

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

Financial Report
Including Supplemental Information
June 30, 2006



**Auditor of State
Betty Montgomery**

Board of Trustees
Central State University
1400 Brush Row Road, PO BOX 1004
Wilberforce, OH 45384-1004

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, 2005 to June 30, 2006. 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 Central State University is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

November 30, 2006

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Central State University

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Independent Auditor's Report

To the Board of Trustees
Central State University

We have audited the accompanying basic financial statements of Central State University and its discretely presented component unit as of and for the years ended June 30, 2006 and 2005, 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 audits.

We conducted our audits 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 audits provide 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, 2006 and 2005 and the respective changes in 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 also have issued our report dated October 10, 2006 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, grant agreements, and other matters for the year ended June 30, 2006. 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.

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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 10 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

October 10, 2006

Central State University

Management's Discussion and Analysis - Unaudited

This section of Central State University's (the "University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2006, 2005, and 2004. This discussion should be read in conjunction with the accompanying financial statements and footnotes. 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's 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 prescribed by GASB Statement No. 35 (the statement of net assets, statement of revenues, expenses, and changes in net assets, and the statement of cash flows) are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. 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.

The statement of net assets includes all assets and liabilities of the University. Changes in net assets (the difference between assets and liabilities) are an indicator of 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, and the like.

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, which amortizes the cost of an asset over its expected useful life.

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

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.

The statement of cash flows presents the information related to cash inflows and outflows. These cash inflows and outflows are summarized by operating, noncapital financing, capital and related financing and related investing activities. This statement illustrates the University's sources and uses of cash and helps measure the ability to meet financial obligations as they mature.

The University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, in 2004. As such, the Central State University Foundation (the "Foundation") financial statements, footnotes, and management's discussion and analysis have been discretely incorporated into the University's financial statements.

Analysis of Results of Operations

Total revenues for the years ended June 30, 2006 and 2005 were \$57.7 million and \$53.1 million, respectively, of which operating revenues totaled \$32.2 million and \$33.3 million, respectively. Operating revenue in fiscal year 2006 decreased \$1.1 million, or 3.3 percent, when compared with fiscal year 2005.

Total revenues for the years ended June 30, 2005 and 2004 were \$53.1 million and \$49.3 million, respectively, of which operating revenue totaled \$33.3 million and \$31.6 million, respectively. Operating revenue increased \$1.7 million, or 5.4 percent, when compared with fiscal year 2004.

Total expenses for the years ended June 30, 2006 and 2005 were \$51.3 million and \$50.6 million, respectively. Operating expenses increased \$0.7 million, or 1.3 percent, when compared with fiscal year 2005.

Total expenses for the years ended June 30, 2006 and 2005 were \$50.6 million and \$49.6 million, respectively. Operating expenses increased \$1.0 million, or 2.0 percent, when compared with fiscal year 2004.

The University's operating loss totaled \$19.0 million during 2006 compared to \$17.2 million in 2005, which represented an unfavorable increase of \$1.8 million, or 10.5 percent. The increase in net assets for fiscal 2006 was \$6.4 million, from \$59.9 million to \$66.3 million.

The University's operating loss totaled \$17.2 million during 2005 compared to \$18.0 million in 2004, which represented a favorable decrease of \$0.8 million, or 4.4 percent.

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

Student enrollment decreased 10.8 percent in fall fiscal year 2006 compared to fall fiscal year 2005; tuition, fees, room, and board rates for 2006 increased 6% percent when compared to 2005 amounts. Of the \$1.1 million decrease in operating revenues, \$0.2 million was related to net tuition and fee decreases, \$0.1 million was related to net auxiliary revenue decreases, federal grants decreased \$3.7 million, State, local, and private grants and contracts increased \$1.5 million, and other sources increased \$1.4 million.

Student enrollment increased 12.3 percent in fall of fiscal year 2005 compared to fall of fiscal year 2004; tuition, fees, room, and board rates for 2005 increased 8.0 percent when compared to 2004 amounts.

A breakdown and comparison of operating revenues are provided below.

Operating Revenues (in millions)	2006	2005	2004
Tuition and fees - Net	\$ 5.6	\$ 5.8	\$ 4.3
Federal grants and contracts	14.7	18.4	17.6
State, local, and private grants and contracts	3.2	1.8	3.2
Indirect cost recovery	0.7	0.7	0.6
Auxiliary activities - Net	6.1	6.2	5.2
Other sources	1.9	0.4	0.7
Total	\$32.2	\$ 33.3	\$ 31.6

The University's nonoperating revenues are comprised primarily of State of Ohio (State) appropriations. State appropriations include core funding sources composed of the State's Share of Instructional Support (SSIS) and the Central State University Supplement.

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

State Appropriations (in millions)	2006	2005	2004
State share of instruction	\$ 5.6	\$ 5.8	\$ 6.0
Central state supplement	10.2	10.7	11.0
Other	0.0	0.0	0.1
Total	\$15.8	\$ 16.5	\$ 17.1

The change in State of Ohio funding from 2006 to 2005 was primarily due to a combination of the decreases in SSIS (\$0.2 million) and the Central State Supplement (\$0.5 million). The change in State of Ohio funding from 2005 to 2004 was comprised of the decreases in SSIS (\$0.2 million) and the Central State Supplement (\$0.3 million).

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

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)	2006	2005	2004
Instruction	\$ 9.2	\$ 8.9	\$ 8.1
Research	0.6	0.7	1.1
Student services	3.3	3.4	3.5
Academic support	5.1	4.3	4.7
Public services	6.7	8.8	8.6
Institutional administration	7.7	6.2	7.7
Operation and maintenance of plant	4.3	4.4	4.5
Auxiliary enterprises	8.8	9.0	6.6
Student aid	2.9	2.3	2.1
Depreciation	2.7	2.6	2.7
Total	\$ 51.3	\$ 50.6	\$ 49.6

Central State University's operating expenses during 2006 reflected a \$0.7 million increase in operating expenses, totaling \$51.3 million in 2006 as compared to \$50.6 million in 2005. The increase in expenses was primarily related to increased focus on academic areas (\$0.3 million in instruction, \$0.8 million in academic support, and \$0.6 million in student aid) and a \$1.4 million increase in institutional support (\$0.9 million bad debt and \$0.5 million inactive grant write-off), which are partially offset by a \$2.1 million decrease in public services, a \$0.2 million decrease in auxiliary enterprises due to decreased student enrollment and a \$0.1 million decrease in research expenditures.

The University's operating expenses during 2005 reflected a \$1.0 million increase, totaling \$50.6 million in 2005 as compared to \$49.6 million in 2004. The increase in expenses was primarily related to increased student enrollment and focus on academic areas.

