SINGLE AUDIT REPORT

Youngstown State University

Year ended June 30, 2003

Auditor of State
Betty Montgomery

Board of Trustees
Youngstown State University

We have reviewed the Independent Auditor's Report of the Youngstown State University, Mahoning County, prepared by Ernst & Young LLP for the audit period July 1, 2002 through June 30, 2003. 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 Youngstown State University is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 11, 2004

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Youngstown State University

Single Audit Report

Year ended June 30, 2003

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Message from President Sweet

October 2, 2003

The 2002-2003 fiscal year will be remembered as one of the most difficult faced by public universities in Ohio. Youngstown State University was not spared the impact of the state budgetary crisis. When the dust had settled, we had to manage the loss of $5.4 million in anticipated operating revenue from the state, which amounted to 4.9 percent of the $110.9 million operating budget approved by the Board of Trustees at the beginning of the 2003 fiscal year.

An implicit message embedded in this financial statement is that YSU was able to weather this financial storm because we were able to anticipate and respond effectively to state cuts through good planning and sound management. Key to this effort was the willingness of the entire campus community to pitch in to save on operating costs and to stretch resources even further to get the job done. Moreover, we intensified our efforts to raise funds from the private, public, and non-profit sectors to enable the University to proceed with key priorities, and as a result had a record-breaking year.

Through the hard work of the campus community, YSU withstood the state budget cuts and at the same time maintained classroom instruction, enrollment and retention services, and campus safety and security, while avoiding layoffs.

An unfortunate consequence of declining state support for higher education is the necessity of raising tuition. Today, because of declining state support and increased tuition, a YSU student pays 60 percent of the cost of education compared to 45 percent in 1998. A key fund-raising priority is to offset the impact of tuition increases through financial aid programs. Last year alone over $1 million in new contributions was raised by the University and the YSU Foundation specifically to assist students with financial need with their higher tuition bills.

There is no sign that our financial challenges are behind us for the foreseeable future. Nonetheless, the coming year will see continued development of academic programs to meet the needs of our students and the job market, as well as the completion of significant planning efforts in enrollment management, technology, and the campus master plan. In spite of the financial concerns created by the state, we remain committed to achieving our aspiration to become a national model for student-centered, comprehensive urban universities and to provide our students with the quality education that they deserve.

Sincerely,

David C. Sweet
President

ERNST & YOUNG

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Report of Independent Auditors

Board of Trustees
Youngstown State University

We have audited the accompanying statement of net assets of Youngstown State University, a component unit of the State of Ohio, as of June 30, 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Youngstown State University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Youngstown State University for the year ended June 30, 2002, were audited by other auditors whose report dated November 15, 2002, expressed an unqualified opinion on those statements and included an explanatory paragraph that disclosed the University's implementation of a new financial reporting model as discussed in Note 1 to these financial statements.

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

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of Youngstown State University as of June 30, 2003 and the changes in its net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

We also audited the adjustments described in Note 2 that were applied to restate the 2002 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Management's discussion and analysis on pages 4-14 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2003 on our consideration of Youngstown State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of Youngstown State University taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2003 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

December 11, 2003

Management Discussion and Analysis

Introduction

This section of Youngstown State University's (YSU or University) Financial Report presents a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2003 with comparative information for the fiscal year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes that follow.

Youngstown State University's financial report includes three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with the financial reporting format required by the Governmental Accounting Standards Board's (GASB) Statements No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and No. 38, *Certain Financial Statement Note Disclosures* and applied on a retroactive basis. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. In addition to the consolidation of the financial information, key presentation elements include:

- Assets and liabilities are categorized as either current or noncurrent. Current assets and liabilities will be consumed or fulfilled within one year.
- Revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the University's revenues, including State of Ohio (State) appropriations, gifts and investment income are considered nonoperating, as defined by GASB Statement No. 35.
- University scholarships that represent reduced tuition (i.e. are applied to student accounts rather than refunded to students) are shown as a reduction of tuition, fees and other student charges, while payments made directly to students are presented as scholarship expense. Third party scholarships are treated as though the students made the payments themselves.
- Capital assets are reported net of accumulated depreciation.

Financial and Other University Highlights

- Continued increase in enrollment trends
- Continued decrease in State support
- Increase in gift giving
- Elimination of State of Ohio's unfunded workers' compensation liability
- Positive Senate Bill 6 ratios
- Emphasis on completion of major strategic planning documents including enrollment management, technology and the campus master plan

The Statement of Net Assets

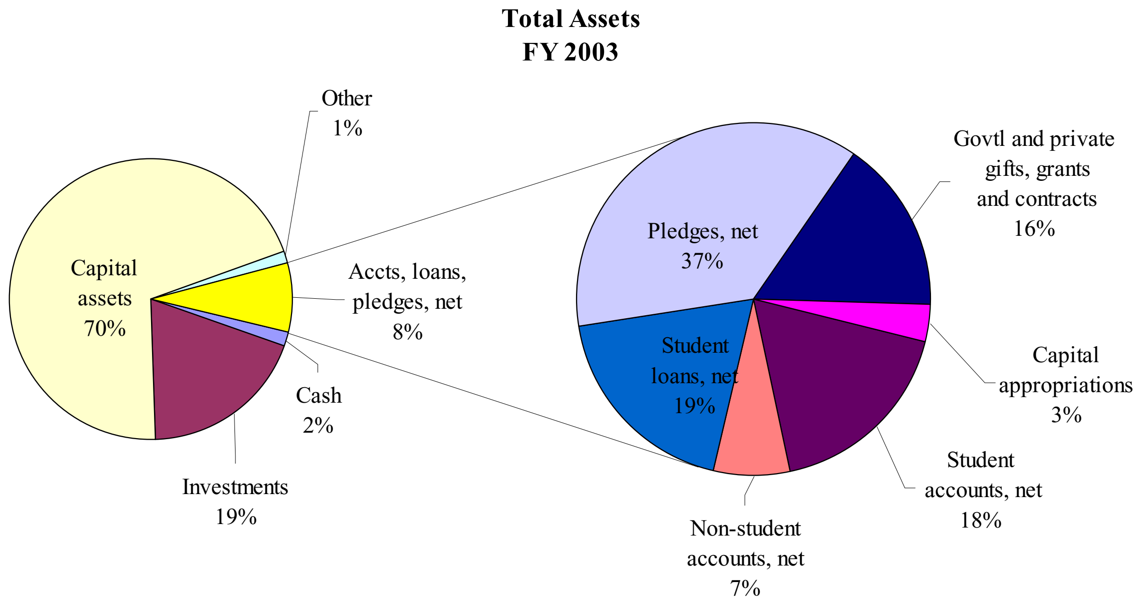
This statement presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities – net assets – is an indicator of the current financial condition of the University.

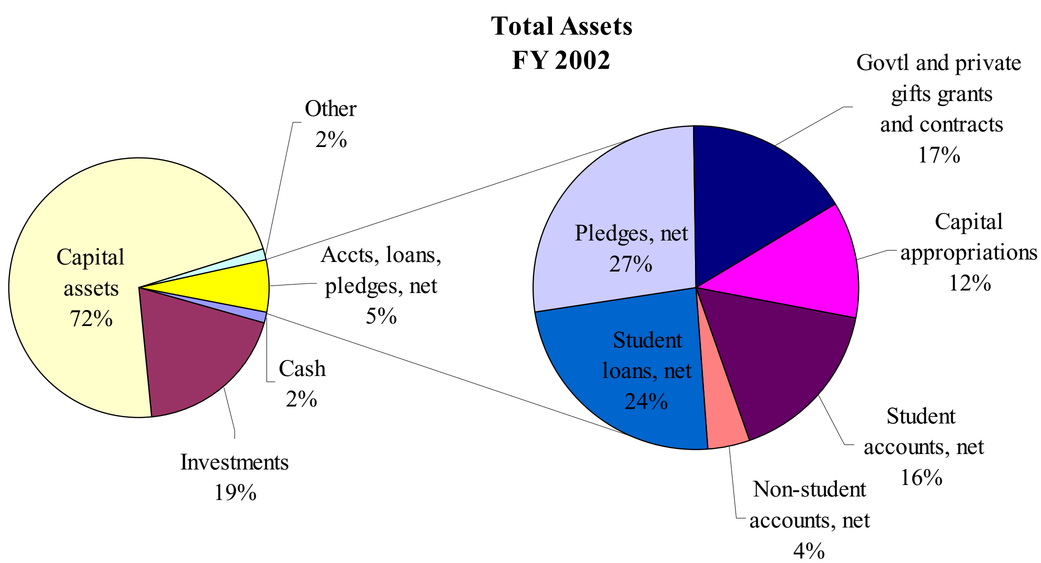
A summary of the University's assets, liabilities and net assets at June 30, 2003 compared to June 30, 2002 follows:

	June 30, 2003	June 30, 2002
Assets		
Current assets	$ 36,779,811	$ 40,302,367
Capital assets, net	142,861,175	140,848,821
Other assets	24,647,930	14,971,439
Total Assets	**204,288,916**	**196,122,627**
Liabilities		
Current liabilities	18,492,124	18,027,477
Noncurrent liabilities	21,804,367	23,549,358
Total liabilities	**40,296,491**	**41,576,835**
Total Net Assets	**$ 163,992,425**	**$ 154,545,792**
Net Assets		
Invested in capital assets, net of related debt	$ 128,791,756	$ 125,974,595
Restricted - nonexpendable	5,018,540	4,854,893
Restricted - expendable	12,474,402	7,019,073
Unrestricted	17,707,727	16,697,231
Total Net Assets	**$ 163,992,425**	**$ 154,545,792**

Material assets consist of cash and cash equivalents, investments, receivables and capital assets as reflected in the following table and graphs:

	June 30, 2003	June 30, 2002
Cash and cash equivalents	$ 3,185,305	$ 2,943,172
Investments	39,004,847	36,871,039
Accounts, loans and pledges receivable, net	16,351,710	12,480,630
Capital assets, net	142,861,175	140,848,821
Other	2,885,879	2,978,965
Total Assets	**$ 204,288,916**	**$ 196,122,627**





Total cash and cash equivalents and investments increased $2.4 million, primarily due to receipt of gifts for the construction of the Andrews Recreation and Wellness Center. Invested balances for the construction of the Andrews Recreation and Wellness Center increased $2.5 million in fiscal year 2003 (total $3 million at June 30, 2003) and are reflected in noncurrent assets along with endowment principal and other investments. The composition from current to noncurrent balances shifted from the prior year reflecting a change in investment philosophy. The total fair value of investments decreased slightly from the prior year. The Statement of Cash Flows provides additional information on sources and uses of the University's cash.

At June 30, 2003, Youngstown State University had $142,861,175 invested in capital assets, net of accumulated depreciation. Depreciation and amortization charges totaled $7,484,527 in FY 2003 and $7,075,983 in FY 2002. Details of capital assets are shown below.

	2003	2002
Land	$ 12,835,387	$ 12,053,837
Buildings	114,053,556	112,356,649
Improvements other than buildings	7,690,539	8,194,742
Construction-in-progress	1,122,690	2,171,617
Moveable equipment and furniture	6,781,749	5,531,314
Historical treasures	297,513	297,513
Capital leased assets	79,741	243,149
Total	**$ 142,861,175**	**$ 140,848,821**

Major capital activity during the year included the addition of properties to allow for future expansion of the University campus, completion of projects including the Ward Beecher HVAC and Steam Line Replacement, and network upgrades. More detailed information about the University's capital assets is presented in Note 7 to the financial statements.

Material liabilities include accrued payroll, payroll withholdings, debt, compensated absences, and deferred revenue. The following table summarizes balances at June 30, 2003 and 2002:

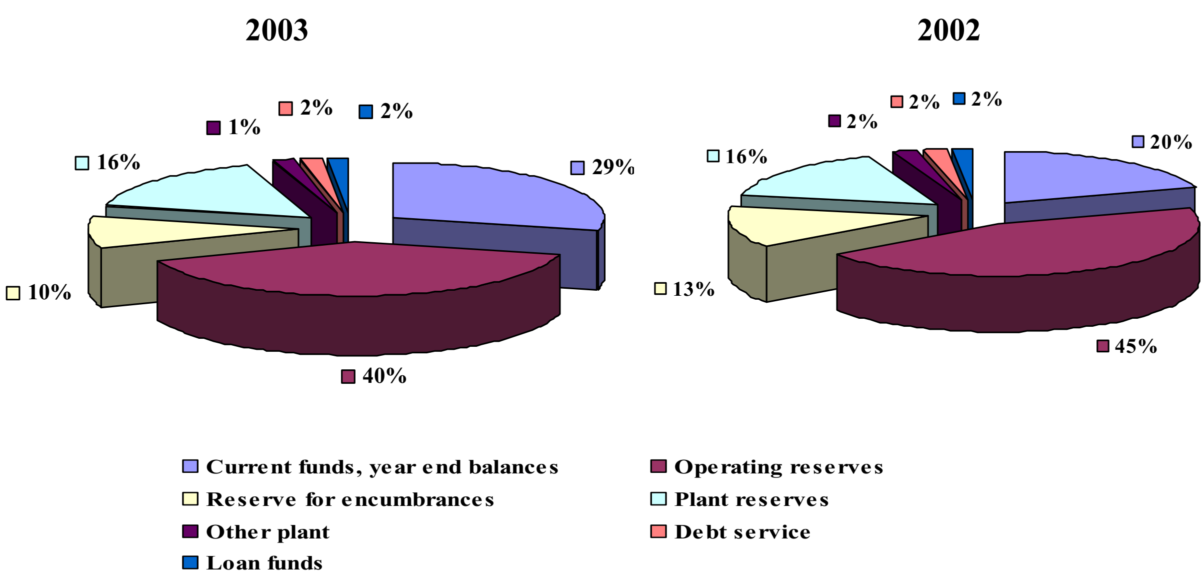
	June 30, 2003	June 30, 2002
Accounts payable	$ 1,397,920	$ 2,286,618
Accrued liabilities	6,715,236	6,613,190
Bonds and capital leases payable, net	14,263,619	14,992,226
Compensated absences	6,114,964	5,455,846
Deferred revenue	6,793,691	6,038,881
Refundable advance	2,830,609	2,665,300
Unfunded workers' compensation	-	1,810,603
Other	2,180,452	1,714,171
Total Liabilities	**$ 40,296,491**	**$ 41,576,835**

At June 30, 2003, the University had $14,440,000 in principal debt outstanding compared to $15,175,000 at June 30, 2002. More detailed information about University debt and long-term liabilities is presented in Notes 9 and 16 to the financial statements. See Note 8 for a further breakout of accounts payable, accrued liabilities and other accrued expenses and Note 15 for detail on the elimination of the unfunded workers' compensation liability.

