

SINGLE AUDIT REPORT

Youngstown State University

Year ended June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Youngstown State University
One University Plaza
Youngstown, OH 44555

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, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

March 16, 2005

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Youngstown State University

Single Audit Report

Year ended June 30, 2004

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YOUNGSTOWN STATE UNIVERSITY

MESSAGE FROM PRESIDENT SWEET

October 12, 2004

Youngstown State University continued the focused implementation of its Centennial Strategic Plan during Fiscal Year 2004. By building on our strengths and implementing new initiatives, we are setting the stage for the University's Centennial in 2008 and beyond.

The University's report on its Fiscal Year 2004 Annual Plan is available on the YSU Web site at http://www.cc.yosu.edu/Strategic_Plan/. It details progress in addressing the Strategic Plan's ten critical issues and its four core values--Centrality of Students, Excellence and Innovation, Integrity and Human Dignity, and Collegiality and Public Engagement.

Progress continues despite the State of Ohio's increasingly challenging financial environment and consequent decline in State support for public higher education. Sound and focused management has enabled YSU to remain the most efficient and cost-effective State university in Ohio. The highlights of Fiscal Year 2004 include:

- Successful completion of the \$12.1 million fund-raising campaign and ground-breaking for the Andrews Student Recreation and Wellness Center. Student participation in design and planning was critical to the final plan.
- Inauguration of the Youngstown Early College High School testifies to the University's partnership to improve educational attainment for inner-city high school students.
- Completion of the Information Technology Master Plan and the partnership with SunGard SCT Banner to replace our administrative information systems with a fully integrated suite of software packages. YSU has committed a minimum of \$15 million to implement the plan over a three-year period.
- Improvement of our Moody's bond rating from A3 to A2.
- Achievement of a positive Senate Bill 6 (SB6) composite score of 4.0 on a scale of 1 to 5, up from 3.0 in Fiscal Year 2000. The score provides a formalized structure for monitoring the financial health of Ohio's colleges and universities and is calculated based on financial ratios.
- Implementation of Governmental Accounting Standards Board No. 39, *Determining Whether Certain Organizations Are Component Units*, through the cooperative efforts of the Youngstown State University Foundation and the University Housing Corporation.
- Continued high marks in the 2003 Performance Report for Ohio's Colleges and Universities, an annual snapshot of how the state's public universities and colleges are performing.
- Restructuring and building the professional staff capacity of the University's financial administration.

While the University has had to increase tuition to maintain academic quality and to offset the loss of state funds, our tuition remains the lowest among the comprehensive public universities in Ohio. In partnership with the YSU Foundation, we have taken a number of steps to help offset tuition increases with scholarship initiatives. The high-quality education offered at Youngstown State University is affordable and represents an investment offering tremendous, life-long tangible and intangible rewards for students.

Sincerely,



David C. Sweet
President

Report of Independent Auditors

Board of Trustees
Youngstown State University

We have audited the accompanying statements of net assets of Youngstown State University (University), a component unit of the State of Ohio, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Youngstown State University Foundation, a discretely presented component unit of the University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2004 and 2003, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 4 through 16 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 1 to the financial statements, in fiscal 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which required the discrete presentation of The Youngstown State University Foundation and University Housing Corporation's financial statements as component units of the University.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2004 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. 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 the University taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2004 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.



October 12, 2004

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S 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, 2004 with comparative information for the fiscal years ended June 30, 2003 and 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes that follow.

In 1908, The Youngstown College was founded. In 1955, The Youngstown College became the Youngstown University. On September 1, 1967, Youngstown University became officially known as Youngstown State University. The University is composed of six colleges and one school and operates on a main campus and a Metro College. It has an annual enrollment of approximately 15,400 students. There are approximately 400 full-time faculty members and a total faculty of 894. In total, the University employs more than 2,105 people.

Using the Financial Statements

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*. 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. 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.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

In fiscal year 2004, the University adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. As a result of implementing this new standard, The Youngstown State University Foundation (YSUF or Foundation) and University Housing Corporation (UHC) are treated as component units of the University. Accordingly, these component units are discretely presented in this report by presentation of the individual financial statements of the units immediately following the University's respective GASB financial statements. Additional information on these component units is contained in Note 13 and are excluded from Management's Discussion and Analysis.

Complete financial statements for the University Housing Corporation can be obtained from University Housing Corporation, c/o Youngstown State University, Financial Affairs, University Plaza, Youngstown, Ohio 44555.

Financial and Other University Highlights

- Continued increase in enrollment
- Continued decrease in State of Ohio support
- Positive Senate Bill 6 ratios
- Upgrading of YSU's credit rating from A3 to A2 by Moody's Investors Service
- Progress on four major planning initiatives including enrollment management, technology, the campus master plan, and the centennial capital campaign
- Partnership with SunGard SCT Banner to implement an Enterprise Resource Planning (ERP) System to replace all administrative information systems within the University over the next three years

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statements of Net Assets

These statements present 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, 2004, 2003 and 2002 follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets			
Current assets	\$ 40,245,160	\$ 36,779,811	\$ 40,302,367
Capital assets, net	142,257,459	142,861,175	140,848,821
Other assets	29,070,282	24,647,930	14,971,439
Total Assets	<u>211,572,901</u>	<u>204,288,916</u>	<u>196,122,627</u>
Liabilities			
Current liabilities	18,992,688	19,518,782	19,054,135
Noncurrent liabilities	20,937,814	21,804,367	23,549,358
Total Liabilities	<u>39,930,502</u>	<u>41,323,149</u>	<u>42,603,493</u>
Total Net Assets	<u>\$ 171,642,399</u>	<u>\$ 162,965,767</u>	<u>\$ 153,519,134</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 128,979,986	\$ 128,791,756	\$ 125,974,595
Restricted - nonexpendable	5,125,548	5,018,540	4,854,893
Restricted - expendable	16,046,325	11,447,744	5,992,415
Unrestricted	21,490,540	17,707,727	16,697,231
Total Net Assets	<u>\$ 171,642,399</u>	<u>\$ 162,965,767</u>	<u>\$ 153,519,134</u>

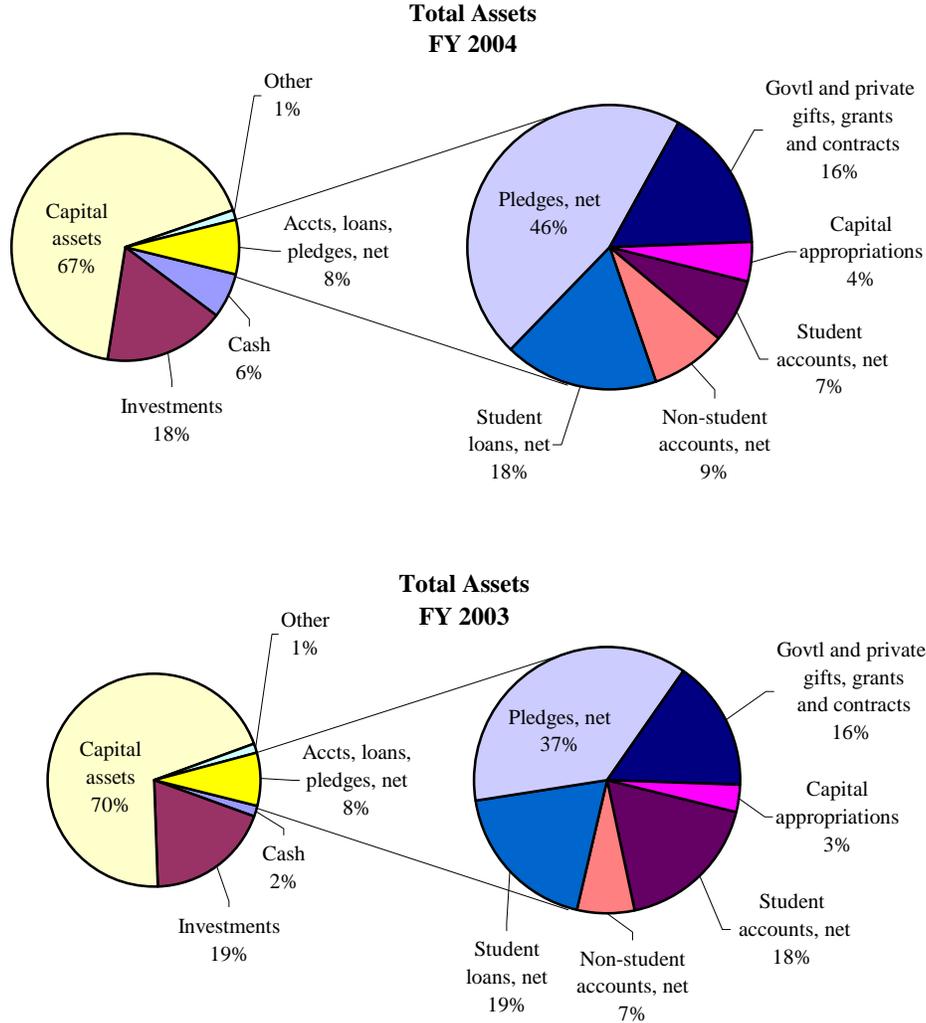
Assets

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

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Cash and cash equivalents	\$ 13,246,709	\$ 3,185,305	\$ 2,943,172
Investments	36,578,580	39,004,847	36,871,039
Accounts, loans and pledges receivable, net	16,492,723	16,351,710	12,480,630
Capital assets, net	142,257,459	142,861,175	140,848,821
Other	2,997,430	2,885,879	2,978,965
Total Assets	<u>\$ 211,572,901</u>	<u>\$ 204,288,916</u>	<u>\$ 196,122,627</u>

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS



Total cash and cash equivalents and investments increased \$7.6 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 million in fiscal year 2004 (total \$5 million at June 30, 2004) and are reflected in current assets. Endowment principal and other investments are included in noncurrent assets. The composition from current to noncurrent balances shifted from the prior year reflecting a change in investment philosophy and a shift of invested balances for the Andrews Recreation and Wellness Center from noncurrent to current due to the anticipated completion of construction within the next year. The total fair value of investments increased slightly from the prior year. The Statement of Cash Flows provides additional information on sources and uses of the University's cash and cash equivalents.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2004, the University had \$142,257,459 in capital assets, net of accumulated depreciation. Depreciation and amortization charges totaled \$7,853,906 in FY2004 and \$7,484,527 in FY2003. Details of capital assets, net are shown below.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Land	\$ 13,104,291	\$ 12,835,387	\$ 12,053,837
Buildings	111,032,198	114,053,556	112,356,649
Improvements other than buildings	7,231,219	7,690,540	8,194,742
Construction-in-progress	3,962,224	1,122,689	2,171,617
Moveable equipment and furniture	6,584,791	6,781,749	5,692,799
Historical treasures	297,513	297,513	297,513
Capital leased assets	45,223	79,741	81,664
Total	<u>\$ 142,257,459</u>	<u>\$ 142,861,175</u>	<u>\$ 140,848,821</u>

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 Bliss Hall Rehabilitation and the Bryson Lot, and the commencement of the West Campus Gateway Project, which includes the Andrews Recreation and Wellness Center. More detailed information about the University's capital assets is presented in Note 7 to the financial statements.

Liabilities

Liabilities substantially consist of accrued payroll, payroll withholdings, deferred revenue, debt, and compensated absences. The following table summarizes balances at June 30, 2004, 2003 and 2002:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Accounts payable	\$ 1,161,860	\$ 1,397,920	\$ 2,286,618
Payroll liabilities	7,843,203	7,882,456	7,793,907
Bonds and capital leases payable, net	13,492,373	14,263,619	14,992,226
Deferred revenue	7,705,117	7,820,349	7,065,539
Compensated absences	6,092,104	6,114,964	5,455,846
Refundable advance	2,758,350	2,830,609	2,665,300
Other	877,495	1,013,232	533,454
Unfunded workers' compensation	-	-	1,810,603
Total Liabilities	<u>\$ 39,930,502</u>	<u>\$ 41,323,149</u>	<u>\$ 42,603,493</u>

At June 30, 2004, the University had \$13,680,000 in principal debt outstanding compared to \$14,440,000 at June 30, 2003 and \$15,175,000 at June 30, 2002. More detailed information about the University's debt and long-term liabilities is presented in Note 9 to the financial statements. See Note 8 for a further breakout of accounts payable, accrued liabilities and other liabilities.

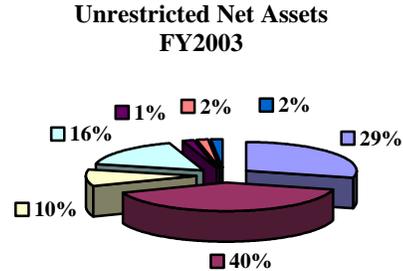
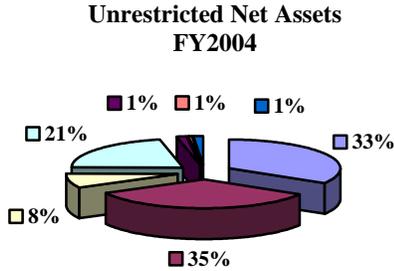
YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Assets

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,:

	2004	2003	2002
Current funds, year end balances			
Unallocated			
General operating	\$ 3,406,987	\$ 3,139,119	\$ 2,189,098
Auxiliary enterprises	632,571	1,271,624	1,094,999
Allocated	3,155,320	725,654	40,548
Subtotal	7,194,878	5,136,397	3,324,645
Operating reserves			
General operating	6,308,386	5,828,386	6,519,282
Auxiliary enterprises	922,500	1,270,000	1,009,326
Subtotal	7,230,886	7,098,386	7,528,608
Reserve for encumbrances	1,732,291	1,689,685	2,200,380
Plant reserves	4,592,642	2,886,942	2,724,488
Other plant	306,113	301,690	316,769
Debt service	162,126	322,773	328,183
Loan funds	271,604	271,854	274,158
Total	\$ 21,490,540	\$ 17,707,727	\$ 16,697,231



- | | |
|----------------------------------------------------------------------|----------------------------------------------------------|
| ■ Current funds, year end balances | ■ Operating reserves |
| ■ Reserve for encumbrances | ■ Plant reserves |
| ■ Other plant | ■ Debt service |
| ■ Loan funds | |

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall, unrestricted net assets increased \$3.8 million or 21% from June 30, 2003 to June 30, 2004. This increase includes \$1.1 million in General Operating funds designated for the Technology Master Plan and \$1.2 million in Auxiliary operating funds designated for future plant expenditures including parking improvements and a Bookstore Expansion. Operating reserves increased slightly and represent approximately 5% of the total FY2005 operating budget.

2003 Versus 2002

Current assets decreased in 2003 primarily due to a change in the investment policy, while noncurrent assets increased due to increases in investments, endowments and other restricted investments, and pledges receivable. Liabilities decreased slightly from 2002 to 2003 with liabilities primarily consisting of accrued payroll, payroll withholding, debt, compensated absences, and deferred revenue. Net assets increased due to increases in funds invested in capital assets and a \$1.8 million increase in unrestricted net assets due to the reallocation of the Ohio workers' compensation liability from the University to the State of Ohio.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

These statements present the operating results and the nonoperating revenues and expenses of the University. Annual 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, 2004 and 2003 follows:

	June 30, 2004	June 30, 2003
Operating Revenues		
Net tuition, fees and other student charges	\$ 58,880,154	\$ 52,824,818
Auxiliary enterprises	15,112,244	15,974,326
Grants and contracts	14,630,097	12,425,612
Other	1,995,908	1,058,226
Total Operating Revenues	90,618,403	82,282,982
Operating Expenses	152,739,865	149,300,934
Operating Loss	(62,121,462)	(67,017,952)
Nonoperating Revenues (Expenses)		
State appropriations	44,482,947	43,917,610
Gifts, grants, and contracts	19,338,226	21,037,452
Investment income	830,018	1,195,060
Other nonoperating expenses, net	(2,405,860)	(1,801,758)
Net Nonoperating Revenues:	62,245,331	64,348,364
Income (Loss) Before Other Revenues, Expenses, and Changes	123,869	(2,669,588)
Other Revenues, Expenses, and Changes		
State capital appropriations	4,947,102	7,064,521
Capital grants and gifts	3,535,536	3,205,174
Reallocation of Ohio workers' compensation liability	-	1,810,603
Other	70,125	35,923
Total Other Revenues, Expenses, and Changes	8,552,763	12,116,221
Increase in Net Assets	8,676,632	9,446,633
Net Assets at Beginning of Year	162,965,767	153,519,134
Net Assets at End of the Year	\$ 171,642,399	\$ 162,965,767

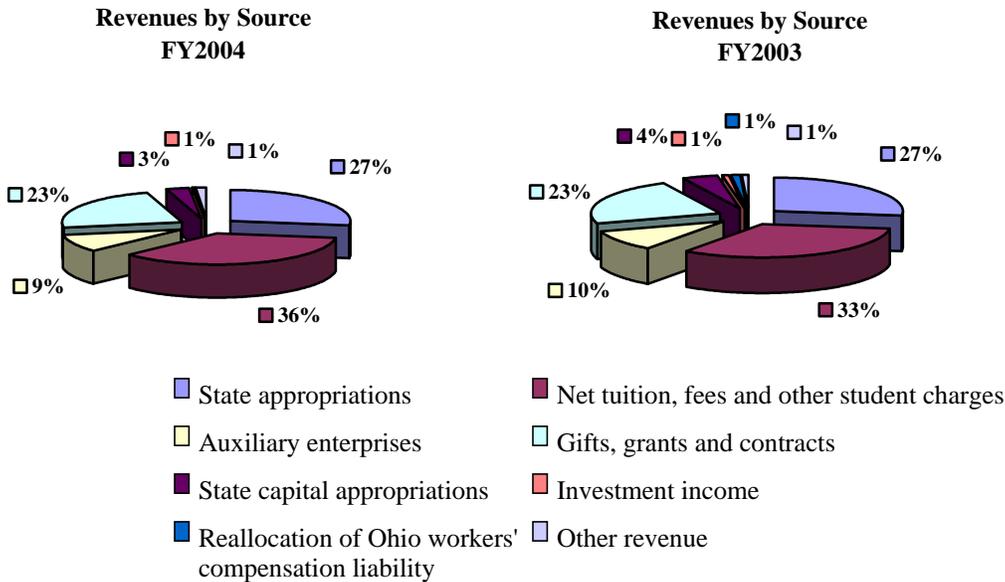
YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004 and 2003:

	June 30, 2004	June 30, 2003
Net tuition, fees and other student charges	\$ 58,880,154	\$ 52,824,818
Gifts, grants, and contracts	37,503,859	36,668,238
Auxiliary enterprises	15,112,244	15,974,326
State appropriations	44,482,947	43,917,610
Investment Income	830,018	1,195,060
Other revenue	2,089,195	1,418,727
State capital appropriations	4,947,102	7,064,521
Reallocation of Ohio workers' compensation liability	-	1,810,603
Total Revenues	\$ 163,845,519	\$ 160,873,903



Overall, the University's total net revenue increased \$3 million or 1.9%. The majority of the University's revenue, 63% in FY2004 and 60% in FY2003, is attributed to State appropriations and tuition and fees. Combined, these two revenue streams increased \$6.6 million from FY2003 to FY2004, although the composition shifted - State appropriations accounted for 43% of the combined total in FY 2004 compared to 45% in FY 2003. The elimination of the \$1.8 million unfunded workers' compensation liability favorably impacting FY2003 revenue is a non-recurring item on the Statements of Revenues, Expenses and Changes in Net Assets.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

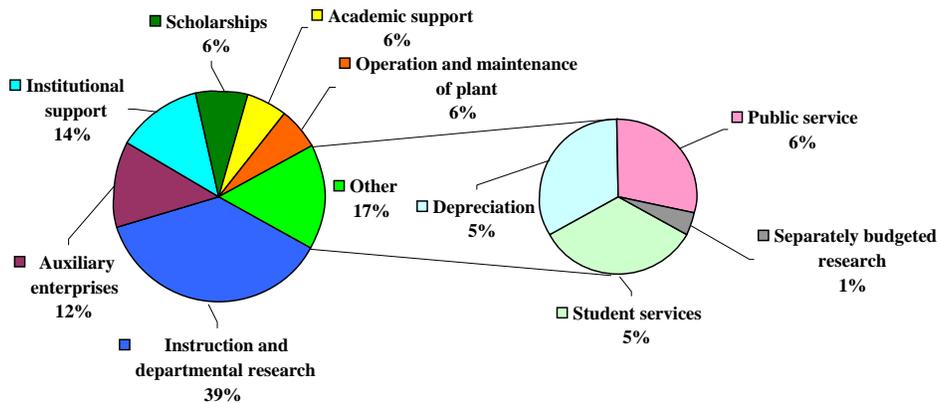
Expenses

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				2004	2003
	Compensation	Operating	Scholarships	Depreciation and Amortization	Total Functional	Total Functional
Instruction and departmental research	\$ 53,500,138	\$ 3,903,110	\$ 45,551	\$ -	\$ 57,448,799	\$ 55,620,251
Separately budgeted research	936,841	582,416	25,928	-	1,545,185	1,175,276
Public service	4,751,553	3,753,595	32,108	-	8,537,256	7,859,113
Academic support	7,291,291	2,504,570	9,573	-	9,805,434	9,645,412
Student services	6,738,922	1,438,221	103,032	-	8,280,175	8,367,906
Institutional support	15,984,048	5,300,053	16,066	-	21,300,167	19,711,581
Operation and maintenance of plant	3,803,076	5,472,314	-	-	9,275,390	9,078,315
Scholarships	-	-	9,627,199	-	9,627,199	11,011,449
Auxiliary enterprises	6,793,956	12,272,398	-	-	19,066,354	19,347,104
Depreciation and amortization	-	-	-	7,853,906	7,853,906	7,484,527
Total Natural	\$ 99,799,825	\$ 35,226,677	\$ 9,859,457	\$ 7,853,906	\$ 152,739,865	\$ 149,300,934

Salaries and benefits totaled 66% of the FY2004 expenses compared to 63% of the expenses in FY2003. Other operating expenses totaled 23% of total expense in FY2004 and 24% in FY2003. Scholarships and depreciation totaled 11% of total expenses in FY2004 compared to 13% in FY2003. The allocation of operating expenses among the functional areas remained consistent from FY2003 to FY2004.

