WOUB Center for Public Media

A Public Media Entity
(A Department of Ohio University)

Financial Statements as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Report

Mary Taylor, CPA
Auditor of State

Board of Trustees
WOUB Center for Public Media
204 HDL Center
Athens, Ohio 45701

We have reviewed the *Independent Auditor's Report* of the WOUB Center for Public Media, Athens County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2006 through June 30, 2007. 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 WOUB Center for Public Media is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 11, 2008

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WOUB CENTER FOR PUBLIC MEDIA
A Public Media Entity
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Ohio University
Athens, Ohio

We have audited the accompanying statements of net assets of the WOUB Center for Public Media (the "Center"), a public media entity (a department of Ohio University), as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of Ohio University's (the "University") management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness on the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of the Center, are intended to present the financial position of the Center as of June 30, 2007 and 2006, and their changes in net assets and their cash flows of only that portion of the funds and account groups of Ohio University, Athens, Ohio, that is attributable to the transactions of the Center. They do not purport to, and do not, present fully the financial position at the University as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Center as of June 30, 2007 and 2006, and their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Center's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2007, on our consideration of the University's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

December 26, 2007

WOUB CENTER FOR PUBLIC MEDIA
A Public Media Entity
(A Department of Ohio University)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the WOUB Center for Public Media's (the "Center") financial statements provides an overview of the Center's financial activities for the fiscal years ("FY") ended June 30, 2007 and June 30, 2006. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis. Responsibility for the completeness and fairness of this information rests with the Center's management.

USING THIS REPORT

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

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

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

STATEMENTS OF NET ASSETS

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

Accounts receivable-related party represents amounts available in the cash account of the University for the benefit of the Center. All of the Center's receipts and disbursements are recorded in this account. The amounts are $785,664, $600,296, and $957,111 for FY07, FY06, and FY05, respectively.

The following chart depicts the breakdown of assets, liabilities, and net assets for the Center as of June 30, 2007, 2006, and 2005:

	2007	2006	2005
Assets:			
Accounts receivable	$ 28,341	$ 464,746	$ 110,768
Accounts receivable-related party	785,664	600,296	957,111
Capital assets, net	7,594,509	8,395,822	7,642,058
Total assets	$ 8,408,514	$ 9,460,864	$ 8,709,937
Liabilities:			
Current liabilities	$ 198,813	$ 172,951	$ 156,434
Noncurrent liabilities	799,038	821,144	723,137
Total liabilities	997,851	994,095	879,571
Net assets	$ 7,410,663	$ 8,466,769	$ 7,830,366

The net assets are further displayed as follows:

	2007	2006	2005
Invested in capital assets—net of related debt	$ 7,016,124	$ 7,803,248	$ 7,177,405
Restricted expendable	315,067	562,469	652,961
Unrestricted	79,472	101,052	
Total net assets	$ 7,410,663	$ 8,466,769	$ 7,830,366

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses, and Changes in Net Assets present the Center's results of operations for the years ended June 30, 2007 and June 30, 2006.

Operating Revenues

Charges for goods and services are recorded as operating revenues. In addition, certain grants are classified as operating revenues if they are not for capital purchases and are provided as a contract for services. Essentially this means that the Center is required by the grant to provide goods or services to the grantor of equal value to the value of the services or dollars received. Total operating revenues are $1,211,460, $1,239,934, and $1,390,644 for FY07, FY06, and FY05, respectively.

Nonoperating Revenues

Nonoperating revenues include an annual Community Service Grant from the Corporation for Public Broadcasting and the State of Ohio, administered through an annual grant from eTech Ohio (formerly the Ohio Educational Telecommunications Network Commission). Nonoperating revenues also include an appropriation, donated facilities, and administrative support from its licensee (the University). Certain grants are also classified as nonoperating revenue if the Center is not required under the grant agreement to provide goods or services to the grantor of equal value to the services or dollars received. In-kind contributions of $1,700,180, $1,783,160, and $1,552,041 for FY07, FY06, and FY05, respectively, are also included in nonoperating revenues as private gifts revenue. Total nonoperating revenues are $7,241,203, $8,106,636, and $7,301,486 for FY07, FY06, and FY05, respectively.