Many of the University's unrestricted net assets have been designated or reserved for specific purposes such as operating reserves, capital projects and reserve for encumbrances. The following table shows allocations at June 30, 2003 compared to June 30, 2002:

	2003 Total	2002 Total
Current funds, year end balances		
Unallocated		
General operating	$ 3,139,119	$ 2,189,098
Auxiliary enterprises	1,271,624	1,094,999
Allocated	725,654	40,548
Subtotal	**5,136,397**	**3,324,645**
Operating reserves		
General operating	5,828,386	6,519,282
Auxiliary enterprises	1,270,000	1,009,326
Subtotal	**7,098,386**	**7,528,608**
Reserve for encumbrances	**1,689,685**	**2,200,380**
Plant reserves	**2,886,942**	**2,724,488**
Other plant	**301,690**	**316,769**
Debt service	**322,773**	**328,183**
Loan funds	**271,854**	**274,158**
Total	**$ 17,707,727**	**$ 16,697,231**

Overall, unrestricted net assets increased $1.0 million or 6% from June 30, 2002 to June 30, 2003. This increase includes a $1.8 million increase due to the reallocation of Ohio's workers' compensation liability. Operating reserves decreased slightly due to a transfer to operating funds to support an increase in the health care liability.



The Statement of Revenues, Expenses, and Changes in Net Assets

This statement presents the operating results and the nonoperating revenues and expenses of the University. Annual State of Ohio (State) appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

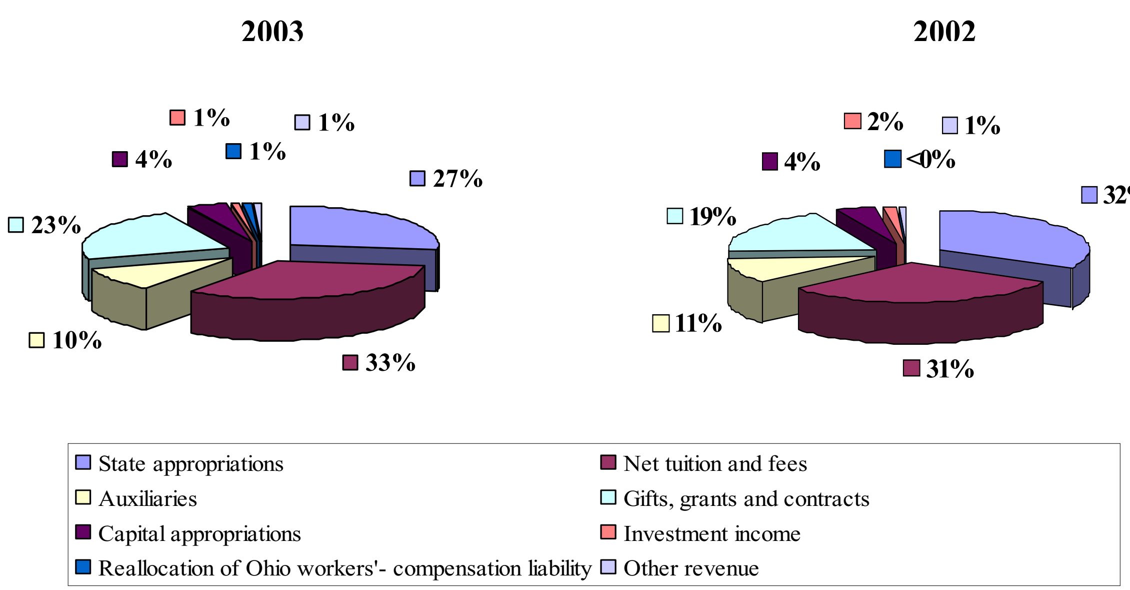
A summary of revenues, expenses and changes in net assets for the years ended June 30, 2003 and 2002 follows:

	2003	2002
Operating Revenues		
Net tuition, fees and other student charges	$ 52,824,818	$ 44,659,168
Auxiliary enterprises	15,974,326	15,061,842
Grants and contracts	12,425,612	10,648,050
Other	1,058,226	855,240
Total Operating Revenues	**82,282,982**	**71,224,300**
Operating expenses	149,300,934	134,972,307
Operating Loss	**(67,017,952)**	**(63,748,007)**
Nonoperating Revenues and Expenses:		
State appropriations	43,917,610	46,887,147
Gifts, grants, and contracts	21,037,452	15,854,910
Investment income	1,195,060	2,339,731
Other nonoperating revenues (expenses), net	(1,801,758)	(2,315,951)
Net Nonoperating Revenues:	**64,348,364**	**62,765,837**
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**(2,669,588)**	**(982,170)**
Other Revenues, Expenses, Gains and Losses:		
Capital appropriations	7,064,521	5,897,481
Capital grants and gifts	3,205,174	649,686
Reallocation of Ohio workers' compensation liability	1,810,603	-
Other	35,923	(117,224)
Total Other Revenues, Expenses, Gains and Losses	**12,116,221**	**6,429,943**
Increase in Net Assets	**9,446,633**	**5,447,773**
Net assets at beginning of year	**154,545,792**	**149,098,019**
Net Assets at End of the Year	**$ 163,992,425**	**$ 154,545,792**

Revenues

Following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the University's activities for the years ended June 30, 2003 and 2002:

Revenues by Source	**2003**	**2002**
State appropriations	$ 43,917,610	$ 46,887,147
Net tuition and fees	52,824,818	44,659,168
Auxiliaries	15,974,326	15,061,842
Gifts, grants and contracts	36,668,238	27,152,646
Capital appropriations	7,064,521	5,897,481
Investment income	1,195,060	2,339,731
Reallocation of Ohio workers' compensation liability	1,810,603	-
Other revenue	1,418,727	1,124,311
Total revenues	**$ 160,873,903**	**$ 143,122,326**



Overall, the University's total net revenue increased $17.7 million or 12%. The majority of Youngstown State University's revenue, 60% in FY 2003 and 63% in FY 2002, is attributed to State appropriations and tuition and fees. Combined, these two revenue streams increased $5.2 million from FY 2002 to FY 2003, although the composition shifted - State appropriations accounted for 45% of that total in FY 2003 compared to 51% in FY 2002. Gift giving increased $5.3 million over the prior year. The elimination of the $1.8 million unfunded workers' compensation liability is a non-recurring item on the Statement of Revenues, Expenses and Changes in Net Assets.

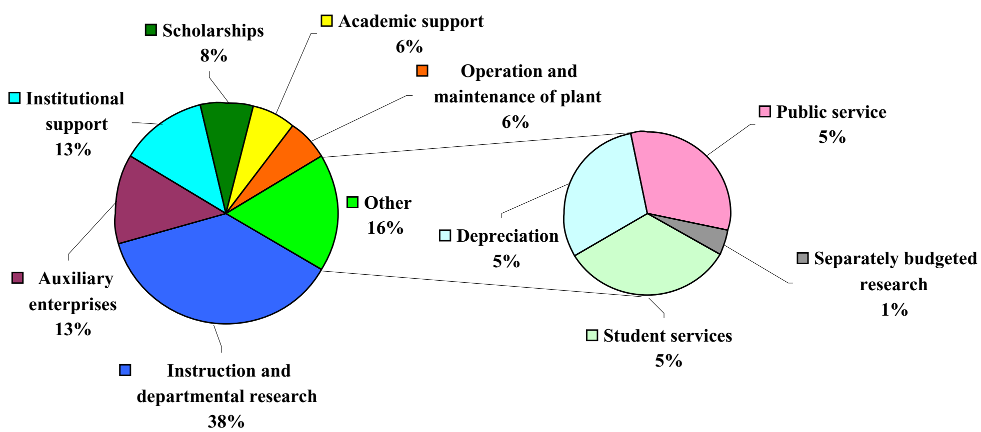
Expenses

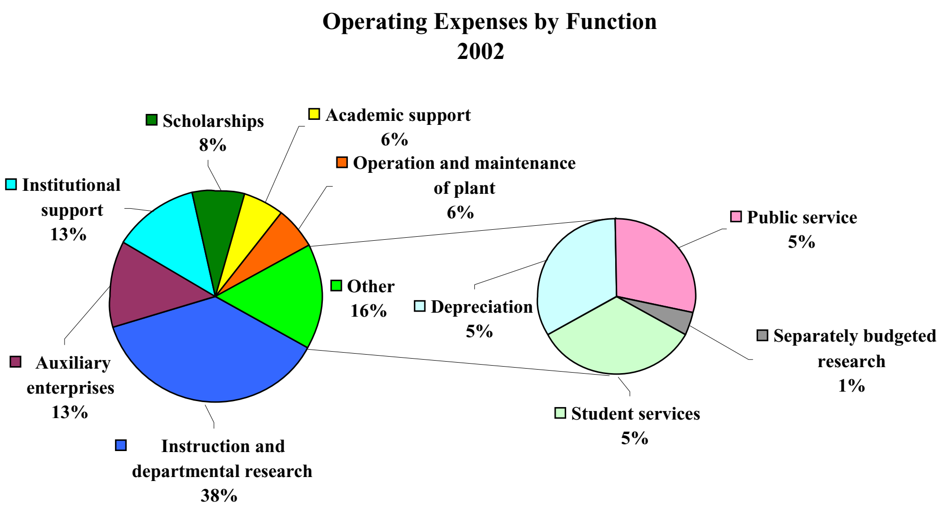
Operating expenses can be displayed in two formats: natural classification and functional classification. The table below, summarizing both formats, is followed by graphs of each.

Functional Classification	Natural Classification: Compensation	Operating	Scholarships	Depreciation	2003 Total Functional	2002 Total Functional
Instruction and departmental research	$ 51,190,980	$ 4,165,988	$ 51,834		$ 55,408,802	$ 50,108,172
Separately budgeted research	713,555	461,471	250		1,175,276	926,638
Public service	4,383,491	3,428,001	22,857		7,834,349	6,213,543
Academic support	6,764,335	2,796,640	2,453		9,563,428	8,652,678
Student services	6,367,450	1,649,037	146,671		8,163,158	7,157,503
Institutional support	13,933,434	5,712,401	19,815		19,665,650	18,111,571
Operation and maintenance of plant	3,881,377	5,183,039			9,064,416	8,617,389
Scholarships			11,716,988		11,716,988	10,354,461
Auxiliary enterprises	6,478,522	12,745,818			19,224,340	17,754,369
Depreciation and amortization				7,484,527	7,484,527	7,075,983
Total Natural	**$ 93,713,144**	**$ 36,142,395**	**$ 11,960,868**	**$ 7,484,527**	**$ 149,300,934**	**$ 134,972,307**

Salaries and benefits totaled 63% of the FY 2003 expenses compared to 61% of the expenses in FY 2002, while operating expenses remained consistent at 24% in FY 2003 and FY 2002. Scholarships and depreciation totaled 13% of total expenses in FY 2003 and 14% in FY 2002. The allocation of operating expenses among the functional areas remained consistent from FY 2002 to FY 2003 – instruction and departmental research at 38% and a range of 1% to 13% for all other functional areas.

Operating Expenses by Function
2003





The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the University's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

A summary of cash flows for the years ended June 30, 2003 and 2002 follows:

	2003	2002
Cash provided (used) by:		
Operating activities	$ (60,218,860)	$ (53,094,452)
Investing activities	(938,748)	(5,228,779)
Capital and related financing activities	(125,040)	(4,012,723)
Noncapital financing activities	61,524,781	61,201,173
Net increase (decrease) in cash	**242,133**	**(1,134,781)**
Cash - Beginning of year	2,943,172	4,077,953
Cash - End of year	**$ 3,185,305**	**$ 2,943,172**

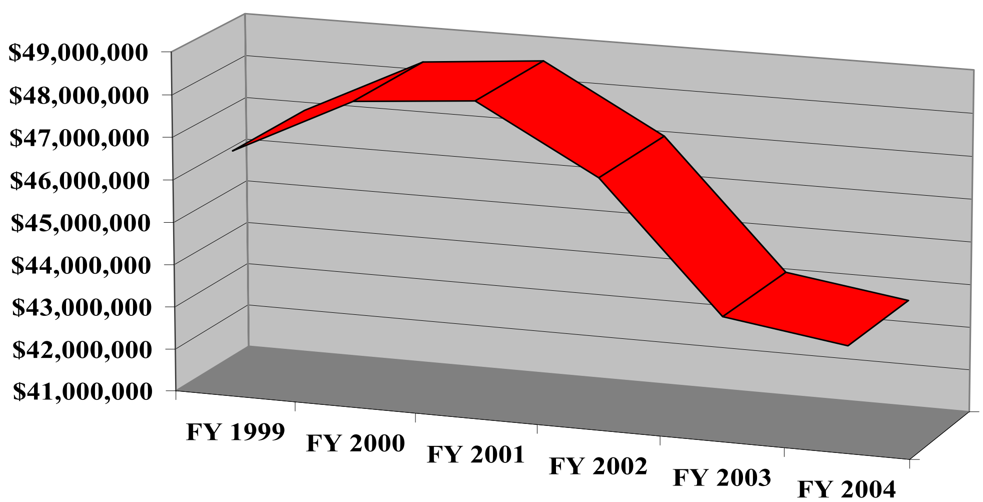
Material sources of cash included State appropriations, tuition and fees and grants and contracts. Material uses of cash were for payments to employees, payments to suppliers and vendors, and scholarships.

