised Code provides OPERS and STRS statutory authority for employee and employer contributions. The required, actuarially determined contribution rates for the University and for the employee are as follows:

	<u>Retirement System</u>	<u>University Share</u>	<u>Employee Share</u>
Classified, contract	OPERS	13.31%	8.50%
Faculty	STRS	14.00%	10.00%

The University's contributions, representing 100 percent of employer contributions, for the periods ended June 30, 2004, 2003 and 2002 are as follows:

	<u>OPERS</u>	<u>STRS</u>
2004	\$ 634,013	\$ 778,544
2003	629,161	755,319
2002	575,363	447,857

Certain full-time University faculty and staff have the option to choose the ARP in place of STRS or OPERS. The ARP is a defined-contribution plan that provides employees with the opportunity to establish individual retirement accounts with a defined group of investment options, with each participant having control of the assets and investment options associated with those assets. The administrators of the plan are the providers of the plan investment options. Authority to establish and amend benefits and contribution requirements of the ARP is provided by state statute per the Ohio Revised Code.

Note 8 - Retirement Plans (Continued)

Under the provisions of ARP, the required contribution rates for plan participants are 9.3 percent and 8.5 percent of employees' covered compensation for employees who would otherwise participate in STRS and OPERS, respectively. The University contributes 8.24 percent of a participating faculty member's compensation and 13.31 percent of a participating contract staff member's compensation to the participant's account. The University is also required to contribute an additional 3.5 percent of employees' covered compensation to STRS. Plan participants' contributions were \$303,168 and \$252,407 and the University's contributions to the ARP were \$448,262 and \$393,179 for the years ended June 30, 2004 and 2003, respectively. In addition, the amounts contributed to STRS by the University on behalf of ARP participants were \$54,754 and \$49,118 for the years ended June 30, 2004 and 2003, respectively.

Note 9 - Other Postemployment Benefits

OPERS currently provides postemployment health care benefits to retirees with 10 or more years of qualifying service credit and to primary survivors of those retirees. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code ("ORC"), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. The contributions allocated to retiree health benefits, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to other postemployment health benefits. Under the new method, effective January 1, 1998, employer contributions, equal to 5.0 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and the normal cost rates were determined for retiree health care coverage.

The actuarial value of OPERS net assets available for these benefits at December 31, 2003 was \$10.5 billion. There were 369,885 active, contributing members. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively. For the years ended June 30, 2004 and 2003, the University contributed \$381,471 and \$363,120, respectively, to OPERS for OPEB funding, which is equal to the actuarially required contributions of the plan.

Note 9 - Other Postemployment Benefits (Continued)

STRS currently provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. Pursuant to ORC, STRS has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of monthly premiums. Under ORC, medical costs paid from the funds of STRS are included in the employer contribution rate. For the fiscal year ended June 30, 2001, STRS allocated employer contributions equal to 4.5 percent of covered payroll to a Health Care Reserve Fund ("HCRF") from which payments for health care benefits are paid. The balance in the HCRF was \$3.011 billion at June 30, 2002. For the fiscal year ended June 30, 2001, STRS allocated employer contributions equal to 4.5 percent of covered payroll to the HCRF. There were 105,300 benefit recipients eligible for post-employment benefits at that date. For the years ended June 30, 2004 and 2003, the University contributed \$18,251 and \$16,372, respectively, to fund these benefits.

Note 10 - Grants and Contracts

The University receives grants and contracts from certain federal, state, and local agencies to fund research and other activities. The costs, both direct and indirect, that have been charged to their grants or contracts are subject to examination and approval by the granting agency. It is the opinion of the University administration that any potential disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

Note 11 - Commitments and Contingencies

Commitments - The University has encumbered approximately \$3,005,187 and \$7,445,000 of funds as of June 30, 2004 and 2003, respectively. These encumbrances represent purchase orders and other commitments for materials or services not received as of fiscal year end. These are not included as liabilities in the statement of net assets.

Litigations - The University is involved in various litigation and regulatory matters. Based upon management review, the ultimate disposition of these matters are uncertain; therefore, no adjustments have been made to the financial statements relative to these matters. The University's administration believes that the ultimate disposition of these matters would not have a material adverse effect upon the financial statements of the University.

Note 12 - Related Organization

The University is the sole beneficiary of the Central State University Foundation (the "Foundation"), a separate, not-for-profit entity governed by a separate board of trustees, organized for the purpose of promoting educational and research activities. Amounts received by the University from the Foundation in the form of private gifts, grants, and contracts amounted to approximately \$416,300 and \$187,400 for the years ended June 30, 2004 and 2003, respectively.

The Foundation established and owns Marauder Development LLC, which owns a new residence hall (Foundation Hall) located on the University's campus. The University receives an annual management fee and the reimbursement of operating expenses from Marauder Development LLC. These fees and reimbursement amounted to \$196,746 and \$213,110 for the years ended June 30, 2004 and 2003, respectively. The University paid Marauder Development LLC \$872,837 and \$1,246,804 for the years ended June 30, 2004 and 2003, respectively. These payments were primarily student residence hall fees and some reimbursable construction interest and furniture expenses.

Note 13 - Bureau of Workers' Compensation

The University participates in a state plan that pays workers' compensation benefits to beneficiaries who have been injured on the job with any of certain state agencies and state universities. The Ohio Bureau of Workers' Compensation (the "Bureau") calculates the estimated amount of cash needed in the subsequent fiscal year to pay the claim for these workers and sets rates to collect this estimated amount from these participating state agencies and universities in that subsequent one-year period. As these already-injured workers' claims will be paid out over a period of time, the Bureau also actuarially calculates estimated amounts that will be paid in future periods for the entire pool of state agencies and state universities.