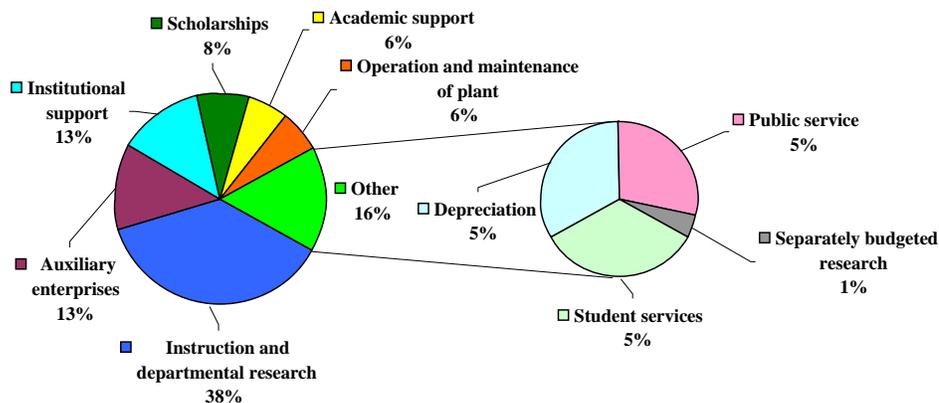
**Operating Expenses by Function
2004**



YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Operating Expenses by Function
2003**



The Statements of Cash Flows

These Statements of Cash Flows provide 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, 2004 and 2003 follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash provided (used) by:		
Operating activities	\$ (53,591,265)	\$ (60,329,389)
Investing activities	3,245,449	(828,219)
Capital and related financing activities	(429,205)	(125,040)
Noncapital financing activities	60,836,425	61,524,781
Net increase in cash	10,061,404	242,133
Cash and cash equivalents - Beginning of year	3,185,305	2,943,172
Cash and cash equivalents - End of year	<u>\$ 13,246,709</u>	<u>\$ 3,185,305</u>

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

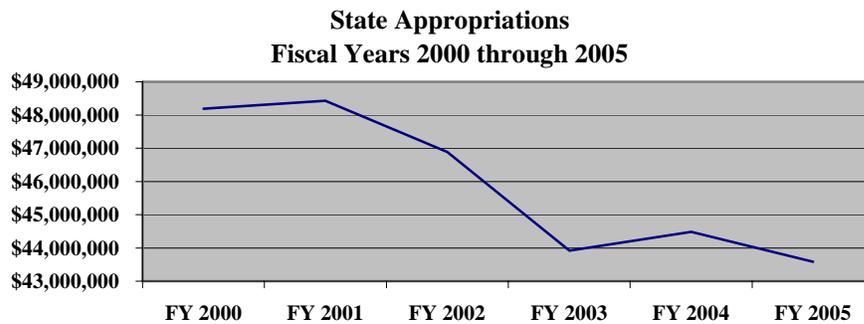
YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors for the Future

Looking to the future, management believes the University is well-positioned to continue its favorable financial condition and level of excellence in service to students. The University's positive 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'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, 2004 was 4.0 compared to 3.7 at June 30, 2003 and 3.5 at June 30, 2002.

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



Note: Graph includes five years actual plus budgeted amount for FY2005

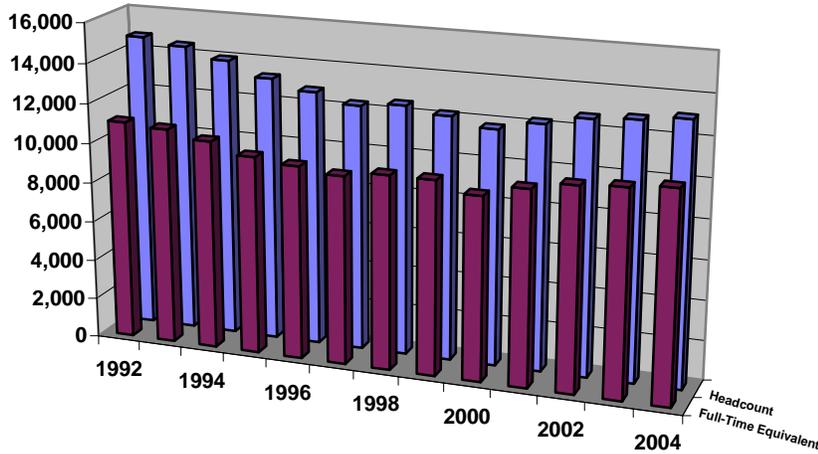
There is an inverse relationship between State support and the University's tuition rates, as declines in State appropriations continue to result in higher tuition, fees and other related charges.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**Fall Term Enrollment Trends
1992 through 2004**



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
■ Full-Time Equivalent	11,045	10,897	10,508	9,954	9,714	9,462	9,729	9,733	9,203	9,766	10,171	10,311	10,518
■ Headcount	14,806	14,501	13,979	13,273	12,801	12,324	12,533	12,222	11,787	12,250	12,698	12,858	13,101

Projections for the next State budget are pessimistic. The best-case scenario is for stable funding. The temporary 1% State sales tax will expire, as well as the one-time dollars used to fill the gap in this year's budget, leaving at least a \$3 billion hole for the Governor and legislature to deal with next year.

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 continues to recognize the importance of public higher education and places an appropriate balance to its funding.

YOUNGSTOWN STATE UNIVERSITY

STATEMENTS OF NET ASSETS AT JUNE 30, 2004 AND 2003

	June 30, 2004	June 30, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,246,709	\$ 3,185,305
Investments	6,890,509	18,499,588
Restricted investments	5,673,173	667,829
Interest receivable	217,624	206,789
Accounts receivable, net	6,052,399	7,153,863
Pledges receivable, net	5,086,540	4,087,647
Loans receivable, net	513,300	493,900
Inventories	1,905,244	1,773,457
Prepaid expenses and deferred charges	659,662	711,433
Total Current Assets	40,245,160	36,779,811
Noncurrent Assets		
Investments	19,304,514	12,539,359
Endowments and other restricted investments	4,710,384	7,298,071
Pledges receivable, net	2,464,722	2,018,743
Loans receivable, net	2,375,762	2,597,557
Deposits on land	214,900	194,200
Capital assets, net	142,257,459	142,861,175
Total Noncurrent Assets	171,327,741	167,509,105
Total Assets	211,572,901	204,288,916
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	1,161,860	1,397,920
Payroll liabilities	7,843,203	7,882,456
Bonds payable	805,000	760,000
Capital leases payable	22,213	35,225
Deferred revenue	7,705,117	7,820,349
Compensated absences	577,800	609,600
Other liabilities	877,495	1,013,232
Total Current Liabilities	18,992,688	19,518,782
Noncurrent Liabilities		
Bonds payable, net	12,648,442	13,429,463
Capital leases payable	16,718	38,931
Compensated absences	5,514,304	5,505,364
Refundable advance	2,758,350	2,830,609
Total Noncurrent Liabilities	20,937,814	21,804,367
Total Liabilities	39,930,502	41,323,149
NET ASSETS		
Invested in capital assets, net of related debt	128,979,986	128,791,756
Restricted:		
Nonexpendable	5,125,548	5,018,540
Expendable	16,046,325	11,447,744
Unrestricted	21,490,540	17,707,727
Total Net Assets	\$ 171,642,399	\$ 162,965,767

See accompanying notes to financial statements.

THE YOUNGSTOWN STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION AT JUNE 30, 2004 AND 2003

	June 30, 2004	June 30, 2003
ASSETS		
Cash and cash equivalents	\$ 3,745,295	\$ 3,857,668
Accrued interest receivable	744,753	803,806
Due from University Housing Corporation	96,805	92,140
Prepaid insurance	11,584	17,762
Property acquired for resale to Youngstown State University	108,834	108,834
Investments - at market value:		
Common stock	78,604,045	67,136,807
Preferred stock	4,776,696	4,318,112
Fixed income securities:		
U.S. Government and Agencies	23,892,075	23,977,410
Corporate	23,374,550	26,156,670
Temporary cash investments	587,849	1,741,499
	131,235,215	123,330,498
Contribution receivable	24,653	34,653
Contribution receivable from remainder trusts	1,189,224	1,125,729
Cash surrender value of insurance policies	67,099	68,852
Office furniture and equipment, at cost, less accumulated depreciation of \$28,948 in 2004 and \$27,341 in 2003	3,974	5,581
TOTAL ASSETS	137,227,436	129,445,523
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	29,458	22,688
Retirement benefits payable	44,410	44,613
Grant commitments to Youngstown State University for scholarship awards	3,360,000	3,446,500
Total Liabilities	3,433,868	3,513,801
Net Assets		
Unrestricted:		
Designated by Board for endowment	105,242,356	99,283,633
Undesignated	1,820,261	1,599,462
	107,062,617	100,883,095
Temporarily restricted	1,282,548	1,066,411
Permanently restricted	25,448,403	23,982,216
Total Net Assets	133,793,568	125,931,722
TOTAL LIABILITIES AND NET ASSETS	\$ 137,227,436	\$ 129,445,523

See accompanying notes to financial statements.

UNIVERSITY HOUSING CORPORATION

STATEMENTS OF FINANCIAL POSITION AT JULY 31, 2004 AND 2003

	July 31, 2004	July 31, 2003
ASSETS		
Current Assets		
Cash	\$ 157,472	\$ 125,984
Restricted cash	299,527	5,494
Prepaid expenses	205,225	172,037
Accounts receivable, net	28,427	-
Interest receivable	939	17,996
Restricted investments	2,686,506	5,786,387
Total Current Assets	3,378,096	6,107,898
Property, Facilities, and Equipment, net	17,830,414	16,533,548
Other Assets		
Bond issue costs, net	385,063	398,939
	21,593,573	23,040,385
LIABILITIES AND NET DEFICIT		
Liabilities		
Current Liabilities		
Accounts payable	17,741	1,020,597
Lease payable, current portion	16,287	-
Retainage payable	-	412,750
Accrued bond interest payable	71,074	69,543
Bonds payable, current portion	30,000	30,000
Prepaid rent	38,339	-
Due to Ambling Company	9,626	11,576
Loan payable - Youngstown State University Foundation	98,772	93,066
Accounts payable - Youngstown State University	120,000	4,900
Security deposits	127,097	121,700
Other accruals	10,501	-
Total Current Liabilities	539,437	1,764,132
Long Term Debt		
Bonds payable	21,980,000	22,010,000
Interest rate swap	1,212,027	1,193,725
Capital lease payable	81,344	-
Total Long Term Debt	23,273,371	23,203,725
Total Liabilities	23,812,808	24,967,857
Unrestricted Net Deficit	(2,219,235)	(1,927,472)
	\$ 21,593,573	\$ 23,040,385

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

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

	June 30, 2004	June 30, 2003
REVENUES		
Operating Revenues		
Tuition, fees, and other student charges (net of scholarship allowance of \$15,520,785 in 2004 and \$14,328,397 in 2003)	\$ 58,880,154	\$ 52,824,818
Federal grants and contracts	5,062,754	3,835,542
State grants and contracts	8,424,481	7,299,150
Local grants and contracts	487,149	391,263
Private grants and contracts	655,713	899,657
Sales and services	247,013	241,999
Auxiliary enterprises	15,112,244	15,974,326
Other operating revenues	1,748,895	816,227
Total Operating Revenues	90,618,403	82,282,982
EXPENSES		
Operating Expenses		
Instruction and departmental research	57,448,799	55,620,251
Separately budgeted research	1,545,185	1,175,276
Public service	8,537,256	7,859,113
Academic support	9,805,434	9,645,412
Student services	8,280,175	8,367,906
Institutional support	21,300,167	19,711,581
Operation and maintenance of plant	9,275,390	9,078,315
Scholarships	9,627,199	11,011,449
Auxiliary enterprises	19,066,354	19,347,104
Depreciation and amortization	7,853,906	7,484,527
Total Operating Expenses	152,739,865	149,300,934
Operating Loss	(62,121,462)	(67,017,952)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	44,482,947	43,917,610
Federal grants	11,538,639	11,001,208
Private gifts	7,799,587	10,036,244
Unrestricted investment income (net of investment expense)	355,877	900,473
Restricted investment income (net of investment expense)	474,141	294,587
Interest on capital asset-related debt	(669,893)	(713,223)
Other nonoperating expenses, net	(1,735,967)	(1,088,535)
Net Nonoperating Revenues	62,245,331	64,348,364
Income (Loss) Before Other Revenues, Expenses, and Changes	123,869	(2,669,588)
OTHER REVENUES, EXPENSES, AND CHANGES		
State capital appropriations	4,947,102	7,064,521
Capital grants and gifts	3,535,536	3,205,174
Reallocation of Ohio workers' compensation liability	-	1,810,603
Additions to the principal of endowments	70,125	35,923
Total Other Revenues, Expenses, and Changes	8,552,763	12,116,221
Total Increase In Net Assets	8,676,632	9,446,633
NET ASSETS		
Net Assets at Beginning of the Year	162,965,767	153,519,134
Net Assets at End of the Year	\$ 171,642,399	\$ 162,965,767

See accompanying notes to financial statements.

THE YOUNGSTOWN STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	June 30, 2004			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses) and other support:				
Contributions	\$ 339,381	\$ 225,522	\$ 896,544	\$ 1,461,447
Investment earnings	5,750,268	24,295	-	5,774,563
Net realized gain (loss) on sale of investments	(49,849)	21,764	(949)	(29,034)
Net unrealized gain (loss) on long-term investments	5,704,321	62,382	507,097	6,273,800
Increase in value of deferred gifts	-	-	63,495	63,495
Net assets released from restrictions	117,826	(117,826)	-	-
Total Revenues, gains (losses) and other support	11,861,947	216,137	1,466,187	13,544,271
Expenditures and other distributions:				
Administrative expenditures	547,907	-	-	547,907
Distribution to Youngstown State University:				
Grants for property	7,500	-	-	7,500
Scholarships and other	5,100,075	-	-	5,100,075
Benefits for retired Youngstown State University faculty	26,943	-	-	26,943
Total Expenditures	5,682,425	-	-	5,682,425
Change in Net Assets	6,179,522	216,137	1,466,187	7,861,846
Net Assets at Beginning of the Year	100,883,095	1,066,411	23,982,216	125,931,722
NET ASSETS	\$ 107,062,617	\$ 1,282,548	\$ 25,448,403	\$ 133,793,568

	June 30, 2003			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses) and other support:				
Contributions	\$ 230,890	\$ 142,443	\$ 1,513,023	\$ 1,886,356
Investment earnings	5,252,415	14,819	-	5,267,234
Net realized gain (loss) on sale of investments	(63,484)	4,333	(31,388)	(90,539)
Net unrealized gain (loss) on long-term investments	683,602	(49,536)	340,476	974,542
Increase in value of deferred gifts	-	-	62,495	62,495
Net assets released from restrictions	46,713	(46,713)	-	-
Total Revenues, gains (losses) and other support	6,150,136	65,346	1,884,606	8,100,088
Expenditures and other distributions:				
Administrative expenditures	509,507	-	-	509,507
Distribution to Youngstown State University:				
Grants for property	33,700	-	-	33,700
Scholarships and other	4,902,865	-	-	4,902,865
Benefits for retired Youngstown State University faculty	30,847	-	-	30,847
Total Expenditures	5,476,919	-	-	5,476,919
Change in Net Assets	673,217	65,346	1,884,606	2,623,169
Net Assets at Beginning of the Year	100,209,878	1,001,065	22,097,610	123,308,553
NET ASSETS	\$ 100,883,095	\$ 1,066,411	\$ 23,982,216	\$ 125,931,722

See accompanying notes to financial statements.

UNIVERSITY HOUSING CORPORATION

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2004 AND 2003

	July 31, 2004	July 31, 2003
Income		
Rental income	\$ 2,025,003	\$ -
Interest income	139,703	-
Other income	49,339	10,287
Total Income	2,214,045	10,287
Expenses		
Administrative	32,925	-
Contract services	32,753	-
Interest expense - bonds	874,590	420,286
Interest expense - other	9,935	-
Depreciation expense	527,318	14,008
Amortization expense	13,876	-
Bad debt expense	61,974	-
Management fees	104,786	-
Marketing and leasing	21,405	-
Bond fees	258,223	-
Payroll and payroll-related	155,338	-
Accounting and legal	47,514	23,372
Repairs and maintenance	66,458	-
Insurance	59,963	5,948
Unit utilities expense	207,849	-
Start up costs	12,599	265,204
Bond and other owners fees	18,302	186,159
Total Expenses	2,505,808	914,977
Decrease in Unrestricted Net Deficit	(291,763)	(904,690)
Unrestricted Net Deficit at Beginning of Year	(1,927,472)	(1,022,782)
UNRESTRICTED NET DEFICIT AT END OF YEAR	\$ (2,219,235)	\$ (1,927,472)

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

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

	June 30, 2004	June 30, 2003
Cash Flows from Operating Activities		
Student tuition and fees	\$ 60,268,861	\$ 51,457,910
Federal, state, and local grants and contracts	13,489,543	11,525,955
Private grants and contracts	797,822	899,657
Sales and services of educational and other departmental activities	14,793,445	15,369,395
Payments to suppliers	(35,522,982)	(34,466,246)
Payments to employees	(76,202,660)	(73,371,389)
Payments for benefits	(23,370,401)	(21,555,718)
Payments for scholarships	(9,627,199)	(11,011,449)
Student loans issued	(537,929)	(762,720)
Student loans collected	571,340	768,989
Student loan interest and fees collected	36,343	42,165
Other receipts, net	1,712,552	774,062
Total Cash Flows Used In Operating Activities	(53,591,265)	(60,329,389)
Cash Flows from Investing Activities		
Proceeds from sale of investments	69,598,206	51,789,083
Purchase of investments	(67,441,750)	(53,696,488)
Interest on investments	1,088,993	1,079,186
Total Cash Flows Provided By (Used In) Investing Activities	3,245,449	(828,219)
Cash Flows From Capital and Related Financing Activities		
State capital appropriations	4,747,290	7,968,006
Private capital gifts and grants	3,535,536	2,511,624
Purchase of capital assets	(7,270,892)	(9,130,244)
Principal payments on capital debt	(795,225)	(785,644)
Interest payments on capital debt	(645,914)	(688,782)
Total Cash Flows Used In Capital and Related Financing Activities	(429,205)	(125,040)
Cash Flows from Noncapital Financing Activities		
Federal grants	11,688,726	11,166,517
State educational appropriations	44,482,947	43,917,610
Private gifts	6,354,715	7,259,854
Additions to the principal of endowments	70,125	35,923
Other nonoperating expenses	(1,760,088)	(855,123)
Total Cash Flows Provided by from Noncapital Financing Activities	60,836,425	61,524,781
Net Increase in Cash and Cash Equivalents	10,061,404	242,133
Cash and Cash Equivalents, Beginning of Year	3,185,305	2,943,172
Cash and Cash Equivalents, End of Year	\$ 13,246,709	\$ 3,185,305

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

STATEMENTS OF CASH FLOWS (CONT.) FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	June 30, 2004	June 30, 2003
Operating income loss	\$ (62,121,462)	\$ (67,017,952)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	7,853,906	7,484,527
Provision for bad debts	652,521	964,200
Changes in assets and liabilities:		
Accounts receivable, net	595,395	(2,827,391)
Loans receivable, net	33,411	(134,986)
Inventories	(131,787)	31,333
Prepaid expenses and deferred charges	51,771	27,422
Accounts payable	(236,090)	(888,698)
Accrued and other liabilities	(150,838)	618,231
Deferred revenue	(115,232)	754,807
Compensated absences	(22,860)	659,118
Net Cash Flows Used In Operating Activities	\$ (53,591,265)	\$ (60,329,389)
Noncash Transactions		
Gifted capital assets	\$ -	\$ 693,550

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

Note 1 – Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Youngstown State University (the University or YSU) 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. During fiscal year 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. In accordance with that standard, the Youngstown State University Foundation's and University Housing Corporation's financial statements are included, as discretely presented component units, in the University's financial report by presentation of the individual financial statements of the units immediately following the University's respective GASB financial statements. Additional information regarding these component units is contained in Note 13.

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

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.

Under the provisions of GASB Statement No. 35, resources are 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.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

- 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 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.