Economic Factors for the Future

Looking to the future, the University is well-positioned to continue its strong financial condition and level of excellence in service to students. The University's strong financial position is reflected in its Senate Bill 6 (SB6) composite scores. These scores are required to be calculated by Ohio legislation and provide a formalized structure for monitoring the financial health of the State of Ohio's colleges and universities. These ratios, calculated annually, assess viability, financial strength and net income. The overall maximum score is 5 and the threshold for fiscal watch is 1.75. The University's SB6 composite score for the year ended June 30, 2003 was 3.7 compared to 3.5 at June 30, 2002.

A crucial element to the University's future will continue to be its relationship with the State of Ohio as work continues toward providing quality education at an affordable price. The University continues to experience a decline in its revenue from State appropriations:

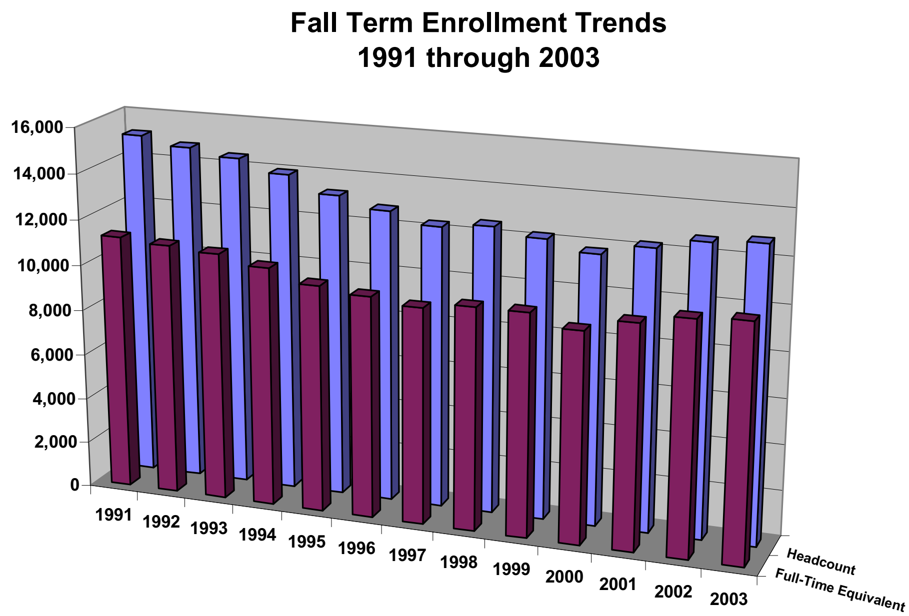
State Appropriations
Fiscal Years 1999 through 2004



Note: Graph includes five years actual plus budgeted amount for FY 2004.

There is an inverse relationship between State support and the University's tuition rates, as declines in State appropriations continue to result in higher tuition, fees and other related charges.

The University continues its recovery from a long-term trend of declining headcount enrollments as reflected below:



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Full-Time Equivalent	11,214	11,045	10,897	10,508	9,954	9,714	9,462	9,729	9,733	9,203	9,766	10,171	10,311
Headcount	15,164	14,806	14,501	13,979	13,273	12,801	12,324	12,533	12,222	11,787	12,250	12,698	12,858

Although the impact of future State funding is uncertain, the University is working diligently with its sister institutions and the Ohio Board of Regents to ensure that the State of Ohio continues to recognize the importance of higher education, and places an appropriate balance to its funding.

YOUNGSTOWN STATE UNIVERSITY

Statements of Net Assets at June 30, 2003 and 2002

	June 30, 2003	June 30, 2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,185,305	$ 2,943,172
Investments	18,499,588	24,042,132
Restricted investments	667,829	551,458
Interest receivable	206,789	317,318
Accounts receivable, net	7,153,863	6,139,048
Pledges receivable, net	4,087,647	3,383,892
Loans receivable, net	493,900	381,700
Inventories	1,773,457	1,804,791
Prepaid expenses and deferred charges	711,433	738,856
Total Current Assets	**36,779,811**	**40,302,367**
Noncurrent Assets		
Investments	12,539,359	7,500,009
Endowments and other restricted investments	7,298,071	4,777,440
Pledges receivable, net	2,018,743	-
Loans receivable, net	2,597,557	2,575,990
Deposits on land	194,200	118,000
Capital assets, net	142,861,175	140,848,821
Total Noncurrent Assets	**167,509,105**	**155,820,260**
Total Assets	**204,288,916**	**196,122,627**
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	1,397,920	2,286,618
Accrued liabilities	6,715,236	6,613,190
Bonds payable	760,000	735,000
Capital leases payable	35,225	46,217
Deferred revenue	6,793,691	6,038,881
Compensated absences	609,600	593,400
Other liabilities	2,180,452	1,714,171
Total Current Liabilities	**18,492,124**	**18,027,477**
Noncurrent Liabilities		
Bonds payable, net	13,429,463	14,165,021
Capital leases payable	38,931	45,988
Compensated absences	5,505,364	4,862,446
Refundable advance	2,830,609	2,665,300
Unfunded workers' compensation	-	1,810,603
Total Noncurrent Liabilities	**21,804,367**	**23,549,358**
Total Liabilities	**40,296,491**	**41,576,835**
NET ASSETS		
Invested in capital assets, net of related debt	128,791,756	125,974,595
Restricted:		
Nonexpendable	5,018,540	4,854,893
Expendable	12,474,402	7,019,073
Unrestricted	17,707,727	16,697,231
TOTAL NET ASSETS	**$ 163,992,425**	**$ 154,545,792**

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2003 and 2002

	2003	2002
REVENUES		
Operating Revenues		
Tuition, fees, and other student charges (net of scholarship allowance of $14,328,397 and $12,600,935 in 2003 and 2002, respectively)	$ 52,824,818	$ 44,659,168
Federal grants and contracts	3,835,542	3,165,430
State grants and contracts	7,299,150	6,435,920
Local grants and contracts	391,263	210,827
Private grants and contracts	899,657	835,873
Sales and services	241,999	193,478
Auxiliary enterprises	15,974,326	15,061,842
Other operating revenues	816,227	661,762
Total Operating Revenues	**82,282,982**	**71,224,300**
EXPENSES		
Operating Expenses		
Instruction and departmental research	55,408,802	50,108,172
Separately budgeted research	1,175,276	926,638
Public service	7,834,349	6,213,543
Academic support	9,563,428	8,652,678
Student services	8,163,158	7,157,503
Institutional support	19,665,650	18,111,571
Operation and maintenance of plant	9,064,416	8,617,389
Scholarships	11,716,988	10,354,461
Auxiliary enterprises	19,224,340	17,754,369
Depreciation and amortization	7,484,527	7,075,983
Total Operating Expenses	**149,300,934**	**134,972,307**
Operating Loss	**(67,017,952)**	**(63,748,007)**
NONOPERATING REVENUES / (EXPENSES)		
State appropriations	43,917,610	46,887,147
Federal grants	11,001,208	9,059,364
Private gifts	10,036,244	6,795,546
Unrestricted investment income (net of investment expense)	900,473	2,704,052
Restricted investment income (net of investment expense)	294,587	(364,321)
Interest on capital asset-related debt	(713,223)	(747,554)
Other nonoperating revenues (expenses), net	(1,088,535)	(1,568,397)
Net Nonoperating Revenues	**64,348,364**	**62,765,837**
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	**(2,669,588)**	**(982,170)**
OTHER REVENUES, EXPENSES, GAINS AND LOSSES		
Capital appropriations	7,064,521	5,897,481
Capital grants and gifts	3,205,174	649,686
Reallocation of Ohio workers' compensation liability	1,810,603	-
Additions to the principal of endowments	35,923	54,146
Transfer of principal endowment	-	(171,370)
Total Other Revenues, Expenses, Gains and Losses	**12,116,221**	**6,429,943**
Total Increase In Net Assets	**9,446,633**	**5,447,773**
NET ASSETS		
Net assets at beginning of the year	154,545,792	149,098,019
Net Assets at End of the Year	**$ 163,992,425**	**$ 154,545,792**

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

Statements of Cash Flows

	2003	2002
Cash Flows from Operating Activities		
Student tuition and fees	$ 51,568,439	$ 45,406,486
Federal, state, and local grants and contracts	11,525,955	9,812,177
Private grants and contracts	899,657	835,873
Sales and services of educational and other departmental activities	15,369,395	15,492,679
Payments to suppliers	(34,466,246)	(29,990,160)
Payments to employees	(72,665,850)	(66,039,343)
Payments for benefits	(21,555,718)	(18,862,077)
Payments for scholarships	(11,716,988)	(10,354,461)
Student loans issued	(762,720)	(455,772)
Student loans collected	768,989	398,384
Student loan interest and fees collected	42,165	36,544
Other receipts, net	774,062	625,218
Total Cash Flows Used in Operating Activities	**(60,218,860)**	**(53,094,452)**
Cash Flows from Investing Activities		
Proceeds from sale of investments	51,789,083	40,336,173
Interest on investments	968,657	1,433,945
Purchase of investments	(53,696,488)	(46,998,897)
Total Cash Flows Used in Investing Activities	**(938,748)**	**(5,228,779)**
Cash Flows From Capital and Related Financing Activities		
State capital appropriations	7,968,006	4,664,210
Private capital gifts and grants	2,511,624	500,000
Purchase of capital assets	(9,130,244)	(7,053,449)
Principal payments on capital debt	(785,644)	(1,400,815)
Interest payments on capital debt	(688,782)	(722,669)
Total Cash Flows Used in Capital and Related Financing Activities	**(125,040)**	**(4,012,723)**
Cash Flows from Noncapital Financing Activities		
Federal grants	11,166,517	9,198,799
State educational appropriations	43,917,610	46,887,147
Private gifts	7,259,854	6,795,546
Additions to the principal of endowments	35,923	54,146
Other nonoperating revenues (expenses)	(855,123)	(1,563,095)
Transfer of principal endowment to YSU Foundation	-	(171,370)
Total Cash Flows Provided by Noncapital Financing Activities	**61,524,781**	**61,201,173**
Net Increase (Decrease) in Cash and Cash Equivalents	**242,133**	**(1,134,781)**
Cash and Cash Equivalents, Beginning of Year	**2,943,172**	**4,077,953**
Cash and Cash Equivalents, End of Year	**$ 3,185,305**	**$ 2,943,172**

See accompanying notes to financial statements.

For the Years Ended June 30, 2003 and 2002

	2003	2002
Operating income (loss)	**$ (67,017,952)**	**$ (63,748,007)**
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation and amortization	7,484,527	7,075,983
Provision for bad debt	964,200	859,944
Provision for unfunded workers' compensation	-	695,421
Changes in assets and liabilities:		
Interest receivable	110,529	249,540
Accounts receivable, net	(2,827,391)	(642,004)
Loans receivable, net	(134,986)	(39,141)
Inventories	31,333	(303,778)
Prepaid expenses and deferred charges	27,422	281,215
Accounts payable	(888,698)	1,226,593
Accrued and other liabilities	618,231	534,788
Deferred revenue	754,807	498,953
Compensated absences	659,118	216,041
Net Cash Flows Used In Operating Activities	**$ (60,218,860)**	**$ (53,094,452)**
Noncash Transactions		
Gifted capital assets	$ 693,550	$ 149,686

See accompanying notes to financial statements.

Note 1 – Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Youngstown State University (the University) is a coeducational, degree granting state-assisted metropolitan university and was established by the General Assembly of the State of Ohio in 1967. The University provides a wide range of opportunities in higher education primarily to residents in northeastern Ohio and western Pennsylvania. The University offers degrees at the undergraduate, masters and doctoral levels.

In accordance with Governmental Accounting Standards Board (GASB) Statement No.14, *The Reporting Entity*, the University's financial statements are included, as a discretely presented component unit, in the State of Ohio's (State) Comprehensive Annual Financial Report. No component units are required to be reported in the University's financial statements.

The University, together with Kent State University and The University of Akron, created a consortium to establish and govern Northeastern Education Television of Ohio, Inc. (NETO), Channels 45 and 49, Kent, Ohio, and Northeastern Ohio Universities College of Medicine (NEOUCOM), Rootstown, Ohio. These organizations are legally separate from the University; accordingly, their financial activity is not included within the accompanying financial statements.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

During fiscal year 2002, the University adopted GASB Statements No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities,* as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and No. 38, *Certain Financial Statement Note Disclosures*, and applied those standards on a retroactive basis.

GASB Statement No. 35 establishes 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 Nonexpendable - Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.
- Expendable - Net assets whose use by the University is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- Unrestricted - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by

Note 1 – Organization and Summary of Significant Accounting Policies, *(cont.)*

action of management, Board of Trustees, Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, capital programs, and operating reserves.

Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis. The University 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.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date. When an expense is incurred that can be paid using either restricted or unrestricted resources the University's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Cash Equivalents - The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value and excludes amounts restricted by board designation or whose use is limited.

Investments – In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* investments are reported at fair value based on quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Endowment Policy – The University Endowment Fund consists of 80 named funds. Each named fund is assigned a number of shares in the University Endowment Fund based on the value of the gifts to that named fund. Investments are managed by an investment manager. The University's policy is to distribute investment income monthly, based on each funds pro-rata share to the total endowment shares.

Gift Pledges Receivable – The University receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. Pledges are recorded net of allowance for uncollectible amounts and are discounted to net present value. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* endowment pledges are not recorded as assets until the related gift is received.