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*

To the Board of Trustees
Central State University

We have audited the financial statements of Central State University as of and for the year ended June 30, 2004 and have issued our report thereon dated May 25, 2005. 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. For the year ended June 30, 2004, Central State University adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The impact of this statement was to bring in the Central State University Foundation and its subsidiary as a discretely presented component unit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central State University'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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Central State University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The reportable condition described above, item 2004-01, is considered to be a material weakness.

To the Board of Trustees
Central State University

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2004-06 and 2004-07. We also noted certain additional matters that we reported to management of Central State University in a separate letter dated May 25, 2005.

This report is intended solely for the information and use of the audit committee, board of trustees, management, 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.

Plante & Moran, PLLC

May 25, 2005

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

To the Board of Trustees
Central State University

Compliance

We have audited the compliance of Central State University 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 major federal programs of Central State University 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 Central State University's management. Our responsibility is to express an opinion on Central State University'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 Central State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Central State University's compliance with those requirements. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-02, 2004-03, 2004-04, and 2004-05.

In our opinion, Central State University 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.

To the Board of Trustees
Central State University

Internal Control Over Compliance

The management of Central State University 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 Central State University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low risk that noncompliance with applicable requirements of laws, regulations, contract, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, board of trustees, management, 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.

Plante & Moran, PLLC

May 25, 2005

Central State University

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

Federal Grant/Pass-through Grant/Program Title	CFDA Number	Federal Expenditures
CLUSTERS:		
STUDENT FINANCIAL ASSISTANCE CLUSTER:		
U.S. Department of Education - Direct Program:		
Federal Work Study	84.033	\$ 614,278
Federal SEOG	84.007	742,219
Federal Pell Grant	84.063	<u>3,572,413</u>
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		4,928,910
RESEARCH AND DEVELOPMENT CLUSTER:		
National Aeronautics and Space Administration:		
Aerospace Education Services program:		
Sic Piezoresistive Probe	43.001	50,341
Ohio View	43.001	4,819
Ohio View Modification #2	43.001	10,151
Faculty Fellowship Program	43.001	185,338
Global Warming	43.001	432
Integrated Remediation Center	43.001	17,507
Ohio Space Grant	43.001	12,276
Renewable Energy Laboratory	43.001	<u>27,540</u>
Total National Aeronautics and Space Administration		308,404
Environmental Protection Agency -		
Argon Optimization of Phytormediation	66.509	93,660
Department of Commerce -		
Oak Ridge National Laboratory	11.432	<u>922</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		402,986
TRIO CLUSTER:		
U.S. Department of Education - Direct Program:		
TRIO: Student Support Services	84.042A	337,323
TRIO: Upward Bound	84.047A	<u>9,797</u>
TOTAL TRIO CLUSTER		347,120

Central State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2004

Federal Grant/Pass-through Grant/Program Title	CFDA Number	Federal Expenditures
OTHER FEDERAL PROGRAMS:		
U.S. DEPARTMENT OF EDUCATION		
HIGHER EDUCATION - INSTITUTIONAL AID - Direct Program:		
Academic Enhancement	84.031B	\$ 17,915
Accreditation of Social Work Program	84.031B	1,350
Center for Student Academic Success	84.031B	209,910
Comprehensive Science Enhancement	84.031B	42,492
Computer Science	84.031B	82,789
Development Experiential Learning	84.031B	19,875
Faculty Development	84.031B	63,629
Faculty Development Travel	84.031B	47,001
Fine Arts	84.031B	93,593
First-Year Experience	84.031B	8,074
Funds Management	84.031B	15,926
Honors Program	84.031B	86,586
Improving Administrative Management	84.031B	42,601
Improving Services to Students	84.031B	24,945
Institutional Advancement	84.031B	58,564
International Studies Center	84.031B	60,242
International Studies Center Enhancement	84.031B	14,338
Library Acquisition Enhancement	84.031B	251,020
Management Administration	84.031B	44,461
Praxis	84.031B	20,517
Professional Development	84.031B	35,318
Program Administration	84.031B	163,707
Radio/TV	84.031B	59,347
Semester Conversion	84.031B	84,886
Strengthen Administrative Management	84.031B	47,774
Strengthen Development Office	84.031B	65,274
Strengthening the Honors Program	84.031B	(93)
Strengthening Institutional Enhancement	84.031B	126,206
Student Leadership	84.031B	849
Student Success Support	84.031B	184,625
Student Success Counseling	84.031B	27,837
Technical Part	84.031B	7,041
Technology Upgrade	84.031B	<u>(62)</u>
Total Higher Education - Institutional Aid		2,008,537
Minority Science and Engineering Project	84.120A	<u>53,789</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		2,062,326

