Ohio University Telecommunications Center

A Public Telecommunications Entity (A Department of Ohio University)

Financial Statements for the Years Ended June 30, 2004 and 2003 and Independent Auditors' Report

Auditor of State
Betty Montgomery

Board of Trustees
Ohio University Telecommunications Center

We have reviewed the Independent Auditor's Report of the Ohio University Telecommunications Center, Athens County, prepared by Deloitte & Touche LLP for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 23, 2005

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

OHIO UNIVERSITY TELECOMMUNICATIONS CENTER
A Public Telecommunications Entity
(A Department of Ohio University)

TABLE OF CONTENTS

This Page is Intentionally Left Blank.

Deloitte.

Deloitte & Touche LLP
155 East Broad Street
18th Floor
Columbus, OH 43215-3611
USA

Tel: 614-221-1000
Fax: 614-229-4647
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ohio University
Athens, Ohio

We have audited the accompanying statements of net assets of the Ohio University Telecommunications Center (the "Center"), a public telecommunications entity (a department of Ohio University), as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of Ohio University's (the "University") management.

We conducted our audits 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of the Ohio University Telecommunications Center, are intended to present the financial position of the Center as of June 30, 2004 and 2003 and their changes in net assets and their cash flows of only that portion of the funds and account groups of Ohio University, Athens, Ohio, that is attributable to the transactions of the Ohio University Telecommunications Center. They do not purport to, and do not, present fully the financial position at Ohio University as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Center as of June 30, 2004 and 2003 and their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis ("MD&A") on pages 2-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Center's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2004 on our consideration of the University's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

January 20, 2005

OHIO UNIVERSITY
TELECOMMUNICATIONS CENTER
A Public Telecommunications Entity
(A Department of Ohio University)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Ohio University Telecommunications Center's (the "Center") financial statements provides an overview of the Center's financial activities for the fiscal years ("FY") ended June 30, 2004 and June 30, 2003. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis. Responsibility for the completeness and fairness of this information rests with Center management.

USING THIS REPORT

In June of 1999, the Governmental Accounting Standards Board ("GASB") released Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* This Statement requires a comprehensive look at the entity as a whole. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, which applies those standards to public colleges and universities. The Ohio University Telecommunications Center is a department of Ohio University, a public university. GASB has not yet developed accounting standards for presentation of auxiliary (or departmental) entities. For the purposes of this reporting the Center is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and 35. In addition the Center's accounting policies and practices conform to those permitted or allowed by the Corporation for Public Broadcasting, which generally follow published Governmental Accounting Standards.

The overview presented below highlights the significant financial activities that occurred during the past year and describes changes in financial activity from the prior year. The financial report includes basic financial statements that provide information on the Center: *the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows.*

This annual financial report includes the report of the independent auditors, this management's discussion and analysis, the three basic financial statements referenced above and notes to the financial statements.

FINANCIAL HIGHLIGHTS

Statements of Net Assets

The Statements of Net Assets presents the financial position of the Center as of the end of the fiscal year. It classifies assets and liabilities as current or noncurrent. Generally, current liabilities are those that will be paid within one year of the date of the Statement. Current assets are those that are available to satisfy current liabilities.

Accounts receivable-related party represents amounts available in the cash account of Ohio University (the "University") for the benefit of the Center. All of the Center's receipts and disbursements are recorded in this account. The amounts are $1,044,191, $1,434,245 and $2,421,582 for FY04, FY03 and FY02, respectively. The FY04 decrease of $390,054 relates primarily to expenditures of funds resulting in an increase to capital assets.

The following chart depicts the breakdown of Assets, Liabilities and Net Assets for the Center for the years ended June 30, 2004, 2003 and 2002:

	2004	2003	2002
Assets:			
Accounts receivable	$ 108,758	$ -	$ -
Accounts receivable-related party	1,044,191	1,434,245	2,421,582
Capital assets, net	7,351,222	6,613,798	6,113,797
Deposit on capital assets			137,806
Total assets	$8,504,171	$8,048,043	$8,673,185
Liabilities:			
Current liabilities	$ 118,899	$ 167,452	$ 213,764
Noncurrent liabilities	228,647	266,730	273,842
Total liabilities	$ 347,546	$ 434,182	$ 487,606
Net assets	$8,156,625	$7,613,861	$8,185,579

The Net Assets are further displayed as follows:

	2004	2003	2002
Invested in capital assets, net of related debt	$7,351,222	$6,613,798	$6,113,797
Restricted expendable	748,274	949,468	1,499,874
Unrestricted	57,129	50,595	571,908
Total net assets	$8,156,625	$7,613,861	$8,185,579

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses and Changes in Net Assets presents the Center's results of operations for the years ended June 30, 2004 and June 30, 2003.