Inventories – Inventories are determined on first-in, first-out (FIFO) method and stated at the lower of cost or market. Cost is determined on the average cost basis.

Note 1 – Organization and Summary of Significant Accounting Policies, *(cont.)*

Capital Assets - Capital assets are stated at cost or fair value at date of gift. Infrastructure assets are included in the financial statements and are depreciated. The University's capitalization threshold for equipment and furniture is $5,000 and for buildings and improvements is $100,000. Library purchases are excluded from capitalization and expensed as purchased.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. Historical collections, including assets that are held for public exhibition, education, or research in furtherance of public service, which are protected and preserved, are not depreciated.

When capital assets are sold, or otherwise disposed of, the carrying value of such assets and any accumulated depreciation are removed from asset accounts and net assets-invested in capital assets. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend the capital asset's life are expensed. Estimated lives are as follows:

Classification	Estimated Life
Buildings	50 years
Improvements other than buildings	25 years
Moveable equipment and furniture	3 to 7 years

Accounts Receivable - Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Also included are amounts due from federal, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures under the applicable University grants and contracts. Accounts are recorded net of allowance for uncollectible amounts.

Deferred Revenue – Deferred revenue includes tuition and fee revenues billed or received and related to the period after June 30, 2003.

Compensated Absences - Accumulated unpaid vacation and sick leave benefits have been accrued in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

Advances from Government for Federal Loans – Funds provided by the United States government under the Federal Perkins program are loaned to qualified students and re-loaned after collections. These funds are ultimately refundable to the government and, therefore, are recorded as a liability in the accompanying financial statements.

Income Taxes – The Internal Revenue Service has ruled that the University's income is generally exempt form Federal income taxes under Section 115 of the Internal Revenue Code. The University is subject to tax on unrelated business income.

Measurement Focus and Financial Statement Presentation – Operating revenues and expenses generally result from providing educational and instructional service in connection with the University's principal ongoing operations. The principal operating revenues include student tuition. The University also recognizes as operating revenue grants classified as exchange transactions and auxiliary activities. Operating expenses include educational

Note 1 – Organization and Summary of Significant Accounting Policies, *(cont.)*

costs, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition including State share of instruction are reported as nonoperating revenues and expenses.

Scholarship Allowances and Student Aid – Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (such as loans and funds awarded to students by third parties) is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method followed by the University, these amounts are computed by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. The more significant estimates relate to allowances for uncollectible accounts receivable and compensated absences.

Encumbrances – The University maintains an encumbrance system for tracking outstanding purchase orders and other commitments for materials or services not received during the year. At year-end, encumbrances totaled $2,963,055, which represents the estimated amount of expenses ultimately to result if unperformed contracts in process at June 30, 2003 are completed.

Encumbrances outstanding at June 30, 2003 do not constitute expenses or liabilities and are not reflected in the financial statements.

Newly Issued Accounting Pronouncements- In May, 2002, GASB issued GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which clarifies existing accounting guidance and provides greater consistency in accounting for organizations that are closely related to the primary government. The statement will be effective fiscal year 2004. University management has not yet determined the impact that implementation of GASB Statement No. 39 will have on the University's financial statements.

In March, 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3. Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements*. The new standard requires that state and local governments, including colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: credit risk, interest rate and investment maturity, interest rate sensitivity and foreign exchange exposure.

Note 1 – Organization and Summary of Significant Accounting Policies, *(cont.)*

The provisions of GASB Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004.

Other – Certain reclassifications have been made to the 2002 comparative information to conform with the 2003 presentation.

Note 2 - State Support

The University receives support from the State in the form of State appropriations and capital appropriations. As required by GASB Statement No. 35, these are reflected as non-operating revenues on the Statement of Revenues, Expenses, and Changes in Net Assets.

State appropriations totaled $43,917,610 and included $41,539,147 in State share of instruction and $2,378,463 in challenge funds in fiscal year 2003 compared to $46,887,147, $44,027,295 and $2,859,852 in fiscal year 2002, respectively. The State share of instruction is student based and determined annually by the Ohio Board of Regents.

Capital appropriations from the State totaled $7,064,521 in fiscal year 2003 and $5,897,481 in fiscal year 2002 and included funding for equipment and the construction/major renovations of plant facilities.

Funding for the construction of major plant facilities on the University campus is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn is used for the construction and subsequent lease of the facilities by the Ohio Board of Regents.

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

Outstanding debt issued by OPFC is not included on the University's Statement of Net Assets. In addition, the appropriations by the General Assembly to the Board of Regents for payment of debt service are not reflected as appropriation revenue received by the University, and the related debt service payments are not recorded in the University's accounts.

Note 3 - Cash and Cash Equivalents

For financial statement presentation purposes, cash in banks has been combined with the University's cash equivalents and temporary investments in repurchase agreements and certificate of deposits.

The aggregate cost of repurchase agreements, which approximates market value, included in cash and cash equivalents is $59,077 and $63,490 at June 30, 2003 and 2002, respectively.

In accordance with Section 135.18 of the Ohio Revised Code, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or pledge a pool of securities with a value of at

Note 3 - Cash and Cash Equivalents, *(cont.)*

least 110% of the total value of public monies on deposit at the institution. All collateral, both specific and pooled, is held by the Federal Reserve Bank of Cleveland or by a designated trustee as agent for the public depositories used by the University.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires cash, cash equivalents and temporary investments held by the University to be categorized into the following credit risk categories:

1. Insured or collateralized with securities held by the University, or by its agent in the University's name.

2. Collateralized with securities held by the pledging financial institution's trust department or agent in the University's name.

3. Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the University's name).

At June 30, 2003 and 2002, the carrying amount of the University's bank deposits and cash equivalents was $3,185,305 and $2,943,172 and the bank balances were $5,717,173 and $4,522,084, respectively. The difference in carrying amount and bank balance is caused by items in transit and outstanding checks. Of the balance, $100,000 was covered by federal depository insurance (Credit Risk Category 1); the remaining balance of $5,617,173 in 2003 and $4,422,084 in 2002 is uncollateralized (Credit Risk Category 3). At times during the year, uncollateralized deposits may have been higher. Deposits held in safekeeping by a bank, as trustee, included in cash and investments totaled $66,032 as of June 30, 2003 and $77,255 as of June 30, 2002, which approximates market. These deposits, including interest on the investments, are retained in the trust for payment of principal and interest on the related outstanding indebtedness.

Note 4 - Investments

The University's investment policy authorizes the University to invest non-endowment University funds in compliance with provisions of the Ohio Revised Code and all other applicable laws and regulations.

In accordance with the *Policies of the Board of Trustees of the University*, the types of investments which may be purchased by the University include United States Government securities, federal agency securities, common and preferred stocks, obligations of commercial banks including certificates of deposit, repurchase agreements, notes, debentures, banker's acceptances and commercial paper, obligations of corporations, municipal notes and bonds, investment programs offered by The Commonfund and shares of the State Treasury Asset Reserve (STAR Ohio). University policy requires that depository banks pledge collateral for funds on deposit, including certificates of deposit, with a market value at all times at least equal to the uninsured amount of the deposit or instrument.

Note 4 – Investments, *(cont.)*

The University's investments are categorized below, in accordance with GASB Statement No. 3, as category three credit risk at June 30, 2003:

	Cost	Fair Value
Pooled Investments		
U. S. Government and Agency Securities	$ 9,538,507	$ 9,538,507
Certificates of Deposit	21,500,000	21,500,000
Total Pooled Investments	**31,038,507**	**31,038,507**
Investments Held by Investment Manager		
Common Stock	1,674,709	2,396,743
Corporate Notes & Bonds	734,786	737,957
Preferred Stock	350,000	371,120
U.S. Government and Agency Securities	2,212,326	2,251,409
Other Securities	2,209,111	2,209,111
Total Investments Held by Investment Manager	**7,180,932**	**7,966,340**
Total Investments	**$38,219,439**	**39,004,847**
Less Current Portion		19,167,417
Net Noncurrent		**$19,837,430**

At times during the year, the amounts of uninsured and unregistered investments may have been higher. Unrealized losses on investments at June 30, 2003 and June 30, 2002 were $785,408 and $559,005, respectively.

GASB Statement No. 3 requires investments held by the University to be categorized into the following credit risk categories:

1. Insured or registered, or securities held by the University or its agent in the University's name.

2. Uninsured and unregistered, with securities held by the broker's trust department or agent in the University's name.

3. Uninsured and unregistered with securities held by the broker or by its trust department or agent, but not in the University's name.

Note 5 – Accounts and Loans Receivable

Accounts and loans receivable at June 30, 2003 and 2002 consist of the following:

	2003	2002
Accounts receivable		
Student accounts	$4,420,636	$3,997,662
Grants and contracts	2,588,494	2,095,905
State capital appropriations	541,836	1,445,322
Other receivables	1,412,702	923,007
	8,963,668	8,461,896
Less: allowance for doubtful accounts	(1,809,805)	(2,322,848)
Accounts receivable, net	7,153,863	6,139,048
Loans receivable		
Student notes	3,367,301	3,373,569
Less: allowance for doubtful accounts	(275,844)	(415,879)
Loans receivable, net	3,091,457	2,957,690
Total accounts and loans receivable, net	$10,245,320	$9,096,738

Note 6 – Pledges Receivable

Unconditional promises to give to the University recorded as pledges receivable at June 30, 2003 and June 30, 2002 were as follows:

	2003		2002
	Pledges Receivable	Current Portion	
Total pledges receivable	$6,565,362	$4,121,523	$3,383,892
Less: amount estimated to be uncollectible	(156,068)	(33,876)	
unamortized discount	(302,904)		
Pledges receivable, net	6,106,390	$4,087,647	$3,383,892
Less: current portion	(4,087,647)		
Pledges receivable, Noncurrent portion	$2,018,743		

Pledges have been discounted at a rate of 3.25% to net present value. The 2002 pledges receivable were restated from $53,982, as previously reported, to reflect a $3.3 million pledge from Youngstown State University Foundation (YSUF). Deferred revenue was similarly increased from $2,708,881, as previously reported, to $6,038,881.

Note 7 – Capital Assets

Capital assets activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Reductions and transfers	Ending Balance
Nondepreciable assets:				
Land	$.12,053,837	$ 781,550		$ 12,835,387
Construction-in-progress	2,171,617	5,236,627	$(6,285,555)	1,122,689
Historical treasures	297,513			297,513
Depreciable assets:				
Buildings	219,879,250	653,572	5,360,434	225,893,256
Improvements other than buildings	19,048,181	102,530	671,337	19,822,048
Moveable equipment and furniture	19,551,811	2,975,696	1,679,006	24,206,513
Capital leases	2,676,059	32,595	(2,536,064)	172,590
Total Cost	**275,678,268**	**9,782,570**	**(1,110,842)**	**284,349,996**
Less accumulated depreciation:				
Buildings	107,522,601	4,360,806	(43,707)	111,839,700
Improvements other than buildings	10,853,439	1,278,069		12,131,508
Moveable equipment and furniture	13,859,012	1,811,134	1,754,618	17,424,764
Capital leased assets	2,594,395	34,518	(2,536,064)	92,849
Total accumulated depreciation	**134,829,447**	**7,484,527**	**(825,153)**	**141,488,821**
Capital assets - net	**$140,848,821**	**$ 2,298,043**	**$ (285,689)**	**$ 142,861,175**

Note 8 – Accounts Payable, Accrued Liabilities and Other Liabilities

Accounts payable, accrued liabilities and other liabilities at June 30, 2003 and 2002 consist of the following:

	2003	2002
Accounts payable	$1,397,920	$2,286,618
Accrued compensation and benefits	3,092,166	3,514,329
Accrued health care benefits payable	1,824,670	1,417,038
Retirement system contribution payable	1,770,713	1,646,438
Payroll withholding liabilities	1,194,907	1,209,772
Deposits held in custody	339,699	366,011
Refunds payable	109,310	42,943
Other liabilities	564,223	130,830
Total accounts payable, accrued liabilities and other liabilities	**$10,293,608**	**$10,613,979**

Note 9 - Bonds Payable

Bonds payable consist of General Receipts Bonds, Series 1996B, Series 1997 and Series 1998. The Series 1996A and B Bonds and the Series 1997 Bonds were issued December 18, 1996 and May 15, 1997, respectively. The proceeds were used for the construction of a stadium club, stadium loges and press box improvement. The Series 1998 Bonds were issued January 28, 1998 for the purpose of advance refunding the Series 1989 Bonds, Series 1994 Bonds and the retirement of the 1996A Bonds.

Details of the Bonds Payable are as follows:

	Stated Interest Rate	Effective Interest Rate	Maturity Through	Original Principal
1996B:				
Term Bonds	7.15%	7.15%	2005	$ 1,420,000
1997:				
Term Bonds	6.25%	6.25%	2017	$ 200,000
1998:				
Serial Bonds	4.10%-4.75%	4.10%-4.75%	2012	$ 11,920,000
Term Bonds	4.75%	4.86%	2016	$ 5,030,000

The indebtedness created through all issues of the General Receipts Bonds is bound by the provision of the 1989 Trust Agreement and subsequent supplemental trust agreements.

Note 9 - Bonds Payable, *(cont.)*

The University has complied with all covenant requirements.

The debt is secured by a pledge of all University general receipts, except for State appropriations, and those receipts previously pledged or otherwise restricted.

In lieu of a bond reserve fund, the University has elected, as permitted by the trust agreements, to purchase an insurance policy and surety bond equal to the maximum annual debt service as a guarantee of principal and interest payments.