Budget Process – The Operating budget for General, Auxiliary and Capital Funds is presented to the Board of Trustees annually for approval. Quarterly, a budget to actual report for the General Operating Fund is presented to the Board of Trustees. In accordance with Ohio Revised Code, Section 3345.03, the annual budget is filed with the Ohio Board of Regents and the legislative budget office of the legislative services commission. Quarterly reports are submitted to the Board of Regents. If it appears that the projected expenses of the University will exceed projected revenues, the Board of Regents is required to direct the Board of Trustees to reduce expenses accordingly.

The State of Ohio approves a capital budget every two years. YSU and other public universities submit requests to the Ohio Board of Regents, which sends the requests to the Governor. State capital improvements budget project lists are presented to the Board of Trustees for endorsement. The current fiscal year spending plan is approved by the Board of Trustees.

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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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 78 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 The Youngstown State University Foundation. The University's policy is to distribute realized investment income monthly, based on each funds pro-rata share to the total endowment shares.

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 a conditional pledge, revenue is recognized when the gift is received. Pledges are recorded net of allowance for uncollectible amounts and are discounted to net present value.

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.

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.

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, furniture and vehicles is \$5,000 and for buildings and improvements is \$100,000. Land is capitalized regardless of cost. 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.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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:

<u>Classification</u>	<u>Estimated Life</u>
Buildings	50 years
Improvements other than buildings	15 years
Moveable equipment, furniture and vehicles	3 to 7 years

Deferred Revenue – Deferred revenue includes tuition and fee revenues billed or received prior to the end of the current fiscal year end, but related to the period after June 30, 2004.

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

Refundable 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 from 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 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 provided 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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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.

Encumbrances – Encumbrance systems are maintained to track outstanding purchase orders and other commitments for materials or services not received during the year. Encumbrances outstanding at June 30, 2004 do not constitute expenses incurred or liabilities and are not reflected in the financial statements.

Newly Issued Accounting Pronouncements – 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 statement 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. The provisions of GASB Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. Management has not yet determined the impact that GASB Statement No. 40 will have on the University's financial statement disclosures.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The statement establishes accounting and financial reporting standards for impairment of capital assets and clarifies established accounting requirements for insurance recoveries. The provisions of GASB Statement No. 42 will be effective for fiscal periods beginning after December 15, 2004. Management has not yet determined the impact that GASB Statement No. 42 will have on the University's financial statements and disclosures.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. The statement establishes standards for measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The University will be required to implement this statement concurrent with the State in fiscal 2008. Management has not yet determined the impact that GASB Statement No. 45 will have on the University's financial statements and disclosures.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Reclassification – Certain reclassifications have been made to the 2003 amounts to conform with the 2004 presentation, including an increase in deferred revenue and a decrease to expendable restricted net assets of \$1.1 million at July 1, 2002.

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 \$44,482,947, including \$41,530,117 in State share of instruction and \$2,952,830 in challenge funds in fiscal year 2004 compared to State appropriations of \$43,917,610, including \$41,539,147 in State share of instruction and \$2,378,463 in challenge funds in fiscal year 2003. The State share of instruction is student based and determined annually by the Ohio Board of Regents.

Capital appropriations from the State totaled \$4,947,102 in fiscal year 2004 and \$7,064,521 in fiscal year 2003 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 of Ohio. 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 certificates of deposit.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

The aggregate cost of repurchase agreements, which approximates market value, included in cash and cash equivalents is \$39,337 and \$59,077 at June 30, 2004 and 2003, 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 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 which 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, 2004 and 2003, the carrying amount of the University's bank deposits and cash equivalents was \$13,246,709 and \$3,185,305 and the bank balances were \$15,763,792 and \$5,717,173, 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 \$15,663,792 in 2004 and \$5,617,173 in 2003 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 \$81,502 as of June 30, 2004 and \$66,032 as of June 30, 2003, 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.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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 Treasury securities, United States government agency securities, obligations of commercial banks including repurchase agreements, reverse repurchase agreements, money market mutual funds, certificates of deposit, commercial paper, and banker's acceptances, mutual funds, index funds, and separately invested accounts, municipal or state bonds, corporate bonds and notes, asset backed securities, collateralized mortgage obligations, and 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.

During 2004, the University entered into an agreement with an investment manager to manage non-endowment funds. The University's endowment funds, as well as funds received for the purpose of the recreation center, are managed by The Youngstown State University Foundation under the provisions of two agreements (see Note 13).

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.

In accordance with GASB Statement No. 3, the University's investments at June 30, 2004 and 2003 are categorized as credit risk category 3 below:

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

	June 30, 2004		June 30, 2003	
	Cost	Fair Value	Cost	Fair Value
Pooled Investments:				
U.S. Government and Agency Securities	\$ -	\$ -	\$9,538,507	\$9,538,507
Certificates of Deposit	4,000,000	4,000,000	21,500,000	21,500,000
Subtotal	4,000,000	4,000,000	31,038,507	31,038,507
Investments Managed by Investment Manager:				
U.S. Government and Agency Securities	11,783,013	11,694,436	-	-
Foreign Bonds	29,899	28,933	-	-
Corporate Bonds	8,311,743	8,231,147	-	-
Other Securities	2,240,507	2,240,507	-	-
Subtotal	22,365,162	22,195,023	-	-
Investments managed by YSUF:				
Common Stock	1,751,891	2,815,569	1,674,709	2,396,743
Corporate Notes and Bonds	1,398,916	1,433,101	734,786	737,957
Preferred Stock	350,000	340,440	350,000	371,120
U.S. Government and Agency Securities	1,159,592	1,150,155	2,212,326	2,251,409
Other Securities	4,644,292	4,644,292	2,209,111	2,209,111
Subtotal	9,304,691	10,383,557	7,180,932	7,966,340
Total Investments	<u>\$35,669,853</u>	36,578,580	<u>\$38,219,439</u>	39,004,847
Less: Current Portion		<u>12,563,682</u>		<u>19,167,417</u>
Net Noncurrent		<u>\$24,014,898</u>		<u>\$19,837,430</u>

At times during the year, the amounts of uninsured and unregistered investments may have been higher. Net unrealized gains on investments during FY2004 were \$123,318 and net unrealized gains on investments during FY2003 were \$226,403 and are reflected in the Statements of Revenues, Expenses and Changes in Net Assets.

Note 5 – Accounts and Loans Receivable

Accounts and loans receivable at June 30, 2004 and 2003 consist of the following:

	2004	2003
Accounts receivable		
Student accounts	\$2,630,936	\$4,420,636
Grants and contracts	2,708,880	2,588,494
State capital appropriations	741,647	541,836
Other receivables	1,770,256	1,412,702
Subtotal	<u>7,851,719</u>	<u>8,963,668</u>
Less: allowance for doubtful accounts		
Student	(1,435,650)	(1,508,603)
Non Student	(363,670)	(301,202)
Accounts receivable, net	<u>\$6,052,399</u>	<u>\$7,153,863</u>
Loans receivable – student notes	\$3,333,891	\$3,367,301
Less: allowance for doubtful accounts	(444,829)	(275,844)
Loans receivable, net	<u>\$2,889,062</u>	<u>\$3,091,457</u>

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Note 6 – Pledges Receivable

Unconditional promises to give to the University recorded as pledges receivable at June 30, 2004 and June 30, 2003 were as follows:

	2004 Pledges Receivable	2004 Current Portion	2003
Total pledges receivable	\$8,213,964	\$5,169,050	\$6,565,362
Less: amount estimated to be uncollectible and present value discount	(234,756) (427,946)	(82,510) -	(156,068) (302,904)
Pledges receivable, net	<u>7,551,262</u>	<u>\$5,086,540</u>	<u>6,106,390</u>
Less: current portion	(5,086,540)		(4,087,647)
Pledges receivable, noncurrent portion	<u>\$2,464,722</u>		<u>\$2,018,743</u>

Pledges have been discounted to net present value at a rate of 3.625% in FY 2004 and 3.25% in FY2003.

Note 7 – Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions and transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 12,835,387	\$ 268,904	\$ -	\$13,104,291
Construction-in-progress	1,122,689	3,528,774	(689,239)	3,962,224
Historical treasures	297,513	-	-	297,513
Depreciable assets:				
Buildings	225,893,256	1,336,489	-	227,229,745
Improvements other than buildings	19,822,048	888,114	-	20,710,162
Moveable equipment, furniture and vehicles	24,206,513	1,990,697	(841,697)	25,355,513
Capital leases	172,590	-	-	172,590
Total cost	<u>284,349,996</u>	<u>8,012,978</u>	<u>(1,530,936)</u>	<u>290,832,038</u>
Less accumulated depreciation:				
Buildings	111,839,700	4,357,847	-	116,197,547
Improvements other than buildings	12,131,508	1,347,435	-	13,478,943
Moveable equipment, furniture and vehicles	17,424,764	2,114,106	(768,148)	18,770,722
Capital leases	92,849	34,518	-	127,367
Total accumulated depreciation	<u>141,488,821</u>	<u>7,853,906</u>	<u>(768,148)</u>	<u>148,574,579</u>
Capital assets – net	<u>\$142,861,175</u>	<u>\$ 159,072</u>	<u>\$ (762,788)</u>	<u>\$142,257,459</u>

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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, furniture and vehicles	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	<u>275,678,268</u>	<u>9,782,570</u>	<u>(1,110,842)</u>	<u>284,349,996</u>
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, furniture and vehicles	13,859,012	1,811,134	1,754,618	17,424,764
Capital leases	2,594,395	34,518	(2,536,064)	92,849
Total accumulated depreciation	<u>134,829,447</u>	<u>7,484,527</u>	<u>(825,153)</u>	<u>141,488,821</u>
Capital assets – net	<u>\$140,848,821</u>	<u>\$2,298,043</u>	<u>\$ (285,689)</u>	<u>\$142,861,175</u>

Note 8 – Accounts Payable, Accrued Liabilities and Other Liabilities

Accounts payable, accrued liabilities and other liabilities at June 30, 2004 and 2003 consist of the following:

	2004	2003
Accounts payable	<u>\$1,161,860</u>	<u>\$1,397,920</u>
Payroll liabilities:		
Accrued compensation and benefits	4,618,804	4,287,073
Accrued health care benefits payable	1,286,802	1,824,670
Retirement system contribution payable	1,937,597	1,770,713
Subtotals	<u>7,843,203</u>	<u>7,882,456</u>
Other liabilities:		
Deposits held in custody	266,943	339,699
Refunds payable	78,787	109,310
Interest payable	26,272	27,687
Other liabilities	505,493	536,536
Subtotals	<u>877,495</u>	<u>1,013,232</u>
Totals	<u>\$9,882,558</u>	<u>\$10,293,608</u>

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Encumbrances representing estimated amounts of expenses ultimately to result, if unperformed contracts in process at June 30, 2004 are completed, totaled \$13,819,888 and included \$2,591,710 in State capital appropriations. These amounts do not constitute expenses incurred or liabilities.

Note 9 – Liabilities

Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases payable:					
General receipts bonds principal	\$14,440,000	\$ -	\$ 760,000	\$13,680,000	\$ 805,000
Less: unamortized bond discount and issue costs	(250,537)	-	(23,979)	(226,558)	-
Bonds payable, net	14,189,463	-	736,021	13,453,442	805,000
Capital leases payable	74,156	-	35,225	38,931	22,213
Total, net	14,263,619	-	771,246	13,492,373	827,213
Other liabilities:					
Compensated absences	6,114,964	-	22,860	6,092,104	577,800
Refundable advance	2,830,609	146,474	218,733	2,758,350	-
Total	8,945,573	146,474	241,593	8,850,454	577,800
Total long-term liabilities	\$23,209,192	\$146,474	\$1,012,839	\$22,342,827	\$1,405,013

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases payable:					
General receipts bonds principal	\$15,175,000	\$ -	\$ 735,000	\$14,440,000	\$ 760,000
Less: unamortized bond discount and issue costs	(274,979)	-	(24,442)	(250,537)	-
Bonds payable, net	14,900,021	-	710,558	14,189,463	760,000
Capital leases payable	92,205	32,595	50,644	74,156	35,225
Total, net	14,992,226	32,595	761,202	14,263,619	795,225
Other liabilities:					
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	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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Bonds Payable

Bonds payable consist of General Receipts Bonds, Series 1996B, Series 1997 and Series 1998. The Series 1996B 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, variable	4.15%-4.75%	4.15%-4.75%	2012	\$11,920,000
1998 - Term Bonds, fixed	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 original Trust Indenture and subsequent supplemental indentures.

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
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
2009	945,000	458,338	1,403,338
2010-2014	5,400,000	1,594,097	6,994,097
2015-2019	3,920,000	288,220	4,208,220
Totals	\$13,680,000	\$4,559,738	\$18,239,738

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Maturities of bonds payable for the fiscal years subsequent to June 30, 2004 are as follows:

Fiscal Year	General Receipts			Total
	Series 1996B	Series 1997	Series 1998	
2005	\$110,000	\$ 10,000	\$ 685,000	\$ 805,000
2006	115,000	10,000	720,000	845,000
2007	-	10,000	855,000	865,000
2008	-	10,000	890,000	900,000
2009	-	10,000	935,000	945,000
2010-2014	-	60,000	5,340,000	5,400,000
2015-2019	-	60,000	3,860,000	3,920,000
Totals	<u>\$225,000</u>	<u>\$170,000</u>	<u>\$13,285,000</u>	<u>\$13,680,000</u>

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%. The net book value of capital leased assets included in net Capital Assets in the Statements of Net Assets at June 30, 2004 and 2003, was \$45,223 and \$79,741, respectively.

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

Year Ending June 30	Printing Press	Mail System	Total
2005	\$16,205	\$10,740	\$26,945
2006	-	10,740	10,740
2007	-	9,845	9,845
Total future minimum lease payments	<u>16,205</u>	<u>31,325</u>	<u>47,530</u>
Less amount representing interest	<u>330</u>	<u>8,269</u>	<u>8,599</u>
Total obligations under capital leases	<u>\$15,875</u>	<u>\$23,056</u>	<u>\$38,931</u>

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.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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.

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 Year	Employee Contribution Rate		
	STRS	OPERS	PERSLE
2004	10.0%	8.5%	9.0%
2003	9.3%	8.5%	9.0%
2002	9.3%	8.5%	9.0%

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

Fiscal Year	Employer Contribution Rate		
	STRS	OPERS	PERSLE
2004	14.0%	13.31%	16.7%
2003	14.0%	13.31%	16.7%
2002	14.0%	13.31%	16.7%

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

Fiscal Year	Employer Contribution		
	STRS	OPERS	PERSLE
2004	\$4,712,815	\$3,926,947	\$147,492
2003	\$4,530,585	\$3,960,544	\$127,867
2002	\$3,857,512	\$3,432,853	\$125,165

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Employees can elect to participate in the Alternative Retirement Plan (ARP), 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 3.5% of covered payroll to STRS and 10.5% to the Alternative Retirement Plan.

The University's contribution to STRS was \$143,988 in 2004 and \$116,863 in 2003. The University's contribution to the Alternative Retirement Plan was \$431,966 in 2004 and \$369,891 in 2003.

The University's contribution to the Alternative Retirement Plan selected by PERS employees was \$346,933 in 2004 and \$280,804 in 2003.

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 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 2003, 5.0% in 2002 and 4.3% in 2001.

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, 2002.
- **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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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 2002 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, 2003 (the latest date information is available) was 364,881. The portion of the University's 2004, 2003 and 2002 contributions to PERS used to fund postretirement benefits was \$1,519,513, \$1,536,016, and \$1,109,036, respectively. The actuarial value of the Retirement Systems' net assets available for payment of benefits at December 31, 2002 (the latest date information is available) was \$10.0 billion.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 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.

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 1.0% in 2004, 4.5% in 2003 and 4.5% in 2002. 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, 2003 (the latest date information is available) were 108,294. The portion of the University's 2004, 2003 and 2002 contributions to STRS used to fund postretirement benefits was \$336,630, \$1,456,260 and \$1,239,915, respectively.

The health care reserve fund within the employers' trust fund from which payments for health care benefits are paid had a balance of \$2.8 billion at June 30, 2003.

Health care benefits paid by the plan were \$352,301,000 for the fiscal year ended June 30, 2003.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Note 12 – 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 included in accrued health care benefits payable (see Note 8) for the past two years follows:

	2004	2003
Liability at beginning of fiscal year	\$1,701,823	\$1,319,906
Current year claims including changes in estimates	7,058,584	7,881,070
Claim payments	<u>(7,587,810)</u>	<u>(7,499,153)</u>
Liability at end of fiscal year	<u>\$1,172,597</u>	<u>\$1,701,823</u>

Health insurance claims are based upon estimates of the claims liabilities. Estimates are based upon past experience, medical inflation trends, and current claims outstanding, including year-end lag analysis. Differences between the estimated claims payable and actual claims paid are reported in the Statement of Revenues, Expenses and Changes in Net Assets. In connection with a change in estimate related to the accrued medical liability, the University recorded \$690,609 reduction in operating expenses on the Statement of Revenues, Expenses and Changes in Net Assets in fiscal 2004.

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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

The University has the following commercial insurance policies:

Type	Deductible	Coverage
Property	\$ 25,000	Replacement Cost
Crime	100,000	\$ 2,000,000
General liability	250,000	1,000,000/occurrence 2,000,000 aggregate
Educator liability	250,000	1,000,000
Excess liability	5,000,000	60,000,000 shared
Automobile liability	250,000	1,000,000
Non-owned aircraft	-	5,000 to 25,000,000
Umbrella	1,000,000	4,000,000

The University had no significant reductions in coverage from the prior year.

On June 29, 2004, the University entered into a contract with SunGard SCT, Inc. to provide licensed software and installation/implementation services for an Enterprise Resource Plan (ERP). The ERP solution covers Finance, Advancement, Student, Financial Aid, Human Resources, Luminis (web portal) and numerous ancillary and third-party software solutions. The project length is estimated at three years. Specified pricing includes \$1,700,704 annual license fees and \$2,491,752 in estimated professional services for implementation.

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 (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating state agencies and universities in the Plan are accrued by the Ohio Bureau of Workers' Compensation (the Bureau) based on estimates that incorporate the past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the Plan annually fund the worker's compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the workers' compensation claims of participating State agencies and universities.

Note 13 – Component Units

Youngstown State University Foundation (YSUF) and University Housing Corporation (UHC) are nonprofit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-For-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to YSUF's and UHC's financial information in the University's financial report for these differences.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

YSUF

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 and beneficial to the students and beneficial to the community. In order to maintain its public charity classification, YSUF must exclusively support the University, be responsive to its needs and distribute substantially all of its net income (other than net long-term capital gain) to the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University.

Annually, the University files an application for funds from YSUF, subject to approval by the trustees of YSUF. Financial support from YSUF was \$4,470,658 for the fiscal year ended June 30, 2004 and \$4,443,650 for the fiscal year ended June 30, 2003. Financial support from YSUF has been committed for FY2005 in the amount of \$4,488,900 and is reflected in deferred revenue on the University's Statement of Net Assets at June 30, 2004. At June 30, 2004 and June 30, 2003, \$3,360,000 and \$3,444,000, respectively, was due from YSUF and included in pledges receivable on the University's Statement of Net Assets at June 30, 2004. In addition, rental income from YSUF of \$11,456 was recorded in each fiscal year 2004 and 2003 and is reflected in the University's Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2004 and June 30, 2003, respectively.

Under the terms of an agreement with the University, the Foundation serves as an investment manager 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 such investments held by YSUF at June 30, 2004 was \$10,383,557 and \$9,304,691, respectively, compared to \$7,966,340 and \$7,180,932, respectively, at June 30, 2003. Management services are provided free of charge and investments are made in a manner consistent with the YSUF funds.

The Foundation acts in an agent capacity by receiving monies from various donors for the benefit of Youngstown State University entities and remitting to these entities the monies collected. Amounts collected and remitted to the various entities by the Foundation in 2004 and 2003 amounted to \$83,932 and \$119,248, respectively.

UHC

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. The dormitory housing began operations in August 2003. This unique public-private partnership includes YSUF, University Housing

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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.

Facility rental from UHC was \$110,000 for the fiscal year ended June 30, 2004 and was outstanding and included in the University's other receivables in the Statement of Net Assets at June 30, 2004.

Because resources can only be used by, or for the benefit of the University, UHC is considered a component unit of the University.

Long-Term Debt

In May 2002, UHC issued \$22,040,000 of County of Mahoning, Ohio Adjustable Rate Housing Revenue Bonds Series 2002 (Series 2002 Bonds). The proceeds were used to finance the construction, site improvements, furnishing and equipping of the University Courtyard Project. The bonds bear interest at a variable rate determined weekly by BancOne Capital Markets, Inc. as Remarketing Agent based on the weekly tax-exempt index as determined by BancOne Capital Markets, and are due at various dates until 2033. These rates at July 31, 2004 and 2003 were 1.05 % and .80%, respectively with an average weekly rate of .96 during fiscal year 2004. The bonds are secured by the assignment of incomes and revenues of the Project of UHC.

The Series 2002 Bonds were issued pursuant to a Trust Indenture dated May 1, 2002 between Mahoning County (County) and the Trustee. In connection with the issuance of the Series 2002 Bonds, UHC entered into a Reimbursement Agreement with a bank.