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

Analysis of Overall Financial Position

At June 30, 2006, current assets totaled \$11.1 million, as compared to \$14.2 million at June 30, 2005, a decrease of \$3.1 million. The decrease in current assets was primarily attributable to a \$.3 million decrease in accounts receivable and a \$2.8 million decrease in cash and cash equivalents. Current liabilities at June 30, 2006, as compared to June 30, 2005, totaled \$6.0 million and \$8.8 million, respectively, a decrease of \$2.8 million. The University's working capital ratios at June 30, 2006 and June 30, 2005 were 1.85 and 1.61, respectively. The decrease in current liabilities was primarily attributable to a \$1.9 million decrease in deferred revenue, a \$0.6 million decrease in accounts payable, and a \$0.5 million decrease in other liabilities, which was partially offset by a \$0.2 million increase in accrued salaries, wages, and benefits.

The University's current assets at June 30, 2005, totaled \$14.2 million, as compared to \$14.4 million at June 30, 2004, which represents a decrease of \$0.2 million. Current liabilities at June 30, 2005 as compared to June 30, 2004, totaled \$8.8 million and \$8.9 million, respectively, a decrease of \$0.1 million. The University's working capital ratios at June 30, 2005 and June 30, 2004 were 1.61 and 1.62, respectively.

Noncurrent assets are comprised of capital assets and restricted cash and cash equivalents. The \$7.2 million increase in the University's noncurrent assets, which total \$64.1 million at June 30, 2006 and \$56.9 million at June 30, 2005, is associated with a \$0.1 million increase in restricted cash and cash equivalents, and a \$9.3 million increase in construction in progress associated with the Center for Education and Natural Sciences building, and a \$0.5 million increase in buildings and equipment, partially offset by a \$2.7 million increase in accumulated depreciation.

Noncurrent assets at June 30, 2005 were \$56.9 million, as compared to \$54.7 million at June 30, 2004. The increase was primarily related to the increased of construction in progress associated with the Center for Education and Natural Sciences building.

The University's noncurrent liabilities at June 30, 2006 total \$2.9 million, as compared to \$2.4 million at June 30, 2005. The total of University noncurrent liabilities is \$0.5 million greater than the prior year and is related to the \$0.7 million increase in long-term liabilities and the \$0.2 million reduction in long-term debt.

Noncurrent liabilities at June 30, 2005 were \$2.4 million, as compared to \$2.9 million at June 30, 2004. The decrease was primarily attributable to a \$0.2 million reduction in long-term debt and a \$0.3 million reduction in long-term liabilities.

The University's net assets were \$66.3 million and \$60.0 million at June 30, 2006 and 2005, respectively. The \$6.3 million increase in net assets was primarily attributable to the \$7.3 million increase in net investments in capital assets.

The University's net assets were \$60.0 million and \$57.3 million at June 30, 2005 and 2004, respectively. The \$2.7 million increase in net assets was primarily attributable to the \$3.2 million in State of Ohio capital appropriations for building additions.

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

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 as well as appropriations for new facilities. During 2006, the University utilized \$9.4 million in State capital appropriations related to the construction of Phase I of the Center for Education and Natural Sciences facility. During 2005, the University utilized \$3.2 million in State capital appropriations for construction of Phase I of the Center for Education and Natural Sciences facility. The total for capital appropriations in fiscal year 2004 was \$0.5 million.

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 2006, the University did not issue any new debt or capital lease obligations and paid \$0.2 million in connection with debt maturities; during 2005, \$0.3 million were paid in connection with debt maturities. The University is in compliance with all of its contractual long-term debt requirements and covenants.

A breakdown and comparison of the University's balance sheets as of June 30, 2006, 2005 and 2004 are provided below.

Balance Sheet (in millions)	2006	2005	2004
Assets:			
Current assets	\$ 11.1	\$ 14.2	\$ 14.4
Non-current assets	64.1	56.9	54.7
Total assets	\$ 75.2	\$ 71.1	\$ 69.1
Liabilities:			
Current liabilities	\$ 6.0	\$ 8.8	\$ 8.9
Noncurrent liabilities	2.9	2.4	2.9
Total liabilities	8.9	11.2	11.8
Net assets:			
Invested in capital assets - Net	60.7	53.4	51.1
Restricted for:			
Nonexpendable	1.8	1.8	1.8
Expendable	1.1	1.1	0.1
Unrestricted	2.7	3.6	4.3
Total net assets	66.3	59.9	57.3
Total liabilities and net assets	\$75.2	\$ 71.1	\$ 69.1

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

Statement of Cash Flows

Net cash used in operating activities was \$18.1 million, \$14.1 million, and \$15.5 million in 2006, 2005, and 2004, respectively. Cash flows from operating activities were primarily comprised of grants and contracts (\$15.3 million), tuition and fees (\$9.9 million), other receipts (\$1.9 million) and auxiliary enterprise charges (\$0.1 million), which was partially offset by payments to suppliers and employees of \$45.3 million.

Cash flows from non-capital financing activities were \$15.8 million, \$16.5 million and \$17.1 million in 2006, 2005 and 2004, respectively. In 2006, these were comprised of State of Ohio appropriations of \$15.8 million, and offsetting federal family education loan receipts and disbursements.

Net cash used in capital and related financing activities for 2006, 2005 and 2004 was \$0.7 million, \$1.7 million and \$1.8 million, respectively. The decrease in cash flows is primarily attributable to a \$6.2 million increase in capital grants and gifts received and a \$5.2 million increase in the purchase of capital assets and construction. Cash flows from investing activities increased \$0.2 million in 2006, and are related to interest on investments.

The net decrease in cash and cash equivalents was \$2.7 million in 2006, the net increase in cash and cash equivalents was \$0.9 million in 2005, and the net decrease was \$0.1 million in 2004. Year-end cash and cash equivalents for 2006, 2005 and 2004 were \$8.0 million, \$10.7 million and 9.8 million, respectively.

A breakdown and comparison of the University's statement of cash flows for the years ended June 30, 2006, 2005, and 2004 are provided below:

Cash Flow Activities (in millions)	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities	\$ (18.1)	\$ (14.1)	\$(15.5)
Cash flows from non-capital financing activities	15.8	16.5	17.1
Cash flows from capital and related financing activities	(0.7)	(1.7)	(1.8)
Cash flows from investing activities	<u>0.3</u>	<u>0.2</u>	<u>0.1</u>
Net increase (decrease) in cash and cash equivalents	\$ (2.7)	0.9	(0.1)
Cash and cash equivalents - Beginning of year	<u>10.7</u>	<u>9.8</u>	<u>9.9</u>
Cash and cash equivalents - End of year	<u>\$ 8.0</u>	<u>\$ 10.7</u>	<u>\$ 9.8</u>

Central State University

Management's Discussion and Analysis - Unaudited (Continued)

Factors Impacting Future Periods

Phase one (60,000 sq. ft.) of the construction for the new Center for Education and Natural Sciences will be completed in Fall 2006. The remaining funding for Phase II of the Center should be appropriated in late Fall 2006.