Central State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2004

Federal Grant/Pass-through Grant/Program Title	CFDA Number	Federal Expenditures
OTHER FEDERAL PROGRAMS:		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Family and Community Violence Prevention	93.910	\$ 7,047,960
Family Life Center	93.910	49,148
Project Succeed	93.000	251
Project Alpha	93.000	1,121
Health Care/Other Facilities	93.000	<u>58,287</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		7,156,767
U.S. DEPARTMENT OF TRANSPORTATION		
Summer Transportation Program	20.000	36,850
U.S. DEPARTMENT OF DEFENSE		
Basic and Applied Scientific Research:		
Programming Environment Training	12.000	31,191
Student Satellite Program	12.000	1,380
STAPP APPS To Curved Antennas	12.000	51,237
Modeling/Design Multifunction Systems	12.000	66,423
PET Leadership Program	12.000	1,070
Programming Environment/Summer Institute	12.000	47,684
Integrated Product/Process Design	12.000	11,963
SEMAC Urban Education	12.300	<u>280,400</u>
TOTAL U.S. DEPARTMENT OF DEFENSE		491,348
NATIONAL SCIENCE FOUNDATION		
QUEST	47.076	503,468
LSAMP OH Science and Engineering	47.076	14,161
Scholarships for Academic Recruitment	47.076	<u>66,503</u>
TOTAL NATIONAL SCIENCE FOUNDATION		584,132
U.S. DEPARTMENT OF ENERGY		
National Renewable Energy Laboratory	81.087	3,664
U.S. DEPARTMENT OF AGRICULTURE		
Special Research Grant - Facilities Allocation	10.200	4,050

Central State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2004

<u>Federal Grant/Pass-through Grant/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
OTHER FEDERAL PROGRAMS:		
U.S. DEPARTMENT OF JUSTICE		
Law Enforcement Block Grant	16.592	\$ 11,095
ENVIRONMENTAL PROTECTION AGENCY		
US EPA Training	66.607	<u>23,634</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 16,052,882</u>

Central State University

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Central State University and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Federal Family Education Loans

Federal Family Education Loans (Federal CFDA Number 84.032), processed for students by the University during the year ended June 30, 2004, are summarized as follows:

Federal Stafford Loans	\$ 3,891,473
Federal Unsubsidized Stafford Loans	3,107,908
Federal Parental Loans for Undergraduate Students (PLUS)	<u>1,218,006</u>
Total Federal Family Education Loan Program	<u>\$ 8,217,387</u>

Note 3 - Federal Perkins Loans Outstanding

The University administers the Perkins Loan Program (Federal CFDA Number 84.038). Outstanding loans as of June 30, 2004 were \$1,129,168. No new loans were issued during the year ended June 30, 2004.

Note 4 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Family and Community Violence Prevention	93.910	<u>\$ 5,609,283</u>

Central State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: UNQUALIFIED

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): UNQUALIFIED

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
93.910	Family and Community Violence Prevention
84.033, 84.007, 84.063, 84.038 and 84.032	Student Financial Assistance Cluster
47.076	National Science Foundation

Dollar threshold used to distinguish between type A and type B programs: \$481,676

Auditee qualified as low-risk auditee? Yes No

Central State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings

Reference Number	Findings
2004-01	<p>Finding Type - Material weakness and reportable condition</p> <p>Criteria - A strong internal control structure is supported by timely and accurate account reconciliations of general ledger and bank balances and an accounting system in place supported by segregation of duties amongst finance personnel.</p> <p>Condition - The University did not complete bank reconciliations for the operating and federal loan drawdown accounts throughout the year. The operating account is managed through an online banking system that was not functioning with adequate segregation of duties. In addition, several other balance sheet accounts were not reconciled throughout the year.</p> <p>Cause/Effect – Personnel in the finance area were not required to complete reconciliations timely nor were they reviewed by a supervisor. The individual responsible for online banking functions was also responsible for bank reconciliations.</p> <p>Recommendation – All bank and account reconciliations should be prepared within a week or two of closing each month's transactions and receiving the bank statements. All reconciling items should be identified and properly recorded and/or resolved if in error. All reconciliations should be reviewed by a person of proper authority, immediately after being prepared, to ensure the accuracy and adequacy of preparation. Online banking authorization process should be modified to allow for proper segregation of duties within the system being utilized by the University.</p> <p>Grantee Response – The University has made account reconciliations and segregation of duties its highest priority. As discussed further in the corrective action plan, the University is in the midst of replacing most of the finance management staff, is working with interim staffing to prepare all reconciliations and has already modified the online banking system to strengthen internal controls and has appropriately segregated duties within the system.</p>

Central State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2004-06	<p data-bbox="418 541 1170 579">Finding Type – Noncompliance – Annual Audit Reporting</p> <p data-bbox="418 621 1443 846">Criteria – OMB Circular A-133 requires the audit report to be submitted to the Federal Clearinghouse within the earlier of 30 days after receipt of the auditor’s report or nine months after the end of the audit period. In addition, the University is required to comply with State of Ohio Senate Bill 6, which requires submission of the audit report to the State of Ohio Auditor’s Office by October 15 of the year under audit.</p> <p data-bbox="418 888 1443 1150">Condition – The University’s auditors were terminated subsequent to June 30, 2004. The University, in order to expedite the audit process, asked the state auditor’s office to perform the audit and they declined. The University was then required to put the audit out to bid and new auditors were selected in late January 2005 to perform the audit for the year ended June 30, 2004. The University and related entity audits commenced on February 14, 2005 and were completed May 25, 2005.</p> <p data-bbox="418 1192 1443 1518">Cause/Effect – The University was the victim of fraud, which is disclosed as Other Matters. Because of this matter, the University needed to complete a full investigation, terminate and replace several staff. The interim and temporary staffing in the finance area were not familiar with the system or processes in place and it took considerably longer than expected to reconcile and balance the University’s general ledger for the year ended June 30, 2004. The University has been in compliance with other State of Ohio Senate Bill 6 requirements related to quarterly reporting and federal guidelines related to items such as IPEDS, etc.</p> <p data-bbox="418 1560 1443 1738">Recommendation – For the year ended June 30, 2005 and all future years, the University should make every effort to comply with all State of Ohio and Federal reporting guidelines and due dates. An appropriate due date system should be implemented to ensure compliance with all financial reporting due dates to external parties.</p> <p data-bbox="418 1780 1443 1923">Grantee Response – The University will be able to meet the annual audit due dates and filing requirements with the State of Ohio. In addition, a master listing of all annual and interim reporting to external parties will be developed and maintained by the finance area of the University.</p>