Operating Revenues

Charges for goods and services are recorded as operating revenues. In addition, certain grants are classified as operating revenues if they are not for capital purchases and are provided as a contract for services. Essentially this means that the Center is required by the grant to provide goods or services to the grantor of equal value to the value of the services or dollars received. Total operating revenues are $987,275, $350,780 and $346,169 for FY04, FY03 and FY02, respectively.

Nonoperating Revenues

Nonoperating revenues include an annual Community Service Grant from the Corporation for Public Broadcasting and the State of Ohio, administered through an annual grant from the Ohio Educational Telecommunications Network Commission. Nonoperating revenues also include an appropriation, donated facilities, and administrative support from its licensee (“Ohio University”). Certain grants are also classified as nonoperating revenue if the Center is not required under the grant agreement to provide goods or services to the grantor of equal value to the services or dollars received. In-kind contributions of $1,894,446, $1,496,938 and $1,796,334 for FY04, FY03 and FY02, respectively, are also included in nonoperating revenues as private gifts revenue. Total nonoperating revenues are $7,653,881, $7,308,281 and $7,544,490 for FY04, FY03 and FY02, respectively.

The following depicts total revenue by source for the years ending June 30, 2004, June 30, 2003 and June 30, 2002:

	2004	**2003**	**2002**
Support from Ohio University	$3,603,828	$3,699,529	$3,562,488
Grants and contracts	3,632,668	2,604,758	3,108,763
Sales and services	598,778	214,312	230,042
In-kind support	1,894,446	1,496,938	1,796,334
Total revenue by source	$9,729,720	$8,015,537	$8,697,627

Operating Expenses

Operating expenses have been incurred to vendors and employees for providing goods or services for the overall operations of the Center. In addition depreciation expense of $802,021, $739,772 and $582,384 for FY04, FY03 and FY02, respectively, is shown as operating expense.

The following depicts operating expenses for the Center:

	2004	**2003**	**2002**
Operating expenses:			
Program and supporting services	$8,384,935	$7,847,483	$8,243,769
Depreciation	802,021	739,772	582,384
Total operating expenses	$9,186,956	$8,587,255	$8,826,153

Change in Net Assets

Total change in net assets is as follows:

	2004	2003	2002
Operating revenues	$ 987,275	$ 350,780	$ 346,169
Nonoperating revenues	7,653,881	7,308,281	7,544,490
Capital grants and gifts	1,088,564	356,476	806,968
Operating expenses	(9,186,956)	(8,587,255)	(8,826,153)
Increase (decrease) in net assets	542,764	(571,718)	(128,526)
Beginning net assets	7,613,861	8,185,579	8,314,105
Ending net assets	$ 8,156,625	$ 7,613,861	$ 8,185,579

Statements of Cash Flows

The Statements of Cash Flows presents detailed information about the major sources and uses of cash. The Center does not maintain a separate cash account; therefore, all of the Center's receipts and disbursements are reflected in the accounts of the University. The Center's share of cash accounts is reflected on the Statements of Net Assets as accounts receivable – related party. For purposes of the Statements of Cash Flows, this account is considered a cash equivalent.

The four categories of presentation and their respective FY04, FY03 and FY02 amounts are:

	2004	2003	2002
Net cash used in operating activities	$ (5,683,642)	$ (5,905,877)	$ (6,083,045)
Net cash provided by noncapital financing activities	5,759,435	5,811,343	5,748,157
Net cash used in capital financing activities	(465,847)	(892,803)	(1,002,677)
Net decrease in cash	(390,054)	(987,337)	(1,337,565)
Cash equivalents, beginning of year	1,434,245	2,421,582	3,759,147
Cash equivalents, end of year	$ 1,044,191	$ 1,434,245	$ 2,421,582

CAPITAL ASSETS

Digital Conversion

WOUB began broadcasting a Standard Definition ("SD") television stream on October 30, 2003. WOUB began simulcasting one SD channel programmed with its analog signal and the High Definition ("HD") channel from PBS through the new encoding system for WOUB-DT/27. This is another landmark accomplishment in the station's conversion to digital. In the spring of 2004, a new broadcast tower was erected for WOUC in Cambridge along with a new TV antenna and feed-line system. This equipment also supports the transition to digital broadcasting. The existing WOUB studio to transmitter link ("STL") was retrofitted to support digital broadcasting. Several federal grants were received to support digital conversion including a Public Telecommunications Facilities Program ("PTFP") grant for $2.8 million.