Maturities of the bonds are as follows:

Year ending July 31,	Amount
2005	\$ 30,000
2006	30,000
2007	60,000
2008	100,000
2009	130,000
Thereafter	<u>21,660,000</u>
Total	<u>\$22,010,000</u>

UHC's objectives of its derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, UHC entered into an interest rate swap in May 2002 with a notional amount of \$20,745,000 at July 31, 2004 and

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

\$20,775,000 at July 31, 2003. This swap agreement effectively changes UHC's interest rate exposure on its floating rate bonds to a fixed rate of 3.97%. The interest swap rate agreement matures in May 2012.

Under terms of the interest rate swap agreement, UHC makes payments calculated at a fixed rate of 3.97% to the counterparty of the swap. In return, the counterparty makes payments to UHC equal to 68% of 1-Month USD-LIBOR-BBA Index. Only the net difference in payments is exchanged with the counterparty. During fiscal year 2004 and 2003 the 1-Month USD-LIBOR-BBA Index ranged from 1.09% to 1.37% (1.35% at July 31, 2004) and 1.02% to 1.83% (1.10% at July 31, 2003), respectively.

The fair value of the swap agreement at July 31, 2004 and 2003 was \$1,212,027 and \$1,193,725 respectively, and is recorded as a liability on UHC's Statement of Financial Position.

Property

Property, facilities and equipment as of July 31, 2004 (UHC's fiscal year end) are as follows:

	2004	2003
Buildings	\$17,442,241	\$ -
Other capital assets	915,491	-
Construction in progress	-	16,533,548
Total cost	<u>18,357,732</u>	<u>16,533,548</u>
Less accumulated depreciation:		
Buildings	436,056	-
Other capital assets	91,262	-
Total accumulated depreciation	<u>527,318</u>	<u>-</u>
Property, facilities and equipment, net	<u>\$17,830,414</u>	<u>\$16,533,548</u>

Guarantee of the University Housing Corporation Mortgage by the Foundation

On May 1, 2002, the Foundation entered into an agreement to guarantee the payment of certain debt. Funding for the project has been attained through the issuance of \$22,040,000 adjustable rate housing revenue bonds by Mahoning County, Ohio. These bonds have serial maturities through 2033.

A financial institution has issued a letter of credit to collateralize the payment of principal, interest and other funding requirements. The letter of credit is annually renewable by the financial institution.

The Foundation has pledged \$45,000,000 of unrestricted marketable securities to guarantee all debt funding payments due by UHC. In addition to the debt and interest payments, UHC is responsible for a 1% letter of credit fee and the accumulation of a debt service reserve fund. UHC's reimbursement agreement contains thirteen events of default, many of which

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

are tied to restrictive loan covenants. In the event of default, the bank may require payment by the Foundation. The dormitory housing began operations in August 2003. In the event the Foundation is required to perform under the guarantee agreement, provisions exist for the Foundation to obtain the rights of the financial institution.

The Foundation also entered into an agreement with UHC to loan UHC funds to pay for initial organizational and legal costs. Under the terms of the agreement, UHC will repay the Foundation principal plus interest at prime rate. At June 30, 2004 and 2003, the amount due from UHC to the Foundation is \$96,805 and \$92,140, respectively.

YOUNGSTOWN STATE UNIVERSITY

BOARD OF TRUSTEES

Larry E. Esterly, Chair	<i>Professor Emeritus Department of Political and Social Sciences at YSU</i>
H. S. Wang, Vice Chair	<i>Ophthalmologist Eye Care Associates, Inc.</i>
William Bresnahan	<i>President Hynes Industries</i>
Don Cagigas	<i>President and Chief Professional Officer Youngstown/Mahoning Valley United Way</i>
Millicent S. Counts	<i>Executive Director United Methodist Community Center</i>
Larry D. DeJane	<i>Mayor City of Salem</i>
Chander M. Kohli	<i>Neurosurgeon Chander Kohli, MD FACS, Inc.</i>
John L. Pogue	<i>Attorney Harrington, Hoppe & Mitchell, Ltd.</i>
Scott R. Schulick	<i>Vice President Butler Wick Trust Co.</i>
Charity Anne Pappas	<i>Student Trustee</i>
Paul L. Walker	<i>Student Trustee</i>

PRINCIPAL ADMINISTRATORS

David C. Sweet	<i>President</i>
Tony Atwater	<i>Provost and Vice President for Academic Affairs</i>
Cynthia E. Anderson	<i>Vice President for Student Affairs</i>
John L. Habat	<i>Vice President for Administration</i>
Donna J. Esterly	<i>Interim Chief Technology Officer</i>
George E. McCloud	<i>Special Assistant to the President for Development and Public Relations</i>

Youngstown State University

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Student Financial Aid – Cluster			
Department of Education			
Direct Programs:			
Federal Pell Grant Program	84.063		\$ 11,732,897
Federal Work Study Program	84.033		784,397
Federal Supplemental Educational Opportunity Grants	84.007		531,109
Federal Perkins Loan Program (<i>Note 2</i>)	84.038		212,682
Federal Family Education Loan Program (<i>Note 3</i>)	84.032		-
Total Student Financial Aid – Cluster			<u>13,261,085</u>
Research and Development – Cluster			
Department of Education:			
Direct Program:			
Chemistry Teachers New Masters Degree	84.116B		118,111
Department of Health and Human Services:			
Direct Programs:			
Enzymatic Characteristics/2 Pyrimidine	93.390		44,346
Enzymatic Characteristics/2 Pyrimidine Decar	93.859		4,506
Total Department of Health and Human Services			<u>48,852</u>
National Science Foundation:			
Direct Programs:			
Proeomic Profiling/Dimorphism	47.074		145,788
Web Access Single Crystal X-ray	47.076		25,894
NSF – Microeconomic Principles	47.076		33,648
Math Learning Laboratories	47.076		40,460
NSF Technological Leaders Scholarship Program	47.076		57,500
Technological Leaders Scholarship Program	47.076		119,181
Research Experiments in Undergraduate Chemistry	47.049		23,742
NSF – RUI-IMR Upgrade of Transmission	47.049		56,100
NSDF – RUI Glove Box	47.049		49,287

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Direct Programs (continued):			
NSF – Organometallic Nano Stars	47.049		115,366
NSF – Hydrogen Bonded	47.075		69,654
Pass Through Programs:			
Regional Undergraduate Math Conference	47.049	DMS-0241090	18,281
Ohio Science/Engr Alliance	47.076	RF Project # 745934	78
Total National Science Foundation			<u>754,979</u>
United States Air Force Office of Scientific Research:			
Direct Programs:			
X-ray Gamma Emissions	12.680		67,404
Accelerate Std/Trigger Gamma Emissions	12.910		252,584
Trigger Electromagnetic Pulse II	12.800		50,943
Total United States Air Force Office of Scientific Research			<u>370,931</u>
Environmental Protection Agency:			
Direct Programs:			
Development Watershed Plan for the Mahoning River	66.460		15,532
Waste Educ & Middle Sch Train	66.951		6,733
Total EPA			<u>22,265</u>
Department of Commerce:			
Direct Program:			
X-ray Driven Gamma Emissions – Nuc Iso	11.612		93,427
National Aeronautics and Space Administration:			
Direct Program:			
Ohio Space Grt Consortium Scholarship Program	43.001		4,000
Total Research and Development – Cluster			<u>1,412,565</u>
Department of Homeland Security			
Direct Program:			
FEMA – Flood insurance	97.022		39,000

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Trio – Cluster			
Department of Education:			
Direct Programs:			
TRIO – Upward Bound	84.047A		90,989
Upward Bound FY 03-04	84.047A		153,684
Total Trio – Cluster			<u>244,673</u>
Other Financial Assistance Programs			
Department of Education:			
Direct Programs:			
Material Engineering Prg.	84.116Z		171,362
Tri-County Partnership of Excellence	84.336B		633,995
Evaluation of Gear Up Project	84.334		37,989
Pass Through Programs:			
State of Ohio Department of Education for 2-year College:			
Strategic Plan C.D. Perkins, Yr.9	84.048	CPIII-A02	4,219
Strategic Plan C.D. Perkins, Yr. 10 FY04	84.048	CDPIII-P04	98,146
State of Ohio Department of Education for Tech Prep Programs:			
Tech Prep 03 Federal Base Grant	84.243	VETP-2003-22-FB	724
Tech Prep 04 Federal Base Grant	84.243	VETP-2004-22-FB	112,123
Office of Elementary and Secondary Education:			
Teach Phy Sci Through Inquiry	84.367	*	5,696
Office of Educational Research and Improvement:			
Counseling 21st Century Grant	84.287	*	67,543
Smarts 21st Century Grant	84.287	*	2,451
Total Department of Education			<u>1,134,248</u>
Department of Health and Human Services:			
Direct Programs:			
National Youth Sports Program FY2003	93.570		51,322
Glycommimetrics of S. Aurous of CP Amin	93.856		19,917
Pass Through Program:			
Model School Health Clinic	93.189	7180.10	3,087
Total Department of Health and Human Services			<u>74,326</u>

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Small Business Administration:			
Pass Through Programs:			
Small Business Development Center, Year 16	59.037	ECDD 03-062	51,563
Small Business Development Center, Year 17	59.037	ECDD 04-102	<u>115,664</u>
Total Small Business Administration			<u>167,227</u>
United States Department of Housing and Urban Development:			
Direct Programs:			
COPC	14.511		109,260
HUD Homeless Management Information System	14.511		40,181
Pass Through Program:			
Evaluation of Drug Elimination Project	14.193	*	<u>891</u>
Total United States Department of Housing and Urban Development			150,332
United States Department of Justice:			
Pass Through Programs:			
Evaluation of the MSADASB Drug Court	16.585	*	4,071
Law Enforcement Trust Fund	N/A	*	<u>1,692</u>
			5,763
Corporation for Public Broadcasting:			
Pass Through Program:			
CSG: Radio Comm ser Grt-FY02-04	N/A	*	<u>132,126</u>
Total Other Financial Assistance Programs			<u>1,664,022</u>
Total Expenditures and Awards			<u><u>\$ 16,621,345</u></u>

* Passthrough number not available

N/A CFDA number not available

Youngstown State University

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

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) (Employee Identification Number 34-1011998) 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*.

2. Federal Perkins Loan Program

	CFDA Number	Outstanding Balance at June 30, 2004
Federal Perkins Loan Program	84.038	\$ 3,216,438

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	\$ 612,279

The Schedule of Expenditures of Federal Awards for the Federal Perkins Loan Program represents the Federal Capital Contribution for the year ended June 30, 2004 and the administrative costs of the Federal Perkins Loan Program.

Youngstown State University

Notes to Schedule of Expenditures of Federal Awards (continued)

3. Federal Family Education Loan Program

During the fiscal year ending June 30, 2004, 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	\$ 43,783,831

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

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, 2004, and have issued our report thereon dated October 12, 2004, which expressed reliance on other auditors. 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.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated October 12, 2004.

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.



October 12, 2004

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 its major federal programs for the year ended June 30, 2004. The University's major federal program is 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 its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

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

This report is intended solely for the information and use of the 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.



October 12, 2004

Youngstown State University

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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 that are not considered to be material weaknesses? _____ yes X no

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards Section

Auditee qualified as low-risk auditee? X yes _____ no

Internal control over compliance:

Material weakness(es) identified? _____ yes X no

Were reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X none noted

Type of auditor’s report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a))? _____ yes X no

Youngstown State University

Schedule of Findings and Questioned Costs (continued)

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

Identification of major programs:

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

Dollar threshold used to determine
Type A programs: \$498,640

Part II—Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None.

Part III—Schedule of Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133 section .510 (for example, reportable conditions, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None.

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

Finding 03-1

Program information

Reportable condition noted in the financial statement close process.

Youngstown State University

Schedule of Findings and Questioned Costs (continued)

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

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.

Status

Management followed the corrective action plan outlined in 2003.

Finding 03-2

Program information

Research and Development Grants (various CFDA numbers)

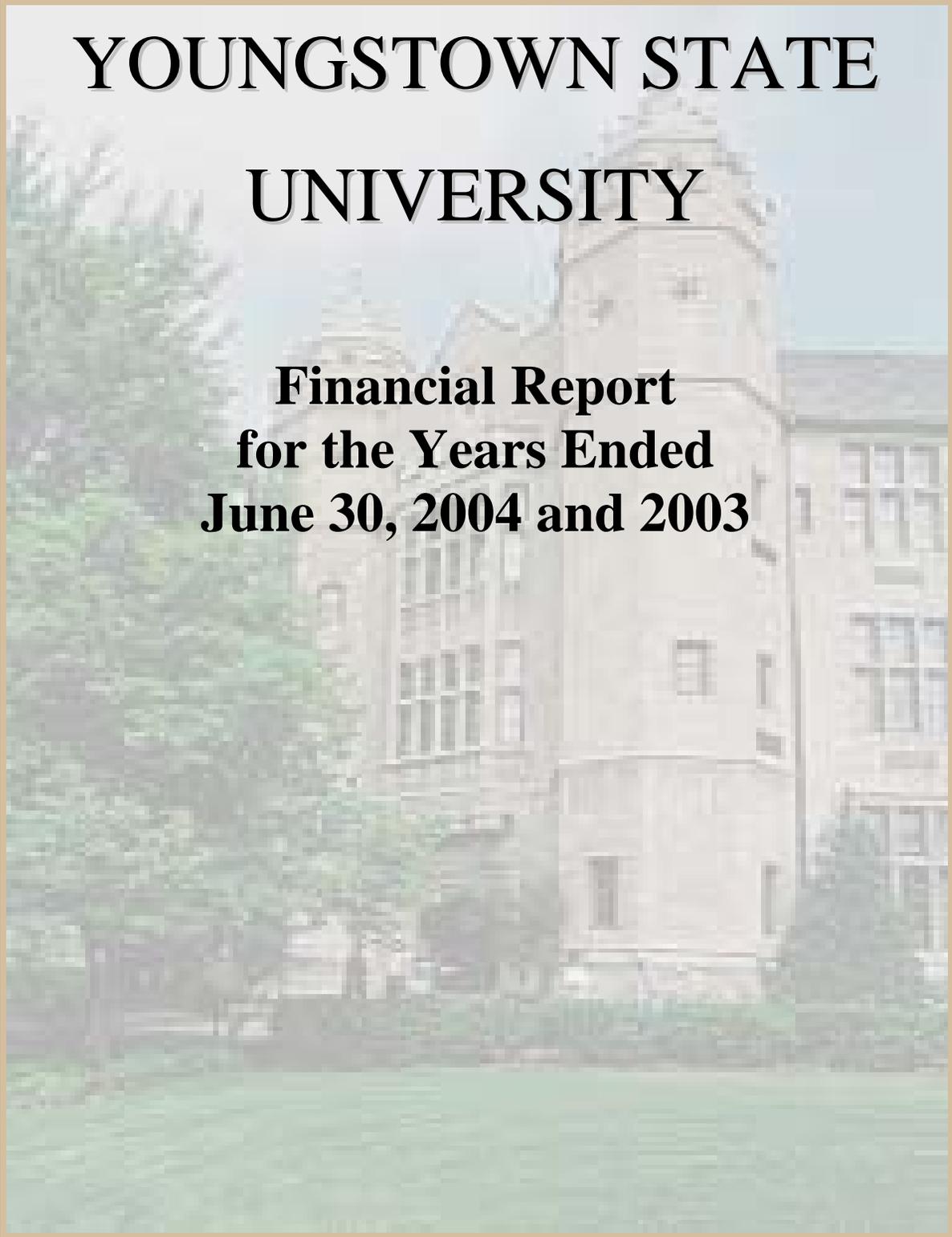
Criteria or specific requirement

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.

Status

Management followed the corrective action plan outlined in 2003.

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The background of the cover is a faded, sepia-toned photograph of a large, multi-story brick building, likely a university hall or library, with a prominent central tower. The building is set against a light sky and is partially obscured by green trees in the foreground. The entire image is framed by a thin, light brown border.

YOUNGSTOWN STATE UNIVERSITY

**Financial Report
for the Years Ended
June 30, 2004 and 2003**

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YOUNGSTOWN STATE UNIVERSITY

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YOUNGSTOWN STATE UNIVERSITY

MESSAGE FROM PRESIDENT SWEET

October 12, 2004

Youngstown State University continued the focused implementation of its Centennial Strategic Plan during Fiscal Year 2004. By building on our strengths and implementing new initiatives, we are setting the stage for the University's Centennial in 2008 and beyond.

The University's report on its Fiscal Year 2004 Annual Plan is available on the YSU Web site at http://www.cc.ysu.edu/Strategic_Plan/. It details progress in addressing the Strategic Plan's ten critical issues and its four core values--Centrality of Students, Excellence and Innovation, Integrity and Human Dignity, and Collegiality and Public Engagement.

Progress continues despite the State of Ohio's increasingly challenging financial environment and consequent decline in State support for public higher education. Sound and focused management has enabled YSU to remain the most efficient and cost-effective State university in Ohio. The highlights of Fiscal Year 2004 include:

- Successful completion of the \$12.1 million fund-raising campaign and ground-breaking for the Andrews Student Recreation and Wellness Center. Student participation in design and planning was critical to the final plan.
- Inauguration of the Youngstown Early College High School testifies to the University's partnership to improve educational attainment for inner-city high school students.
- Completion of the Information Technology Master Plan and the partnership with SunGard SCT Banner to replace our administrative information systems with a fully integrated suite of software packages. YSU has committed a minimum of \$15 million to implement the plan over a three-year period.
- Improvement of our Moody's bond rating from A3 to A2.
- Achievement of a positive Senate Bill 6 (SB6) composite score of 4.0 on a scale of 1 to 5, up from 3.0 in Fiscal Year 2000. The score provides a formalized structure for monitoring the financial health of Ohio's colleges and universities and is calculated based on financial ratios.
- Implementation of Governmental Accounting Standards Board No. 39, *Determining Whether Certain Organizations Are Component Units*, through the cooperative efforts of the Youngstown State University Foundation and the University Housing Corporation.
- Continued high marks in the 2003 Performance Report for Ohio's Colleges and Universities, an annual snapshot of how the state's public universities and colleges are performing.
- Restructuring and building the professional staff capacity of the University's financial administration.

While the University has had to increase tuition to maintain academic quality and to offset the loss of state funds, our tuition remains the lowest among the comprehensive public universities in Ohio. In partnership with the YSU Foundation, we have taken a number of steps to help offset tuition increases with scholarship initiatives. The high-quality education offered at Youngstown State University is affordable and represents an investment offering tremendous, life-long tangible and intangible rewards for students.

Sincerely,



David C. Sweet
President

Report of Independent Auditors

Board of Trustees
Youngstown State University

We have audited the accompanying statements of net assets of Youngstown State University (University), a component unit of the State of Ohio, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Youngstown State University Foundation, a discretely presented component unit of the University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2004 and 2003, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal 2004 the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which required the discrete presentation of The Youngstown State University Foundation and University Housing Corporation's financial statements as component units of the University.

Management's discussion and analysis on pages 4 through 16 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

October 12, 2004

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S 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, 2004 with comparative information for the fiscal years ended June 30, 2003 and 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes that follow.

In 1908, The Youngstown College was founded. In 1955, The Youngstown College became the Youngstown University. On September 1, 1967, Youngstown University became officially known as Youngstown State University. The University is composed of six colleges and one school and operates on a main campus and a Metro College. It has an annual enrollment of approximately 15,400 students. There are approximately 400 full-time faculty members and a total faculty of 894. In total, the University employs more than 2,105 people.

Using the Financial Statements

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*. 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. 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.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

In fiscal year 2004, the University adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. As a result of implementing this new standard, The Youngstown State University Foundation (YSUF or Foundation) and University Housing Corporation (UHC) are treated as component units of the University. Accordingly, these component units are discretely presented in this report by presentation of the individual financial statements of the units immediately following the University's respective GASB financial statements. Additional information on these component units is contained in Note 13 and are excluded from Management's Discussion and Analysis.

Complete financial statements for the University Housing Corporation can be obtained from University Housing Corporation, c/o Youngstown State University, Financial Affairs, University Plaza, Youngstown, Ohio 44555.