Central State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2004-07	<p data-bbox="418 541 1243 577">Finding Type – Other Matters - Reporting of Instance of Fraud</p> <p data-bbox="418 621 1438 766">Criteria – AICPA standards and Generally Accepted Government Auditing Standards require auditors to address the effect fraud may have on the audit report and to determine that the audit committee is adequately informed about the fraud.</p> <p data-bbox="418 810 1438 1375">Condition – The University participated in the automated clearing house (ACH) online banking system for paying and processing accounts payable. The individual responsible for processing online payments also had the ability to add vendors and was involved in the bank reconciliation process. The University determined that this individual diverted approximately \$314,000 from the operating and federal loan drawdown accounts (used for reimbursement draw downs) to his personal account. This individual was reported to University management by another individual in the finance department at the end of fiscal year 2004. The individual was prosecuted, pled guilty and is now incarcerated, serving a nine-year sentence. The University conducted a full investigation within the two bank accounts in question, including the engagement of forensic auditors to assist with the process, and did not identify any additional fraudulent acts. The University has received insurance proceeds during fiscal year 2005 of approximately \$214,000 to partially offset the loss that occurred.</p> <p data-bbox="418 1419 1438 1705">Cause/Effect – The University inadvertently gave the individual in question both administrator and processor access to the online banking system. At one time this access had been removed but since this individual functioned as the system administrator, he reinstated it on his own authority. The lack of accurate and timely bank reconciliations and this individual's role in assisting with the preparation and review of the bank reconciliations for the bank accounts in question contributed to the ability to commit fraud and not have it detected.</p>

Central State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings

Reference Number	Findings
2004-02	<p>Program Name - Student Financial Assistance Cluster - 84.007, 84.032, 84.038, 84.033, and 84.063</p> <p>Finding Type - Noncompliance - Timely return of Title IV refunds</p> <p>Criteria - Return of Title IV funds is required to be refunded within 30 days after the date the institution determines that a student receiving the aid has withdrawn.</p> <p>Condition - During our testing, we noted the returning of funds was not being performed within 30 days of the date that the University determined a withdrawal took place.</p> <p>Questioned Costs - \$8,504 from our sample, extrapolation to the population was \$15,247.</p> <p>Context - Eight out of 19 students tested did not have the Title IV refund completed within the 30 days after withdrawal was determined to have taken place.</p> <p>Cause/Effect - The student financial aid office appears to be calculating the refunds within the required timeframe; however, the office is not submitting the payment within the required timeframe.</p> <p>Recommendation - The student financial aid department should implement procedures to ensure that refunds are submitted within 30 days after a student withdraws.</p> <p>Grantee Response - Currently, the practice of the Office of Student Financial Aid is to notify the Office of the Bursar by e-mail when there is a refund required. This is done when the Office of Student Financial Aid completes the Return of Title IV calculation, and is within the 30-day required timeframe.</p> <p>To resolve the timeliness of the refund concern, we will increase the communication between the Office of Student Financial Aid and the Office of the Bursar. We will begin to include a date in the e-mail notification that these funds must be returned by, as well as additional followup to ensure our success.</p>

Central State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2004-03	<p>Program Name - Student Financial Assistance Cluster - 84.007, 84.032, 84.038, 84.033, and 84.063</p> <p>Finding Type - Noncompliance - NSLDS Data Quality</p> <p>Criteria - Information provided to the National Student Loan Data System (NSLDS) should agree to the institutional records.</p> <p>Condition - It was noted that all of the loans awarded and accepted through the institution were not reported to the NSLDS.</p> <p>Questioned Costs - None</p> <p>Context - One in our sample of 25 loans was not showing up on the NSLDS data base.</p> <p>Cause/Effect - The University was not reporting all loans to the NSLDS.</p> <p>Recommendation - The student financial aid department should implement procedures to ensure that all loans are reported to the NSLDS.</p> <p>Grantee Response - This function is handled between the Office of the Registrar and our Information Technology department. There was an error in the report that was being submitted to the Clearinghouse that has since been resolved.</p>

Central State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2004-04	<p>Program Name - Family and Community Violence Prevention #93.910</p> <p>Finding Type - Noncompliance - Subrecipient Monitoring</p> <p>Criteria - The University is required to have controls in place to assure that subrecipients who received and spent \$300,000 or more in federal funds obtain an audit and meet the requirements of the Single Audit Act.</p> <p>Condition - It was noted that the University does not obtain all subrecipient audit reports and A-133 compliance reports when the subrecipient receives and spends more than \$300,000 of federal funds annually.</p> <p>Questioned Costs - None</p> <p>Context - The auditor noted that the University did not obtain or maintain audited A-133 reports from subrecipients receiving \$300,000 or more in federal funds.</p> <p>Cause/Effect - The University does not have a tracking system to verify which subrecipients have obtained an audit and/or an A-133 compliance audit, the date received, or any requested action. The contract with the subrecipients does require that this information be provided to the University.</p> <p>Recommendation - The University should implement procedures to ensure that all subrecipients receiving federal awards \$300,000 or more provide the University with annual audit reports and A-133 compliance audit reports.</p> <p>Grantee Response - The University will develop a tracking system to verify compliance with the subrecipient contract. The FCVP management team will personally follow up with each subcontractor and will keep a control form to record which institutions are in compliance. The audit reports will be kept in the FCVP program office. Subrecipients not in compliance will not receive an award for the next project period until the University receives all the appropriate audit and A-133 reports.</p>