On the radio side, a new audio server system was installed with support from a PTFP grant of $53,562. In addition, a new audio console was purchased for WOUB-AM.

By FY 2004, the Center has expended nearly $10 million toward digital conversion. This figure represents equipment usable in the digital transition, capital PTPF matching grants, and $3 million in state digital television appropriations. The total cost for full HD/Multi-channel Television, one channel equipped, is expected to be an additional $8.3 million.

To support television productions, a new Chyron video graphic generator was purchased and installed, along with a Pathfire video service to provide CNN news feeds for WOUB-TV and the Scripps School of Journalism. With the assistance of state bill funds, in partnership with the Scripps School of Journalism, WOUB purchased and installed a new electronic newsroom system. Emergency system encoders were upgraded to support Amber Alert.

OTHER ITEMS OF INTEREST

WOUB-TV celebrated 40 years of service to the region in October 2003 with a reunion of WOUB alumni.

In the fall of 2003, WOUB received a $210,000 grant from the State of Ohio. This grant is being used for a digital, video-on-demand project for low wealth schools throughout southeastern Ohio. Schools were provided hard drives and monitors to help support Ohio’s curriculum in the classroom.

WOUB’s radio revenues have increased due to participation in the Corporation for Public Broadcasting Audience Survey Challenge Grant. We have expended funds for more direct mail pieces—renewals and acquisitions and, as part of the consultant’s recommendations, hired an additional Corporate Support Representative to enhance program underwriting revenues.

OHIO UNIVERSITY TELECOMMUNICATIONS CENTER
A Public Telecommunications Entity
(A Department of Ohio University)

STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

ASSETS	2004	2003
CURRENT ASSETS:		
Accounts receivable	$ 108,758	$ -
Accounts receivable—related party	1,044,191	1,434,245
Total current assets	1,152,949	1,434,245
NONCURRENT ASSETS—		
Capital assets—net	7,351,222	6,613,798
TOTAL	$8,504,171	$8,048,043

LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES—Accounts payable and accrued liabilities	$ 118,899	$ 167,452
NONCURRENT LIABILITIES—Accrued compensated absences	228,647	266,730
Total liabilities	347,546	434,182
NET ASSETS:		
Invested in capital assets—net of related debt	7,351,222	6,613,798
Restricted—		
Expendable—		
Public service	748,274	949,468
Unrestricted	57,129	50,595
Total net assets	8,156,625	7,613,861
TOTAL	$8,504,171	$8,048,043

See notes to financial statements.

OHIO UNIVERSITY TELECOMMUNICATIONS CENTER
A Public Telecommunications Entity
(A Department of Ohio University)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
REVENUES—		
Operating revenues:		
Federal grants and contracts	$ 138,031	$ 54,832
State grants and contracts	231,927	62,961
Private grants and contracts	18,539	18,675
Sales and services	598,778	214,312
Total operating revenues	987,275	350,780
EXPENSES—		
Operating expenses:		
Program and supporting services	8,384,935	7,847,483
Depreciation	802,021	739,772
Total operating expenses	9,186,956	8,587,255
OPERATING LOSS	(8,199,681)	(8,236,475)
NONOPERATING REVENUES:		
Support from Ohio University	3,603,828	3,699,529
Federal grants	19,311	21,338
Private gifts	4,030,742	3,587,414
NET NONOPERATING REVENUES	7,653,881	7,308,281
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(545,800)	(928,194)
CAPITAL GRANTS AND GIFTS	1,088,564	356,476
INCREASE (DECREASE) IN NET ASSETS	542,764	(571,718)
NET ASSETS—Beginning of year	7,613,861	8,185,579
NET ASSETS—End of year	$ 8,156,625	$ 7,613,861

See notes to financial statements.