The University places significant reliance on State appropriations, particularly core funding received as the State Share of Instruction and the Central State University Supplement to expand programs, undertake new initiatives, and meet its 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. The continued decrease in State appropriations for higher education in general, and Central State University in particular, have created great challenges in meeting the needs of the University's increasing student enrollment.

Central State University aspires to be a premier historically black university in the twenty-first century. This vision is being pursued within the framework of the institution's core values of honesty, hard work, caring and excellence. Two strategic goals flow from the Central State vision. First, the University aims for optimal size. The measure for this is to enroll 3,000 students by 2010. Secondly, the University is committed to strengthening the academic profile of the institution. Central State is pursuing these two goals simultaneously through its Strategic Academic and Enrollment Management Plan (SAEM). The SAEM, now in its second year of implementation, involves all divisions of the University, and has function teams in the areas of recruitment, enrollment and marketing; academic program development and enhancement; retention; assessment; and administrative support. Successful execution of SAEM is essential for concurrent growth in enrollment and strengthening of academic quality.

Central State University

Statement of Net Assets

	June 30	
	2006	2005
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 6,726,524	\$ 9,482,740
Accounts receivable - Net of allowance of approximately \$6.1 million at June 30, 2006 and \$6.2 million at June 30, 2005	3,633,298	3,920,195
Notes receivable - Net of allowance of approximately \$240,000 and \$250,000 at June 30, 2006 and 2005, respectively	742,682	777,255
Prepaid assets	10,346	-
Total current assets	<u>11,112,850</u>	<u>14,180,190</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	1,311,695	1,219,234
Capital assets - Net (Note 3)	<u>62,822,720</u>	<u>55,697,195</u>
Total noncurrent assets	<u>64,134,415</u>	<u>56,916,429</u>
Total assets	<u>\$ 75,247,265</u>	<u>\$ 71,096,619</u>
Liabilities and Net Assets		
Current Liabilities		
Deposits	\$ 113,046	\$ 61,560
Accounts payable	1,294,318	1,864,235
Accrued salaries, wages, and benefits	3,051,341	2,929,919
Deferred student fee revenue	54,310	164,886
Current portion of long-term debt (Note 5)	173,297	163,152
Other liabilities	126,218	600,749
Other deferred revenue	<u>1,183,676</u>	<u>3,037,092</u>
Total current liabilities	5,996,206	8,821,593
Noncurrent Liabilities		
Long-term debt (Note 5)	2,003,953	2,177,250
Long-term liabilities (Note 4)	<u>939,948</u>	<u>245,513</u>
Total noncurrent liabilities	<u>2,943,901</u>	<u>2,422,763</u>
Total liabilities	8,940,107	11,244,356
Net Assets		
Invested in capital assets - Net of related debt	60,645,470	53,356,793
Restricted for:		
Nonexpendable	1,850,277	1,850,277
Expendable - Grants	1,134,135	1,085,211
Unrestricted	<u>2,677,276</u>	<u>3,559,982</u>
Total net assets	<u>66,307,158</u>	<u>59,852,263</u>
Total liabilities and net assets	<u>\$ 75,247,265</u>	<u>\$ 71,096,619</u>

Central State University

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2006	2005
Operating Revenues		
Tuition and fees	\$ 8,091,620	\$ 8,526,136
Less grants and scholarships	(2,504,324)	(2,759,663)
Federal grants and contracts	14,715,332	18,405,871
State, local, and private grants and contracts	3,302,531	1,842,579
Indirect cost recovery	664,740	676,020
Auxiliary activities	8,909,804	9,334,385
Less grants and scholarships	(2,789,808)	(3,158,252)
Other sources	1,857,618	462,628
Total operating revenues	32,247,513	33,329,704
Operating Expenses		
Instruction	9,175,810	8,901,428
Research	563,597	731,342
Student services	3,288,070	3,430,647
Academic support	5,120,540	4,316,912
Public services	6,675,261	8,768,991
Institutional administration	7,655,066	6,222,238
Operation and maintenance of plant	4,362,369	4,404,289
Auxiliary enterprises	8,813,616	8,945,430
Student aid	2,896,132	2,270,436
Depreciation	2,703,298	2,595,980
Total operating expenses	51,253,759	50,587,693
Operating Loss	(19,006,246)	(17,257,989)
Nonoperating Revenues (Expenses)		
State appropriations	15,796,182	16,505,519
Investment income	333,794	159,834
Interest expenses on capital asset - Related debt	(138,329)	(128,238)
Net nonoperating revenues	15,991,647	16,537,115
Loss - Before other revenues	(3,014,599)	(720,874)
Other Revenues - State capital appropriations	9,469,494	3,262,556
Total other revenues	9,469,494	3,262,556
Increase in Net Assets	6,454,895	2,541,682
Net Assets - Beginning of year	59,852,263	57,310,581
Net Assets - End of year	\$ 66,307,158	\$ 59,852,263

Central State University

Statement of Cash Flows

	Year Ended June 30	
	2006	2005
Cash Flows from Operating Activities		
Tuition and fees	\$ 9,914,194	\$ 6,715,237
Grants and contracts	15,268,993	17,194,840
Payments to suppliers and employees	(45,273,853)	(39,508,571)
Auxiliary enterprise charges	96,187	388,955
Other	1,867,236	1,138,648
Net cash used in operating activities	(18,127,243)	(14,070,891)
Cash Flows from Noncapital Financing Activities		
State appropriations	15,796,182	16,505,519
Federal family education loan receipts	9,501,112	6,999,381
Federal family education loan disbursements	(9,501,112)	(6,999,381)
Net cash provided by noncapital financing activities	15,796,182	16,505,519
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received	9,469,494	3,262,556
Purchase of capital assets and construction	(9,834,501)	(4,657,051)
Principal paid on capital debt	(163,152)	(195,419)
Interest paid on capital debt	(138,329)	(128,238)
Net cash used in capital and related financing activities	(666,488)	(1,718,152)
Cash Flows from Investing Activities - Interest on investments	333,794	159,834
Net Change in Cash and Cash Equivalents	(2,663,755)	876,310
Cash and Cash Equivalents - Beginning of year	10,701,974	9,825,664
Cash and Cash Equivalents - End of year	\$ 8,038,219	\$ 10,701,974