Total Revenues

The following depicts total revenue by source for the years ending June 30, 2007, June 30, 2006, and June 30, 2005:

	2007	**2006**	**2005**
Support from Ohio University	$ 3,730,621	$ 4,374,296	$ 4,056,442
Grants and contracts	2,240,737	2,942,152	2,619,362
Sales and services	944,692	988,387	992,478
In-kind support	1,700,180	1,783,160	1,552,041
Total revenue by source	$ 8,616,230	$ 10,087,995	$ 9,220,323

Total Expenses

Operating expenses have been incurred to vendors and employees for providing goods or services for the overall operations of the Center. In addition, depreciation expense of $1,133,890, $918,647, and $866,590 for FY07, FY06, and FY05, respectively, is shown as operating expense.

The following depicts operating expenses for the Center:

	2007	**2006**	**2005**
Expenses:			
Program and supporting services	$ 8,477,478	$ 8,475,651	$ 8,679,992
Depreciation	1,133,890	918,647	866,590
Disposal of plant facilities	60,968	57,294	
Total expense by source	$ 9,672,336	$ 9,451,592	$ 9,546,582

Change in Net Assets

Total change in net assets is as follows:

	2007	2006	2005
Operating revenues	$ 1,211,460	$ 1,239,934	$ 1,390,644
Nonoperating revenues	7,241,203	8,106,636	7,301,486
Capital grants and gifts	163,567	741,425	528,193
Expenses	(9,672,336)	(9,451,592)	(9,546,582)
Increase (decrease) in net assets	(1,056,106)	636,403	(326,259)
Beginning net assets	8,466,769	7,830,366	8,156,625
Ending net assets	$ 7,410,663	$ 8,466,769	$ 7,830,366

Statements of Cash Flows

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

The four categories of presentation and their respective FY07, FY06, and FY05 amounts are:

	2007	2006	2005
Net cash used in operating activities	$ (5,111,488)	$ (5,408,290)	$ (5,671,478)
Net cash provided by noncapital financing activities	5,541,023	6,323,476	5,749,445
Net cash used in capital financing activities	(244,167)	(1,272,001)	(165,047)
Net decrease in cash	185,368	(356,815)	(87,080)
Cash equivalents, beginning of year	600,296	957,111	1,044,191
Cash equivalents, end of year	$ 785,664	$ 600,296	$ 957,111

Items of Interest

Budget Reductions and Increased Dues

Reductions in state and university funding continue to have an impact on staffing and the services the Center can provide. In FY07, the Center's budget was reduced overall by $221,723 (the University) and $1,113 (eTech|Ohio). In addition, dues and membership fees from the

Public Broadcasting Service, National Public Radio, and other national organizations continue to increase on an average of five percent. Increasing major donor, membership, and underwriting support has been one strategy to equalize the budget deficits and the national fees. The Center's fundraising receipts increased 14 percent overall from FY06. Even with these increases, it is a challenge to keep up with the trend of budget reductions and increased national fees. Also impacting the Center's budget was a change in the way instructional services are delivered to schools throughout southeastern Ohio from a television broadcasting service to an Internet delivery service (PowerMedia Plus). The change reduced the Center's funds from Educational Technology of Southeastern Ohio (eTSEO) by $128,000. In October 2006, the Center launched the Cornerstone Society mid-level and major giving program with a fundraising dinner hosted by the Center's Community Advisory Council's Development chair. The dinner featured NPR host Diane Rehm as the keynote speaker. Cornerstone Society revenue in FY07 totaled $51,300.

Plant funds decreased in FY07 by $1 million because of the purchase of the Tandberg Distance Learning System in FY06 for instruction to the University's regional campuses.

An increase of $220,000 in plant funds was realized in FY07 due to the Newsroom renovation and funds contributed by the Scripps School of Journalism for the $540,000 project.

Grant Awards

The Center received 13 grant awards totaling $2,189,331. This figure includes grants from eTech|Ohio, the Ohio Educational Television Station (OETS), the U. S. Department of Commerce, KCTS/Talaris Research Institute, and the Corporation for Public Broadcasting.