OHIO UNIVERSITY TELECOMMUNICATIONS CENTER
A Public Telecommunications Entity
(A Department of Ohio Unversity)

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	$ 279,739	$ 136,468
Payments to suppliers	(2,855,604)	(2,544,564)
Payments to employees	(2,723,855)	(2,767,969)
Payments for benefits	(982,700)	(943,624)
Payments for scholarships and fellowships		(500)
Sales and services of educational departments	598,778	214,312
Net cash used in operating activities	(5,683,642)	(5,905,877)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Support from Ohio University	3,603,828	3,699,529
Gifts and grants for other than capital purposes	2,155,607	2,111,814
Net cash provided by noncapital financing activities	5,759,435	5,811,343
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	1,088,564	356,476
Purchases of capital assets	(1,554,411)	(1,249,279)
Net cash used in capital financing activities	(465,847)	(892,803)
NET DECREASE IN CASH	(390,054)	(987,337)
CASH EQUIVALENTS—Beginning of year	1,434,245	2,421,582
CASH EQUIVALENTS—End of year	$ 1,044,191	$ 1,434,245
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	$ (8,199,681)	$ (8,236,475)
Operating loss		
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	802,021	739,772
In-kind expenses	1,894,446	1,496,938
Loss on disposal of capital assets	14,966	9,506
Changes in assets and liabilities:		
Accounts receivable	(108,758)	
Deposit on capital assets		137,806
Accounts payable and accrued liabilities	(48,553)	(46,312)
Accrued compensated absences	(38,083)	(7,112)
NET CASH USED IN OPERATING ACTIVITIES	$ (5,683,642)	$ (5,905,877)

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—The Ohio University Telecommunications Center (the "Center") is owned and operated by Ohio University (the "University"), Athens, Ohio. The Center manages two non-commercial public television stations, WOUB-TV/DT in Athens, Ohio, and WOUC-TV/DT in Cambridge, Ohio and one cable channel, WOUB II – channel 25 on Time Warner in Athens. The signal of WOUC-TV/DT is repeated on transmitters in Millersburg and Loudonville, Ohio. The Center also manages six non-commercial public radio stations, WOUB-AM and WOUB-FM in Athens, Ohio; WOUC-FM in Cambridge, Ohio; WOUL-FM in Ironton, Ohio; WOUH-FM in Chillicothe, Ohio; and WOUZ-FM in Zanesville, Ohio. Among other services: audio and video productions; a nightly news program; regular radio news reports throughout the day; a Media Distribution Center for Ohio University; facilitating distance learning from the Athens campus to the regional campuses through the Ohio University Learning Network; providing community outreach to 37 counties; student professional development for approximately 250 students a year; providing teleconferencing and engineering consulting services; and interactive services through www.woub.org.

The Center is not a separate legal entity and operates as a department of the University. The accompanying separate financial statements of the Center are prepared solely to meet the reporting requirements of the Corporation for Public Broadcasting, a major funding organization. These financial statements include only the activities of the Center, and therefore they are not intended to present fairly the financial position, change in financial position, and cash flows of the University in conformity with accounting standards generally accepted in the United States of America. For a more extensive disclosure of significant accounting policies, refer to the University's financial statements.

Financial Statement Presentation—The financial statement presentation required by Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* as amended, provides a comprehensive, department-wide (in this instance) perspective of the Telecommunications Center's assets, liabilities, net assets, revenues, expenses and changes in net assets and cash flows. It replaces fund-groups with net asset-groups, and requires the direct method of cash flow presentation.

The Center follows all GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Center has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Basis of Accounting—As a department of the University, the Center's financial statements are presented using an economic resources measurement focus and are presented on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect certain amounts reported in the financial statements. The estimates and assumptions are based on currently available information and actual results could differ from those estimates.

Capital Assets—If purchased or constructed, capital assets are recorded at cost in the year of purchase or construction. If donated, they are recorded at their estimated fair market value as of the date received. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Following are the capitalization levels and estimated useful lives of the asset classes:

Asset Class	Capitalize At	Estimated Useful Life
Land	Any amount	N/A
Land improvements	$100,000	N/A
Infrastructure	$100,000	10-50 years
Buildings	Any amount	40 years
Machinery and equipment	$2,500	5-25 years

The costs of normal maintenance and repairs that do not materially increase the value of the capital asset or materially extend its life are not capitalized. Interest incurred during the construction of capital assets is included in the cost of the asset when capitalized. Land and land improvements are not depreciated.