Central State University

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2006	2005
Reconciliation of net operating loss to net cash from operating activities:		
Operating loss	\$ (19,006,246)	\$ (17,257,989)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	2,703,298	2,595,980
Loss on disposal of capital assets	5,678	
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	286,897	767,092
Inventories, prepaids, and other assets	(10,346)	322,212
Notes receivable	34,573	(165,784)
Accounts payable	(569,917)	(1,249,096)
Accrued salaries, wages, and benefits	221,443	(5,748)
Other liabilities	171,369	470,344
Deferred revenue and student deposits	(1,963,992)	452,098
Net cash used in operating activities	<u>\$ (18,127,243)</u>	<u>\$ (14,070,891)</u>

Central State University

Consolidated Statement of Financial Position Discretely Presented Component Unit - Foundation

	June 30	
	2006	2005
Assets		
Cash and cash equivalents	\$ 1,286,275	\$ 1,641,176
Investments	3,392,734	3,360,144
Contributions receivable	406,443	109,221
Other receivables	162,464	88,559
Prepaid expenses	21,846	1,664
Total current assets	5,269,762	5,200,764
Restricted cash and cash equivalents (Note 2)	2,456,889	2,231,655
Fixed assets - Net (Note 3)	14,747,635	15,252,127
Financing costs - Net	2,032,898	2,135,666
Total assets	<u>\$ 24,507,184</u>	<u>\$ 24,820,212</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 370,662	\$ 508,613
Accrued interest payable	517,842	520,247
Current portion of long-term debt (Note 5)	355,000	160,000
Total current liabilities	1,243,504	1,188,860
Long-term debt (Note 5)	19,946,040	20,260,708
Total liabilities	21,189,544	21,449,568
Net Assets		
Unrestricted	(508,839)	4,078
Temporarily restricted	2,105,862	1,790,619
Permanently restricted	1,720,617	1,575,947
Total net assets	3,317,640	3,370,644
Total liabilities and net assets	<u>\$ 24,507,184</u>	<u>\$ 24,820,212</u>

Central State University

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

	Year Ended June 30	
	2006	2005
Revenue		
Rental revenues	\$ 2,363,182	\$ 2,115,047
Contributions	1,466,726	742,418
Reimbursements	135,733	38,683
Other	236,105	141,860
Unrealized gain on investments	157,734	66,400
Investment income	226,895	241,234
Total revenue	4,586,375	3,345,642
Expenses		
Programs:		
Scholarship programs	354,078	497,065
Athletic programs	475,447	481,962
Academic programs	239,055	259,490
Institutional programs	229,033	321,972
Support activities:	-	
Management fees	171,378	142,100
Operating expenses	755,025	606,244
Depreciation expense	607,260	606,780
Interest expense	1,076,010	1,083,475
Other	732,093	235,089
Total expenses	4,639,379	4,234,177
Decrease in Net Assets	(53,004)	(888,535)
Net Assets - Beginning of year	3,370,644	4,259,179
Net Assets - End of year	<u>\$ 3,317,640</u>	<u>\$ 3,370,644</u>

Central State University

Notes to Financial Statements June 30, 2006 and 2005

Note 1 - Basis of Presentation and Significant Accounting Policies

Central State University (the "University") is a co-educational, 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 was done for the first time June 30, 2004 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 I - Basis of Presentation and Significant Accounting Policies (Continued)

Financial Statement Presentation

The accompanying financial statements have been prepared using the total 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.

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

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.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The University has elected not to follow private sector standards issued after November 30, 1989.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the University's policy is to first apply restricted resources.

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

Allowance For Student Accounts Receivable - Effective June 30, 2005, the University has changed its method of allowing for student accounts receivable from a subsequent cash receipts method to a more systematic method based on applying percentages to the student accounts receivable aging.

Capital Assets - Capital assets are recorded at cost or, if acquired by gift, at fair value at the date of the gift. The University capitalizes all assets with a useful life greater than one year and a value in excess of \$5,000. 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.

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

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.

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 \$20,000 as of June 30, 2006 and 2005.

Central State University

Notes to Financial Statements June 30, 2006 and 2005

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.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a policy restricting custodial credit risk. At year end, the University had \$248,615 of bank deposits that were uninsured and uncollateralized.

Credit Risk

As discussed above, State law limits investments to U.S., State, and municipal government obligations. The University has no investment policy that would further limit its investment choices. At year end, the University had \$12,080,289 invested in bank mutual fund pools; these funds are not rated by a national rating agency, due to the short-term nature of their holdings.

Restricted Cash and Cash Equivalents

The University's restricted cash and cash equivalents consist of money market accounts restricted for debt reserve payments.

The Foundation, through Marauder, maintains restricted cash balances in the following accounts as of June 30, 2006 and 2005:

	2006	2005
Restricted:		
Debt interest account	\$ 527,144	\$ 534,684
Debt principal account	366,174	161,011
Debt issuance account	22,720	21,844
Repair and replacement fund	109,641	105,417
Construction account	2	2
Debt reserve fund	<u>1,431,208</u>	<u>1,408,697</u>
Total restricted cash	<u>\$ 2,456,889</u>	<u>\$ 2,231,655</u>

Central State University

Notes to Financial Statements June 30, 2006 and 2005

Note 3 - Capital Assets

Capital assets activity for the University for the years ended June 30, 2006 and 2005 is summarized as follows:

	2006			
	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable assets:				
Buildings and improvements	\$ 95,148,711	\$ 218,913	\$ -	\$ 95,367,624
Automobiles, machinery, and equipment	12,724,586	297,275	(9,618)	13,012,243
Nondepreciable assets:				
Land improvements	308,650	-	-	308,650
Construction in progress	3,206,534	9,318,313	-	12,524,847
Total capital assets	111,388,481	9,834,501	(9,618)	121,213,364
Less accumulated depreciation:				
Buildings and improvements	45,715,609	2,066,198	-	47,781,807
Automobiles, machinery, and equipment	9,975,677	637,100	(3,940)	10,608,837
Total accumulated depreciation	55,691,286	\$ 2,703,298	\$ (3,940)	58,390,644
Capital assets - Net	\$ 55,697,195			\$ 62,822,720
	2005			
	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable assets:				
Buildings and improvements	\$ 93,791,944	\$ 1,356,767	\$ -	\$ 95,148,711
Automobiles, machinery, and equipment	12,048,247	745,561	(69,222)	12,724,586
Nondepreciable assets:				
Land improvements	308,650	-	-	308,650
Construction in progress	651,811	2,554,723	-	3,206,534
Total capital assets	106,800,652	4,657,051	(69,222)	111,388,481
Less accumulated depreciation:				
Buildings and improvements	43,808,834	1,906,775	-	45,715,609
Automobiles, machinery, and equipment	9,355,694	689,205	(69,222)	9,975,677
Total accumulated depreciation	53,164,528	\$ 2,595,980	\$ (69,222)	55,691,286
Capital assets - Net	\$ 53,636,124			\$ 55,697,195

Commitments for construction contracts at June 30, 2006 were approximately \$577,000. Since this work has not yet been performed, no liability has been recorded at year end.