Digital Conversion

The digital conversion process continues after the sixth floor renovation of a new digital master control was completed. A dedication ceremony for the new room was held in September 2006 with participation from President Roderick McDavis, communication from Executive Vice President and Provost Kathy Krendl, Scripps College of Communication Dean Gregory Shepherd, the Center's Director and General Manager Carolyn Lewis, and other staff, visitors, and students. The control room includes a controlled, 12-channel automation system and a large video server. Before renovation, the Center was broadcasting a Standard Definition ("SD") television stream (which began on October 30, 2003). In FY07, the Center began distributing eight digital channels – four discrete channels on the Center transmitter in Athens and four discrete channels on the WOUC transmitter in Cambridge. These digital channels include: WOUB Unlimited, WOUB Kids, WOUB International, WOUB On Stage, WOUB News & Info., WOUB Makes, WOUB Learns, and WOUB International. The Center is believed to be the only station in the country providing eight distinct digital services.

Through FY07, the Center has expended $12 million for digital conversion. This figure represents equipment usable in the digital transition, capital U. S. Department of Commerce matching grants, and $3 million in state digital television appropriations. The total cost for full HD/Multi-channel Television, one channel equipped, is expected to cost an additional $8.3 million, which the Center expects to raise through grants, major giving, and other efforts.

Newsroom

Renovation of the WOUB Newsroom continued in FY07. The Newsroom had not been changed since the building was erected in the '60s. The Dean of the Scripps College of Communication committed $540,000 from his budget and from House Bill funds (as agreed by the five other Directors in the College) to make the number one priority the renovation of the Newsroom. The state-of-the art facility is both a professional facility and an academic facility with "Athens Mid-Day" from the E. W. Scripps School of Journalism becoming an important component of the Newsroom facility.

Other Items of Interest

Awards received in FY07 were:

"Passion Works: A Story of Flying" – Finalist, New York Festivals; Ohio Public Image Award; Ohio Valley Regional Emmy; and Davey Award, Silver.

"Gridiron Glory" – Student Production Award, Ohio Valley Regional Emmy.

"This Bike is a Pipe Bomb" Newswatch story – Associated Press Award

eTech|Ohio – "Wired for Books" Public Information and Program of the Year; and On-Air Development. Note: In FY07, "Wired for Books" (wiredforbooks.org) had 1,123,161 visits, 5,231,024 pages viewed, by 178 countries represented as location of visitors.

WOUB News, in collaboration with the E. W. Scripps School of Journalism, was awarded an 1804 grant from the University. The project was entitled: "Enhancing the Undergraduate Learning Experience Using a Critical Analysis Tool."

WOUB CENTER FOR PUBLIC MEDIA
A Public Media Entity
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STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Accounts receivable	$ 28,341	$ 464,746
Accounts receivable — related party	785,664	600,296
Total current assets	814,005	1,065,042
NONCURRENT ASSETS — Capital assets — net	7,594,509	8,395,822
TOTAL	$ 8,408,514	$ 9,460,864
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 180,904	$ 148,175
Deferred revenue	145	8,035
Current portion of loan payable	17,764	16,741
Total current liabilities	198,813	172,951
NONCURRENT LIABILITIES:		
Accrued compensated absences	238,417	245,311
Loan payable — related party	560,621	575,833
Total noncurrent liabilities	799,038	821,144
Total liabilities	997,851	994,095
NET ASSETS:		
Invested in capital assets — net of related debt	7,016,124	7,803,248
Restricted — expendable — public service	315,067	562,469
Unrestricted	79,472	101,052
Total net assets	7,410,663	8,466,769
TOTAL	$ 8,408,514	$ 9,460,864

See notes to financial statements.

WOUB CENTER FOR PUBLIC MEDIA
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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUES — Operating revenues:		
Federal grants and contracts	$ 11,895	$ 9,886
State grants and contracts	240,959	241,661
Private grants and contracts	13,914	
Sales and services	944,692	988,387
Total operating revenues	1,211,460	1,239,934
EXPENSES — Operating expenses:		
Program and supporting services	8,477,478	8,475,651
Depreciation	1,133,890	918,647
Total operating expenses	9,611,368	9,394,298
OPERATING LOSS	(8,399,908)	(8,154,364)
NONOPERATING REVENUES AND EXPENSES:		
Support from Ohio University	3,730,621	4,374,296
Private gifts	3,510,582	3,732,340
Disposals of plant facilities	(60,968)	(57,294)
Total nonoperating revenues and expenses	7,180,235	8,049,342
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(1,219,673)	(105,022)
CAPITAL GRANTS AND GIFTS	163,567	741,425
INCREASE (DECREASE) IN NET ASSETS	(1,056,106)	636,403
NET ASSETS — Beginning of year	8,466,769	7,830,366
NET ASSETS — End of year	$ 7,410,663	$ 8,466,769

See notes to financial statements.