Financial and Other University Highlights

- Continued increase in enrollment
- Continued decrease in State of Ohio support
- Positive Senate Bill 6 ratios
- Upgrading of YSU's credit rating from A3 to A2 by Moody's Investors Service
- Progress on four major planning initiatives including enrollment management, technology, the campus master plan, and the centennial capital campaign
- Partnership with SunGard SCT Banner to implement an Enterprise Resource Planning (ERP) System to replace all administrative information systems within the University over the next three years

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statements of Net Assets

These statements present 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, 2004, 2003 and 2002 follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets			
Current assets	\$ 40,245,160	\$ 36,779,811	\$ 40,302,367
Capital assets, net	142,257,459	142,861,175	140,848,821
Other assets	29,070,282	24,647,930	14,971,439
Total Assets	<u>211,572,901</u>	<u>204,288,916</u>	<u>196,122,627</u>
Liabilities			
Current liabilities	18,992,688	19,518,782	19,054,135
Noncurrent liabilities	20,937,814	21,804,367	23,549,358
Total Liabilities	<u>39,930,502</u>	<u>41,323,149</u>	<u>42,603,493</u>
Total Net Assets	<u>\$ 171,642,399</u>	<u>\$ 162,965,767</u>	<u>\$ 153,519,134</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 128,979,986	\$ 128,791,756	\$ 125,974,595
Restricted - nonexpendable	5,125,548	5,018,540	4,854,893
Restricted - expendable	16,046,325	11,447,744	5,992,415
Unrestricted	21,490,540	17,707,727	16,697,231
Total Net Assets	<u>\$ 171,642,399</u>	<u>\$ 162,965,767</u>	<u>\$ 153,519,134</u>

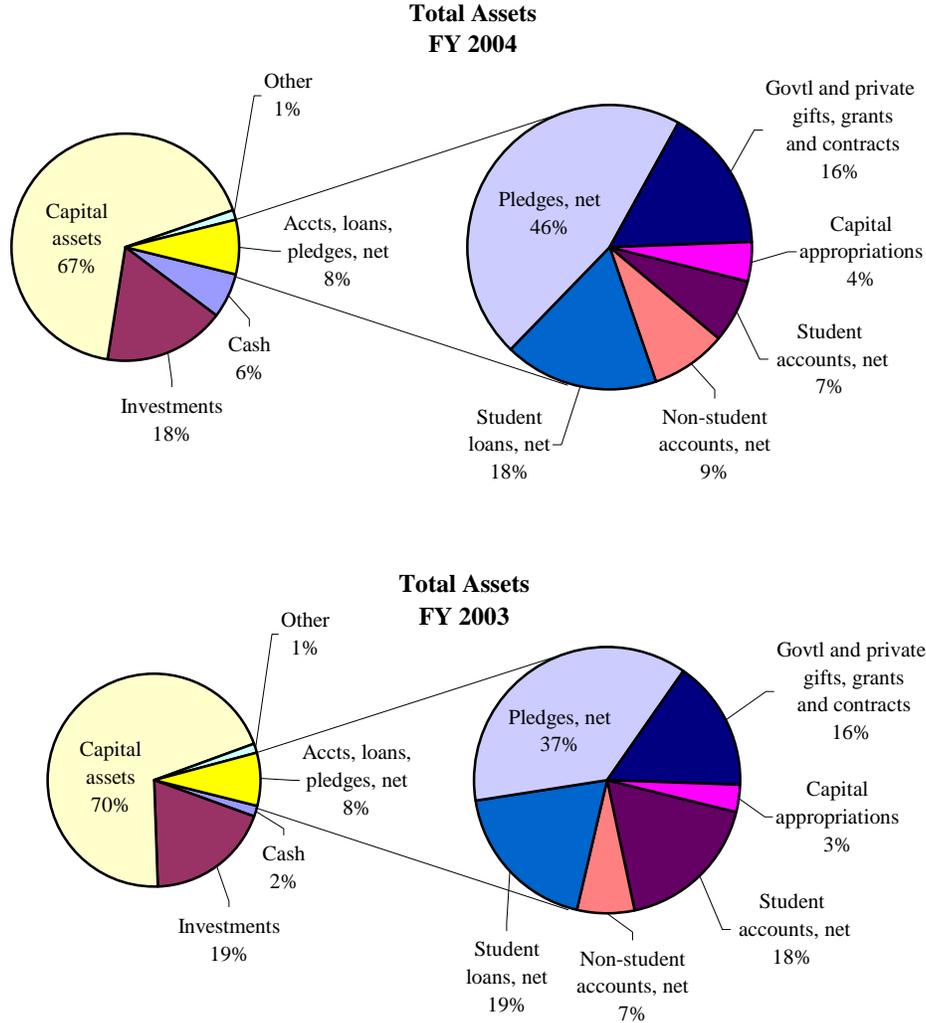
Assets

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

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Cash and cash equivalents	\$ 13,246,709	\$ 3,185,305	\$ 2,943,172
Investments	36,578,580	39,004,847	36,871,039
Accounts, loans and pledges receivable, net	16,492,723	16,351,710	12,480,630
Capital assets, net	142,257,459	142,861,175	140,848,821
Other	2,997,430	2,885,879	2,978,965
Total Assets	<u>\$ 211,572,901</u>	<u>\$ 204,288,916</u>	<u>\$ 196,122,627</u>

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS



Total cash and cash equivalents and investments increased \$7.6 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 million in fiscal year 2004 (total \$5 million at June 30, 2004) and are reflected in current assets. Endowment principal and other investments are included in noncurrent assets. The composition from current to noncurrent balances shifted from the prior year reflecting a change in investment philosophy and a shift of invested balances for the Andrews Recreation and Wellness Center from noncurrent to current due to the anticipated completion of construction within the next year. The total fair value of investments increased slightly from the prior year. The Statement of Cash Flows provides additional information on sources and uses of the University's cash and cash equivalents.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2004, the University had \$142,257,459 in capital assets, net of accumulated depreciation. Depreciation and amortization charges totaled \$7,853,906 in FY2004 and \$7,484,527 in FY2003. Details of capital assets, net are shown below.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Land	\$ 13,104,291	\$ 12,835,387	\$ 12,053,837
Buildings	111,032,198	114,053,556	112,356,649
Improvements other than buildings	7,231,219	7,690,540	8,194,742
Construction-in-progress	3,962,224	1,122,689	2,171,617
Moveable equipment and furniture	6,584,791	6,781,749	5,692,799
Historical treasures	297,513	297,513	297,513
Capital leased assets	45,223	79,741	81,664
Total	<u>\$ 142,257,459</u>	<u>\$ 142,861,175</u>	<u>\$ 140,848,821</u>

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 Bliss Hall Rehabilitation and the Bryson Lot, and the commencement of the West Campus Gateway Project, which includes the Andrews Recreation and Wellness Center. More detailed information about the University's capital assets is presented in Note 7 to the financial statements.

Liabilities

Liabilities substantially consist of accrued payroll, payroll withholdings, deferred revenue, debt, and compensated absences. The following table summarizes balances at June 30, 2004, 2003 and 2002:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Accounts payable	\$ 1,161,860	\$ 1,397,920	\$ 2,286,618
Payroll liabilities	7,843,203	7,882,456	7,793,907
Bonds and capital leases payable, net	13,492,373	14,263,619	14,992,226
Deferred revenue	7,705,117	7,820,349	7,065,539
Compensated absences	6,092,104	6,114,964	5,455,846
Refundable advance	2,758,350	2,830,609	2,665,300
Other	877,495	1,013,232	533,454
Unfunded workers' compensation	-	-	1,810,603
Total Liabilities	<u>\$ 39,930,502</u>	<u>\$ 41,323,149</u>	<u>\$ 42,603,493</u>

At June 30, 2004, the University had \$13,680,000 in principal debt outstanding compared to \$14,440,000 at June 30, 2003 and \$15,175,000 at June 30, 2002. More detailed information about the University's debt and long-term liabilities is presented in Note 9 to the financial statements. See Note 8 for a further breakout of accounts payable, accrued liabilities and other liabilities.

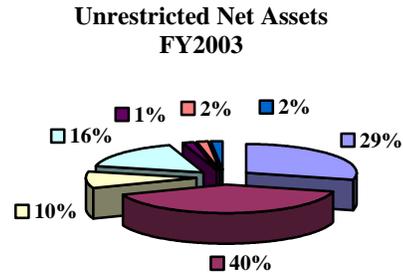
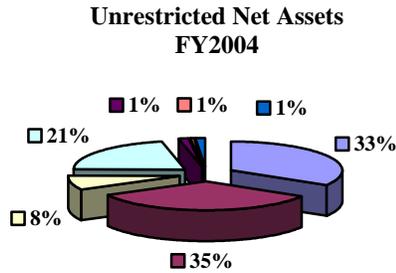
YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Assets

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,:

	2004	2003	2002
Current funds, year end balances			
Unallocated			
General operating	\$ 3,406,987	\$ 3,139,119	\$ 2,189,098
Auxiliary enterprises	632,571	1,271,624	1,094,999
Allocated	3,155,320	725,654	40,548
Subtotal	7,194,878	5,136,397	3,324,645
Operating reserves			
General operating	6,308,386	5,828,386	6,519,282
Auxiliary enterprises	922,500	1,270,000	1,009,326
Subtotal	7,230,886	7,098,386	7,528,608
Reserve for encumbrances	1,732,291	1,689,685	2,200,380
Plant reserves	4,592,642	2,886,942	2,724,488
Other plant	306,113	301,690	316,769
Debt service	162,126	322,773	328,183
Loan funds	271,604	271,854	274,158
Total	\$ 21,490,540	\$ 17,707,727	\$ 16,697,231



- | | |
|----------------------------------------------------------------------|----------------------------------------------------------|
| ■ Current funds, year end balances | ■ Operating reserves |
| ■ Reserve for encumbrances | ■ Plant reserves |
| ■ Other plant | ■ Debt service |
| ■ Loan funds | |

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall, unrestricted net assets increased \$3.8 million or 21% from June 30, 2003 to June 30, 2004. This increase includes \$1.1 million in General Operating funds designated for the Technology Master Plan and \$1.2 million in Auxiliary operating funds designated for future plant expenditures including parking improvements and a Bookstore Expansion. Operating reserves increased slightly and represent approximately 5% of the total FY2005 operating budget.

2003 Versus 2002

Current assets decreased in 2003 primarily due to a change in the investment policy, while noncurrent assets increased due to increases in investments, endowments and other restricted investments, and pledges receivable. Liabilities decreased slightly from 2002 to 2003 with liabilities primarily consisting of accrued payroll, payroll withholding, debt, compensated absences, and deferred revenue. Net assets increased due to increases in funds invested in capital assets and a \$1.8 million increase in unrestricted net assets due to the reallocation of the Ohio workers' compensation liability from the University to the State of Ohio.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

These statements present the operating results and the nonoperating revenues and expenses of the University. Annual 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, 2004 and 2003 follows:

	June 30, 2004	June 30, 2003
Operating Revenues		
Net tuition, fees and other student charges	\$ 58,880,154	\$ 52,824,818
Auxiliary enterprises	15,112,244	15,974,326
Grants and contracts	14,630,097	12,425,612
Other	1,995,908	1,058,226
Total Operating Revenues	90,618,403	82,282,982
Operating Expenses	152,739,865	149,300,934
Operating Loss	(62,121,462)	(67,017,952)
Nonoperating Revenues (Expenses)		
State appropriations	44,482,947	43,917,610
Gifts, grants, and contracts	19,338,226	21,037,452
Investment income	830,018	1,195,060
Other nonoperating expenses, net	(2,405,860)	(1,801,758)
Net Nonoperating Revenues:	62,245,331	64,348,364
Income (Loss) Before Other Revenues, Expenses, and Changes	123,869	(2,669,588)
Other Revenues, Expenses, and Changes		
State capital appropriations	4,947,102	7,064,521
Capital grants and gifts	3,535,536	3,205,174
Reallocation of Ohio workers' compensation liability	-	1,810,603
Other	70,125	35,923
Total Other Revenues, Expenses, and Changes	8,552,763	12,116,221
Increase in Net Assets	8,676,632	9,446,633
Net Assets at Beginning of Year	162,965,767	153,519,134
Net Assets at End of the Year	\$ 171,642,399	\$ 162,965,767

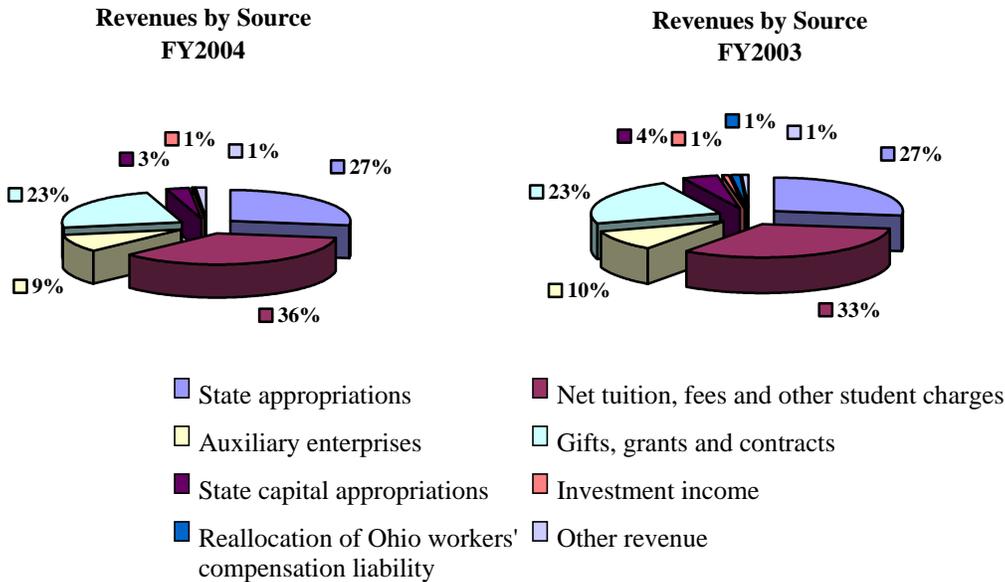
YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004 and 2003:

	June 30, 2004	June 30, 2003
Net tuition, fees and other student charges	\$ 58,880,154	\$ 52,824,818
Gifts, grants, and contracts	37,503,859	36,668,238
Auxiliary enterprises	15,112,244	15,974,326
State appropriations	44,482,947	43,917,610
Investment Income	830,018	1,195,060
Other revenue	2,089,195	1,418,727
State capital appropriations	4,947,102	7,064,521
Reallocation of Ohio workers' compensation liability	-	1,810,603
Total Revenues	\$ 163,845,519	\$ 160,873,903



Overall, the University's total net revenue increased \$3 million or 1.9%. The majority of the University's revenue, 63% in FY2004 and 60% in FY2003, is attributed to State appropriations and tuition and fees. Combined, these two revenue streams increased \$6.6 million from FY2003 to FY2004, although the composition shifted - State appropriations accounted for 43% of the combined total in FY 2004 compared to 45% in FY 2003. The elimination of the \$1.8 million unfunded workers' compensation liability favorably impacting FY2003 revenue is a non-recurring item on the Statements of Revenues, Expenses and Changes in Net Assets.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

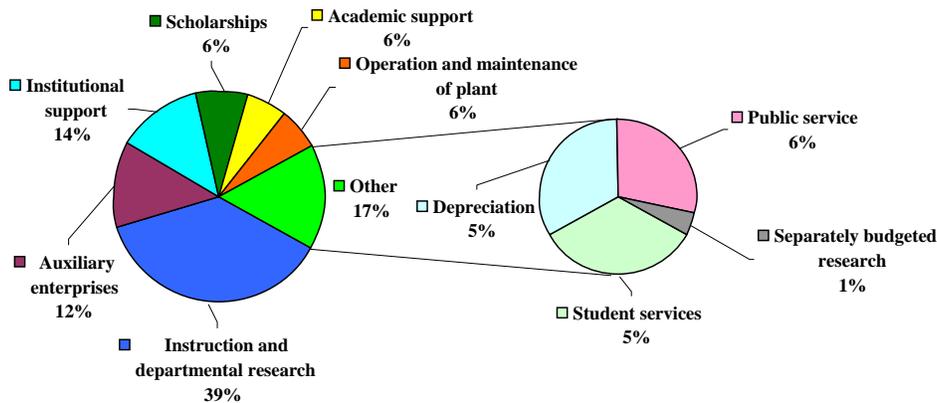
Expenses

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				2004	2003
	Compensation	Operating	Scholarships	Depreciation and Amortization	Total Functional	Total Functional
Instruction and departmental research	\$ 53,500,138	\$ 3,903,110	\$ 45,551	\$ -	\$ 57,448,799	\$ 55,620,251
Separately budgeted research	936,841	582,416	25,928	-	1,545,185	1,175,276
Public service	4,751,553	3,753,595	32,108	-	8,537,256	7,859,113
Academic support	7,291,291	2,504,570	9,573	-	9,805,434	9,645,412
Student services	6,738,922	1,438,221	103,032	-	8,280,175	8,367,906
Institutional support	15,984,048	5,300,053	16,066	-	21,300,167	19,711,581
Operation and maintenance of plant	3,803,076	5,472,314	-	-	9,275,390	9,078,315
Scholarships	-	-	9,627,199	-	9,627,199	11,011,449
Auxiliary enterprises	6,793,956	12,272,398	-	-	19,066,354	19,347,104
Depreciation and amortization	-	-	-	7,853,906	7,853,906	7,484,527
Total Natural	\$ 99,799,825	\$ 35,226,677	\$ 9,859,457	\$ 7,853,906	\$ 152,739,865	\$ 149,300,934

Salaries and benefits totaled 66% of the FY2004 expenses compared to 63% of the expenses in FY2003. Other operating expenses totaled 23% of total expense in FY2004 and 24% in FY2003. Scholarships and depreciation totaled 11% of total expenses in FY2004 compared to 13% in FY2003. The allocation of operating expenses among the functional areas remained consistent from FY2003 to FY2004.

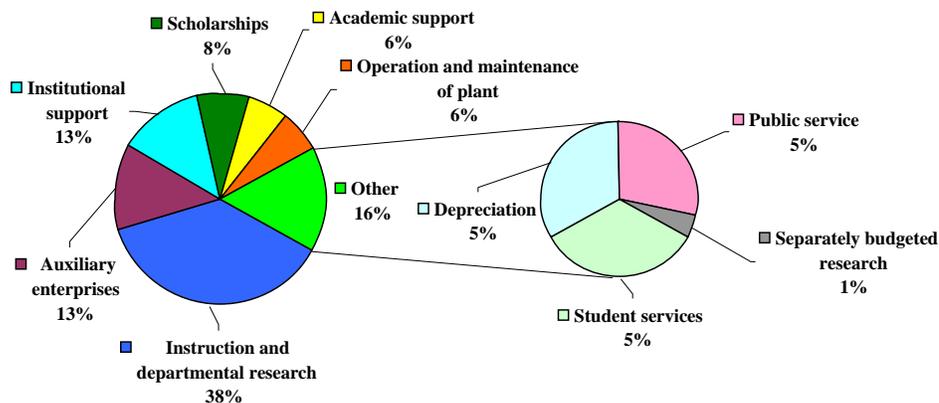
**Operating Expenses by Function
2004**



YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Operating Expenses by Function
2003**



The Statements of Cash Flows

These Statements of Cash Flows provide 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, 2004 and 2003 follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash provided (used) by:		
Operating activities	\$ (53,591,265)	\$ (60,329,389)
Investing activities	3,245,449	(828,219)
Capital and related financing activities	(429,205)	(125,040)
Noncapital financing activities	60,836,425	61,524,781
Net increase in cash	10,061,404	242,133
Cash and cash equivalents - Beginning of year	3,185,305	2,943,172
Cash and cash equivalents - End of year	\$ 13,246,709	\$ 3,185,305

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

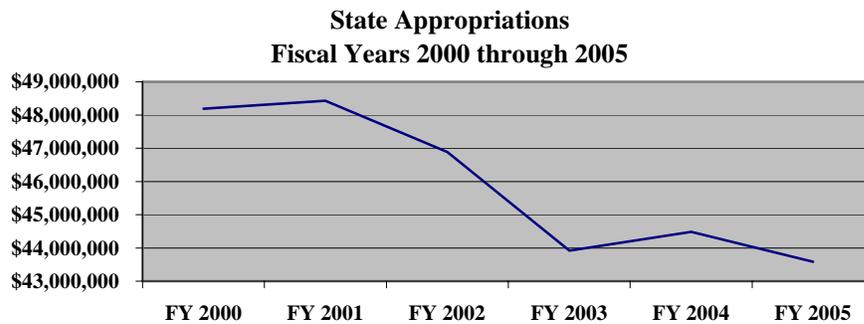
YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors for the Future

Looking to the future, management believes the University is well-positioned to continue its favorable financial condition and level of excellence in service to students. The University's positive 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'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, 2004 was 4.0 compared to 3.7 at June 30, 2003 and 3.5 at June 30, 2002.

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



Note: Graph includes five years actual plus budgeted amount for FY2005

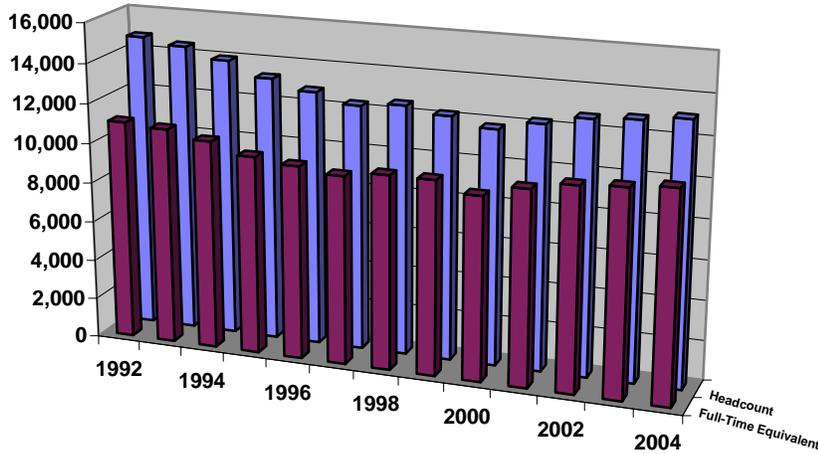
There is an inverse relationship between State support and the University's tuition rates, as declines in State appropriations continue to result in higher tuition, fees and other related charges.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**Fall Term Enrollment Trends
1992 through 2004**



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
■ Full-Time Equivalent	11,045	10,897	10,508	9,954	9,714	9,462	9,729	9,733	9,203	9,766	10,171	10,311	10,518
■ Headcount	14,806	14,501	13,979	13,273	12,801	12,324	12,533	12,222	11,787	12,250	12,698	12,858	13,101

Projections for the next State budget are pessimistic. The best-case scenario is for stable funding. The temporary 1% State sales tax will expire, as well as the one-time dollars used to fill the gap in this year's budget, leaving at least a \$3 billion hole for the Governor and legislature to deal with next year.