Central State University

Notes to Financial Statements June 30, 2006 and 2005

Note 3 - Capital Assets (Continued)

Capital assets activity for the Foundation for the years ended June 30, 2006 and 2005 is summarized as follows:

	2006	2005
Land	\$ 75,330	\$ 75,330
Building	15,267,051	15,267,051
Furniture	859,653	859,653
	<u>16,202,034</u>	<u>16,202,034</u>
Total fixed assets	16,202,034	16,202,034
Less accumulated depreciation	<u>(1,454,399)</u>	<u>(949,907)</u>
Net	<u>\$ 14,747,635</u>	<u>\$ 15,252,127</u>

Note 4 - Long-term Liabilities

Long-term liability (other than long-term debt) activity for the years ended June 30, 2006 and 2005 is summarized as follows:

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 1,045,149	\$ 2,159,337	\$ 1,360,698	\$ 1,843,788	\$ 981,910
Other liabilities	74,545	3,525	-	78,070	-
Total	<u>\$ 1,119,694</u>	<u>\$ 2,162,862</u>	<u>\$ 1,360,698</u>	<u>\$ 1,921,858</u>	<u>\$ 981,910</u>
	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 1,400,274	\$ 834,605	\$ 1,189,730	\$ 1,045,149	\$ 874,181
Other liabilities	50,028	27,500	2,983	74,545	-
Total	<u>\$ 1,450,302</u>	<u>\$ 862,105</u>	<u>\$ 1,192,713</u>	<u>\$ 1,119,694</u>	<u>\$ 874,181</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, 2006 and 2005

Note 5 - Long-term Debt

University:

Long-term debt for the University consists of the following for the years ended June 30, 2006 and 2005:

	2006				
	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	\$ 152,550	\$ -	\$ 60,000	\$ 92,550	\$ 65,000
Notes payable:					
Note payable to HUD, 3.0%, payable in varying installments through June 12, 2010	126,225	-	23,765	102,460	24,483
Note payable to the Department of Education, 5.5%, payable in varying installments through November 1, 2021	<u>2,061,627</u>	<u>-</u>	<u>79,388</u>	<u>1,982,239</u>	<u>83,814</u>
Total	<u>\$ 2,340,402</u>	<u>\$ -</u>	<u>\$ 163,153</u>	<u>\$ 2,177,249</u>	<u>\$ 173,297</u>
	2005				
	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	\$ 212,550	\$ -	\$ 60,000	\$ 152,550	\$ 60,000
Notes payable:					
Note payable to HUD, 3.0%, payable in varying installments through June 12, 2010	149,492	-	23,267	126,225	23,764
Note payable to the Department of Education, 5.5%, payable in varying installments through November 1, 2021	2,136,623	-	74,996	2,061,627	79,388
Capital lease:					
Capital lease, 6.91%, payable in varying installments through September 1, 2004	<u>37,156</u>	<u>-</u>	<u>37,156</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,535,821</u>	<u>\$ -</u>	<u>\$ 195,419</u>	<u>\$ 2,340,402</u>	<u>\$ 163,152</u>

Central State University

Notes to Financial Statements June 30, 2006 and 2005

Note 5 - Long-term Debt (Continued)

At June 30, 2006, maturities of long-term debt, including interest payments, are as follows:

	Principal	Interest	Total
2007	\$ 173,297	\$ 112,579	\$ 285,876
2008	141,260	105,778	247,038
2009	119,406	99,669	219,075
2010	125,400	93,674	219,074
2011	104,129	87,571	191,700
2012-2016	614,484	344,018	958,502
2017-2021	805,988	152,515	958,503
2022	93,285	98,416	191,701
Total	<u>\$ 2,177,249</u>	<u>\$ 1,094,220</u>	<u>\$ 3,271,469</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 (\$192,221). 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 (\$186,154 accumulated at June 30, 2006).

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, 2006 and 2005

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 years ended August 31, 2006 and 2005:

	Interest Rate	Maturity	Balance September 1, 2005	Additions	Payments	Balance August 31, 2006
Revenue Bonds Series 2004	3.3%-5.1%	2035	\$ 11,880,682	\$ 13,728	\$ -	\$ 11,894,410
Revenue Bonds Series 2002	3.0%-5.625%	2032	8,540,026	26,604	160,000	8,406,630
Total			<u>\$ 20,420,708</u>	<u>\$ 40,332</u>	<u>\$ 160,000</u>	20,301,040
Less current portion						<u>355,000</u>
Long-term portion						<u>\$ 19,946,040</u>

	Interest Rate	Maturity	Balance September 1, 2004	Additions	Payments	Balance August 31, 2005
Revenue Bonds Series 2004	3.3%-5.1%	2035	\$ 11,866,954	\$ 13,728	\$ -	\$ 11,880,682
Revenue Bonds Series 2002	3.0%-5.625%	2032	8,605,770	29,256	95,000	8,540,026
Total			<u>\$ 20,472,724</u>	<u>\$ 42,984</u>	<u>\$ 95,000</u>	20,420,708
Less current portion						<u>160,000</u>
Long-term portion						<u>\$ 20,260,708</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	
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	180,000	427,184	225,000	563,554	1,395,738
2011	190,000	419,546	235,000	556,128	1,400,674
2012-2016	1,075,000	1,959,138	1,315,000	2,637,233	6,986,371
2017-2021	1,365,000	1,657,288	1,635,000	2,316,128	6,973,416
2022-2026	1,795,000	1,236,259	2,075,000	1,871,375	6,977,634
2027-2031	2,335,000	668,990	2,660,000	1,290,045	6,954,035
2032-2036	1,165,000	67,671	3,410,000	538,815	5,181,486
2037	-	-	-	-	-
Total	\$ 8,615,000	\$ 7,756,440	\$ 12,150,000	\$ 11,501,510	\$ 40,022,950

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 \$208,370 at June 30, 2006 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 \$165,000 on September 1, 2006 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 \$255,590 at August 31, 2005. 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, 2006, 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.

Central State University

Notes to Financial Statements June 30, 2006 and 2005

Note 7 - 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.