Compensated Absences—University employees earn vacation and sick leave benefits based, in part, on length of service. Upon separation from service, employees are paid their accumulated vacation and sick pay based upon the nature of separation (termination, retirement or death). Certain limitations are placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement or death. Unused hours exceeding their limitations are forfeited. The liability incurred is recorded at year-end as a noncurrent liability in the statements of net assets, and as a component of operating expense in the statements of revenues, expenses and changes in net assets.

Net Assets—The Center's net assets are categorized as described below:

a. *Invested in Capital Assets*—This represents the Center's investment in capital assets.

b. *Restricted Net Assets—Expendable*—Restricted expendable net assets represent assets that are restricted by a third party either legally or contractually.

c. *Unrestricted Net Assets*—Unrestricted net assets are resources derived primarily from operating funds provided by the University, which are designated for use by the Center.

Income Taxes—The University is an organization described in Section 115 of the Internal Revenue Code of 1986 (the "Code") and has further been classified as an organization that is not a private foundation in accordance with Sections 509(a)(1) and 170(b)(1)(A)(ii) of the Code. As such, the Center is exempt from income taxes other than taxes on certain revenues, which are considered unrelated business income.

Classification of Revenues—Revenues are classified as either operating or nonoperating according to the following:

a. *Operating Revenues*—Operating revenues include revenues from activities that have characteristics similar to exchange transactions. These include sales and services, and certain grants, which require that the Center provide goods or services to the grantor of equal value to the grant dollars received.

b. *Nonoperating Revenues*—Nonoperating revenues include revenues from activities that have characteristics of nonexchange transactions such as support from the University and certain grants, which do not require the Center to provide goods or services to the grantor of equal value to the grant dollars received.

Support from Ohio University—The University provides indirect support to the Center through its administration and physical plant support. Indirect support is recorded as revenue and expense as incurred in the accompanying statements of revenues, expenses and changes in net assets.

Administrative support is derived from the percentage of certain of the Center's operating expenditures over the University's total educational and general expenditures excluding separately budgeted research, public service, scholarships and fellowships. This percentage is applied against the University's overall institutional support to determine the administrative support expense to allocate to cost centers, based on their direct operating expenses.

Physical plant support is determined by an assessment of the square footage assigned the Center and the cost per square foot of providing types of physical plant support. Expenses are allocated to cost centers according to estimated square footage.

In-kind Support—In-kind support is provided by the Ohio Department of Education, the Educational Technology Services of Ohio, and the Ohio Educational Telecommunications Network Commission. These values are based upon statements provided by the respective agency. Expenses are allocated to cost centers based on the nature of the in-kind support provided. In-kind support is included in both revenues and expenses in the accompanying statements of revenues, expenses and changes in net assets.

Related Parties—Contributions received by The Ohio University Foundation (the "Foundation"), which are restricted as to use for the Center, are managed by the Foundation. The Center records cash received from the Foundation as both revenue and expense when monies are received from the Foundation to pay expenses.

The Center does not maintain a separate cash account; therefore, all of the Center's receipts and disbursements are reflected in the accounts of the University. The Center's share of cash accounts is reflected on the statements of net assets as accounts receivable—related party. For purposes of the statements of cash flows, this account is considered a cash equivalent.

Newly Issued Accounting Pronouncements—In March, 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rate risk. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2004. The Center has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

In November, 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires certain disclosures when the value of a capital asset has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2004. The Center has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

In April, 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefits Other than Pension Plans.* The standards in this statement apply for trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2005. The Center has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (“RSI”) in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. The Center has not yet evaluated the impact that the adoption of this statement will have on its financial statements.

Reclassifications—Certain prior year amounts have been reclassified to conform to the current year presentation.

2. CAPITAL ASSETS

Capital assets reported by the Center are assets of the State of Ohio, with the University having custodial responsibility. The building values have been prorated based upon the Center’s percentage usage of the net assignable square footage, applied to the actual cost plus improvements of the buildings. Equipment represents items listed on the University’s general ledger as equipment for the Center with a unit value of at least $2,500 and an estimated useful life of five years or more.