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 continues to recognize the importance of public higher education and places an appropriate balance to its funding.

YOUNGSTOWN STATE UNIVERSITY

STATEMENTS OF NET ASSETS AT JUNE 30, 2004 AND 2003

	June 30, 2004	June 30, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,246,709	\$ 3,185,305
Investments	6,890,509	18,499,588
Restricted investments	5,673,173	667,829
Interest receivable	217,624	206,789
Accounts receivable, net	6,052,399	7,153,863
Pledges receivable, net	5,086,540	4,087,647
Loans receivable, net	513,300	493,900
Inventories	1,905,244	1,773,457
Prepaid expenses and deferred charges	659,662	711,433
Total Current Assets	40,245,160	36,779,811
Noncurrent Assets		
Investments	19,304,514	12,539,359
Endowments and other restricted investments	4,710,384	7,298,071
Pledges receivable, net	2,464,722	2,018,743
Loans receivable, net	2,375,762	2,597,557
Deposits on land	214,900	194,200
Capital assets, net	142,257,459	142,861,175
Total Noncurrent Assets	171,327,741	167,509,105
Total Assets	211,572,901	204,288,916
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	1,161,860	1,397,920
Payroll liabilities	7,843,203	7,882,456
Bonds payable	805,000	760,000
Capital leases payable	22,213	35,225
Deferred revenue	7,705,117	7,820,349
Compensated absences	577,800	609,600
Other liabilities	877,495	1,013,232
Total Current Liabilities	18,992,688	19,518,782
Noncurrent Liabilities		
Bonds payable, net	12,648,442	13,429,463
Capital leases payable	16,718	38,931
Compensated absences	5,514,304	5,505,364
Refundable advance	2,758,350	2,830,609
Total Noncurrent Liabilities	20,937,814	21,804,367
Total Liabilities	39,930,502	41,323,149
NET ASSETS		
Invested in capital assets, net of related debt	128,979,986	128,791,756
Restricted:		
Nonexpendable	5,125,548	5,018,540
Expendable	16,046,325	11,447,744
Unrestricted	21,490,540	17,707,727
Total Net Assets	\$ 171,642,399	\$ 162,965,767

See accompanying notes to financial statements.

THE YOUNGSTOWN STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION AT JUNE 30, 2004 AND 2003

	June 30, 2004	June 30, 2003
ASSETS		
Cash and cash equivalents	\$ 3,745,295	\$ 3,857,668
Accrued interest receivable	744,753	803,806
Due from University Housing Corporation	96,805	92,140
Prepaid insurance	11,584	17,762
Property acquired for resale to Youngstown State University	108,834	108,834
Investments - at market value:		
Common stock	78,604,045	67,136,807
Preferred stock	4,776,696	4,318,112
Fixed income securities:		
U.S. Government and Agencies	23,892,075	23,977,410
Corporate	23,374,550	26,156,670
Temporary cash investments	587,849	1,741,499
	131,235,215	123,330,498
Contribution receivable	24,653	34,653
Contribution receivable from remainder trusts	1,189,224	1,125,729
Cash surrender value of insurance policies	67,099	68,852
Office furniture and equipment, at cost, less accumulated depreciation of \$28,948 in 2004 and \$27,341 in 2003	3,974	5,581
TOTAL ASSETS	137,227,436	129,445,523
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	29,458	22,688
Retirement benefits payable	44,410	44,613
Grant commitments to Youngstown State University for scholarship awards	3,360,000	3,446,500
Total Liabilities	3,433,868	3,513,801
Net Assets		
Unrestricted:		
Designated by Board for endowment	105,242,356	99,283,633
Undesignated	1,820,261	1,599,462
	107,062,617	100,883,095
Temporarily restricted	1,282,548	1,066,411
Permanently restricted	25,448,403	23,982,216
Total Net Assets	133,793,568	125,931,722
TOTAL LIABILITIES AND NET ASSETS	\$ 137,227,436	\$ 129,445,523

See accompanying notes to financial statements.

UNIVERSITY HOUSING CORPORATION

STATEMENTS OF FINANCIAL POSITION AT JULY 31, 2004 AND 2003

	July 31, 2004	July 31, 2003
ASSETS		
Current Assets		
Cash	\$ 157,472	\$ 125,984
Restricted cash	299,527	5,494
Prepaid expenses	205,225	172,037
Accounts receivable, net	28,427	-
Interest receivable	939	17,996
Restricted investments	2,686,506	5,786,387
Total Current Assets	3,378,096	6,107,898
Property, Facilities, and Equipment, net	17,830,414	16,533,548
Other Assets		
Bond issue costs, net	385,063	398,939
	21,593,573	23,040,385
LIABILITIES AND NET DEFICIT		
Liabilities		
Current Liabilities		
Accounts payable	17,741	1,020,597
Lease payable, current portion	16,287	-
Retainage payable	-	412,750
Accrued bond interest payable	71,074	69,543
Bonds payable, current portion	30,000	30,000
Prepaid rent	38,339	-
Due to Ambling Company	9,626	11,576
Loan payable - Youngstown State University Foundation	98,772	93,066
Accounts payable - Youngstown State University	120,000	4,900
Security deposits	127,097	121,700
Other accruals	10,501	-
Total Current Liabilities	539,437	1,764,132
Long Term Debt		
Bonds payable	21,980,000	22,010,000
Interest rate swap	1,212,027	1,193,725
Capital lease payable	81,344	-
Total Long Term Debt	23,273,371	23,203,725
Total Liabilities	23,812,808	24,967,857
Unrestricted Net Deficit	(2,219,235)	(1,927,472)
	\$ 21,593,573	\$ 23,040,385

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

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

	June 30, 2004	June 30, 2003
REVENUES		
Operating Revenues		
Tuition, fees, and other student charges (net of scholarship allowance of \$15,520,785 in 2004 and \$14,328,397 in 2003)	\$ 58,880,154	\$ 52,824,818
Federal grants and contracts	5,062,754	3,835,542
State grants and contracts	8,424,481	7,299,150
Local grants and contracts	487,149	391,263
Private grants and contracts	655,713	899,657
Sales and services	247,013	241,999
Auxiliary enterprises	15,112,244	15,974,326
Other operating revenues	1,748,895	816,227
Total Operating Revenues	90,618,403	82,282,982
EXPENSES		
Operating Expenses		
Instruction and departmental research	57,448,799	55,620,251
Separately budgeted research	1,545,185	1,175,276
Public service	8,537,256	7,859,113
Academic support	9,805,434	9,645,412
Student services	8,280,175	8,367,906
Institutional support	21,300,167	19,711,581
Operation and maintenance of plant	9,275,390	9,078,315
Scholarships	9,627,199	11,011,449
Auxiliary enterprises	19,066,354	19,347,104
Depreciation and amortization	7,853,906	7,484,527
Total Operating Expenses	152,739,865	149,300,934
Operating Loss	(62,121,462)	(67,017,952)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	44,482,947	43,917,610
Federal grants	11,538,639	11,001,208
Private gifts	7,799,587	10,036,244
Unrestricted investment income (net of investment expense)	355,877	900,473
Restricted investment income (net of investment expense)	474,141	294,587
Interest on capital asset-related debt	(669,893)	(713,223)
Other nonoperating expenses, net	(1,735,967)	(1,088,535)
Net Nonoperating Revenues	62,245,331	64,348,364
Income (Loss) Before Other Revenues, Expenses, and Changes	123,869	(2,669,588)
OTHER REVENUES, EXPENSES, AND CHANGES		
State capital appropriations	4,947,102	7,064,521
Capital grants and gifts	3,535,536	3,205,174
Reallocation of Ohio workers' compensation liability	-	1,810,603
Additions to the principal of endowments	70,125	35,923
Total Other Revenues, Expenses, and Changes	8,552,763	12,116,221
Total Increase In Net Assets	8,676,632	9,446,633
NET ASSETS		
Net Assets at Beginning of the Year	162,965,767	153,519,134
Net Assets at End of the Year	\$ 171,642,399	\$ 162,965,767

See accompanying notes to financial statements.

THE YOUNGSTOWN STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	June 30, 2004			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses) and other support:				
Contributions	\$ 339,381	\$ 225,522	\$ 896,544	\$ 1,461,447
Investment earnings	5,750,268	24,295	-	5,774,563
Net realized gain (loss) on sale of investments	(49,849)	21,764	(949)	(29,034)
Net unrealized gain (loss) on long-term investments	5,704,321	62,382	507,097	6,273,800
Increase in value of deferred gifts	-	-	63,495	63,495
Net assets released from restrictions	117,826	(117,826)	-	-
Total Revenues, gains (losses) and other support	11,861,947	216,137	1,466,187	13,544,271
Expenditures and other distributions:				
Administrative expenditures	547,907	-	-	547,907
Distribution to Youngstown State University:				
Grants for property	7,500	-	-	7,500
Scholarships and other	5,100,075	-	-	5,100,075
Benefits for retired Youngstown State University faculty	26,943	-	-	26,943
Total Expenditures	5,682,425	-	-	5,682,425
Change in Net Assets	6,179,522	216,137	1,466,187	7,861,846
Net Assets at Beginning of the Year	100,883,095	1,066,411	23,982,216	125,931,722
NET ASSETS	\$ 107,062,617	\$ 1,282,548	\$ 25,448,403	\$ 133,793,568

	June 30, 2003			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses) and other support:				
Contributions	\$ 230,890	\$ 142,443	\$ 1,513,023	\$ 1,886,356
Investment earnings	5,252,415	14,819	-	5,267,234
Net realized gain (loss) on sale of investments	(63,484)	4,333	(31,388)	(90,539)
Net unrealized gain (loss) on long-term investments	683,602	(49,536)	340,476	974,542
Increase in value of deferred gifts	-	-	62,495	62,495
Net assets released from restrictions	46,713	(46,713)	-	-
Total Revenues, gains (losses) and other support	6,150,136	65,346	1,884,606	8,100,088
Expenditures and other distributions:				
Administrative expenditures	509,507	-	-	509,507
Distribution to Youngstown State University:				
Grants for property	33,700	-	-	33,700
Scholarships and other	4,902,865	-	-	4,902,865
Benefits for retired Youngstown State University faculty	30,847	-	-	30,847
Total Expenditures	5,476,919	-	-	5,476,919
Change in Net Assets	673,217	65,346	1,884,606	2,623,169
Net Assets at Beginning of the Year	100,209,878	1,001,065	22,097,610	123,308,553
NET ASSETS	\$ 100,883,095	\$ 1,066,411	\$ 23,982,216	\$ 125,931,722

See accompanying notes to financial statements.

UNIVERSITY HOUSING CORPORATION

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2004 AND 2003

	July 31, 2004	July 31, 2003
Income		
Rental income	\$ 2,025,003	\$ -
Interest income	139,703	-
Other income	49,339	10,287
Total Income	2,214,045	10,287
Expenses		
Administrative	32,925	-
Contract services	32,753	-
Interest expense - bonds	874,590	420,286
Interest expense - other	9,935	-
Depreciation expense	527,318	14,008
Amortization expense	13,876	-
Bad debt expense	61,974	-
Management fees	104,786	-
Marketing and leasing	21,405	-
Bond fees	258,223	-
Payroll and payroll-related	155,338	-
Accounting and legal	47,514	23,372
Repairs and maintenance	66,458	-
Insurance	59,963	5,948
Unit utilities expense	207,849	-
Start up costs	12,599	265,204
Bond and other owners fees	18,302	186,159
Total Expenses	2,505,808	914,977
Decrease in Unrestricted Net Deficit	(291,763)	(904,690)
Unrestricted Net Deficit at Beginning of Year	(1,927,472)	(1,022,782)
UNRESTRICTED NET DEFICIT AT END OF YEAR	\$ (2,219,235)	\$ (1,927,472)

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

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

	June 30, 2004	June 30, 2003
Cash Flows from Operating Activities		
Student tuition and fees	\$ 60,268,861	\$ 51,457,910
Federal, state, and local grants and contracts	13,489,543	11,525,955
Private grants and contracts	797,822	899,657
Sales and services of educational and other departmental activities	14,793,445	15,369,395
Payments to suppliers	(35,522,982)	(34,466,246)
Payments to employees	(76,202,660)	(73,371,389)
Payments for benefits	(23,370,401)	(21,555,718)
Payments for scholarships	(9,627,199)	(11,011,449)
Student loans issued	(537,929)	(762,720)
Student loans collected	571,340	768,989
Student loan interest and fees collected	36,343	42,165
Other receipts, net	1,712,552	774,062
Total Cash Flows Used In Operating Activities	(53,591,265)	(60,329,389)
Cash Flows from Investing Activities		
Proceeds from sale of investments	69,598,206	51,789,083
Purchase of investments	(67,441,750)	(53,696,488)
Interest on investments	1,088,993	1,079,186
Total Cash Flows Provided By (Used In) Investing Activities	3,245,449	(828,219)
Cash Flows From Capital and Related Financing Activities		
State capital appropriations	4,747,290	7,968,006
Private capital gifts and grants	3,535,536	2,511,624
Purchase of capital assets	(7,270,892)	(9,130,244)
Principal payments on capital debt	(795,225)	(785,644)
Interest payments on capital debt	(645,914)	(688,782)
Total Cash Flows Used In Capital and Related Financing Activities	(429,205)	(125,040)
Cash Flows from Noncapital Financing Activities		
Federal grants	11,688,726	11,166,517
State educational appropriations	44,482,947	43,917,610
Private gifts	6,354,715	7,259,854
Additions to the principal of endowments	70,125	35,923
Other nonoperating expenses	(1,760,088)	(855,123)
Total Cash Flows Provided by from Noncapital Financing Activities	60,836,425	61,524,781
Net Increase in Cash and Cash Equivalents	10,061,404	242,133
Cash and Cash Equivalents, Beginning of Year	3,185,305	2,943,172
Cash and Cash Equivalents, End of Year	\$ 13,246,709	\$ 3,185,305

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

STATEMENTS OF CASH FLOWS (CONT.) FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	June 30, 2004	June 30, 2003
Operating income loss	\$ (62,121,462)	\$ (67,017,952)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	7,853,906	7,484,527
Provision for bad debts	652,521	964,200
Changes in assets and liabilities:		
Accounts receivable, net	595,395	(2,827,391)
Loans receivable, net	33,411	(134,986)
Inventories	(131,787)	31,333
Prepaid expenses and deferred charges	51,771	27,422
Accounts payable	(236,090)	(888,698)
Accrued and other liabilities	(150,838)	618,231
Deferred revenue	(115,232)	754,807
Compensated absences	(22,860)	659,118
Net Cash Flows Used In Operating Activities	\$ (53,591,265)	\$ (60,329,389)
Noncash Transactions		
Gifted capital assets	\$ -	\$ 693,550

See accompanying notes to financial statements.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

Note 1 – Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Youngstown State University (the University or YSU) 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. During fiscal year 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. In accordance with that standard, the Youngstown State University Foundation's and University Housing Corporation's financial statements are included, as discretely presented component units, in the University's financial report by presentation of the individual financial statements of the units immediately following the University's respective GASB financial statements. Additional information regarding these component units is contained in Note 13.

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

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.

Under the provisions of GASB Statement No. 35, resources are 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.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

- 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 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.

Budget Process – The Operating budget for General, Auxiliary and Capital Funds is presented to the Board of Trustees annually for approval. Quarterly, a budget to actual report for the General Operating Fund is presented to the Board of Trustees. In accordance with Ohio Revised Code, Section 3345.03, the annual budget is filed with the Ohio Board of Regents and the legislative budget office of the legislative services commission. Quarterly reports are submitted to the Board of Regents. If it appears that the projected expenses of the University will exceed projected revenues, the Board of Regents is required to direct the Board of Trustees to reduce expenses accordingly.

The State of Ohio approves a capital budget every two years. YSU and other public universities submit requests to the Ohio Board of Regents, which sends the requests to the Governor. State capital improvements budget project lists are presented to the Board of Trustees for endorsement. The current fiscal year spending plan is approved by the Board of Trustees.

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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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 78 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 The Youngstown State University Foundation. The University's policy is to distribute realized investment income monthly, based on each funds pro-rata share to the total endowment shares.

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 a conditional pledge, revenue is recognized when the gift is received. Pledges are recorded net of allowance for uncollectible amounts and are discounted to net present value.

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.

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.

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, furniture and vehicles is \$5,000 and for buildings and improvements is \$100,000. Land is capitalized regardless of cost. 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.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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:

<u>Classification</u>	<u>Estimated Life</u>
Buildings	50 years
Improvements other than buildings	15 years
Moveable equipment, furniture and vehicles	3 to 7 years

Deferred Revenue – Deferred revenue includes tuition and fee revenues billed or received prior to the end of the current fiscal year end, but related to the period after June 30, 2004.

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

Refundable 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 from 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 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 provided 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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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.

Encumbrances – Encumbrance systems are maintained to track outstanding purchase orders and other commitments for materials or services not received during the year. Encumbrances outstanding at June 30, 2004 do not constitute expenses incurred or liabilities and are not reflected in the financial statements.

Newly Issued Accounting Pronouncements – 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 statement 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. The provisions of GASB Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. Management has not yet determined the impact that GASB Statement No. 40 will have on the University's financial statement disclosures.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The statement establishes accounting and financial reporting standards for impairment of capital assets and clarifies established accounting requirements for insurance recoveries. The provisions of GASB Statement No. 42 will be effective for fiscal periods beginning after December 15, 2004. Management has not yet determined the impact that GASB Statement No. 42 will have on the University's financial statements and disclosures.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. The statement establishes standards for measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The University will be required to implement this statement concurrent with the State in fiscal 2008. Management has not yet determined the impact that GASB Statement No. 45 will have on the University's financial statements and disclosures.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Reclassification – Certain reclassifications have been made to the 2003 amounts to conform with the 2004 presentation, including an increase in deferred revenue and a decrease to expendable restricted net assets of \$1.1 million at July 1, 2002.

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 \$44,482,947, including \$41,530,117 in State share of instruction and \$2,952,830 in challenge funds in fiscal year 2004 compared to State appropriations of \$43,917,610, including \$41,539,147 in State share of instruction and \$2,378,463 in challenge funds in fiscal year 2003. The State share of instruction is student based and determined annually by the Ohio Board of Regents.

Capital appropriations from the State totaled \$4,947,102 in fiscal year 2004 and \$7,064,521 in fiscal year 2003 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 of Ohio. 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 certificates of deposit.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

The aggregate cost of repurchase agreements, which approximates market value, included in cash and cash equivalents is \$39,337 and \$59,077 at June 30, 2004 and 2003, 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 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 which 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, 2004 and 2003, the carrying amount of the University's bank deposits and cash equivalents was \$13,246,709 and \$3,185,305 and the bank balances were \$15,763,792 and \$5,717,173, 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 \$15,663,792 in 2004 and \$5,617,173 in 2003 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 \$81,502 as of June 30, 2004 and \$66,032 as of June 30, 2003, 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.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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 Treasury securities, United States government agency securities, obligations of commercial banks including repurchase agreements, reverse repurchase agreements, money market mutual funds, certificates of deposit, commercial paper, and banker's acceptances, mutual funds, index funds, and separately invested accounts, municipal or state bonds, corporate bonds and notes, asset backed securities, collateralized mortgage obligations, and 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.

During 2004, the University entered into an agreement with an investment manager to manage non-endowment funds. The University's endowment funds, as well as funds received for the purpose of the recreation center, are managed by The Youngstown State University Foundation under the provisions of two agreements (see Note 13).

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.

In accordance with GASB Statement No. 3, the University's investments at June 30, 2004 and 2003 are categorized as credit risk category 3 below:

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

	June 30, 2004		June 30, 2003	
	Cost	Fair Value	Cost	Fair Value
Pooled Investments:				
U.S. Government and Agency Securities	\$ -	\$ -	\$9,538,507	\$9,538,507
Certificates of Deposit	4,000,000	4,000,000	21,500,000	21,500,000
Subtotal	4,000,000	4,000,000	31,038,507	31,038,507
Investments Managed by Investment Manager:				
U.S. Government and Agency Securities	11,783,013	11,694,436	-	-
Foreign Bonds	29,899	28,933	-	-
Corporate Bonds	8,311,743	8,231,147	-	-
Other Securities	2,240,507	2,240,507	-	-
Subtotal	22,365,162	22,195,023	-	-
Investments managed by YSUF:				
Common Stock	1,751,891	2,815,569	1,674,709	2,396,743
Corporate Notes and Bonds	1,398,916	1,433,101	734,786	737,957
Preferred Stock	350,000	340,440	350,000	371,120
U.S. Government and Agency Securities	1,159,592	1,150,155	2,212,326	2,251,409
Other Securities	4,644,292	4,644,292	2,209,111	2,209,111
Subtotal	9,304,691	10,383,557	7,180,932	7,966,340
Total Investments	<u>\$35,669,853</u>	36,578,580	<u>\$38,219,439</u>	39,004,847
Less: Current Portion		<u>12,563,682</u>		<u>19,167,417</u>
Net Noncurrent		<u>\$24,014,898</u>		<u>\$19,837,430</u>

At times during the year, the amounts of uninsured and unregistered investments may have been higher. Net unrealized gains on investments during FY2004 were \$123,318 and net unrealized gains on investments during FY2003 were \$226,403 and are reflected in the Statements of Revenues, Expenses and Changes in Net Assets.