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	STRS
227 East Town Street	275 East Board Street
Columbus, Ohio 43215	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:

	Retirement System	University Share	Employee Share
Classified, contract	OPERS	13.54%	9.00%
Faculty	STRS	14.00%	10.00%

The University's contributions, representing 100 percent of employer contributions, for the periods ended June 30, 2005, 2004 and 2003 are as follows:

	OPERS	STRS
2006	\$ 643,966	\$ 840,486
2005	705,321	828,075
2004	634,013	778,544

Note 7 - Retirement Plans (Continued)

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.

Under the provisions of ARP, the required contribution rates for plan participants are 10 percent and 9.0 percent of employees' covered compensation for employees who would otherwise participate in STRS and OPERS, respectively. The University contributes 10.5 percent of a participating faculty member's compensation and 13.54 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 \$433,199 and \$291,868 and the University's contributions to the ARP were \$622,259 and \$431,814 for the years ended June 30, 2006 and 2005, respectively. In addition, the amounts contributed to STRS by the University on behalf of ARP participants were \$88,983 and \$84,809 for the years ended June 30, 2006 and 2005, respectively.

Note 8 - 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.

Note 8 - Other Postemployment Benefits (Continued)

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, 2006 and 2005, the University contributed \$362,697 and \$398,120, respectively, to OPERS for OPEB funding, which is equal to the actuarially required contributions of the plan.

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, 2006 and 2005, the University contributed \$28,017 and \$28,358, respectively, to fund these benefits.

Note 9 - 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.

Central State University

Notes to Financial Statements June 30, 2006 and 2005

Note 10 - Commitments and Contingencies

Commitments - The University has encumbered approximately \$2,864,588 and \$3,782,950 of funds as of June 30, 2006 and 2005, 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 11 - 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 \$682,300 and \$687,500 for the years ended June 30, 2006 and 2005, respectively.

The Foundation established and owns Marauder Development, LLC, which owns two residence halls (Foundation I and Foundation II) 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 \$1,196,300 and \$706,572 for the years ended June 30, 2006 and 2005, respectively. The University paid Marauder Development, LLC \$2,363,182 and \$2,110,173 for the years ended June 30, 2006 and 2005, respectively. These payments were primarily student residence hall fees.

Note 12 - 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 claims 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.

Supplemental Information

Central State University

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
CLUSTERS:		
STUDENT FINANCIAL ASSISTANCE CLUSTER		
U.S. Department of Education Direct Programs:		
Federal SEOG	84.007	\$ 643,353
Federal Work Study	84.033	480,764
Federal Pell Grant	84.063	<u>3,556,554</u>
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		4,680,671
RESEARCH AND DEVELOPMENT CLUSTER		
National Aeronautics and Space Administration:		
Ohio Space Grant	43.001	24,477
Ohio View Modification #2	43.001	<u>18,157</u>
Total National Aeronautics and Space Administration		42,634
Environmental Protection Agency:		
Argon Optimization of Phytoremediation	66.509	89,706
NET Incubator	66.510	25,295
US EPA Training	66.607	<u>1,210</u>
Total Environmental Protection Agency		<u>116,211</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		158,845
TRIO CLUSTER		
U.S. Department of Education - Direct Program:		
TRIO: Student Support Services	84.042A	286,146

Central State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
OTHER FEDERAL PROGRAMS:		
U.S. DEPARTMENT OF EDUCATION		
Higher Education - Institutional Aid - Direct Program:		
Center for Student Academic Success	84.03 1B	\$ 394,522
Computer Science	84.03 1B	54,342
Computer Services	84.03 1B	49
Faculty Development	84.03 1B	159,253
Fine Arts	84.03 1B	28,443
Funds Management	84.03 1B	9,655
Honors Program	84.03 1B	37,247
Improving Administrative Management	84.03 1B	76,469
Improving Utilization Information Systems	84.03 1B	14,601
Institutional Advancement	84.03 1B	58,608
Institutional Enhancement	84.03 1B	37,640
International Studies Center	84.03 1B	13,222
Library Acquisition Enhancement	84.03 1B	157,074
Management Administration	84.03 1B	45,039
Program Accreditation	84.03 1B	91,121
Program Administration	84.03 1B	168,362
Research/Internships	84.03 1B	2,378
SAEM	84.03 1B	38,441
Semester Conversion	84.03 1B	11,465
Strengthening Institutional Enhancement	84.03 1B	987
Strengthening Institutional Enhancement 02/07 CO Yr 1	84.03 1B	25,979
Strengthening Institutional Enhancement 02/07 CO Yr 3	84.03 1B	70,261
Student Success Counseling	84.03 1B	117,520
Total Higher Education - Institutional Aid		1,612,678
Minority Science and Engineering Program	84.120	55,178
Integrated Biotech Education	84.120	46,422
TOTAL U.S. DEPARTMENT OF EDUCATION		1,714,278
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Family and Community Violence Prevention	93.910	5,690,876
Head Start Teacher Preparation	93.600	86,687
Technical Assistance Workshop	93.100	21,722
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		5,799,285
U.S. DEPARTMENT OF TRANSPORTATION		
Summer Transportation Program	20.000	32,111

Central State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
OTHER FEDERAL PROGRAMS (CONTINUED):		
U.S. DEPARTMENT OF DEFENSE		
Basic and Applied Scientific Research:		
PET Leadership Program	12.000	\$ 30,408
PET Summer Program	12.000	53,028
Lockheed Martin Mentor Protégé	12.000	6,955
SEMAC Urban Education	12.300	(18,389)
STAPP APPS To Curved Antennas	12.000	2,841
Development of Advanced Loop Heat Pipe System	12.000	35,592
Manufacturing Technology Support (MATES) Program	12.800	27,087
Jones Technologies	12.000	<u>19,307</u>
TOTAL U.S. DEPARTMENT OF DEFENSE		156,829
NATIONAL SCIENCE FOUNDATION		
QUEST	47.076	349,907
LSAMP OH Science and Engineering	47.076	21,722
Research Exp to Enhance Learning (REEL)	47.076	16,840
Scholarships for Academic Recruitment	47.076	131,677
HPNC High Bandwidth Connection	47.070	124,547
CSU JUMP	47.076	<u>100,876</u>
TOTAL NATIONAL SCIENCE FOUNDATION		745,569
U.S. DEPARTMENT OF ENERGY		
Global Warming Program	81.unknown	2,524
National Renewable Energy Laboratory	81.087	30,242
STEM UP - OUT	81.123	<u>746,133</u>
TOTAL U.S DEPARTMENT OF ENERGY		778,899
U.S. DEPARTMENT OF INTERIOR		
Applications of Remote Sensing Technology (USBR)	15.504	330,312
U.S. DEPARTMENT OF AGRICULTURE		
Monitoring Agricultural Sewage	10.unknown	<u>19,327</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 14,702,272</u></u>

Central State University

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

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, 2006, are summarized as follows:

Federal Stafford Loans	\$ 4,249,318
Federal Unsubsidized Stafford Loans	3,608,756
Federal Parental Loans for Undergraduate Students (PLUS)	<u>1,643,038</u>
Total Federal Family Education Loan Program	<u>\$ 9,501,112</u>

Note 3 - Loans Outstanding

The University administers the Perkins Loan Program (Federal CFDA Number 84.038). Outstanding loans as of June 30, 2006 were \$986,534. No new loans were issued during the year ended June 30, 2006.