WOUB CENTER FOR PUBLIC MEDIA
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Grants and contracts	$ 652,541	$ 251,547
Payments to suppliers	(3,149,810)	(3,121,842)
Payments to employees	(2,593,408)	(2,574,884)
Payments for benefits	(997,430)	(949,632)
Payments for scholarships and fellowships	(1,680)	(1,866)
Sales and services of educational departments	978,299	988,387
Net cash used in operating activities	(5,111,488)	(5,408,290)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Support from Ohio University	3,730,621	4,374,296
Gifts and grants for other than capital purposes	1,810,402	1,949,180
Net cash provided by noncapital financing activities	5,541,023	6,323,476
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	180,592	329,783
Proceeds from (payments on) related party notes payable	(14,189)	127,921
Purchases of capital assets	(410,570)	(1,729,705)
Net cash used in capital financing activities	(244,167)	(1,272,001)
NET DECREASE IN CASH	185,368	(356,815)
CASH EQUIVALENTS — Beginning of year	600,296	957,111
CASH EQUIVALENTS — End of year	$ 785,664	$ 600,296
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (8,399,908)	$ (8,154,364)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	1,133,890	918,647
In-kind expenses	1,700,180	1,783,160
Changes in assets and liabilities:		
Accounts receivable	436,405	57,664
Accounts payable, accrued liabilities, and deferred revenue	24,839	(224)
Accrued compensated absences	(6,894)	(13,173)
NET CASH USED IN OPERATING ACTIVITIES	$ (5,111,488)	$ (5,408,290)

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Center is not a separate legal entity and operates as a department of the University. The accompanying separate financial statements of the Center are prepared solely to meet the reporting requirements of the Corporation for Public Broadcasting, a major funding organization. These financial statements include only the activities of the Center, and therefore they are not intended to present fairly the financial position, change in financial position, and cash flows of the University in conformity with accounting standards generally accepted in the United States of America. For a more extensive disclosure of significant accounting policies, refer to the University's financial statements available by contacting the Controller's Office; 204 HDL Center; Athens, OH 45701; (740)593-0342.

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

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

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

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

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

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

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

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

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

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

Invested in Capital Assets — Net of Related Debt — This represents the Center's investment in capital assets net of related debt.

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

Unrestricted Net Assets — Unrestricted net assets are resources derived primarily from operating funds provided by the University, which are designated for use by the Center, and from third parties whose only restriction over the use of resources provided is for the benefit of the Center as determined by management.

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

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

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

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

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

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

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

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

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

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

Newly Issued Accounting Pronouncements — In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This Statement is effective for financial statements for periods beginning after December 15, 2006.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement explains when pollution remediation-related obligations should be reported and how those obligations' costs and liabilities should be determined. The Statement also requires note disclosures about the liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This Statement is effective for financial statements for periods beginning after June 15, 2007.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes standards for the capitalization, amortization, and financial reporting of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

Center management has not yet determined the impact that implementation of GASB Statements Nos. 45, 48, 49, 50, and 51 will have on the Center's financial statements.

2. CAPITAL ASSETS

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

The following tables present the changes in the various capital asset categories for the years ended June 30, 2007 and 2006:

	Balance June 30, 2006	Additions	Transfers In (Out)	Disposals	Balance June 30, 2007
Capital assets not being depreciated:					
Land	$ 69,235	$ -	$ -	$ -	$ 69,235
Construction in progress	9,540	215,536	(225,076)		-
Total capital assets not being depreciated	78,775	215,536	(225,076)	-	69,235
Capital assets being depreciated:					
Infrastructure	5,563,795				5,563,795
Buildings	3,251,818		225,076		3,476,894
Machinery and equipment	10,362,198	195,034		(266,860)	10,290,372
Total capital assets being depreciated	19,177,811	195,034	225,076	(266,860)	19,331,061
Total capital assets	19,256,586	410,570	-	(266,860)	19,400,296
Less accumulated depreciation:					
Infrastructure	2,352,343	246,307			2,598,650
Buildings	2,664,493	100,252			2,764,745
Machinery and equipment	5,843,928	787,331		(188,867)	6,442,392
Total accumulated depreciation	10,860,764	1,133,890	-	(188,867)	11,805,787
Total capital assets being depreciated — net	8,317,047	(938,856)	225,076	(77,993)	7,525,274
Capital assets — net	$ 8,395,822	$ (723,320)	$ -	$ (77,993)	$ 7,594,509

	Balance June 30, 2005	Additions	Transfers In (Out)	Disposals	Balance June 30, 2006
Capital assets not being depreciated:					
Land	$ 69,235	$ -	$ -	$ -	$ 69,235
Construction in progress	157,115	25,463	(173,038)		9,540
Total capital assets not being depreciated	226,350	25,463	(173,038)	-	78,775
Capital assets being depreciated:					
Infrastructure	5,563,795				5,563,795
Buildings	3,078,780		173,038		3,251,818
Machinery and equipment	8,916,918	1,704,242		(258,962)	10,362,198
Total capital assets being depreciated	17,559,493	1,704,242	173,038	(258,962)	19,177,811
Total capital assets	17,785,843	1,729,705	-	(258,962)	19,256,586
Less accumulated depreciation:					
Infrastructure	2,106,036	246,307			2,352,343
Buildings	2,582,846	81,647			2,664,493
Machinery and equipment	5,454,903	590,693		(201,668)	5,843,928
Total accumulated depreciation	10,143,785	918,647	-	(201,668)	10,860,764
Total capital assets being depreciated — net	7,415,708	785,595	173,038	(57,294)	8,317,047
Capital assets — net	$ 7,642,058	$ 811,058	$ -	$ (57,294)	$ 8,395,822

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2007 and 2006, consist of the following:

	2007	2006
Accounts payable	$ 129,487	$ 94,482
Accrued payroll	51,417	53,693
	$ 180,904	$ 148,175

4. ACCRUED COMPENSATED ABSENCES

Per University policy, salaried faculty and staff earn vacation at the rate of 22 days per year with a maximum accrual of 32 days. Upon termination, they are entitled to a payout of their accumulated balance. Hourly classified employees earn vacation at rates per years of service, ranging from 10 to 25 days per year. The maximum accrual is equal to the amount earned in three years, which is subject to payout upon termination. The liability for accrued vacation at June 30, 2007 and 2006, is $194,660 and $202,349, respectively.

All University employees are entitled to a sick leave credit equal to 15 days per year (earned on a pro-rata monthly basis for salaried employees and on a pro-rata hourly basis for classified hourly employees). Salaried employees with 10 or more years of service are eligible to receive a payout upon retirement of up to 25% of unused days (maximum of 30 days). Hourly classified employees with 10 or more years of service are eligible for payout upon retirement of up to 50% of unused days (maximum of 60 days). The liability for accrued sick leave at June 30, 2007 and 2006, are $43,757 and $42,962, respectively.

A summary of accrued compensated absences at June 30, 2007 and 2006, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
For the year ended:				
June 30, 2007	$ 245,311	$ -	$ 6,894	$ 238,417
June 30, 2006	258,484		13,173	245,311

5. LOAN PAYABLE — RELATED PARTY

The University entered into an agreement with the Center to provide an internal loan in the amount of $951,162 as match for a 2003 Public Telecommunications Facilities Program (PTFP) grant from the U.S. Department of Commerce. The purpose of the grant was to assist with construction and installation of a tower to support a new broadband antenna at WOUC in Cambridge, Ohio. The bid for the tower project came in at less than the estimate, thereby reducing the match that was needed. Of the original loan amount of $951,162, only $185,958 was needed for the tower project. In early calendar 2004, the Center requested that $250,042 of the unused loan funds be applied to the new digital master control project, another phase of the digital conversion. In July 2004, additional loan funds of $159,200 were requested and the borrowing limit was increased to $595,200. Amounts are drawn as needed, up to the approved borrowing limit of $595,200. The internal loan carries an interest rate of 5.5% payable over 20 years at the rate of $4,094.31 per month. Only interest payments occurred until July 30, 2006, at which time principal payments began.