Note 5 – Accounts and Loans Receivable

Accounts and loans receivable at June 30, 2004 and 2003 consist of the following:

	2004	2003
Accounts receivable		
Student accounts	\$2,630,936	\$4,420,636
Grants and contracts	2,708,880	2,588,494
State capital appropriations	741,647	541,836
Other receivables	1,770,256	1,412,702
Subtotal	<u>7,851,719</u>	<u>8,963,668</u>
Less: allowance for doubtful accounts		
Student	(1,435,650)	(1,508,603)
Non Student	(363,670)	(301,202)
Accounts receivable, net	<u>\$6,052,399</u>	<u>\$7,153,863</u>
Loans receivable – student notes	\$3,333,891	\$3,367,301
Less: allowance for doubtful accounts	(444,829)	(275,844)
Loans receivable, net	<u>\$2,889,062</u>	<u>\$3,091,457</u>

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Note 6 – Pledges Receivable

Unconditional promises to give to the University recorded as pledges receivable at June 30, 2004 and June 30, 2003 were as follows:

	2004 Pledges Receivable	2004 Current Portion	2003
Total pledges receivable	\$8,213,964	\$5,169,050	\$6,565,362
Less: amount estimated to be uncollectible and present value discount	(234,756) (427,946)	(82,510) -	(156,068) (302,904)
Pledges receivable, net	<u>7,551,262</u>	<u>\$5,086,540</u>	<u>6,106,390</u>
Less: current portion	(5,086,540)		(4,087,647)
Pledges receivable, noncurrent portion	<u>\$2,464,722</u>		<u>\$2,018,743</u>

Pledges have been discounted to net present value at a rate of 3.625% in FY 2004 and 3.25% in FY2003.

Note 7 – Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions and transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 12,835,387	\$ 268,904	\$ -	\$13,104,291
Construction-in-progress	1,122,689	3,528,774	(689,239)	3,962,224
Historical treasures	297,513	-	-	297,513
Depreciable assets:				
Buildings	225,893,256	1,336,489	-	227,229,745
Improvements other than buildings	19,822,048	888,114	-	20,710,162
Moveable equipment, furniture and vehicles	24,206,513	1,990,697	(841,697)	25,355,513
Capital leases	172,590	-	-	172,590
Total cost	<u>284,349,996</u>	<u>8,012,978</u>	<u>(1,530,936)</u>	<u>290,832,038</u>
Less accumulated depreciation:				
Buildings	111,839,700	4,357,847	-	116,197,547
Improvements other than buildings	12,131,508	1,347,435	-	13,478,943
Moveable equipment, furniture and vehicles	17,424,764	2,114,106	(768,148)	18,770,722
Capital leases	92,849	34,518	-	127,367
Total accumulated depreciation	<u>141,488,821</u>	<u>7,853,906</u>	<u>(768,148)</u>	<u>148,574,579</u>
Capital assets – net	<u>\$142,861,175</u>	<u>\$ 159,072</u>	<u>\$ (762,788)</u>	<u>\$142,257,459</u>

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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, furniture and vehicles	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	<u>275,678,268</u>	<u>9,782,570</u>	<u>(1,110,842)</u>	<u>284,349,996</u>
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, furniture and vehicles	13,859,012	1,811,134	1,754,618	17,424,764
Capital leases	2,594,395	34,518	(2,536,064)	92,849
Total accumulated depreciation	<u>134,829,447</u>	<u>7,484,527</u>	<u>(825,153)</u>	<u>141,488,821</u>
Capital assets – net	<u>\$140,848,821</u>	<u>\$2,298,043</u>	<u>\$ (285,689)</u>	<u>\$142,861,175</u>

Note 8 – Accounts Payable, Accrued Liabilities and Other Liabilities

Accounts payable, accrued liabilities and other liabilities at June 30, 2004 and 2003 consist of the following:

	2004	2003
Accounts payable	<u>\$1,161,860</u>	<u>\$1,397,920</u>
Payroll liabilities:		
Accrued compensation and benefits	4,618,804	4,287,073
Accrued health care benefits payable	1,286,802	1,824,670
Retirement system contribution payable	1,937,597	1,770,713
Subtotals	<u>7,843,203</u>	<u>7,882,456</u>
Other liabilities:		
Deposits held in custody	266,943	339,699
Refunds payable	78,787	109,310
Interest payable	26,272	27,687
Other liabilities	505,493	536,536
Subtotals	<u>877,495</u>	<u>1,013,232</u>
Totals	<u>\$9,882,558</u>	<u>\$10,293,608</u>

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Encumbrances representing estimated amounts of expenses ultimately to result, if unperformed contracts in process at June 30, 2004 are completed, totaled \$13,819,888 and included \$2,591,710 in State capital appropriations. These amounts do not constitute expenses incurred or liabilities.

Note 9 – Liabilities

Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases payable:					
General receipts bonds principal	\$14,440,000	\$ -	\$ 760,000	\$13,680,000	\$ 805,000
Less: unamortized bond discount and issue costs	(250,537)	-	(23,979)	(226,558)	-
Bonds payable, net	14,189,463	-	736,021	13,453,442	805,000
Capital leases payable	74,156	-	35,225	38,931	22,213
Total, net	14,263,619	-	771,246	13,492,373	827,213
Other liabilities:					
Compensated absences	6,114,964	-	22,860	6,092,104	577,800
Refundable advance	2,830,609	146,474	218,733	2,758,350	-
Total	8,945,573	146,474	241,593	8,850,454	577,800
Total long-term liabilities	\$23,209,192	\$146,474	\$1,012,839	\$22,342,827	\$1,405,013

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases payable:					
General receipts bonds principal	\$15,175,000	\$ -	\$ 735,000	\$14,440,000	\$ 760,000
Less: unamortized bond discount and issue costs	(274,979)	-	(24,442)	(250,537)	-
Bonds payable, net	14,900,021	-	710,558	14,189,463	760,000
Capital leases payable	92,205	32,595	50,644	74,156	35,225
Total, net	14,992,226	32,595	761,202	14,263,619	795,225
Other liabilities:					
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	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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Bonds Payable

Bonds payable consist of General Receipts Bonds, Series 1996B, Series 1997 and Series 1998. The Series 1996B 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, variable	4.15%-4.75%	4.15%-4.75%	2012	\$11,920,000
1998 - Term Bonds, fixed	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 original Trust Indenture and subsequent supplemental indentures.

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
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
2009	945,000	458,338	1,403,338
2010-2014	5,400,000	1,594,097	6,994,097
2015-2019	3,920,000	288,220	4,208,220
Totals	\$13,680,000	\$4,559,738	\$18,239,738

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Maturities of bonds payable for the fiscal years subsequent to June 30, 2004 are as follows:

Fiscal Year	General Receipts			Total
	Series 1996B	Series 1997	Series 1998	
2005	\$110,000	\$ 10,000	\$ 685,000	\$ 805,000
2006	115,000	10,000	720,000	845,000
2007	-	10,000	855,000	865,000
2008	-	10,000	890,000	900,000
2009	-	10,000	935,000	945,000
2010-2014	-	60,000	5,340,000	5,400,000
2015-2019	-	60,000	3,860,000	3,920,000
Totals	<u>\$225,000</u>	<u>\$170,000</u>	<u>\$13,285,000</u>	<u>\$13,680,000</u>

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%. The net book value of capital leased assets included in net Capital Assets in the Statements of Net Assets at June 30, 2004 and 2003, was \$45,223 and \$79,741, respectively.

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

Year Ending June 30	Printing Press	Mail System	Total
2005	\$16,205	\$10,740	\$26,945
2006	-	10,740	10,740
2007	-	9,845	9,845
Total future minimum lease payments	<u>16,205</u>	<u>31,325</u>	<u>47,530</u>
Less amount representing interest	<u>330</u>	<u>8,269</u>	<u>8,599</u>
Total obligations under capital leases	<u>\$15,875</u>	<u>\$23,056</u>	<u>\$38,931</u>

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.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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.

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 Year	Employee Contribution Rate		
	STRS	OPERS	PERSLE
2004	10.0%	8.5%	9.0%
2003	9.3%	8.5%	9.0%
2002	9.3%	8.5%	9.0%

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

Fiscal Year	Employer Contribution Rate		
	STRS	OPERS	PERSLE
2004	14.0%	13.31%	16.7%
2003	14.0%	13.31%	16.7%
2002	14.0%	13.31%	16.7%

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

Fiscal Year	Employer Contribution		
	STRS	OPERS	PERSLE
2004	\$4,712,815	\$3,926,947	\$147,492
2003	\$4,530,585	\$3,960,544	\$127,867
2002	\$3,857,512	\$3,432,853	\$125,165

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Employees can elect to participate in the Alternative Retirement Plan (ARP), 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 3.5% of covered payroll to STRS and 10.5% to the Alternative Retirement Plan.

The University's contribution to STRS was \$143,988 in 2004 and \$116,863 in 2003. The University's contribution to the Alternative Retirement Plan was \$431,966 in 2004 and \$369,891 in 2003.

The University's contribution to the Alternative Retirement Plan selected by PERS employees was \$346,933 in 2004 and \$280,804 in 2003.

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 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 2003, 5.0% in 2002 and 4.3% in 2001.

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, 2002.
- **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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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 2002 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, 2003 (the latest date information is available) was 364,881. The portion of the University's 2004, 2003 and 2002 contributions to PERS used to fund postretirement benefits was \$1,519,513, \$1,536,016, and \$1,109,036, respectively. The actuarial value of the Retirement Systems' net assets available for payment of benefits at December 31, 2002 (the latest date information is available) was \$10.0 billion.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 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.

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 1.0% in 2004, 4.5% in 2003 and 4.5% in 2002. 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, 2003 (the latest date information is available) were 108,294. The portion of the University's 2004, 2003 and 2002 contributions to STRS used to fund postretirement benefits was \$336,630, \$1,456,260 and \$1,239,915, respectively.

The health care reserve fund within the employers' trust fund from which payments for health care benefits are paid had a balance of \$2.8 billion at June 30, 2003.

Health care benefits paid by the plan were \$352,301,000 for the fiscal year ended June 30, 2003.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Note 12 – 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 included in accrued health care benefits payable (see Note 8) for the past two years follows:

	2004	2003
Liability at beginning of fiscal year	\$1,701,823	\$1,319,906
Current year claims including changes in estimates	7,058,584	7,881,070
Claim payments	<u>(7,587,810)</u>	<u>(7,499,153)</u>
Liability at end of fiscal year	<u>\$1,172,597</u>	<u>\$1,701,823</u>

Health insurance claims are based upon estimates of the claims liabilities. Estimates are based upon past experience, medical inflation trends, and current claims outstanding, including year-end lag analysis. Differences between the estimated claims payable and actual claims paid are reported in the Statement of Revenues, Expenses and Changes in Net Assets. In connection with a change in estimate related to the accrued medical liability, the University recorded \$690,609 reduction in operating expenses on the Statement of Revenues, Expenses and Changes in Net Assets in fiscal 2004.

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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

The University has the following commercial insurance policies:

Type	Deductible	Coverage
Property	\$ 25,000	Replacement Cost
Crime	100,000	\$ 2,000,000
General liability	250,000	1,000,000/occurrence 2,000,000 aggregate
Educator liability	250,000	1,000,000
Excess liability	5,000,000	60,000,000 shared
Automobile liability	250,000	1,000,000
Non-owned aircraft	-	5,000 to 25,000,000
Umbrella	1,000,000	4,000,000

The University had no significant reductions in coverage from the prior year.

On June 29, 2004, the University entered into a contract with SunGard SCT, Inc. to provide licensed software and installation/implementation services for an Enterprise Resource Plan (ERP). The ERP solution covers Finance, Advancement, Student, Financial Aid, Human Resources, Luminis (web portal) and numerous ancillary and third-party software solutions. The project length is estimated at three years. Specified pricing includes \$1,700,704 annual license fees and \$2,491,752 in estimated professional services for implementation.

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 (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating state agencies and universities in the Plan are accrued by the Ohio Bureau of Workers' Compensation (the Bureau) based on estimates that incorporate the past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the Plan annually fund the worker's compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the workers' compensation claims of participating State agencies and universities.

Note 13 – Component Units

Youngstown State University Foundation (YSUF) and University Housing Corporation (UHC) are nonprofit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-For-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to YSUF's and UHC's financial information in the University's financial report for these differences.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

YSUF

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 and beneficial to the students and beneficial to the community. In order to maintain its public charity classification, YSUF must exclusively support the University, be responsive to its needs and distribute substantially all of its net income (other than net long-term capital gain) to the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University.

Annually, the University files an application for funds from YSUF, subject to approval by the trustees of YSUF. Financial support from YSUF was \$4,470,658 for the fiscal year ended June 30, 2004 and \$4,443,650 for the fiscal year ended June 30, 2003. Financial support from YSUF has been committed for FY2005 in the amount of \$4,488,900 and is reflected in deferred revenue on the University's Statement of Net Assets at June 30, 2004. At June 30, 2004 and June 30, 2003, \$3,360,000 and \$3,444,000, respectively, was due from YSUF and included in pledges receivable on the University's Statement of Net Assets at June 30, 2004. In addition, rental income from YSUF of \$11,456 was recorded in each fiscal year 2004 and 2003 and is reflected in the University's Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2004 and June 30, 2003, respectively.

Under the terms of an agreement with the University, the Foundation serves as an investment manager 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 such investments held by YSUF at June 30, 2004 was \$10,383,557 and \$9,304,691, respectively, compared to \$7,966,340 and \$7,180,932, respectively, at June 30, 2003. Management services are provided free of charge and investments are made in a manner consistent with the YSUF funds.

The Foundation acts in an agent capacity by receiving monies from various donors for the benefit of Youngstown State University entities and remitting to these entities the monies collected. Amounts collected and remitted to the various entities by the Foundation in 2004 and 2003 amounted to \$83,932 and \$119,248, respectively.

UHC

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. The dormitory housing began operations in August 2003. This unique public-private partnership includes YSUF, University Housing

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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.

Facility rental from UHC was \$110,000 for the fiscal year ended June 30, 2004 and was outstanding and included in the University's other receivables in the Statement of Net Assets at June 30, 2004.

Because resources can only be used by, or for the benefit of the University, UHC is considered a component unit of the University.

Long-Term Debt

In May 2002, UHC issued \$22,040,000 of County of Mahoning, Ohio Adjustable Rate Housing Revenue Bonds Series 2002 (Series 2002 Bonds). The proceeds were used to finance the construction, site improvements, furnishing and equipping of the University Courtyard Project. The bonds bear interest at a variable rate determined weekly by BancOne Capital Markets, Inc. as Remarketing Agent based on the weekly tax-exempt index as determined by BancOne Capital Markets, and are due at various dates until 2033. These rates at July 31, 2004 and 2003 were 1.05 % and .80%, respectively with an average weekly rate of .96 during fiscal year 2004. The bonds are secured by the assignment of incomes and revenues of the Project of UHC.

The Series 2002 Bonds were issued pursuant to a Trust Indenture dated May 1, 2002 between Mahoning County (County) and the Trustee. In connection with the issuance of the Series 2002 Bonds, UHC entered into a Reimbursement Agreement with a bank.

Maturities of the bonds are as follows:

Year ending July 31,	Amount
2005	\$ 30,000
2006	30,000
2007	60,000
2008	100,000
2009	130,000
Thereafter	<u>21,660,000</u>
Total	<u>\$22,010,000</u>

UHC's objectives of its derivative instruments include managing the risk of increased debt service resulting from rising market interest rates, the risk of decreased surplus returns resulting from falling interest rates, and the management risk of an increase in the fair value of outstanding fixed rate obligations resulting from declining market interest rates. Consistent with its interest rate risk management objectives, UHC entered into an interest rate swap in May 2002 with a notional amount of \$20,745,000 at July 31, 2004 and

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

\$20,775,000 at July 31, 2003. This swap agreement effectively changes UHC's interest rate exposure on its floating rate bonds to a fixed rate of 3.97%. The interest swap rate agreement matures in May 2012.

Under terms of the interest rate swap agreement, UHC makes payments calculated at a fixed rate of 3.97% to the counterparty of the swap. In return, the counterparty makes payments to UHC equal to 68% of 1-Month USD-LIBOR-BBA Index. Only the net difference in payments is exchanged with the counterparty. During fiscal year 2004 and 2003 the 1-Month USD-LIBOR-BBA Index ranged from 1.09% to 1.37% (1.35% at July 31, 2004) and 1.02% to 1.83% (1.10% at July 31, 2003), respectively.

The fair value of the swap agreement at July 31, 2004 and 2003 was \$1,212,027 and \$1,193,725 respectively, and is recorded as a liability on UHC's Statement of Financial Position.

Property

Property, facilities and equipment as of July 31, 2004 (UHC's fiscal year end) are as follows:

	2004	2003
Buildings	\$17,442,241	\$ -
Other capital assets	915,491	-
Construction in progress	-	16,533,548
Total cost	<u>18,357,732</u>	<u>16,533,548</u>
Less accumulated depreciation:		
Buildings	436,056	-
Other capital assets	91,262	-
Total accumulated depreciation	<u>527,318</u>	<u>-</u>
Property, facilities and equipment, net	<u>\$17,830,414</u>	<u>\$16,533,548</u>

Guarantee of the University Housing Corporation Mortgage by the Foundation

On May 1, 2002, the Foundation entered into an agreement to guarantee the payment of certain debt. Funding for the project has been attained through the issuance of \$22,040,000 adjustable rate housing revenue bonds by Mahoning County, Ohio. These bonds have serial maturities through 2033.

A financial institution has issued a letter of credit to collateralize the payment of principal, interest and other funding requirements. The letter of credit is annually renewable by the financial institution.

The Foundation has pledged \$45,000,000 of unrestricted marketable securities to guarantee all debt funding payments due by UHC. In addition to the debt and interest payments, UHC is responsible for a 1% letter of credit fee and the accumulation of a debt service reserve fund. UHC's reimbursement agreement contains thirteen events of default, many of which

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

are tied to restrictive loan covenants. In the event of default, the bank may require payment by the Foundation. The dormitory housing began operations in August 2003. In the event the Foundation is required to perform under the guarantee agreement, provisions exist for the Foundation to obtain the rights of the financial institution.

The Foundation also entered into an agreement with UHC to loan UHC funds to pay for initial organizational and legal costs. Under the terms of the agreement, UHC will repay the Foundation principal plus interest at prime rate. At June 30, 2004 and 2003, the amount due from UHC to the Foundation is \$96,805 and \$92,140, respectively.

YOUNGSTOWN STATE UNIVERSITY

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YOUNGSTOWN STATE UNIVERSITY

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, 2004, and have issued our report thereon dated October 12, 2004. 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, 2004, 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, 2004 to the 2004 budget and to the year ended June 30, 2003. We calculated the fluctuations and obtained from management explanations for the changes exceeding \$12,000 and 10%. 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 2004. We agreed gift revenues to contribution records tested in connection with the audit of the financial statements noting no exceptions. We obtained and vouched 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% of all gifts donated to the Department.
- (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, 2004.
- (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 the end of season sales reports.
- (h) 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 limited by the lack of segregation of duties.

In connection with our procedures we noted the following:

1. Four employees received discounts that were not employed by the University during the football season;
2. Two senior staff in the Athletic Department received more than two season complimentary tickets; and
3. One instance where a student ticket was issued to an individual who graduated in 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, 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.