Note 4 - Subrecipient Awards

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

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Family and Community Violence Prevention	93.910	<u>\$ 4,726,003</u>

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, 2006 and have issued our report thereon dated October 10, 2006. 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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.

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 or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Trustees
Central State University

This report is intended solely for the information and use of the audit committee, board of trustees, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 10, 2006

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, 2006. 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 the University's management. Our responsibility is to express an opinion on the 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 the 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 the University's compliance with those requirements.

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, 2006.

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 the 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 level the risk that noncompliance with applicable requirements of laws, regulations, contracts, 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, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 10, 2006

Central State University

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

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
84.031B	Institutional Aid
81.123	Science, Technology, Engineering and Mathematics Upgrade/Enhancement & Outreach (STEM UP-OUT)

Dollar threshold used to distinguish between type A and type B programs: \$441,068

Auditee qualified as low-risk auditee? Yes No

Central State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

Central State University

Summary Schedule of Prior Audit Findings Year Ended June 30, 2006

Reference Number	Corrective Action Taken
2005-01	<p>Program Name - None</p> <p>Audit Finding - Material weakness and reportable condition related to bank account reconciliations</p> <p>Contact Person Responsible for Corrective Action - Merv L. Alphonso, Vice President for Administration and Chief Financial Officer</p> <p>Corrective Action Taken - The University replaced and upgraded most of the staff within the finance office. New procedures were put in place related to online banking to ensure adequate segregation of duties. All bank reconciliations were up to date beginning in June 2005. Reconciliation procedures were implemented that have due dates and reviewer approvals have been implemented.</p>
2005-02	<p>Program Name - Student Financial Aid</p> <p>Audit Finding - Compliance - Timely Return of Title IV Funds</p> <p>Contact Person Responsible - Veronica Leech, Director of Student Financial Aid</p> <p>Corrective Action Taken - Prior plan was put into effect in June 2005. Communication between offices has improved.</p>

WCSU-FM
**(a public telecommunications entity
operated by Central State University)**

Financial Report
June 30, 2006

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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, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits 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 audits provide 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, 2006 and 2005 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 September 29, 2006 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, 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 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 5 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

September 29, 2006

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Management's Discussion and Analysis

The purpose of the annual report is to provide readers with financial information about the activities and financial condition of WCSU - FM (the "Station"), which is owned and operated by Central State University (the "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 6 and should be read in conjunction with the notes to the financial statements. The following summary and management's 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 increased by \$25,624 due to excess of revenues over expenses incurred by the Station from 2005 to 2006 and decreased by \$9,074 due to excess of expenses over revenues incurred by the Station from 2004 to 2005. Net assets invested in capital assets increased by \$25,599 due to the acquisition of new broadcast equipment less the ongoing depreciation of existing fixed assets from 2005 to 2006 and decreased by \$12,142 due to ongoing depreciation of existing fixed assets and no new purchases from 2004 to 2005. Therefore, total net assets increased by \$51,223 and decreased by \$21,216, respectively.

Total assets in 2006 and 2005 decreased \$446 and increased \$30,862, respectively; the decrease was related primarily to a reduction in the amounts due from the University (pooled cash and investments) and the recognition of the new broadcast equipment.

Total liabilities in 2006 decreased by \$51,669, which was primarily attributable to a decrease in deferred revenue; accounts payable also decreased. Total liabilities in 2005 increased by \$52,078, which was attributable primarily to an increase in deferred revenue; account payable remained relatively constant.

Management's Discussion and Analysis (Continued)

	2006	2005	2004
Assets			
Current Assets	\$ 228,283	\$ 254,328	\$ 211,324
Capital Assets - Net of depreciation	<u>57,355</u>	<u>31,756</u>	<u>43,898</u>
Total assets	<u>\$ 285,638</u>	<u>\$ 286,084</u>	<u>\$ 255,222</u>
Liabilities and Net Assets			
Liabilities - Current	\$ 215,788	\$ 267,457	\$ 215,379
Net Assets			
Invested in capital assets	57,355	31,756	43,898
Unrestricted	<u>12,495</u>	<u>(13,129)</u>	<u>(4,055)</u>
Total net assets	<u>69,850</u>	<u>18,627</u>	<u>39,843</u>
Total liabilities and net assets	<u>\$ 285,638</u>	<u>\$ 286,084</u>	<u>\$ 255,222</u>

Current assets and liabilities decreased during 2006 as the 2005 unexpended grant proceeds were expensed during 2006 and accounts payable were reduced. 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. Current assets, including advances to the University, and current liabilities increased during 2005 due to unexpended grant proceeds at year end, which caused an increase in cash and deferred revenue and a decrease in operating revenues and expenses. Further detail about the sources and uses of cash is reflected in the statement of cash flows.

Management's Discussion and Analysis (Continued)

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.

	2006	2005	2004
Operating Revenues	\$ 369,734	\$ 223,746	\$ 267,273
Nonoperating Revenues	<u>414,001</u>	<u>409,930</u>	<u>391,919</u>
Total Revenues	783,735	633,676	659,192
Operating Expenses			
Programming and production	387,865	324,402	351,736
Program information and promotion	38,439	33,130	33,188
Management and general	<u>306,208</u>	<u>297,360</u>	<u>305,818</u>
Total operating expenses	<u>732,512</u>	<u>654,892</u>	<u>690,742</u>
Increase (Decrease) in Net Assets	51,223	(21,216)	(31,550)
Net Assets - Beginning of year	<u>18,627</u>	<u>39,843</u>	<u>71,393</u>
Net Assets - End of year	<u><u>\$ 69,850</u></u>	<u><u>\$ 18,627</u></u>	<u><u>\$ 39,843</u></u>

Operating revenues increased by \$145,988, or 65 percent, from 2005; Corporation for Public Broadcasting increased \$66,900 (61 percent), State Network Commission and private grants revenue increased \$52,789 (238 percent), and contributed services increased \$26,299 (28 percent). This increase is due primarily to the timing of expenditures and recognizing revenue when expenditures are incurred as WCSU utilized the unexpected grant increases received at the end of 2005. Operating expenses increased by \$77,620, or 11.8 percent.