The loan payable at June 30, 2007 and 2006, is shown as follows:

	Beginning Balance	Borrowed	Retired	Ending Balance	Current
For the year ended:					
June 30, 2007	$ 592,574	$ -	$ (14,189)	$ 578,385	$ 17,764
June 30, 2006	464,653	127,921		592,574	16,741

Principal and interest payment requirements for the years subsequent to June 30, 2007, are summarized as follows:

Years Ending June 30	Principal	Interest	Total
2008	$ 17,764	$ 31,368	$ 49,132
2009	18,766	30,366	49,132
2010	19,824	29,308	49,132
2011	20,943	28,189	49,132
2012	22,124	27,008	49,132
2013–2017	130,808	114,850	245,658
2018–2022	172,105	73,553	245,658
2023–2026	176,051	20,475	196,526
	$ 578,385	$ 355,117	$ 933,502

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INDEPENDENT AUDITORS' 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 of
Ohio University
Athens, Ohio

We have audited the financial statements of Ohio University (the "University") as of and for the year ended June 30, 2007, and have issued our report thereon dated November 1, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 07-1, 07-2, 07-3, 07-4, and 07-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 07-1, 07-2, 07-3, 07-4, and 07-5.

We noted certain matters that we reported to management of the University in a separate letter dated November 1, 2007.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the University's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

November 1, 2007

SCHEDULE OF FINDINGS AND RESPONSES

07-1 Formalized Policy on Ethics and Conduct

Observation — The University has specific policies and procedures surrounding various aspects of a code of conduct. This includes a conflict of interest statement specifically for research and educational activities, distribution of the Ohio ethics laws when hired, and a confidential reporting line (EthicsPoint). However, there is no overall policy on University code of conduct and ethics, nor are conflict of interests representations required or monitored beyond the research and educational activities.

Recommendation — The University should continue and finalize development of an overall code of ethics that would apply to the entire University. It should be developed by a multidisciplinary team and incorporated into the University policies and procedures. This would at a minimum include:

- An introductory letter from the President, which sets the tone at the top and defines the importance of ethics and compliance for each employee of the University.
- The University's mission statement, vision, values, and guiding principles that reflect the University's commitment to ethics, integrity, and quality.
- An ethical construct to assist employees in making the right choices.
- A listing of available resources for obtaining guidance and for good faith reporting of suspected misconduct, including:
  - An anonymous reporting mechanism
  - A definition of the reporting chain of command
  - The URL to an ethics and compliance web site
  - Any additional ethics and compliance resources and/or the identification of supplementary policies and procedures and their location
- Enforcement and implementation mechanisms that address the notion of accountability and discipline for unethical behavior up to and including termination.

In addition, the University should require employees and Board of Trustee members to complete an annual conflict of interest representation, which identifies any related parties to the University and aids in ensuring that all transactions are completed at arm's length.

Management Response — The University has developed an overall code of conduct which will apply to the University as a whole. This code is currently being reviewed and approved through the University's formal approval process. The code was developed by a multidisciplinary team, the Financial Controls Committee (the "Committee"). This Committee was convened in the fall of 2006 by the Vice President Finance and Administration and is co-chaired by the Associate Vice President for Finance and the Director of Internal Audit. The committee is a cross-section of the University community and includes faculty and staff from administrative and academic units.

The code of conduct includes many of the points outlined in the above recommendation. In particular, it references the University's mission statement, vision, values, and guiding principles, which reflect the University's commitment to ethics, integrity, and quality as defined in Vision OHIO. It also contains links to ethical expectations for employees, including the Faculty Handbook, the Student Code of Conduct, the Financial Code of Ethics, University policy and procedure, and a link the Ohio Ethics Law and related statutes.

Another deliverable of the committee was the composition of a proposed introductory letter from the President designed to set the "tone at the top." Products from the committee to date have included a financial code of ethics and the overall code of conduct.

The University will consider requiring employees and Board of Trustee members to complete an annual conflict of interest representation which will identify any related parties to the University and aid in ensuring that all transactions are completed at arm's length.