Fiscal Year	Principal	Interest	Total
2004	$760,000	$647,329	$1,407,329
2005	805,000	611,712	1,416,712
2006	845,000	573,709	1,418,709
2007	865,000	535,684	1,400,684
2008	900,000	497,978	1,397,978
Thereafter	10,265,000	2,340,655	12,605,655
Total	$14,440,000	$5,207,067	$19,647,067

Maturities of bonds payable for the fiscal years subsequent to June 30, 2003, are as follows:

	General Receipts			
Fiscal Year	Series 1996B	Series 1997	Series 1998	Total
2004	$100,000	$5,000	$655,000	$760,000
2005	110,000	10,000	685,000	805,000
2006	115,000	10,000	720,000	845,000
2007	-0-	10,000	855,000	865,000
2008	-0-	10,000	890,000	900,000
Thereafter	-0-	130,000	10,135,000	10,265,000
Totals	$ 325,000	$175,000	$13,940,000	$14,440,000

Note 10 - Retirement Plans

Basic Retirement Benefits

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System (STRS). Certain OPERS members are covered by the law enforcement benefit provisions, Section 145.33(B) of the Ohio Revised Code (PERSLE). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. Each provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members and beneficiaries. These plans also provide health care benefits to vested retirees. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code.

Plan Options - Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

Note 10 - Retirement Plans, *(cont.)*

Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Both plans issue a stand-alone financial report. Interested parties may obtain a copy of the OPERS report by making a written request to 277 East Broad Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377), and the STRS report by making a written request to 275 East Broad Street, Columbus, Ohio, 43215-3771.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates for the current and preceding two years follow:

Fiscal	Employee Contribution Rate		
Year	STRS	OPERS	PERSLE
2003	9.3%	8.5%	9.0%
2002	9.3%	8.5%	9.0%
2001	9.3%	8.5%	9.0%

The employer contribution rates for the current and preceding two years follow:

Fiscal	Employer Contribution Rate		
Year	STRS	OPERS	PERSLE
2003	14.0%	13.31%	16.7%
2002	14.0%	13.31%	16.7%
2001	14.0%	13.31%	16.7%

University contributions equal to the required contributions for the current and two preceding years follow:

Fiscal	Employer Contribution		
Year	STRS	OPERS	PERSLE
2003	$4,530,585	$3,960,544	$127,867
2002	$3,857,512	$3,432,853	$125,165
2001	$4,140,400	$2,673,307	$119,753

Employees can elect to participate in the Alternative Retirement Plan, a defined contribution plan. Contributions equal to those required by STRS and OPERS are required for ARP. Employer contributions included a percentage paid to STRS.

The University paid 5.76% of covered payroll to STRS and 8.24% to the Alternative Retirement Plan thru September 2001. Beginning October 2001, the University was paying 3.5% of covered payroll to STRS and 10.5% to the Alternative Retirement Plan.

The University's contribution to STRS was $116,863 in 2003 and $112,081 in 2002. The University's contribution to the Alternative Retirement Plan was $369,891 in 2003 and $290,436 in 2002.

The University's contribution to the Alternative Retirement Plan selected by PERS employees was $280,804 in 2003 and $253,303 in 2002.

Note 11 - Postretirement Benefits

Ohio Public Employees Retirement System

Ohio Public Employees Retirement System provides postretirement health care coverage to age and service retirees with ten or more

Note 11 - Postretirement Benefits, *(cont.)*

years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12 *Disclosure Information on Postemployment Benefits other than Pension Benefits by State and Local Governmental Employers*. A portion of the University's contribution to OPERS is set aside for the funding of postretirement health care. The portion used to fund health care was 5.0% in 2002, 4.3% in 2001 and 4.2% in 2000.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

Summary of Assumptions:

- **Actuarial review** – The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 2001
- **Funding method** – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- **Assets valuation method** – All investments are carried at market value. For actuarial valuation purposes a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25.0% of unrealized market appreciation or depreciation on investment assets.
- **Investment return** – The investment assumption rate for 2001 was 8.0%.
- **Active employee total payroll** – An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases over and above the 4.0% base increase were assumed to range from .5% to 6.3%.
- **Health care** – Health care costs were assumed to increase 4.0% annually. The number of active contribution participants at December 31, 2002 (the latest date information is available) was 402,041. The portion of the University's 2003, 2002 and 2001 contributions to PERS used to fund postretirement benefits was $1,536,016, $1,109,036, and $867,154, respectively. The actuarial value of the Retirement Systems' net assets available for payment of benefits at December 31, 2001 (the latest date information is available) was $11.6 billion.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $16.4 billion and $4.8 billion, respectively.

State Teachers Retirement System

The State Teachers Retirement System (STRS Ohio) provides access to health care coverage to retirees and spouses dependents. Coverage includes hospitalization, physician fees, prescription drugs, and partial reimbursement of Medicare Part B premiums. Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Note 11 - Postretirement Benefits, *(cont.)*

A portion of the University's contribution to STRS is set aside for the funding of postretirement health care. The portion used to fund health care was 4.5% in 2003 and 4.5% in 2002 and 8.0% in 2001. Benefits are advance-funded, using an entry age normal actuarial cost method to determine the present value of benefit liabilities and normal cost.

Eligible benefit recipients at June 30, 2002 (the latest date information is available) were 105,300. The portion of the University's 2003, 2002 and 2001 contributions to STRS used to fund postretirement benefits was $1,456,260, $1,239,915 and $2,365,942, respectively.

The health care reserve fund within the employers' trust fund from which payments for health care benefits are paid had a balance of $3.011 billion at June 30, 2002.

Health care benefits paid by the plan were $354,697,000 for the fiscal year ended June 30, 2002.

Note 12 - Related Organizations

The Youngstown State University Foundation is a legally separate nonprofit organization exempt from federal income tax and classified as a public charity. YSUF is devoted to the support, expansion and development of educational programs at Youngstown State University that are useful to the student and beneficial to the community.

The University files an application for any funds requested from the YSUF, which is subject to approval by the trustees of YSUF. Financial support received from YSUF was $4,443,650 for the fiscal year ended June 30, 2003 and $3,814,500 for the fiscal year ended June 30, 2002. At June 30, 2003 and June 30, 2002, $3,444,000 and $3,330,000 was outstanding and included in pledges receivable. Under the terms of an agreement with the University, the Foundation serves as an investment advisor for the University's endowments. Proceeds are forwarded to the University on an as-needed basis to satisfy the individual endowment purposes. In addition, during fiscal year 2002, the University entered into an agreement for YSUF to manage funds received for the benefit of a Recreation and Wellness Center. Fair value and cost of these funds at June 30, 2003 was $7,966,340 and $7,180,932 compared to $5,341,030 and $4,782,025 at June 30, 2002. Management services are provided free of charge and investments are made in a manner consistent with the YSUF funds.

In May 2002, officials broke ground for the University's Student Courtyard Apartments (the Project), a $22 million complex with 130 units for 408 students and staff. Construction of the complex was completed in August 2003. This unique public-private partnership includes YSUF, University Housing Corporation (UHC), the City of Youngstown, Mahoning County, and Ambling Companies, Inc., a national leader in developing student housing communities. UHC, the project owner, was incorporated as a tax-exempt organization to facilitate financing of the Project. For the benefit of YSU, the Ohio Department of Administrative Services entered into a ground lease with UHC. Mahoning County is the issuer of the bonds and YSUF is the Letter of Credit guarantor. Management has determined that YSUF and UHC are not component units of the University as defined by GASB Statement No. 14, *The Financial*

Note 12 - Related Organizations, *(cont.)*

Reporting Entity, and therefore financial activity of YSUF and UHC are not included in the University's financial statements.

Note 13 – Contingencies and Risk Management

The University is a defendant in various lawsuits. It is the opinion of University management that disposition of pending litigation will not have a material adverse effect on the financial condition of the University.

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 the grants or contracts are subject to examination and approval by the granting agency. It is the opinion of the University's administration that any disallowance or adjustment of such costs would not have a material effect on the financial statements.

The University is self-insured for a major portion of employee health care benefits.

Liabilities for estimates of outstanding claims and claims incurred but not reported under self insurance programs have been recorded. Changes in the self insured health care liabilities for the past two years follows:

	2003	2002
Liability at beginning of fiscal year	$1,319,906	$ 868,681
Current year claims including changes in estimates	7,881,070	6,297,360
Claim payments	(7,499,153)	(5,846,135)
Liability at end of fiscal year	$1,701,823	$1,319,906

Health insurance claims are based upon estimates of the claims liabilities made by the University's health care consultant. These estimates are based upon past experience, current claims outstanding and medical inflation trends. As a result the actual claims experience may differ from the estimate. These liabilities are included in accrued health care benefits payable. (See Note 8).

The University also carries commercial insurance policies for various property, casualty, and excess liability risks. Settlement amounts have not exceeded the University coverage amounts.

The University has the following commercial insurance policies:

Type	Deductible	Coverage
Property	$ 25,000	Replacement Cost
Crime	25,000	$ 2,000,000
General liability	250,000	1,000,000
Educator liability	100,000	1,000,000
Excess liability	-	20,000,000
Automobile liability	500	1,000,000
Non-owned aircraft	-	5,000 to 25,000,000
Umbrella	-	4,000,000

Note 14- Lease Obligations

The University leases a printing press and a mail inserting and folding system under capital lease agreements. The printing press capital lease bears interest at 7.09%. The mail inserting and folding system bears interest at 21.72%. Capital leased assets included in Capital Assets in the Statement of Net Assets at June 30, 2003 and 2002, were $172,590 and $2,676,059, respectively.

Future minimum lease payments under the capital leases are as follows:

Note 14- Lease Obligations, *(cont.)*

Year Ending June 30	Printing Press	Mail System	Total
2004	$32,410	$10,740	$43,150
2005	16,205	10,740	26,945
2006	-	10,740	10,740
2007	-	9,845	9,845
Total future minimum lease payments	48,615	42,065	90,680
Less amount representing interest	2,627	13,897	16,524
Total obligations under capital leases	**$45,988**	**$28,168**	**$74,156**

Note 15– Workers' Compensation

The University participates in a State pool of agencies and universities that pays workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis Plan (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job.

Losses from asserted and unasserted claims for participating State agencies and universities in the Plan are accrued by the Ohio Bureau of Workers' Compensation other considerations including the nature of each claim or incident and relevant trend factors. Participants in the Plan annually fund the workers' compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay workers' compensation claims of participating State agencies and universities. In 2002, the Bureau actuarially calculated estimated amounts for the State, and determined the University's pro-rata share of the estimated liability on the basis of the University's share of actual cash payments (premiums and administrative costs) to the Bureau in the preceding fiscal year divided by such payments made by all participating entities. In 2002, the University restated its prior year net assets for this estimated liability.

In 2003, the State reversed its decision to have colleges and universities share in a portion of the State's workers' compensation liability. As a result, the reallocation of state unfunded workers' compensation liability is reflected under other changes to net assets on the Statement of Revenues, Expenses, and Changes to Net Assets with the elimination of the liability on the Statement of Net Assets.

Note 16 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Lease and bonds payable					
Lease obligations	$ 92,205	$ 32,595	$ 50,644	$ 74,156	$ 35,225
General receipts bonds principal	15,175,000	-	735,000	14,440,000	760,000
Less: Unamoratized bond discount and issue costs	(274,979)	-	(24,442)	(250,537)	-
Bonds payable, net	14,900,021	-	710,558	14,189,463	760,000
Total leases and bonds payable, net	**14,992,226**	**32,595**	**761,202**	**14,263,619**	**795,225**
Compensated absences	5,455,846	659,118		6,114,964	609,600
Refundable advance	2,665,300	265,794	100,485	2,830,609	-
Unfunded workers' compensation	1,810,603	-	1,810,603	-	-
Total other liabilities	**9,931,749**	**924,912**	**1,911,088**	**8,945,573**	**609,600**
Total long-term liabilities	**$ 24,923,975**	**$ 957,507**	**$ 2,672,290**	**$23,209,192**	**$ 1,404,825**

Board of Trustees

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David C. Sweet	*President*
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Youngstown State University

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Student Financial Aid-Cluster			
Department of Education:			
Direct Programs:			
Federal Pell Grant Program	84.063		$ 10,836,869
Federal Work-Study Program	84.033		657,964
Federal Supplemental Educational Opportunity Grants	84.007		497,980
Federal Perkins Loan Program *(Note 3)*	84.038		226,198
Federal Family Education Loan Program *(Note 4)*	84.032		-
Total Student Financial Aid-Cluster			12,219,011
Research and Development-Cluster			
Department of Education:			
Direct Program:			
Chemistry Teachers New Masters Degree	84.116B		87,882
Department of Health and Human Services:			
Direct Program:			
Enzymatic Characteristics/2 Pyrimidine	93.390		51,235
National Science Foundation:			
Direct programs:			
Web Access Single Crystal X-ray	47.076		3,477
NSF - Microeconomic Principles	47.076		14,826
NSF - Investment Approaches in Science	47.076		28,825
Math Learning Laboratories	47.076		28,848
NSF Technological Leaders Scholarship Program	47.076		85,000
Integ Computer Technology/General Chemistry	47.076		7,537
Xray Diffraction Analysis	47.076		9,260
Research Experiments In Undergraduate Chemistry	47.049		97,082
NSF-RUI-IMR Upgrade of Transmi	47.049		143
NSF Matrix Isolation	47.049		1,750
NSDF - RUI Glove Box	47.049		37,785
NSF-Organometallic Nano Stars	47.049		76,396
NSF-Hydrogen Bonded	47.075		62,970
Total National Science Foundation			453,899
United States Department of Defense:			
Direct Program:			
X-ray Source Trigger Electromagnetic	12.630		68,900
United States Air Force Office of Scientific Research:			
Direct Programs:			
X-ray Gamma Emmissions	12.680		(49,126)
Acceler Std/Trigger Gamma Emmis	12.910		81,601
Trigger Electromagnetic Pulse II	12.800		85,839
Total United States Air Force Office of Scientific Research			118,314