Central State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2004-05	<p>Program Name - National Science Foundation #47.076</p> <p>Finding Type - Noncompliance - Indirect Cost Allocation</p> <p>Criteria - The University's indirect cost rate agreement states that indirect costs will be allocated at 75 percent of direct salaries and wages of the Quest grant agreement.</p> <p>Condition - It was noted that indirect costs allocated as of June 30, 2004 on program year two exceeded 75 percent.</p> <p>Questioned Costs - \$3,270</p> <p>Context - The fiscal report for program year two was overallocated by \$3,270 of the allowable 75 percent.</p> <p>Cause/Effect - The indirect costs are allocated on a monthly basis based on direct costs. There was a change made in direct costs during the year that resulted in the final expenditure report not being adjusted for the allocation of the allowable indirect costs.</p> <p>Recommendation - The University should adjust the program expenditures for the overcharge of indirect costs in year two of the grant program.</p> <p>Grantee Response - The University is about to implement the Research Accounting Module as a part of its <i>Banner Software Management System</i> ("Banner"). Upon implementation of the Research Accounting Module, the calculation and allocation of indirect costs on all projects will be done automatically by Banner. The Research Accounting Module should be operational by January 2006. An adjustment will be made to correct the overcharge for FY04 in May 2005.</p>

Central State University

Summary Schedule of Prior Audit Findings Year Ended June 30, 2004

Reference Number	Corrective Action Taken
2003-1	<p>Program Name - Student Financial Assistance Cluster</p> <p>Audit Finding - University charges had been excluded from refund calculations, resulting in students returning funds instead of the University.</p> <p>Contact Person Responsible for Corrective Action - Veronica Leech, Director of Student Financial Aid</p> <p>Corrective Action Taken - All refund calculations are reviewed by a manager using the DOE form to ensure the correct charges are used.</p>
2003-2	<p>Program Name - Student Financial Assistance Cluster</p> <p>Audit Finding - Funds were not returned to the lender within 30 days of determining a student withdrawal took place.</p> <p>Contact Person Responsible for Corrective Action - Veronica Leech, Director of Student Financial Aid</p> <p>Corrective Action Taken - One person in the Office of Student Financial Aid prepares the return of Title IV calculation and the Office of the Bursar submits the return to the Department of Education. See current year finding 2004-02.</p>
2003-3	<p>Program Name - Student Financial Assistance Cluster</p> <p>Audit Finding - The University failed to verify information on two student applications.</p> <p>Contact Person Responsible for Corrective Action - Veronica Leech, Director of Student Financial Aid</p> <p>Corrective Action Taken - Staff training took place to verify understanding of verification procedures. Student rosters were reviewed monthly to ensure all students flagged for verification were verified and all supporting documentation reviewed.</p>

Central State University

Summary Schedule of Prior Audit Findings (Continued) Year Ended June 30, 2004

Reference Number	Corrective Action Taken
2003-4	<p>Program Name - Student Financial Assistance Cluster</p> <p>Audit Finding - First-time disbursements made prior to the 30-day waiting period</p> <p>Contact Person Responsible for Corrective Action - Veronica Leech, Director of Student Financial Aid</p> <p>Corrective Action Taken - University-wide disbursement dates were provided to all financial aid officers. The officers did not assign disbursement dates to awards earlier than the posted dates provided.</p>
2003-5	<p>Program Name - Student Financial Assistance Cluster</p> <p>Audit Finding - The roster file report submitted by the University to NSLDS was not being updated with the most recent and correct information</p> <p>Contact Person Responsible for Corrective Action - Veronica Leech, Director of Student Financial Aid</p> <p>Corrective Action Taken - The Financial Aid office, Information Technology Office, and the Registrar's Office met to review the roster file report to determine what was causing the information submitted to not upload correctly to NSLDS. Most of the issues were identified and resolved. Most of the roster files uploaded during FY 2004 were correct, though a couple of issues were noted. See current year finding #2004-03.</p>

Reference Number	Corrective Action To Be Taken
2004-01	<p>Program Name - N/A</p> <p>Audit Finding - Material weakness and reportable condition related to bank and general account reconciliations not being performed</p> <p>Contact Person Responsible for Corrective Action - Merv L. Alphonso, Vice President for Administration and Chief Financial Officer</p> <p>Corrective Action To Be Taken - The University is in the process of replacing and upgrading most of the staff within the finance office, including a new Vice President for Administration and Chief Financial Officer, Assistant Vice President for Administration and Finance, and Controller. Until all positions are filled, the University is working with interim and temporary staffing. New procedures have been put in place related to online banking to ensure adequate segregation of duties. All bank reconciliations are completed for the year ended June 30, 2004 and all bank reconciliations are now up to date. As accounts were reconciled for the year ended June 30, 2004, ongoing efforts and procedures were identified and will be implemented for June 30, 2005 balances and activity for 2006. Balances will be identified that need to be reconciled monthly and quarterly. Reconciliation procedures will have due dates and reviewer approvals will be implemented.</p> <p>Estimated Completion Date - December 2005</p>
2004-02	<p>Program Name - Student Financial Assistance Cluster</p> <p>Audit Finding - Compliance - Timely Return of Title IV Funds</p> <p>Contact Person Responsible for Corrective Action - Veronica Leech, Director of Student Financial Aid</p> <p>Corrective Action To Be Taken - To resolve the timeliness of the refund concern, we will increase the communication between the Office of Student Financial Aid and the Office of the Bursar. We will begin to include a date in the e-mail notification that these funds must be returned by, as well as additional followup to ensure our success.</p> <p>Estimated Completion Date - June 2005</p>