07-2 Journal Entry Review and Approval Procedures

Observation — Three out of 25 selections did not include a secondary authorization as designated in the internal control policy, which states that all "Adjustment Entries" should be reviewed by a secondary individual. A secondary approval was not obtained as these entries were initiated by management, and it was concluded that a secondary approval was not required. This results in management having the ability to record entries to the general ledger specific to accounts that they themselves manage and reconcile.

Recommendation — The University needs to revise their journal entry policies to implement an effective process of checks and balances, and segregation of duties. Once policies have been revised these policies need to be stressed and explained to individuals involved so that they understand why they are doing what they are doing.

Management Response — Upon learning of this issue, the University took steps to review all journal entries for fiscal year 2007 to determine which entries needed further review. Any secondary authorizations needed, but not obtained prior to entry, were acquired and the documents re-filed. The University does have a standard operating procedure dealing with signing of journal entries. The documented procedure is being reviewed to clarify those areas of apparent confusion. Staff has been notified of this comment and the need for the secondary authorization. In addition, for fiscal year 2008, monthly entries will have a post-entry review to make sure that the secondary authorization has been obtained.

07-3 University Risk Assessment

Observation — The University has not completed an overall risk assessment of the University's control environment.

Recommendation — Management should focus efforts on creating and finalizing a control environment risk assessment. This will help management and the University be aware of potential risk areas and which require further attention.

Management Response — The University's control environment risk assessment was finalized in January 2007. At that time a control self assessment survey tool was completed by the President's Executive Staff, the Dean's Council, and the FCC members. This survey was originally created by the Institute of Internal Auditors and is intended for the use of its members and the institutions they serve. It was modified by the FCC to better serve the needs of the University. This survey will be administered electronically to the University community in winter quarter 2008.

07-4 Information Security — Excessive Production Access

Observation — Within SIS 11 programmers have update access to production program source libraries and data, which creates a segregation of duties conflict. In addition, there are currently nineteen users with Power User functionality within SIS.

Programmers having access to program source libraries and data constitutes an inadequate segregation of duties. The risk of unauthorized changes to system resources in production increases significantly without an adequate segregation of duties. Excessive access to functions is a concern as most individuals do not need the access to perform their everyday job functions. Access listings should be kept at a minimal level to help alleviate the threat of unnecessary activity that could occur through shared accounts.

Recommendation — We recommend that the University consider:

- Reviewing the current security settings and limiting the ability of programmers to update program source libraries and data.
- If this is not feasible, management should consider systematically logging all program and data changes and implementing a post implementation review of these changes for appropriateness.
- Reviewing the current listing of users with Power User access and limiting the functionality of those users.

Management Response — Although 11 programmers have access to production programs and files, only three people are responsible to move changes to production. All requests to move programming changes to production are tracked electronically. Currently, there are no logging features in place within SIS to allow monitoring of access of programmers and administrators to production. The University will consider reducing the number of power users; however, major configuration or process changes in this area will be considered in the context of the new SIS replacement project.

07-5 Information Security Strategy and Planning — Resource Constraints

Observation — The current number of resources working in the University IT environment is not adequate for IT to run at the most efficient and secure levels.

There is an inadequate number of personnel working in the IT community at the University. It was a constant concern to all individuals that were interviewed. A large number of the previous-year management letter comments were not able to be addressed due to the resource constraints that are in place. Obtaining and retaining adequate staff with appropriate experience is critical to the success of the computer processing environments. The University can ensure that it does not become too reliant on individuals in key positions through proper succession planning. If human resource issues are neglected, critical systems operation and maintenance activities may not be performed or may not be performed timely. This, in turn, can result in delays in processing, system downtime, or processing errors if relevant control activities are not placed in operation.

Recommendation — We recommend that the University consider evaluating their resource constraints and take appropriate steps to address the issue.

Management Response — The Information Technology Improvement Plan has been developed based on the Gartner study. This study determined that the IT department at the University is currently significantly under-staffed; therefore, over the next three years, twenty-four new critical Full-Time Equivalent (FTE) positions will be added.

WOUB CENTER FOR PUBLIC MEDIA

ATHENS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 6, 2008