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Energy:			
Passthrough:			
Sandia Corporation:			
Sandia Corp Department of Energy Review	81.050		1,446
Environmental Protection Agency:			
Direct Program:			
Development Watershed Plan for the Mahoning River	66.460		40,252
Department of Commerce:			
Direct Program:			
Xray Driven Gamma Emissions - Nuc Iso	11.612		40,627
Total Research and Development Cluster			862,555
TRIO-Cluster			
Department of Education:			
Direct Program:			
TRIO—Upward Bound	84.047A		190,166
Other Financial Assistance Programs			
Department of Education:			
Direct Programs:			
Tri-County Partnership of Excellence	84.336B		546,404
Evaluation of Gear Up Project	84.334		14,644
Passthrough Programs:			
State of Ohio Department of Education for 2-year College			
Strategic Plan C.D. Perkins	84.048	CP11-P97	120,406
State of Ohio Department of Education for Tech Prep Program			
Tech Prep Federal Base Grant	84.243	VETP-22X	113,933
Total Department of Education			795,387
Department of Health and Human Services:			
Direct Programs:			
National Youth Sports Program FY 2002	93.570		44,381
National Youth Sports Program FY 2003	93.570		49,105
Total Department of Health and Human Services			93,486
Small Business Administration:			
Direct Programs:			
Small Business Development Center, year 14	59.037		792
Small Business Development Center, year 15	59.037		(28,790)
Small Business Development Center, year 16	59.037		86,932
Total Small Business Administration			58,934

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Environmental Protection Agency:			
Direct Program:			
A Revitalization Strategy for the Mahoning River	66.651		4,463
United States Department of Housing and Urban Development:			
Direct Programs:			
Community Outreach Partnership Center Program	14.511		157,663
HUD Homeless Management Information System	14.511		44,642
Evaluation of Drug Elimination Project	14.193		5,108
Drug and Mental Health: Community Partnership Evaluation	14.863		98
Passthrough:			
Board of Mahoning County Commissioners:			
HUD Lead Based Paint Program	14.511		5,381
Total United States Department of Housing and Urban Development			212,892
United States Department of Justice:			
Direct Program:			
Evaluation of the MSADASB Drug Court	16.585		7,519
Passthrough Program:			
Eastern Area Health Education Center Health	93.189	7180-10	4,250
Total Other Financial Assistance Programs			1,176,931
Total Expenditures of Federal Awards			$ 14,448,663

Youngstown State University

Schedule of Expenditures of Federal Awards (Continued)

Year ended June 30, 2003

1. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant transactions of Youngstown State University (the University) recorded on the accrual basis of accounting. 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 financial statements.

2. Federal Perkins Loan Program

	CFDA Number	Outstanding Balance at June 30, 2003
Federal Perkins Loan Program	84.038	$ 3,367,301

Total loan expenditures and disbursements of the Department of Education student financial assistance program for the fiscal year are identified below:

	CFDA Number	Loans Advanced to Students
Federal Perkins Loan Program	84.038	$ 575,812

The Schedule of Expenditures of Federal Awards for the Federal Perkins Loan Program represents the Federal Capital Contribution for the year ended June 30, 2003, which includes loans advanced to students as well as the administrative costs of the Federal Perkins Loan Program.

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

3. Federal Family Education Loan Program

During the fiscal year ending June 30, 2003, the University processed the following amount of new loans under the Federal Family Education Loan Program (which includes Stafford Loans and Parents' Loans for Undergraduate Students):

	CFDA Number	Amount Processed
Federal Family Education Loan Program	84.032	$ 36,798,427

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

Board of Trustees
Youngstown State University

We have audited the financial statements of Youngstown State University (the University) as of and for the year ended June 30, 2003 and have issued our report thereon dated December 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 03-01. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the University in a separate letter dated December 11, 2003.

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

Ernst & Young LLP

December 11, 2003

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

Board of Trustees
Youngstown State University

Compliance

We have audited the compliance of Youngstown State University (the 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, 2003. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are 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; 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, *Audit 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.

As described in item 03-02 in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding matching that are applicable to its research and development grants. Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to research and development.

In our opinion, except for the noncompliance described in the preceding paragraph, the 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, 2003.

Internal Control Over Compliance

The management of the 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 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 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 for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

February 11, 2004

Youngstown State University

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part I—Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued:	Unqualified Opinion			
Internal control over financial reporting:				
Material weakness(es) identified?	______	yes	X	no
Reportable condition(s) identified not considered to be material weaknesses?	X	yes	______	
Noncompliance material to financial statements noted?	______	yes	X	no

Federal Awards Section

Dollar threshold used to determine Type A programs:	$433,460			
Auditee qualified as low-risk auditee?	______	yes	X	no
Type of auditor's report on compliance for major programs:	Unqualified Opinion			
Internal control over compliance:				
Material weakness(es) identified?	______	yes	X	No
Were reportable condition(s) identified not considered to be material weakness(es)?	______	Yes	X	None noted
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a))?	______	yes	X	no

Part I—Summary of Auditor's Results (continued)

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.063, 84.033, 84.007, 84.038, 84.032	Student Financial Aid—Cluster
Various	Research and Development—Cluster

Part II—Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

Finding 03-1

Program information

Reportable condition noted in the financial statement close process.

Criteria or specific requirement

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data.

Conditions

As a result of several account reconciliations and supporting schedules either not being prepared timely or not reviewed at a supervisory level, audit differences were identified in the following areas: pledges receivable, deferred charges, capital assets and accrued expenses.

Part II—Schedule of Financial Statement Findings (continued)

Cause and Effect

Because certain account reconciliations were either not prepared timely or reviewed at a supervisory level, several adjustments were identified and recorded in order to fairly state the financial statements for the year ended June 30, 2003. Additionally, as a result of the deficiencies in the financial statement close process, the University did not meet the Ohio Revised Code financial reporting deadlines.

Questioned Costs

None.

Recommendation

In order to minimize the risk of errors in the financial statements, we recommend the University perform and review account reconciliations on a monthly basis. We also encourage management to perform research and review of all non-routine transactions to ensure they are appropriately accounted for in accordance with generally accepted accounting principles and related Governmental Accounting Standards Board (GASB) pronouncements.

Finding 03-2

Program information

Research and Development Grants (various CFDA No.s)

Criteria or specific requirement

The University's research and development grants contain matching and cost sharing requirements to provide contributions of a specified amount or percentage to match Federal awards. The University does not maintain supporting documentation to support that the match was made in accordance with the terms of the research and development grant.

Part II—Schedule of Financial Statement Findings (continued)

Conditions

A budget is prepared at the beginning of the grant outlining the components of the matching requirement. Accounting then uses the budget to ensure that the costs are charged to the general fund versus the grant. The University typically meets the matching requirements through cost sharing research professionals and staff's salary. We selected a sample of three grants out of a total of eleven grants with a matching requirement. We reviewed the matching requirement and noted that the proper supporting documentation was not maintained to verify work performed on the research and development grant as outlined in the budget. The University does not have a standard process to request documentation to verify that the match was met.

Cause and Effect

Because the University does not maintain support to document that research professionals and staff actually worked on the grant as outlined in the budget, we were unable to verify that the match requirements in the research and development grants were met.

Questioned Costs

The University's total cost sharing requirement for fiscal 2003 was $214,390.

Recommendation

We recommend that the University develop policies and procedures and documentation standards to ensure that supporting documentation is maintained for all matching requirements. Research professional and staff should document their level of effort by research grant. Reasonable estimations of the level of effort percentages may be used as support in the absence of actual time records.

Part III—Schedule of Federal Award Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 Section.510.

None.

Part IV—Prior Year Schedule of Financial Statement Findings and Federal Award Findings and Questioned Costs

None.

Office of the Vice President for Financial Affairs
Youngstown State University
One University Plaza, Youngstown, OH 44555

Finding 03-1
Corrective Action Plan

The University has assigned the highest priority to resolution of this finding, and will devote all necessary resources to this end.

Actions Already Taken

1. A survey of accounting staffing at other state universities in Ohio was conducted and included the functions of general accounting, plant and fixed asset accounting, restricted fund accounting (including gifts, grants and contracts), endowment accounting, financial reporting, budget monitoring, debt covenant compliance and tax accounting. Analysis reveals that Youngstown State University does not have an appropriate ratio of accounting professionals to support staff.

2. Financial organization charts of other universities were reviewed and a divisional retreat was held to review financial functions and organizational placement of those functions.

3. Two full-time, temporary professional accounting positions were funded and authorized to be filled immediately.

Actions Planned

1. The two full-time, temporary professional accounting positions are about to be advertised, will be filled expeditiously, and will remain on staff until long-term solutions are in place.

2. Internal Audit professional staff will be reassigned to accounting functions, and internal audit functions will be performed by an external audit firm effective July 1, 2004.

3. The additional professional resources will be utilized to provide:
    - preparation of all appropriate reconciliations, general ledger processing, and other financial workpapers and reports on a timely basis
    - separation of duties between the ***preparation*** and ***review*** of reconciliations, general ledger processing, and other financial workpapers and reports
    - review, development, and documentation of accounting procedures

4. The Financial Affairs' organizational structure will be strengthened with the addition of a clearly defined Controller role.

5. Accounting and accounting-related job descriptions will be reviewed and revised in accordance with the new structure and staff will be re-deployed as appropriate.

6. Appropriate degrees/certifications will be required for all financial professionals.

7. Financial Affairs will work with Human Resources and pertinent unions to ensure that sensitive employee issues are properly addressed.

Office of the Vice President for Financial Affairs
Youngstown State University
One University Plaza, Youngstown, OH 44555

Finding 03-2
Corrective Action Plan

Development of policies and procedures, including documentation standards, will begin immediately and will be fully implemented by July 1, 2004 to ensure that supporting documentation is maintained for all matching requirements.

Youngstown State University

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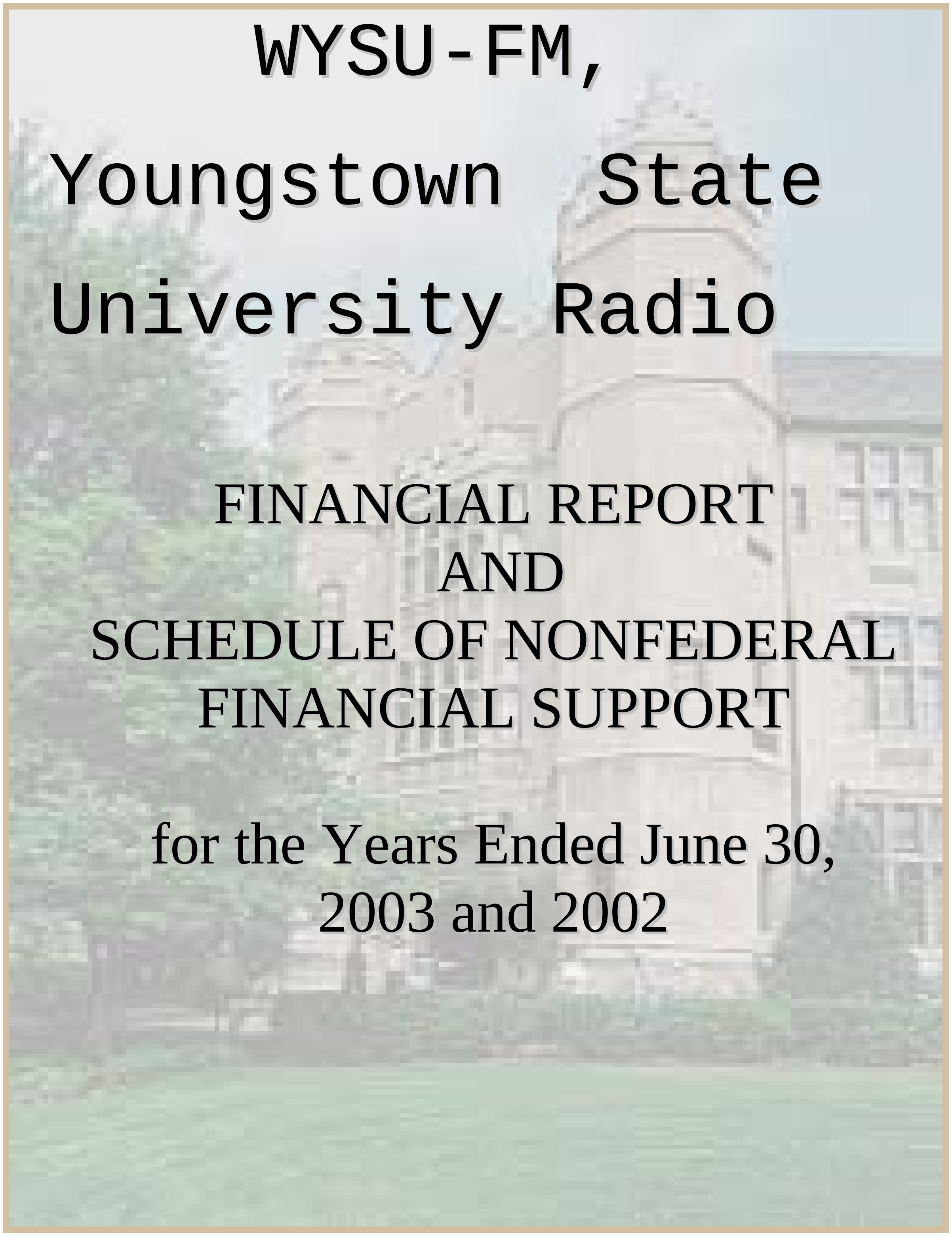

WYSU-FM, Youngstown State University Radio

FINANCIAL REPORT AND SCHEDULE OF NONFEDERAL FINANCIAL SUPPORT

for the Years Ended June 30, 2003 and 2002

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Contents

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Report of Independent Auditors

Board of Trustees
Youngstown State University

We have audited the accompanying financial statements of WYSU-FM, Youngstown State University Radio (Station), as of and for the year ended June 30, 2003, as shown on pages 8 through 10. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of WYSU-FM, Youngstown State University Radio for the year ended June 30, 2002, were audited by other auditors whose report dated February 18, 2003, expressed an unqualified opinion on those statements and included an explanatory paragraph that disclosed the Station's implementation of a new financial reporting model as discussed in Note 1 to these financial statements.