Operating revenues decreased by \$43,257, or 16 percent, from 2004; Corporation for Public Broadcasting decreased \$11,618 (9.6 percent), State Network Commission revenue decreased \$14,779 (40 percent), and contributed services decreased \$17,130 (15.6 percent). This decrease is due primarily to the timing of expenditures and recognizing revenue when expenditures are incurred. Operating expenses decreased by \$35,850 or 5.2 percent.

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.

	2006	2005	2004
Cash used in operating activities	\$ (400,737)	\$ (366,531)	\$ (373,078)
Cash provided by noncapital financing activities	414,001	408,029	391,919
Cash used in capital and related financing activities	<u>(39,309)</u>	<u>-</u>	<u>-</u>
Increase in cash	(26,045)	41,498	18,841
Cash - Beginning of year	<u>252,822</u>	<u>211,324</u>	<u>192,483</u>
Cash - End of year	<u>\$ 226,777</u>	<u>\$ 252,822</u>	<u>\$ 211,324</u>

The Station consumed \$400,737 and \$366,531 in operating activities in 2006 and 2005, respectively. The primary operating cash receipts consist of grants and contracts of \$305,182 and \$274,352, respectively. Cash outlays include payments for wages and to vendors of \$706,032 and \$640,883, respectively. 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

	June 30	
	2006	2005
Assets		
Current Assets		
Due from the University (Note 2)	\$ 226,777	\$ 252,822
Accounts receivable	<u>1,506</u>	<u>1,506</u>
Total current assets	228,283	254,328
Capital Assets - Net (Note 3)	57,355	31,756
Total assets	<u>\$ 285,638</u>	<u>\$ 286,084</u>
Liabilities and Net Assets		
Current Liabilities		
Deferred revenue	\$ 215,788	\$ 253,448
Accounts payable	<u>-</u>	<u>14,009</u>
Total liabilities	215,788	267,457
Net Assets		
Unrestricted net assets (deficit)	12,495	(13,129)
Net investment in capital assets	<u>57,355</u>	<u>31,756</u>
Total net assets	<u>69,850</u>	<u>18,627</u>
Total liabilities and net assets	<u>\$ 285,638</u>	<u>\$ 286,084</u>

WCSU-FM

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2006	2005
Support and Revenue		
Corporation for Public Broadcasting (Note 4)	\$ 175,985	\$ 109,085
State Network Commission and private grants (Note 5)	74,958	22,169
Contributed services	<u>118,791</u>	<u>92,492</u>
Total support and revenue	369,734	223,746
Expenses		
Program services:		
Programming and production	387,865	324,402
Program information and promotion	38,439	33,130
Support services - Management and general	<u>306,208</u>	<u>297,360</u>
Total expenses	<u>732,512</u>	<u>654,892</u>
Operating Loss	(362,778)	(431,146)
Nonoperating Revenues		
Miscellaneous	4,855	-
University support (Note 6)	<u>409,146</u>	<u>409,930</u>
Total nonoperating revenues	<u>414,001</u>	<u>409,930</u>
Increase (Decrease) in Net Assets	51,223	(21,216)
Net Assets - Beginning of year	<u>18,627</u>	<u>39,843</u>
Net Assets - End of year	<u>\$ 69,850</u>	<u>\$ 18,627</u>

Statement of Cash Flows

	Year Ended June 30	
	2006	2005
Cash Flows from Operating Activities		
Grants and contracts	\$ 332,074	\$ 274,352
Payments to employees and vendors	<u>(732,811)</u>	<u>(640,883)</u>
Net cash used in operating activities	(400,737)	(366,531)
Cash Flows from Noncapital Financing Activities -		
Other receipts	414,001	408,029
Cash Flows from Capital and Related Financing Activities -		
Purchase of capital assets	<u>(39,309)</u>	<u>-</u>
Net (Decrease) Increase in Cash	(26,045)	41,498
Cash - Beginning of year	<u>252,822</u>	<u>211,324</u>
Cash - End of year	<u>\$ 226,777</u>	<u>\$ 252,822</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (362,778)	\$ (431,146)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	13,710	12,142
Changes in assets and liabilities:		
Receivables - Net	-	(1,506)
Accounts payable	(14,009)	(34)
Deferred revenue	<u>(37,660)</u>	<u>54,013</u>
Net cash used in operating activities	<u>\$ (400,737)</u>	<u>\$ (366,531)</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.

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 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 5 to 10 years.

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.

Note 3 - Capital Assets

Capital assets activity for the years ended June 30, 2006 and 2005 is summarized as follows:

	2006			
	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	\$ 15,082	\$ -	\$ -	\$ 15,082
Telecommunications equipment	332,663	39,309	-	371,972
Total	347,745	39,309	-	387,054
Less accumulated depreciation:				
Office equipment	14,799	112	-	14,911
Telecommunications equipment	301,190	13,598	-	314,788
Total accumulated depreciation	315,989	13,710	-	329,699
Capital assets - Net	<u>\$ 31,756</u>	<u>\$ 25,599</u>	<u>\$ -</u>	<u>\$ 57,355</u>
	2005			
	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	14,248	551	-	14,799
Telecommunications equipment	289,599	11,591	-	301,190
Total accumulated depreciation	303,847	12,142	-	315,989
Capital assets - Net	<u>\$ 43,898</u>	<u>\$ (12,142)</u>	<u>\$ -</u>	<u>\$ 31,756</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 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, 2006 or 2005.

Note 5 - State Network Commission Grant and Private Grants

WCSU-FM receives unrestricted radio station funding through the Ohio Educational Telecommunications Network Commission (OET), or E-Tech as it is being renamed. For the years ended June 30, 2006 and 2005, WCSU-FM received cash support of \$35,247 (a portion of which is deferred) and \$35,689, respectively. WCSU-FM received in-kind contributed services support from OET of \$117,471 and \$90,692 during the years ended June 30, 2006 and 2005, respectively.

Private grants in the amount of \$25,000 and \$0 in 2006 and 2005, respectively, have been received.

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 \$186,850 and \$190,972 in direct support for 2006 and 2005, respectively, and \$222,296 and \$218,958 in indirect administrative support for 2006 and 2005, respectively.



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Report Letter on Internal Control Over Financial Reporting and on Compliance and
Other Matters 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, 2006 and have issued our report thereon dated September 29, 2006. 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 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

September 29, 2006

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A worldwide association of independent accounting firms



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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
DECEMBER 14, 2006**