Reference Number	Corrective Action To Be Taken
2004-03	<p>Program Name - Student Financial Assistance Cluster</p> <p>Audit Finding - Compliance - NSLDS Data Quality</p> <p>Contact Person Responsible for Corrective Action - Veronica Leech, Director of Student Financial Aid</p> <p>Corrective Action Taken - This function is handled between the Office of the Registrar and the Information Technology department. There was an error in the report that was being submitted to the Clearinghouse which has since been resolved.</p> <p>Estimated Completion Date - May 2005</p>
2004-04	<p>Program Name - Family and Community Violence Prevention #93.910</p> <p>Finding Type - Noncompliance - Subrecipient Monitoring</p> <p>Contact Person Responsible for Corrective Action - Dr. Laxley Rodney</p> <p>Corrective Action To Be Taken - The University will develop a tracking system to verify compliance with the subrecipient contract. The FCVP management team will personally follow up with each subcontractor and will keep a control form to record which institutions are in compliance. The audit reports will be kept in the FCVP program office. Subrecipients not in compliance will not receive an award for the next project period until the University receives all the appropriate audit and A-133 reports.</p> <p>Estimated Completion Date - June 2005</p>

Central State University

Corrective Actions Plan (Continued) Year Ended June 30, 2004

Reference Number	Corrective Action To Be Taken
2004-05	<p>Program Name - National Science Foundation #47.076</p> <p>Finding Type - Noncompliance - Indirect Cost Allocation</p> <p>Contact Person Responsible for Corrective Action - Morakinyo A.O. Kuti</p> <p>Corrective Action To Be Taken - The University plans to implement the Research Accounting Module as a part of its <i>Banner Software Management System</i> ("Banner"). Upon implementation of the Research Accounting Module, the calculation and allocation of indirect costs on all projects will be done automatically by Banner. The Research Accounting Module should be operational by January 2006. An adjustment will be made to correct the overcharge for FY04 in May 2005.</p> <p>Estimated Completion Date - January 2006</p>
2004-06	<p>Program Name - N/A</p> <p>Audit Finding – Noncompliance related to Annual Audit Reporting and Submission</p> <p>Contact Person Responsible for Corrective Action - Merv L. Alphonso, Vice President for Administration and Chief Financial Officer</p> <p>Corrective Action To Be Taken – The University will comply with the annual audit filing requirements and submission with the State of Ohio and the Federal Clearinghouse for the year ended June 30, 2005. All other third party financial reporting deadlines will be monitored and complied with as well.</p> <p>Estimated Completion Date - October 2005</p>

Central State University

Corrective Action Plan (Continued) Year Ended June 30, 2004

Reference Number	Corrective Action To Be Taken
2004-07	<p data-bbox="420 520 727 552">Program Name - N/A</p> <p data-bbox="420 596 1221 630">Audit Finding – Other Matters – Reporting Instance of Fraud</p> <p data-bbox="420 674 1435 741">Contact Person Responsible for Corrective Action - Merv L. Alphonso, Vice President for Administration and Chief Financial Officer</p> <p data-bbox="420 785 1435 894">Responsible Official's Response – The University performed a full investigation and the instance of fraud was prosecuted to the fullest extent of the law.</p> <p data-bbox="420 938 911 972">Completion Date – December 2004</p>

This Page is Intentionally Left Blank.

WCSU-FM
(a Public Telecommunications Entity
Operated by Central State University)

Financial Report
June 30, 2004

Contents

Report Letter	1
Management's Discussion and Analysis	2-4
Financial Statements	
Statement of Net Assets	5
Statement of Revenue, Expenses, and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8-11
Report Letter on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12

This Page is Intentionally Left Blank.



Plante & Moran, PLLC

Suite 60C

65 E. State St.

Columbus, OH 43215

Tel: 614.849.3000

Fax: 614.221.3535

plantemoran.com

Independent Auditor's Report

To the Board of Trustees
WCSU-FM

We have audited the accompanying basic financial statements of WCSU-FM, a public telecommunications entity operated by Central State University, as of June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these financial statements based on our audit. The June 30, 2003 financial statements of WCSU-FM were audited by other auditors, whose report dated October 28, 2003 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of WCSU-FM as of June 30, 2004 and the changes in its financial position and cash flows for the years 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 a report dated April 15, 2005 on our consideration of WCSU-FM's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 the testing, and not to provide opinions 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 presented on pages 2 through 4 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

April 15, 2005

Plante & Moran, PLLC

A member of



A worldwide association of independent accounting firms

Fiscal Year Ending June 30, 2004

The purpose of the annual report is to provide readers with financial information about the activities and financial condition of WCSU - FM, which is owned and operated by Central State University. The report consists of three basic financial statements that provide information on the radio station: the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. These reports begin on page 5 and should be read in conjunction with the notes to the financial statements. The following summary and management discussion of the results are intended to provide the readers with an overview of the financial statements.

The Statement of Net Assets

The statement of net assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector institutions. Net assets - the difference between assets and liabilities - is one way to measure the financial activities of the Station. Unrestricted net assets decreased by \$17,304 due to excess of expenses over revenues incurred by the Station. Net assets invested in capital assets decreased by \$14,246 due to ongoing depreciation of existing fixed assets, and no new purchases. Therefore, total net assets decreased by \$31,550.

Total liabilities increased by \$26,796 due primarily to an increase in deferred revenue.

Total assets remained relatively constant.