October 21, 2004

Youngstown State University

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

Year ended June 30, 2004

	Unrestricted			Non-Program Specific	Restricted	Total
	Football	Basketball	Other Sports			
Revenue and Support						
Ticket Sales	\$ 575,455	\$ 154,479	\$ -	\$ -	\$ -	\$ 729,934
Revenue Sharing	104,452	23,112	172,586	-	-	300,150
Telephone and Vending Machine Commissions	-	-	-	98,588	-	98,588
Guarantees	50,000	43,000	10,000	-	-	103,000
Program Advertising	88,410	18,950	-	-	-	107,360
Stambaugh Stadium Viewing Boxes	432,001	-	-	-	-	432,001
Stambaugh Stadium Scoreboard Panels	91,000	-	-	-	-	91,000
Penguin Sports Network	-	-	-	39,310	-	39,310
Gifts and Grants	-	-	-	-	292,441	292,441
Program Sales	11,959	1,406	-	-	-	13,365
Advertising Panel	-	42,000	-	-	-	42,000
Miscellaneous	29,279	-	95,361	10,748	-	135,388
Total Revenue	1,382,556	282,947	277,947	148,646	292,441	2,384,537
Support						
Non-Mandatory Additions:						
General Fees and Allocation	239,433	251,217	2,573,883	1,892,467	-	4,957,000
Total Revenue and Support	1,621,989	534,164	2,851,830	2,041,113	292,441	7,341,537

Youngstown State University

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

	Unrestricted			Non-Program Specific	Restricted	Total
	Football	Basketball	Other Sports			
Expenditures						
Personal Services:						
Salaries	430,935	214,323	565,033	1,216,420	39,855	2,466,566
Fringe Benefits	157,728	69,533	214,453	417,940	11,935	871,589
Total Personal Services	588,663	283,856	779,486	1,634,360	51,790	3,338,155
Operating Expenses:						
Scholarships	878,599	233,218	1,177,120	(1,751)	9,578	2,296,764
Team travel	180,981	78,627	302,467	1,276	90,411	653,762
Recruiting	40,311	39,547	52,901	-	5,518	138,277
Supplies	66,486	14,312	97,755	62,241	46,558	287,352
Guarantees	75,000	8,000	2,180	-	-	85,180
Telephone	7,557	7,483	11,353	10,588	-	36,981
Officials	38,975	36,878	39,457	35,822	10,662	161,794
Printing	-	-	-	70,342	9,991	80,333
Pre-Season Practice	53,979	-	17,050	-	946	71,975
Postage and Freight	6,445	4,187	3,106	13,664	56	27,458
Clinics and Meetings	-	-	-	28,207	2,295	30,502
Liability Insurance	-	-	-	66,522	-	66,522
Rental-Facilities	-	-	23,464	16,511	4,757	44,732
Maintenance and Repairs	-	-	(109)	20,074	4,317	24,282
Awards and Recognitions	-	-	-	12,280	1,488	13,768
Publicity and Promotions	-	-	-	70,500	-	70,500
Dues	-	-	-	66,250	-	66,250
Business Relations	5,972	9,889	9,997	82	14,972	40,912
Miscellaneous	87	1,994	645	58,231	17,953	78,910
Total Operating Expenses	1,354,392	434,135	1,737,386	530,839	219,502	4,276,254
Total Expenditures	1,943,055	717,991	2,516,872	2,165,199	271,292	7,614,409

Youngstown State University

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

	Unrestricted			Non-Program Specific	Restricted	Total
	Football	Basketball	Other Sports			
Revenue and Support (Less Than) in Excess of Expenditures	(321,066)	(183,827)	334,958	(124,086)	21,149	(272,872)
Transfers from Other Funds	149,738	57,591	195,811	172,775	11,057	586,972
Reserve for Encumbrances	-	-	-	(10,873)	-	(10,873)
Mandatory Transfers	-	-	-	(271,021)	-	(271,021)
Revenue and Support (Less Than) in Excess of Expenditures, Transfers and Reserve	\$ (171,328)	\$ (126,236)	\$ 530,769	\$ (233,205)	\$ 32,206	\$ 32,206

Youngstown State University
 Schedule of Financial Activities
 of the Penguin Club

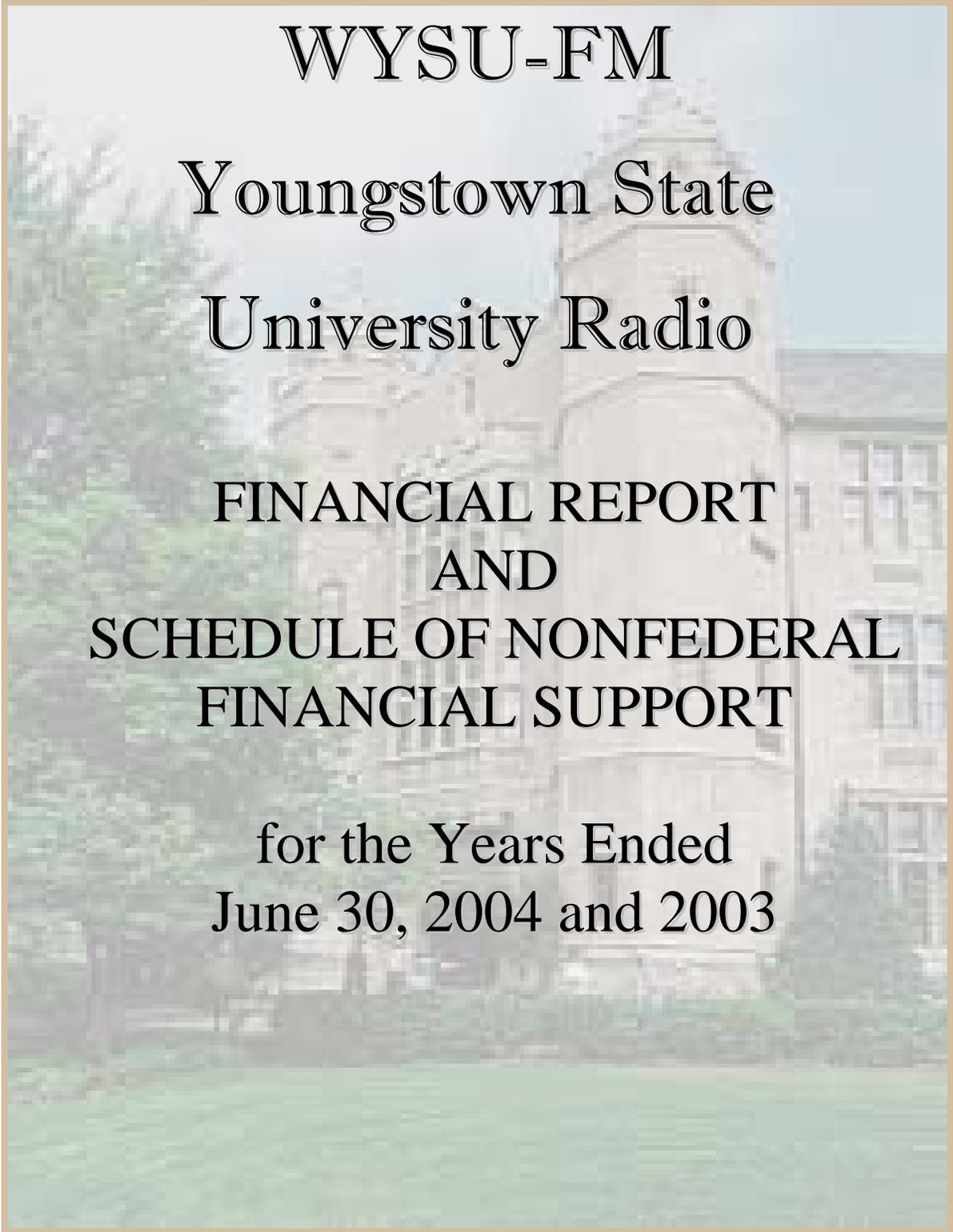
Year ended June 30, 2004

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	\$ 171,177
Wages and related taxes	53,474
Scholarship recognition	31,685
Office and loge rent	30,000
Car lease and allowances	17,784
Sports banquets	11,958
Communications	8,558
Office expenses	6,491
Membership game day trip	6,229
Rossillee event	4,856
Publicity events and hospitality	4,152
Insurance	3,028
Hall of Fame expenses	2,711
Basketball tip off dinner	2,602
Merchandise	2,393
Bad debts	2,165
Director's car expenses and other	1,160
Athletic awards	811
Membership benefits	741
Miscellaneous	12,074
	<u>\$ 374,049</u>

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WYSU-FM

Youngstown State

University Radio

FINANCIAL REPORT
AND
SCHEDULE OF NONFEDERAL
FINANCIAL SUPPORT

for the Years Ended
June 30, 2004 and 2003

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WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

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December 13, 2004

Report of Independent Auditors

The Board of Trustees
Youngstown State University

We have audited the accompanying statements of net assets of WYSU-FM, Youngstown State University Radio (Station), as of and for the years then ended June 30, 2004 and 2003 as shown on pages 7 through 9. 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 audits.

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

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, 2004 and 2003, and the changes in its net assets and its cash flows, where applicable, for the years 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 of WYSU-FM, Youngstown State University Radio, as of June 30, 2004 and 2003 and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 13, 2004 on our consideration of WYSU-FM, Youngstown State University Radio's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The 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 supplementary information included in the 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 the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004. 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 and No. 38. 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, including the general appropriation from the University, membership revenue, and business and underwriting support, are considered nonoperating as defined by GASB Statement No. 35.
- Capital assets are reported net of depreciation.

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statements of Net Assets

These statements present the financial position of the Station at the end of the fiscal year and include all assets and liabilities. The difference between total assets and total liabilities – net assets – is an indicator of the current financial condition of the Station.

A summary of assets, liabilities, and net assets at June 30, 2004, 2003 and 2002 follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets			
Current assets	\$ 500,765	\$ 638,502	\$ 511,677
Noncurrent assets	133,088	126,429	124,725
Capital assets, net	209,956	29,575	37,423
Total Assets	<u>843,809</u>	<u>794,506</u>	<u>673,825</u>
Liabilities			
Current liabilities	7,351	3,814	8,093
Noncurrent liabilities	47,299	46,370	41,727
Total Liabilities	<u>54,650</u>	<u>50,184</u>	<u>49,820</u>
Total Net Assets	<u>\$ 789,159</u>	<u>\$ 744,322</u>	<u>\$ 624,005</u>
Net Assets			
Invested in capital assets, net	\$ 209,956	\$ 29,575	\$ 37,423
Restricted – nonexpendable	133,088	126,429	124,725
Restricted – expendable	42,512	139,638	87,182
Unrestricted	403,603	448,680	374,675
Total Net Assets	<u>\$ 789,159</u>	<u>\$ 744,322</u>	<u>\$ 624,005</u>

2004 Versus 2003

Current assets, consisting primarily of cash and cash equivalents, decreased from 2003 to 2004 due to cash used to acquire capital assets.

Current liabilities consist of accounts payable and the current portion of compensated absences. The long-term portion of compensated absences is included in non-current liabilities. There were no significant changes in liabilities.

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 (CPB) grant. Net assets invested in capital assets increased, while restricted expendable assets decreased due to capital asset purchases.

2003 Versus 2002

Cash and cash equivalents increased due to a \$50,000 capital gift.

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Restricted nonexpendable net assets remained consistent. Net assets invested in capital assets decreased due to increases in accumulated depreciation. Restricted expendable net assets increased due to increases in the CPB grant.

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

These statements present the operating results of the Station. 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 and through an annual grant from the Ohio Educational Telecommunications Network Commission (OETN), which is administered by the State of Ohio. In addition, in-kind support is received from OETN and includes support for transmission of Radio Reading Service Programming. Operating revenue also includes contributions from area businesses (program underwriting). Operating expenses have been incurred to vendors and employees for providing goods or services for the overall operations of the Station. Nonoperating revenues include the general appropriation, donated facilities, and administrative support from its licensee, the University. Non-operating revenue also includes 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, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Corporation for Public Broadcasting grant	\$ 147,636	\$ 132,126
In-Kind contributions	148,261	137,549
Ohio Educational Telecommunications grant	40,644	44,572
Underwriting revenue	70,900	60,973
Total Operating Revenues	407,441	375,220
Operating Expenses	1,007,071	978,797
Operating Loss	(599,630)	(603,577)
Nonoperating Revenues		
General appropriation from the University	316,090	334,095
Donated facilities and administrative support from the University	122,007	152,859
Subscription and membership income	187,640	177,010
Other nonoperating revenues, net	8,730	9,930
Net Nonoperating Revenues	634,467	673,894
Income Before Other Revenues, Expenses, and Changes	34,837	70,317
Other Revenues, Expenses, and Changes		
Capital grants and gifts	10,000	50,000
Total Other Revenues, Expenses, and Changes	10,000	50,000
Increase in Net Assets	44,837	120,317
Net Assets at the Beginning of the Year	744,322	624,005
Net Assets at the End of the Year	\$ 789,159	\$ 744,322

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The increase in operating revenues and expenses is due to increases in the CPB grant, in-kind support, and underwriting revenue. The CPB grant increased due to increases in federal funding, while underwriting revenue increased due to an increase in the number of underwriting contracts.

The Statements of Cash Flows

These Statements of Cash Flows provide 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 its obligations as they come due, and its need for external financing.

A summary of cash flows for the years ended June 30, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Cash provided (used) by:		
Operating activities	\$ (447,871)	\$ (436,165)
Investing activities	5,179	5,361
Noncapital and related financing activities	503,782	514,965
Capital financing activities	(200,457)	50,000
Net (decrease) increase in cash	(139,367)	134,161
Cash and cash equivalents – Beginning of Year	623,738	489,577
Cash and cash equivalents – End of Year	\$ 484,371	\$ 623,738

Economic Factors for the Future

The financial condition of the Station remains strong, except that the Station still struggles to meet the ever more challenging CPB audience and Community Support Performance (CSP) 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.

The Station continues to make great strides toward strengthening its community presence, both on and off the air. In partnership with PBS 45 & 49, the City of Youngstown, and Youngstown State University, the Station continues to produce and air a series of live town meetings and roundtable discussions on issues related to the Youngstown 2010 plan.

The Station is focusing on improving community service, re-examining its programming structure to best serve its audience, continuing to grow and explore new sources of financial support, and upgrading its equipment to digital specifications. The Station is in the process of culminating a new strategic plan which should be completed by the end of fiscal year 2005. Its goals are to meet CPB/CSG standards, to explore options for future success, and to clearly define the mission of the Station.

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

STATEMENTS OF NET ASSETS AT JUNE 30, 2004 AND 2003

	June 30, 2004	June 30, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 484,371	\$ 623,738
Accounts receivable, net	16,394	11,604
Pledges receivable	-	3,160
Total Current Assets	500,765	638,502
Noncurrent Assets		
Endowment	133,088	126,429
Capital assets, net	209,956	29,575
Total Noncurrent Assets	343,044	156,004
Total Assets	843,809	794,506
 LIABILITIES		
Current Liabilities		
Accounts payable	4,565	314
Compensated absences	2,786	3,500
Total Current Liabilities	7,351	3,814
Noncurrent Liabilities		
Compensated absences	47,299	46,370
Total Noncurrent Liabilities	47,299	46,370
Total Liabilities	54,650	50,184
 NET ASSETS		
Invested in capital assets, net of related debt	209,956	29,575
Restricted		
Nonexpendable	133,088	126,429
Expendable	42,512	139,638
Unrestricted	403,603	448,680
Total Net Assets	\$ 789,159	\$ 744,322

See accompanying notes to financial statements.

WYSU-FM, YOUNGSTOWN STATE UNIVERSITY RADIO

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

REVENUES	<u>2004</u>	<u>2003</u>
Operating Revenues		
Corporation of Public Broadcasting grant	\$ 147,636	\$ 132,126
In-Kind contributions	148,261	137,549
Ohio Educational Telecommunications grant	40,644	44,572
Underwriting revenue	70,900	60,973
Total Operating Revenue	<u>407,441</u>	<u>375,220</u>
EXPENSES		
Operating Expenses		
Program services		
Programming and production	339,785	306,332
Broadcasting	41,313	102,852
Program information	27,313	22,951
Support services		
Management and general	353,493	344,789
Fund raising & membership development	215,091	194,025
Depreciation	30,076	7,848
Total Operating Expenses	<u>1,007,071</u>	<u>978,797</u>
Operating Loss	<u>(599,630)</u>	<u>(603,577)</u>
NONOPERATING REVENUES		
General appropriation from the University	316,090	334,095
Donated facilities and administrative support from the University	122,007	152,859
Subscription and membership income	187,640	177,010
Net (loss) revenue from fund raising	(3,108)	2,865
Investment income, net	11,838	7,065
Net Nonoperating Revenues	<u>634,467</u>	<u>673,894</u>
Income Before Other Revenues, Expenses, and Changes	<u>34,837</u>	<u>70,317</u>
OTHER REVENUES, EXPENSES, AND CHANGES		
Capital grants and gifts	10,000	50,000
Total Other Revenues, Expenses, and Changes	<u>10,000</u>	<u>50,000</u>
Total Increase in Net Assets	44,837	120,317
NET ASSETS		
Net Assets at the Beginning of the Year	744,322	624,005
Net Assets at the End of the Year	<u>\$ 789,159</u>	<u>\$ 744,322</u>

See accompanying notes to financial statements.

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

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

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Corporation for Public Broadcasting grant	\$ 147,636	\$ 132,126
Receipts from Ohio Educational Telecommunications grant	40,644	44,572
Business and underwriting support	66,110	66,414
Payments to suppliers	(297,558)	(360,602)
Payments to employees	(297,084)	(265,177)
Payments for benefits	(107,619)	(53,498)
Total Cash Flows Used In Operating Activities	(447,871)	(436,165)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	5,179	5,361
Total Cash Flows Provided by Investing Activities	5,179	5,361
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
General appropriation from the University	316,090	334,095
Membership revenue	190,800	173,005
Net revenue (used in) provided by fund raising	(3,108)	7,865
Total Cash Flows Provided By Noncapital Financing Activities	503,782	514,965
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Grant for capital purchases	10,000	50,000
Purchase of capital assets	(210,457)	-
Total Cash Flows (Used In) Provided By Capital Financing Activities	(200,457)	50,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(139,367)	134,161
Cash and Cash Equivalents - Beginning of Year	623,738	489,577
Cash and Cash Equivalents - End of Year	\$ 484,371	\$ 623,738
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
OPERATING LOSS	\$ (599,630)	\$ (603,577)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES		
Depreciation expense	30,076	7,848
Provision for allowance for uncollectible accounts	-	900
Donated facilities and administrative support from the University	122,007	152,859
Changes in assets and liabilities:		
Accounts receivable	(4,790)	5,441
Accounts payable	4,466	364
CASH FLOWS USED IN OPERATING ACTIVITIES	\$ (447,871)	\$ (436,165)

See accompanying notes to financial statements

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

Note 1 – Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

WYSU-FM (the Station) is operated as a function of the Telecommunications Department of Youngstown State University (the 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.

For financial reporting purposes, the Station is considered a special-purpose government engaged in business-type activities as defined by GASB Statements No. 34 and 35. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB.

Under the provisions of GASB Statement No. 35, resources are 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 funds.
- 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 Ohio 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.

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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 Station's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

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, collateralized, and uncollateralized. 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, 2004 and 2003, the carrying amount of the University's bank deposits and cash equivalents was \$13,246,709 and \$3,185,305 and the bank balances were \$15,763,792 and \$5,717,173, 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 \$15,663,792 in 2004 and \$5,617,173 in 2003 is uncollateralized (credit risk category 3). At times during the year, uncollateralized deposits may have been higher.

Accounts Receivable

Accounts receivable consist of underwriting charges for various Station programs. Accounts are recorded net of allowance for uncollectible accounts.

Pledges Receivable

The Station 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 a conditional pledge, revenue is recognized when the gift is received.

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

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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 78 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 The Youngstown State University Foundation (YSUF). The University's policy is to distribute realized investment income monthly, based on each fund's pro-rata share to the total endowment shares.

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 7 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.

Compensated Absences

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

General Appropriation from the University

The general appropriation represents support from the University for salaries and operating expenses not provided 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 had 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.

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

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.

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.

Note 2 - Investments

In accordance with GASB Statement No. 31, 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 2004 and 2003 and was \$8,212 and \$5,858, respectively.

The Station's investments are categorized in accordance with GASB Statement No. 3 as category 3 credit risk at June 30, 2004 and 2003:

<u>Investments managed by YSUF</u>	June 30, 2004		June 30, 2003	
	Cost	Fair Value	Cost	Fair Value
Common Stock	\$ 19,479	\$ 35,934	\$ 24,272	\$ 44,822
Corporate Notes and Bonds	6,151	7,985	10,650	10,740
Preferred Stock	4,101	3,993	5,073	5,674
U.S. Government and Agency Securities	21,530	25,287	32,064	33,176
Other Securities	51,262	59,889	32,017	32,017
Total Investments managed by YSUF	<u>\$ 102,523</u>	<u>\$ 133,088</u>	<u>\$ 104,076</u>	<u>\$ 126,429</u>

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Note 3 – Capital Assets

The capital assets and accumulated depreciation as of June 30, 2004 are as follows:

<u>Capital assets</u>	Beginning Balance	Additions	Disposals	Ending Balance
Depreciable assets				
Building, antenna, and tower	\$ 176,748	\$ -	\$ 6,700	\$ 170,048
Studio and broadcast equipment	152,748	210,457	5,704	357,501
	329,496	210,457	12,404	527,549
Less: Accumulated depreciation	299,921	30,076	12,404	317,593
Capital assets, net	<u>\$ 29,575</u>	<u>\$ 180,381</u>	<u>\$ -</u>	<u>\$ 209,956</u>

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

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

Note 4 – Long Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Net Additions	Ending Balance	Current Portion
Compensated absences	<u>\$ 49,870</u>	<u>\$ 215</u>	<u>\$ 50,085</u>	<u>\$ 2,786</u>

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

	Beginning Balance	Net Additions	Ending Balance	Current Portion
Compensated absences	<u>\$ 48,276</u>	<u>\$ 1,594</u>	<u>\$ 49,870</u>	<u>\$ 3,500</u>

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

Note 5 - Related Organizations

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 Youngstown State 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.

WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

SCHEDULE OF NONFEDERAL FINANCIAL SUPPORT FOR THE YEAR ENDED JUNE 30, 2004

Direct Income	\$ 627,346
Indirect Administrative Support	122,007
In-Kind Contributions of Services and Other Intangibles	<u>148,261</u>
Total Nonfederal Financial Support	<u><u>\$ 897,614</u></u>



YOUNGSTOWN STATE UNIVERSITY

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

The 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, 2004 and have issued our report thereon dated December 13, 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.

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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended 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

December 13, 2004



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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 29, 2005**