The following tables present the changes in the various capital asset categories for the years ended June 30, 2004 and 2003:

	Balance June 30, 2003	Additions	Transfers In (Out)	Disposals	Balance June 30, 2004
Capital assets not being depreciated:					
Land	$ 69,235	$ -	$ -	$ -	$ 69,235
Construction in progress	802,950	896,434	(823,399)		875,985
Total capital assets not being depreciated	872,185	896,434	(823,399)	-	945,220
Capital assets being depreciated:					
Infrastructure	3,468,741		823,399		4,292,140
Buildings	3,078,780				3,078,780
Machinery and equipment	8,429,508	657,977		(78,322)	9,009,163
Total capital assets being depreciated	14,977,029	657,977	823,399	(78,322)	16,380,083
Total capital assets	15,849,214	1,554,411	-	(78,322)	17,325,303
Less accumulated depreciation:					
Infrastructure	1,729,509	156,223			1,885,732
Buildings	2,419,552	81,647			2,501,199
Machinery and equipment	5,086,355	564,151		(63,356)	5,587,150
Total accumulated depreciation	9,235,416	802,021	-	(63,356)	9,974,081
Total capital assets being depreciated—net	5,741,613	(144,044)	823,399	(14,966)	6,406,002
Capital assets—net	$ 6,613,798	$ 752,390	$ -	$ (14,966)	$ 7,351,222

	Balance June 30, 2002	Additions	Transfers In (Out)	Disposals	Balance June 30, 2003
Capital assets not being depreciated:					
Land	$ 69,235	$ -	$ -	$ -	$ 69,235
Construction in progress	1,984,764	283,683	(1,465,497)		802,950
Total capital assets not being depreciated	2,053,999	283,683	(1,465,497)	-	872,185
Capital assets being depreciated:					
Infrastructure	3,468,741				3,468,741
Buildings	3,078,780				3,078,780
Machinery and equipment	6,358,017	965,596	1,465,497	(359,602)	8,429,508
Total capital assets being depreciated	12,905,538	965,596	1,465,497	(359,602)	14,977,029
Total capital assets	14,959,537	1,249,279	-	(359,602)	15,849,214
Less accumulated depreciation:					
Infrastructure	1,611,364	118,145			1,729,509
Buildings	2,334,994	84,558			2,419,552
Machinery and equipment	4,899,382	537,069		(350,096)	5,086,355
Total accumulated depreciation	8,845,740	739,772	-	(350,096)	9,235,416
Total capital assets being depreciated—net	4,059,798	225,824	1,465,497	(9,506)	5,741,613
Capital assets—net	$ 6,113,797	$ 509,507	$ -	$ (9,506)	$ 6,613,798

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30 consist of the following:

	2004	2003
Accounts payable	$ 74,331	$ 127,410
Accrued payroll	44,568	40,042
	$ 118,899	$ 167,452

4. ACCRUED COMPENSATED ABSENCES

Per University policy, salaried faculty and staff earn vacation at the rate of 22 days per year with a maximum accrual of 32 days. Upon termination they are entitled to a payout of their accumulated balance. Hourly classified employees earn vacation at rates per years of service, ranging from 10 to 25 days per year. The maximum accrual is equal to the amount earned in three years, which is subject to payout upon termination. The liability for accrued vacation at June 30, 2004 and June 30, 2003, respectively, are $191,532 and $216,376.

All University employees are entitled to a sick leave credit equal to 15 days per year (earned on a pro-rata monthly basis for salaried employees and on a pro-rata hourly basis for classified hourly employees). Salaried employees with 10 or more years of service are eligible to receive a payout upon retirement of up to 25% of unused days (maximum of 30 days). Hourly classified employees with 10 or more years of service are eligible for payout upon retirement of up to 50% of unused days (maximum of 60 days). The liability for accrued sick leave at June 30, 2004 and 2003, respectively, are $37,115 and $50,354, respectively.

A summary of accrued compensated absences is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
For the year ended:				
June 30, 2004	$ 266,730	$ -	$ 38,083	$ 228,647
June 30, 2003	$ 273,842	$ -	$ 7,112	$ 266,730

* * * * * *

ADDITIONAL INFORMATION

Deloitte.

Deloitte & Touche LLP
155 East Broad Street
18th Floor
Columbus, OH 43215-3611
USA

Tel: 614-221-1000
Fax: 614-229-4647
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIA ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Ohio University
Athens, Ohio

We have audited the financial statements of Ohio University (the "University") as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the University in a separate letter dated October 22, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Trustees, management of the University, federal awarding agencies, state funding agencies, pass-through entities, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 22, 2004

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

OHIO UNIVERSITY TELECOMMUNICATIONS CENTER

ATHENS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 8, 2005