	2004	2003
Assets		
Current Assets	\$ 211,324	\$ 201,832
Capital Assets - Net of depreciation	43,898	58,144
Total assets	<u><u>\$ 255,222</u></u>	<u><u>\$ 259,976</u></u>
Liabilities and Net Assets		
Liabilities - Current	\$ 215,379	\$ 188,583
Net Assets		
Invested in capital assets	43,898	58,144
Unrestricted	<u>(4,055)</u>	<u>13,249</u>
Total net assets	<u>39,843</u>	<u>71,393</u>
Total liabilities and net assets	<u><u>\$ 255,222</u></u>	<u><u>\$ 259,976</u></u>

Management's Discussion and Analysis (Continued)

Current assets, including advances to the University, and current liabilities increased during 2004 due to higher levels of activity. As described further in Note 1, current assets reflect mainly the amount due to the Station from the University's pooled cash and investment system. Further detail about the sources and uses of cash is reflected in the statement of cash flows.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of the Station.

	2004	2003
Operating Revenues	\$ 267,273	\$ 227,985
Nonoperating revenues	<u>391,919</u>	<u>408,907</u>
Total Revenues	659,192	636,892
Operating Expenses		
Programming and production	351,736	345,496
Program information and promotion	33,188	27,428
Management and general	<u>305,818</u>	<u>295,455</u>
Total operating expenses	<u>690,742</u>	<u>668,379</u>
Decrease in Net Assets	(31,550)	(31,487)
Net Assets - Beginning of year	<u>71,393</u>	<u>102,880</u>
Net Assets - End of year	<u><u>\$ 39,843</u></u>	<u><u>\$ 71,393</u></u>

Operating revenues increased by \$39,288, or 17 percent, from 2003. The most significant increase in revenues was in grants and contributed services, generating an additional \$42,853. This increase is due primarily to the timing of expenditures and recognizing revenue when expenditures are incurred. Operating expenses increased by \$22,363, or 3 percent, reflective of the increase in expenditures incurred in 2004.

Management's Discussion and Analysis (Continued)**Statement of Cash Flows**

The statement of cash flows provides information about cash receipts and cash payments during the year. Cash consists of the Station's share of University pooled cash and investments.

	<u>2004</u>	<u>2003</u>
Cash used in operating activities	\$ (373,078)	\$ (379,837)
Cash provided by noncapital financing activities	<u>391,919</u>	<u>408,907</u>
Increase in cash	18,841	29,070
Cash - Beginning of year	<u>192,483</u>	<u>163,413</u>
Cash - End of year	<u>\$ 211,324</u>	<u>\$ 192,483</u>

The Station consumed \$373,078 in operating activities in 2004. The primary operating cash receipts consist of grants and contracts. Cash outlays include payments for wages and to vendors. The primary noncapital financing activities consist of support from the University.

Economic Factors that Will Affect the Future

In the continued economic downturn, the challenge continues to maintain the level of funding sources. Growing deficits at the federal and state government levels could affect the size of future grants.

Statement of Net Assets

Assets	June 30	
	2004	2003
Current Assets		
Due from University (Note 2)	\$ 211,324	\$ 192,483
Accounts receivable	<u>-</u>	<u>9,349</u>
Total current assets	211,324	201,832
Capital assets - Net (Note 3)	<u>43,898</u>	<u>58,144</u>
Total assets	<u>\$ 255,222</u>	<u>\$ 259,976</u>
Liabilities and Net Assets		
Current Liabilities		
Deferred revenue	\$ 201,336	\$ 171,938
Accounts payable	<u>14,043</u>	<u>16,645</u>
Total liabilities	215,379	188,583
Net Assets		
Unrestricted deficit	(4,055)	13,249
Net investment in capital assets	<u>43,898</u>	<u>58,144</u>
Total net assets	<u>39,843</u>	<u>71,393</u>
Total liabilities and net assets	<u>\$ 255,222</u>	<u>\$ 259,976</u>

WCSU-FM

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Support and Revenue		
Corporation for Public Broadcasting (Note 4)	\$ 120,703	\$ 91,873
State Network Commission (Note 5)	36,948	40,513
Contributed services	<u>109,622</u>	<u>95,599</u>
Total support and revenue	267,273	227,985
Expenses		
Program services:		
Programming and production	351,736	345,496
Program information and promotion	33,188	27,428
Support services - Management and general	<u>305,818</u>	<u>295,455</u>
Total expenses	<u>690,742</u>	<u>668,379</u>
Operating Loss	(423,469)	(440,394)
Nonoperating Revenues		
Miscellaneous	9,860	5,825
University support (Note 6)	<u>382,059</u>	<u>403,082</u>
Total nonoperating revenues	<u>391,919</u>	<u>408,907</u>
Decrease in Net Assets	(31,550)	(31,487)
Net Assets - Beginning of year	<u>71,393</u>	<u>102,880</u>
Net Assets - End of year	<u><u>\$ 39,843</u></u>	<u><u>\$ 71,393</u></u>

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Grants and contracts	\$ 278,439	\$ 271,118
Payments to employees and vendors	<u>(651,517)</u>	<u>(650,955)</u>
Net cash used in operating activities	(373,078)	(379,837)
Cash Flows from Noncapital Financing Activities -		
Other receipts	<u>391,919</u>	<u>408,907</u>
Net Increase in Cash	18,841	29,070
Cash - Beginning of year	<u>192,483</u>	<u>163,413</u>
Cash - End of year	<u>\$ 211,324</u>	<u>\$ 192,483</u>
Reconciliation of Operating Loss to		
Net Cash from Operating Activities		
Operating loss	\$ (423,469)	\$ (440,394)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	14,246	16,394
Changes in assets and liabilities:		
Receivables - Net	9,349	(9,349)
Accounts payable	(2,602)	1,030
Deferred revenue	<u>29,398</u>	<u>52,482</u>
Net cash used in operating activities	<u>\$ (373,078)</u>	<u>\$ (379,837)</u>

Note I - Significant Accounting Policies

Organization - WCSU-FM (the "Station") is a radio station owned and operated by Central State University (the "University"), a state-supported, public university. WCSU-FM is located on the campus of the University in Wilberforce, Ohio.