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

As discussed in Note 1, the financial statements of the Station are intended to present the financial position, and the changes in net assets and cash flows, of only that portion of the activities of Youngstown State University that is attributable to the transactions of the Station. They do not purport to, and do not, present fairly the financial position of Youngstown State University as of June 30, 2003, and the changes in its net assets and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position for the WYSU-FM, Youngstown State University Radio as of June 30, 2003, and the respective changes in net assets and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3-7 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2004 on our consideration of WYSU-FM, Youngstown State University Radio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Nonfederal Financial Support is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

January 8, 2004

Introduction

This section of the report presents a discussion and analysis of the financial performance of WYSU-FM (Station), a noncommercial public radio station operated by Youngstown State University (University) during the fiscal year ended June 30, 2003. This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes that follow.

The Station's financial report includes three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with the financial reporting format required by the Governmental Accounting Standards Board's (GASB) Statements No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and analysis – for State and Local Governments: Omnibus* and No. 38, *Certain Financial Statement Note Disclosures*, and applied on a retroactive basis. These statements establish standards for external financial reporting and provide a consolidated perspective of the Station's assets, liabilities, net assets, revenues, expenses and cash flows. In addition to the consolidation of financial information, key presentation elements include:

- Assets and liabilities are categorized as either current or noncurrent. Current assets and liabilities will be consumed or fulfilled within one year.

- Revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the Station's revenues, which include the general appropriation from the University and membership support, are considered nonoperating as defined by GASB Statement No. 35.

- Capital assets are reported net of depreciation.

The Statement of Net Assets

This statement presents the financial position of the Station at the end of the fiscal year and includes all assets and liabilities of the Station. The difference between total assets and total liabilities – net assets – is an indicator of the current financial condition of the Station.

A summary of the Station's assets, liabilities, and net assets at June 30, 2003 compared to June 30, 2002 follows:

	June 30, 2003	June 30, 2002
Assets:		
Current assets	$ 638,502	$ 511,677
Noncurrent assets	126,429	124,725
Capital assets, net	29,575	37,423
Total Assets	**794,506**	**673,825**
Liabilities:		
Current liabilities	3,814	8,093
Noncurrent liabilities	46,370	41,727
Total Liabilities	**50,184**	**49,820**
Total Net Assets	**$ 744,322**	**$ 624,005**
Net Assets :		
Invested in capital assets, net	$ 29,575	$ 37,423
Restricted - nonexpendable	126,429	124,725
Restricted - expendable	139,638	87,182
Unrestricted	448,680	374,675
Total Net Assets	**$ 744,322**	**$ 624,005**

Cash and cash equivalents increased due to a $50,000 capital gift and reduced expenses due to a vacant staff position.

Restricted nonexpendable net assets represent the Station's endowment.

Restricted expendable net assets represent the capital portion of foundation grants and a portion of the Corporation for Public Broadcasting grant.

The Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the Station's results of operations for the fiscal year. The revenues and expenses are generally reported as either operating or nonoperating. Operating revenue is generated by an annual Community Service Grant from the Corporation for Public Broadcasting, by the State of Ohio, through an annual grant from the Ohio Educational Telecommunications Network Commission (OETN), and by underwriting revenue received from area businesses. In addition, in-kind support is received from OETN, which includes support for the transmission of Radio Reading Service Programming. Operating expenses include the cost of providing goods or services for the overall operations of the Station and salaries of employees. Nonoperating revenues include the general appropriation, and donated facilities and administrative support from its licensee, the University, along with membership revenue, foundation grants, and net revenue from fund raising.

A summary of revenues, expenses, and changes in net assets for the years ended June 30, 2003 and June 30, 2002 follows:

	2003	2002
Operating Revenues		
Corporation of Public Broadcasting grant	$ 132,126	$ 127,335
In-Kind contributions	137,549	184,357
Ohio Educational Telecommunications grant	44,572	52,430
Underwriting revenue	60,973	70,033
Total Operating Revenue	**375,220**	**434,155**
Operating Expenses	978,797	1,043,985
Operating Loss	**(603,577)**	**(609,830)**
Nonoperating Revenues (Expenses):		
General appropriation from the University	334,095	314,144
Donated facilities and administrative support from the University	152,859	160,858
Subscription and membership income	177,010	174,469
Other nonoperating revenues, net	9,930	24,528
Net Nonoperating Revenues	**673,894**	**673,999**
Income Before Other Revenues, Expenses, Gains and Losses	**70,317**	**64,169**
Other Revenues, Expenses, Gains and Losses		
Capital grants and gifts	50,000	50,000
Total Other Revenues, Expenses, Gains and Losses	**50,000**	**50,000**
Increase in Net Assets	**120,317**	**114,169**
Net Assets at the Beginning of the Year	624,005	509,836
Net Assets at the End of the Year	**$ 744,322**	**$ 624,005**

The decrease in operating revenues and expenses is due to a significant decrease in the OETN grant, in-kind support and expenses declined due to a vacant staff position.

The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the Station's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

A summary of cash flows for the years ended June 30, 2003 and June 30, 2002 follows:

	2003	2002
Cash provided (used) by:		
Operating activities	$ (436,165)	$ (438,270)
Investing activities	5,361	5,780
Noncapital and related financing activities	514,965	519,536
Capital financing activities	50,000	50,000
Net increase in cash	**134,161**	**137,046**
Cash - Beginning of year	489,577	352,531
Cash - End of year	**$ 623,738**	**$ 489,577**

Economic Factors That Will Affect the Future

The financial condition of the Station remains strong, except that the Station is struggling to meet the ever more challenging Corporation for Public Broadcasting (CPB) Audience and Community Support Performance indices. Its ability to achieve at least one of these two indices is a requirement for receiving full funding from the Community Support Grant (CSG), a vital part of the Station's budget.

Even though the Station has tried to expand its audience by adding more news programming and *A Prairie Home Companion*, which have been met with wide appreciation and acclaim, the Station remains some distance from meeting the CPB Audience index.

Meeting the CPB Community Support index is the Station's best means to receive full funding. In an attempt to increase financial support from the community, the Station has significantly expanded its community services. The Station now offers the opportunity for members of the community to give on-air commentaries on local, national, and international issues. It has refined and expanded its public service announcement program. In partnership with PBS Stations 45 & 49, it has provided live on-air forums for discussions on the community's future.

Management's Discussion and Analysis (cont'd)

The Station has broadcast more guest lectures than ever before. Off-air, the Station has co-sponsored numerous educational activities and events, including the *Searching for a Nonviolent Future* seminar, educational forums on the Middle East and the Iraq War, and folk, jazz, and classical concerts.

In spite of these efforts, the Station has met the increasing standards for the Community Support index, over the past two fiscal years, only due to the support received from special foundation grants.

The Station's financial position can only remain healthy if there is an increase in support from the community. A positive future for the Station relies on the Station's stakeholders working together to find the means to pursue that support, and crafting a strategy that continues and strengthens the Station's service to the community.

Statements of Net Assets at June 30, 2003 and 2002

	June 30, 2003	June 30, 2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 623,738	$ 489,577
Accounts receivable, net	11,604	22,100
Pledges receivable, net	3,160	-
Total Current Assets	638,502	511,677
Noncurrent Assets		
Endowment	126,429	124,725
Capital assets, net	29,575	37,423
Total Noncurrent Assets	156,004	162,148
Total Assets	**794,506**	**673,825**
LIABILITIES		
Current Liabilities		
Accounts payable	314	1,544
Compensated absences	3,500	6,549
Total Current Liabilities	3,814	8,093
Noncurrent Liabilities		
Compensated absences	46,370	41,727
Total Noncurrent Liabilities	46,370	41,727
Total Liabilities	**50,184**	**49,820**
NET ASSETS		
Invested in capital assets, net of related debt	29,575	37,423
Restricted		
Nonexpendable	126,429	124,725
Expendable	139,638	87,182
Unrestricted	448,680	374,675
TOTAL NET ASSETS	**$ 744,322**	**$ 624,005**

See accompanying notes to financial statements

Statements of Revenues, Expenses and Changes In Net Assets for the Years Ended June 30, 2003 and 2002

	2003	2002
REVENUES		
Operating Revenues		
Corporation of Public Broadcasting grant	$ 132,126	$ 127,335
In-Kind contributions	137,549	184,357
Ohio Educational Telecommunications grant	44,572	52,430
Underwriting revenue	60,973	70,033
Total Operating Revenue	**375,220**	**434,155**
EXPENSES		
Operating Expenses		
Program services		
Programming and production	306,332	319,463
Broadcasting	102,852	99,541
Program information	22,951	20,090
Support services		
Management and general	344,789	360,057
Fund raising & membership development	194,025	236,678
Depreciation	7,848	8,156
Total Operating Expenses	**978,797**	**1,043,985**
Operating Loss	**(603,577)**	**(609,830)**
NONOPERATING REVENUES (EXPENSES)		
General appropriation from the University	334,095	314,144
Donated facilities and administrative support from the University	152,859	160,858
Subscription and membership income	177,010	174,469
Net revenue from fund raising	2,865	25,698
Foundation contribution	-	10,000
Investment income, net	7,065	(11,170)
Net Nonoperating Revenues	**673,894**	**673,999**
Income Before Other Revenues, Expenses, Gains and Losses	**70,317**	**64,169**
OTHER REVENUES, EXPENSES, GAINS AND LOSSES		
Capital grants and gifts	50,000	50,000
Total Other Revenues, Expenses, Gains and Losses	**50,000**	**50,000**
Total Increase in Net Assets	**120,317**	**114,169**
NET ASSETS		
Net Assets at the Beginning of the Year	624,005	509,836
Net Assets at the End of the Year	**$ 744,322**	**$ 624,005**

See accompanying notes to financial statements

WYSU-FM, Youngstown State University Radio

Statements of Cash Flows
For the Years Ended June 30, 2003 and 2002

		2,003		2,002
Cash Flows Used in Operating Activities				
Receipts from Corporation for Public Broadcasting grant	$	132,126	$	127,335
Receipts from Ohio Educational Telecommunications grant		44,572		52,430
Receipts from business and underwriting support		66,414		68,416
Payments to suppliers		(360,602)		(366,708)
Payments to employees		(265,177)		(226,779)
Payments for benefits		(53,498)		(92,964)
Total Cash Flows Used in Operating Activities		**(436,165)**		**(438,270)**
Cash Flows from Investing Activities				
Interest on investments		5,361		5,780
Total Cash Flows from Investing Activities		**5,361**		**5,780**
Cash Flows from Noncapital Financing Activities				
General appropriation from the University		334,095		314,144
Membership revenue		173,005		174,694
Foundation contribution		-		10,000
Net revenue from fund raising		7,865		20,698
Total Cash Flows from Noncapital Financing Activities		**514,965**		**519,536**
Cash Flows from Capital and Related Financing Activities				
Grant for capital purchases		50,000		50,000
Total Cash Flows from Capital and Related Financing Activities		**50,000**		**50,000**
Net Increase in Cash and Cash Equivalents		**134,161**		**137,046**
Cash and Cash Equivalents, Beginning of Year		**489,577**		**352,531**
Cash and Cash Equivalents, End of Year	**$**	**623,738**	**$**	**489,577**

RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Loss	**$**	**(603,577)**	**$**	**(609,830)**
Adjustments to reconcile operating loss to cash flows used in operating activities				
Depreciation expense		7,848		8,156
Provision for allowance for uncollectible accounts		900		-
Donated facilities and administrative support from the University		152,859		160,858
Changes in assets and liabilities:				
Prepaid expense		-		2,002
Accounts receivable and pledges, net		5,441		(1,617)
Accounts payable and comensated absences		364		2,161
Net Cash Flows Used in Operating Activities	**$**	**(436,165)**	**$**	**(438,270)**

See accompanying notes to financial statements

Note 1 – Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

WYSU-FM Radio (Station) is operated as a function of the Telecommunications Department of Youngstown State University (University) and is subject to the policies established by the University's Board of Trustees. The Station reports annually to the Corporation for Public Broadcasting (CPB).

During fiscal year 2002, the Station adopted GASB Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments* and No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities,* as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and No. 38, *Certain Financial Statement Note Disclosures*, and applied those standards on a retroactive basis. These statements establish standards for external financial reporting and provide a comprehensive perspective of the Station's assets, net assets, revenues, expenses, and cash flows.

GASB Statement No. 35 establishes 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 Nonexpendable: Net assets subject to externally imposed stipulations that they be maintained permanently by the Station. Such assets include the Station's permanent endowment fund.

- Restricted Expendable: Net assets whose use by the Station is subject to externally imposed stipulations that can be fulfilled by actions of the Station pursuant to those stipulations or that expire by the passage of time.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, Board of Trustees, or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially, all unrestricted net assets are designated for initiatives, capital programs, and operating reserves.

Summary of Significant Accounting Policies

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 the related liability has been incurred.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date. When an expense is incurred, that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Cash & Cash Equivalents
For purposes of the statements of cash flows, the Station considers all liquid investments with an original maturity of three months or less to be cash equivalents. GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires cash, cash equivalents and temporary investments held by the University to be categorized into the following three credit risk categories: insured (Credit risk category 1), collateralized (Credit risk category 2) and uncollateralized (Credit risk category 3). The majority of the Station's cash, cash equivalents, and temporary investments are uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the University's name.