Basis of Presentation - WCSU-FM reports as a "business type activity," as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. In accordance with GASB Statement No. 35, the funds of the Station are reported in the statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows on a consolidated basis.

The financial statements of the Station have been prepared on the accrual basis of accounting; whereby revenues are recognized when earned and expenses are recorded when related liability has been incurred.

Net Asset Classifications - In accordance with GASB Statement No. 35 guidelines, WCSU-FM's resources are classified into the following two net asset categories:

Invested in Capital Assets - Capitalized physical assets net of accumulated depreciation.

Unrestricted - Net assets that are not subject to externally-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the board of trustees.

Operating Versus Nonoperating Revenue and Expenses - WCSU-FM defines operating activities as reported on the statement of revenue, expenses, and changes in net assets as those that generally result from exchange transactions such as payments received for providing goods or services and payments made for goods or services received.

Income Taxes - Under Internal Revenue Code Section 501(c)(3), the operations of WCSU-FM are exempt from income taxes as part of the overall operations of the University as a political subdivision of the State of Ohio.

Note 1 - Significant Accounting Policies (Continued)

Capital Assets are recorded at cost or, if acquired by gift, at fair value at the date of the gift. When capital assets are sold or otherwise disposed of, the net carrying value of such assets is removed from the accounts and the invested in capital assets component of net assets is adjusted as appropriate. Capital assets, with the exception of land, are depreciated on the straight-line method over their estimated useful lives, ranging from five to 10 years.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 - Due from the University

The financial records for WCSU-FM are maintained as a part of the operations of the University. Separate fund account activities are maintained to account for the operations of WCSU-FM. Separate cash accounts are not maintained for WCSU-FM. Consequently, funds deposited on account for WCSU-FM are reflected in the financial statements as due from the University, and for purposes of the statement of cash flows, these amounts are considered a cash equivalent.

**Notes To Financial Statements
June 30, 2004 and 2003**

Note 3 - Capital Assets

Capital assets activity for the years ended June 30, 2004 and 2003 is summarized as follows:

	2004			
	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	\$ 15,082	\$ -	\$ -	\$ 15,082
Telecommunications equipment	332,663	-	-	332,663
Total	347,745	-	-	347,745
Less accumulated depreciation:				
Office equipment	13,261	987	-	14,248
Telecommunications equipment	276,340	13,259	-	289,599
Total accumulated depreciation	289,601	14,246	-	303,847
Capital assets - Net	<u>\$ 58,144</u>	<u>\$ (14,246)</u>	<u>\$ -</u>	<u>\$ 43,898</u>
	2003			
	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	\$ 15,082	\$ -	\$ -	\$ 15,082
Telecommunications equipment	332,663	-	-	332,663
Total	347,745	-	-	347,745
Less accumulated depreciation:				
Office equipment	12,165	1,096	-	13,261
Telecommunications equipment	261,042	15,298	-	276,340
Total accumulated depreciation	273,207	16,394	-	289,601
Capital assets - Net	<u>\$ 74,538</u>	<u>\$ (16,394)</u>	<u>\$ -</u>	<u>\$ 58,144</u>

Note 4 - Corporation for Public Broadcasting Grants

WCSU-FM receives grant funding from the Corporation for Public Broadcasting (CPB) to assist in the operations of WCSU-FM. The CPB grants consist of a Radio Community Service Grant (CSG), which is unrestricted in its use and a National Program Production and Acquisition Grant (NPPAG), which is restricted to national programming activities. Recognition of the CPB grant revenue is deferred until the expenses are incurred. Any unused grant amounts at the end of the spending period must be returned to the granting agency. There were no amounts due to the CPB at June 30, 2004.

Note 5 - State Network Commission Grant

WCSU-FM receives unrestricted radio station funding through the Ohio Educational Telecommunications Network Commission (OET). For the years ended June 30, 2004 and 2003, WCSU-FM received cash support of \$36,948 and \$40,513, respectively. WCSU-FM received in-kind contributed services support from OET of \$106,478 and \$90,325 during the years ended June 30, 2004 and 2003, respectively.

Note 6 - University Support Allocation

The operations of WCSU-FM are supported primarily by the general revenues of the University. The University effectively covers all operating costs of WCSU-FM in excess of direct support received through grant awards and contributions attributable to WCSU-FM's operations. The University's support allocation amounted to \$177,685 and \$182,490 in direct support for 2004 and 2003, respectively, and \$204,374 and \$220,592 in indirect administrative support for 2004 and 2003, respectively.

**Report Letter on Compliance and on Internal Control over Financial Reporting Based
on an Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
WCSU - FM

We have audited the financial statements of WCSU-FM as of and for the year ended June 30, 2004 and have issued our report thereon dated April 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether WCSU-FM's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered WCSU-FM's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of trustees, management of WCSU-FM, Central State University, and the Auditor of the State of Ohio, and is not intended to be used and should not be used by anyone other than those specified parties.

Plante & Moran, PLLC

April 15, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CENTRAL STATE UNIVERSITY

GREENE 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
JUNE 23, 2005**