At June 30, 2003 and 2002, the carrying amount of the University's bank deposits and cash equivalents was $3,185,305 and $2,943,172 and the bank balances were $5,717,173 and $4,522,084, respectively. The Station's cash and cash equivalents are included in these totals. The difference in carrying amount and bank balance is caused by items in transit and outstanding checks. Of the balance, $100,000 was covered by federal depository insurance (Credit risk category 1); the remaining balance of $5,617,173 in 2003 and $4,422,084 in 2002 is uncollateralized (Credit risk Category 3). At times during the year, uncollateralized deposits may have been higher.

Capital Assets

Equipment values are based on the University's movable equipment inventory listing of those items assigned to the Station. Equipment is recorded at cost or, if acquired by gift, at an appraisal value at the date of the gift. The University uses a capitalization threshold of $5,000. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful life for equipment is 3 to 5 years.

When capital assets are sold, or otherwise disposed of, the carrying value of such assets and any accumulated depreciation are removed from asset accounts and net assets invested in capital assets.

Accounts Receivable

Receivables consist of underwriting charges for various Station programs. Accounts are recorded net of allowance for uncollectible amounts.

Endowment Policy

The University Endowment Fund consists of 80 named funds, which include the Station's endowment. Each named fund is assigned a number of shares in the University Endowment Fund based on the value of the gifts to that named fund. Investments are managed by an investment manager. The University's policy is to distribute investment income monthly, based on each funds pro-rata share to the total endowment shares.

Gift Pledges Receivable

The Station receives pledges of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such a promise, revenue is recognized when the gift is received.

Compensated Absences

Accumulated unpaid vacation and sick leave benefits have been accrued in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Reclassification

Certain prior year amounts have been reclassified to conform to current year classifications.

General Appropriation from the University
The general appropriation represents support from the University for salaries and operating expenses not funded through other sources.

Administrative Support
Administrative support represents the Station's allocated amounts of institutional support and donated facilities and is recorded as revenue and expenses in the Statement of Revenue, Expenses, and Changes in Net Assets. Institutional support is based on the Station's pro rata share of the University's total salaries, wages, and administrative expenses. Donated facilities are the Station's pro rata share of the University's total plant expenses along with calculated occupancy costs.

Income Taxes
The Internal Revenue Service has ruled that the University's income is generally exempt from Federal income taxes under Section 115 of the Internal Revenue code. The University is subject to tax on unrelated business income, if any.

Measurement Focus and Financial Statement Presentation
Operating revenues and expenses result from providing programming, production and broadcasting support for the Station. The primary operating revenues include two grants, one from the Corporation of Public Broadcasting and one from the Ohio Educational Telecommunications network commission, along with underwriting revenue from area businesses. Operating expenses include programming, production and management services. The principle nonoperating revenue is the general appropriation from the University and membership support.

Note 2 – Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External investment Pools*, the Station records investments at fair value and recognizes unrealized gains and losses in the financial statements. The change in unrealized gain (loss) on investments is reflected in the Statement of Revenue, Expenses, and Changes in Net Assets in 2003 and 2002 and was $1,704 and ($16,950).

The Station's investments are categorized in accordance with GASB Statement No. 3, as category 3 credit risk at June 30, 2003:

Investments Held by Investment Manager

	Cost	Fair Value
Common Stock	$ 24,272	$ 44,822
Corporate Notes & Bonds	10,650	10,740
Preferred Stock	5,073	5,674
U.S. Government and Agency Securities	32,064	33,176
Other Securities	32,017	32,017
Total Investments Held by Investment Manager	$ 104,076	$ 126,429

Note 3 – Capital Assets

Capital assets and accumulated depreciation as of June 30, 2003 are as follows:

Capital assets	Beginning Balance	Additions	Disposals	Ending Balance
Depreciable assets				
Building, antenna and tower	$ 152,748	$ -	$ -	$ 152,748
Studio and broadcast equipment	176,748	-	-	176,748
	329,496	-	-	329,496
Less: Accumulated depreciation	292,073	7,848	-	299,921
Capital assets, net	$ 37,423	$ (7,848)	$ -	$ 29,575

Note 4 – Long Term Liabilities

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Net Additions	Ending Balance	Current Portion
Compensated absences	$ 48,276	1,594	49,870	$ 3,500

Note 5 - Related Organizations

The Youngstown State University Foundation (YSUF) is a legally separate nonprofit organization exempt from federal income tax and classified as a public charity. YSUF is devoted to the support, expansion and development of educational programs at the University that are useful to the students and beneficial to the community. Under the terms of an agreement with the University, YSUF serves as an investment manager for the University's and therefore the Station's endowments.

Schedule of Nonfederal Financial Support
For The Year Ended June 30, 2003

Direct Income	$	674,876
Indirect Administrative Support		152,859
In-Kind Contributions of Services and Other Intangibles		137,549
Total Nonfederal Financial Support	**$**	**965,284**

YOUNGSTOWN STATE UNIVERSITY

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

Board of Trustees
Youngstown State University

We have audited the financial statements of WYSU-FM, Youngstown State University Radio (Station), as of and for the year ended June 30, 2003 and have issued our report thereon dated January 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Station's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors 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.

This report is intended for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

January 8, 2004

ERNST & YOUNG

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Independent Auditors Report on the Application of Agreed-Upon Procedures

Mr. David Sweet
Youngstown State University

We have audited the financial statements of Youngstown State University (the University) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 11, 2003. We have performed the procedures enumerated below for the football program, which were agreed to by the University and the National Collegiate Athletic Association (NCAA), solely to assist you with respect to complying with NCAA bylaws. The University's management is responsible for the accompanying Statement of Revenue, Support and Expenditures for The Intercollegiate Athletics Department (the Statement). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings are as follows:

I. Statement of Revenue, Support and Expenditures – Agreed-Upon Substantive Procedures

(a) We obtained the Statement for the Intercollegiate Athletics Department (Department) for the year ended June 30, 2003, as prepared by management (Appendix I). We clerically tested the amounts on the Statement, traced the amounts on the Statement to management's worksheets, and agreed the amounts on management's worksheets to the University's general ledger. We found no differences between the amounts on the general ledger and the amounts on the worksheets.

(b) We performed a comparison of the unrestricted programs on the Statement for the year ended June 30, 2003 to the 2003 budget and to the year ended June 30, 2002. We calculated the fluctuations and obtained from management explanations for the changes exceeding $11,000 and 10 percent. We found no exceptions as a result of these procedures.

(c) We performed analytical review procedures comparing football revenues to ticket prices, number of games and attendance figures. We found no exceptions as a result of these procedures.

(d) We obtained documentation from management of gifts received during fiscal 2003. We agreed gift revenues to contribution records tested in connection with the audit of the general-purpose financial statements noting no exceptions. We reviewed the documentation for any single gift from an "outside organization," with such organization defined by NCAA Bylaws as a booster club or affiliated foundation, that constituted more than 10 percent of all gifts donated to the Department. There were no single gifts greater than 10 percent.

(e) We compared classifications of revenues and expenditures to NCAA guidelines. We found no exceptions as a result of these procedures.

(f) Accounting Department management verbally represented that The Penguin Club was the only "outside organization" which had expenditures for or on behalf of the University's Intercollegiate Football Athletic Program. Based on our performance of procedures described in this report, we noted no other such "outside organizations." We included a Schedule of Financial Activities of the Penguin Club confirmed by the Treasurer of the Penguin Club on Appendix II. We noted that none of these expenditures have been recorded on Appendix I or The University's financial statements. We obtained and read a copy of the financial statements of the Penguin Club for the year ended June 30, 2003.

(g) We reviewed and discussed the organization chart of the Intercollegiate Athletics Department with management. We noted the following lack of segregation of duties in the cash receipts area: the manager of the athletic ticket operations reconciles daily sales to deposits and is also authorized to operate the cash registers. The Department has one compensating control as the Executive Director reviews income recorded in the general ledger based on end of season sales reports.

(g) We identified and reviewed aspects of the University's internal control unique to the Intercollegiate Athletics Programs. This review included a review of the general control environment and internal control procedures unique to intercollegiate athletics in order to ensure that recorded revenues are complete and expenditures are properly authorized. We obtained an understanding of specific components of the control environment and accounting system that are unique to intercollegiate athletics that were not reviewed in connection with the audit of the financial statements of the University. We noted that Athletic Business Office has internal controls in place; however, the effectiveness of these controls is somewhat limited by the lack of segregation of duties.

In connection with our procedures we noted that (1) five employees received discounts that were not employed by the University during the football season; (2) two individuals received student season tickets that were not University students, and one was not enrolled in spring, summer, or fall 2002; and (3) four instances where student tickets were issued to individuals who were not registered in spring, summer or fall, 2002.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Statement, included in Appendix I. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Trustees and University's management, and is not intended to be and should not be used by anyone other than those specified parties.

Ernst & Young LLP

February 9, 2004

Youngstown State University

Statement of Revenue, Support and Expenditures for The Intercollegiate Athletics Department

Year ended June 30, 2003

	Football	Basketball	Other Sports	Non-Program Specific	Restricted	Total
Revenue and Support Revenue						
Ticket Sales	$ 547,899	$ 156,537	$ -	$ -	$ -	$ 704,436
Revenue Sharing	91,342	14,182	134,850	-	-	240,374
Telephone and Vending Machine Commissions	-	-	-	98,905	-	98,905
Guarantees	50,000	83,000	-	-	-	133,000
Program Advertising	83,650	10,500	-	-	-	94,150
Stambaugh Stadium Viewing Boxes	437,799	-	-	-	-	437,799
Stambaugh Stadium Viewing Panels	97,000	-	-	-	-	97,000
Penguin Sports Network	-	-	-	33,722	-	33,722
Gifts and Grants	-	-	-	-	186,579	186,579
Program Sales	10,401	1,414	-	-	-	11,815
Advertising Panel	-	43,500	-	-	-	43,500
Miscellaneous	30,550	-	14,877	9,491	-	54,918
Total Revenue	1,348,641	309,133	149,727	142,118	186,579	2,136,198
Support						
Non-Mandatory Transfers and Additions:						
General Fees and Allocation	166,299	329,405	2,382,566	1,667,730	-	4,546,000
Total Revenue and Support	1,514,940	638,538	2,532,293	1,809,848	186,579	6,682,198

Youngstown State University

Statement of Revenues and Expenditures
for The Intercollegiate Athletics Department (continued)

	Football	Basketball	Other Sports	Non-Program Specific	Restricted	Total
Expenditures						
Personal Services:						
Salaries	$ 428,935	$ 209,857	$ 504,416	$ 1,119,359	$ 39,642	$ 2,302,209
Fringe Benefits	141,975	64,797	172,376	377,812	11,588	768,548
Total Personal Services	570,910	274,654	676,792	1,497,171	51,230	3,070,757
Operating expenses:						
Scholarships	767,805	142,441	1,011,848	(12,572)	5,000	1,914,522
Team travel	250,118	81,284	302,181	1,091	55,437	690,111
Recruiting	43,610	37,333	34,788	-	6,364	122,095
Supplies	65,483	10,317	108,355	66,232	73,506	323,893
Guarantees	101,400	14,500	1,200	-	-	117,100
Telephone	10,732	11,269	10,484	17,190	-	49,675
Officials	31,356	35,938	47,066	33,809	6,135	154,304
Printing	-	-	-	77,385	9,745	87,130
Pre-Season Practice	51,478	-	12,274	-	-	63,752
Postage and Freight	6,832	-	1,426	15,367	167	23,792
Clinics and Meetings	-	-	-	26,864	2,072	28,936
Liability Insurance	-	-	-	54,500	-	54,500
Rentals-Facilities	-	-	31,444	15,810	570	47,824
Maintenance and Repairs	-	-	4,217	24,560	50,255	79,032
Awards and Recognitions	-	-	-	14,514	351	14,865
Publicity and Promotions	-	-	-	65,778	4,966	70,744
Dues	-	-	-	66,010	-	66,010
Business Relations	4,499	6,565	8,342	2,554	7,428	29,388
Miscellaneous	68	3,420	7,780	46,364	15,622	73,254
Total Operating Expenses	1,333,381	343,067	1,581,405	515,456	237,618	4,010,927

Youngstown State University

Statement of Revenue, Support and Expenditures for The Intercollegiate Athletics Department (continued)

	Football	Basketball	Other Sports	Non-Program Specific	Restricted	Total
Total Expenditures	1,904,291	617,721	2,258,197	2,012,627	288,848	7,081,684
Revenue and Support in Excess of (Less Than) Expenditures	(389,351)	20,817	274,096	(202,779)	(102,269)	(399,486)
Transfers from Other Funds	104,752	34,917	131,910	3,184	4,828	279,591
Reserve for Encumbrances	-	-	-	20,335	-	20,335
Revenue and Support in Excess of (Less Than) Expenditures, Transfers and Reserve	$ (284,599)	$ 55,734	$ 406,006	$ (179,260)	$ (97,441)	$ (99,560)

Youngstown State University
Schedule of Financial Activities

Year Ended June 30, 2003

The Penguin Club confirmed that the financial activities of the Penguin Club are not included in either the Statement of Revenue, Support and Expenditures for The Intercollegiate Athletics Department (Appendix I) or the books of The University.

Penguin Club	
Century Kingbird tickets	$ 156,673
Scholarship recognition	59,262
Wages and related taxes	53,624
Office rent	30,000
Sports banquets	16,794
Communications	11,422
Director's car expenses and other	9,846
Car lease—women's basketball	6,466
Car lease—football	3,911
Printing expenses, net of reimbursement	5,379
Hall of Fame and championship rings	4,586
Penguin club box expenses	3,830
Publicity events and hospitality	3,298
Insurance	3,107
Membership game day trip	2,721
Bad debts	2,352
Bank fees	1,937
Board expenses	1,704
Postage	1,258
Membership benefits	1,098
Athletic awards	940
Office supplies	916
Depreciation	822
Promotions	735
Loss on investments	644
Miscellaneous	4,254
	$ 387,579

Auditor of State
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YOUNGSTOWN STATE UNIVERSITY

MAHONING 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 30, 2004