

SINGLE AUDIT REPORT

Youngstown State University  
Year Ended June 30, 2006





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Youngstown State University  
One University Plaza  
Youngstown, Ohio 44455

We have reviewed the *Report of Independent Auditors* of the Youngstown State University, Mahoning County, prepared by Ernst & Young LLP, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 26, 2007

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# Youngstown State University

## Single Audit Report

Year Ended June 30, 2006

### Contents

Message from President.....	1
Financial Report	
Report of Independent Auditors.....	2
Management’s Discussion and Analysis .....	4
Youngstown State University Statements of Net Assets .....	18
The Youngstown State University Foundation	
Statements of Financial Position.....	19
University Housing Corporation Statements of Financial Position.....	20
Youngstown State University Statements of Revenues, Expenses and Changes in Net Assets.....	21
The Youngstown State University Foundation Statements of Activities and Changes in Net Assets.....	22
University Housing Corporation Statements of Activities .....	23
Youngstown State University Statements of Cash Flows.....	24
Notes to Financial Statements.....	26
Board of Trustees and Principal Administrators.....	48
Schedule of Expenditures of Federal Awards.....	49
Notes to Schedule of Expenditures of Federal Awards .....	55
Compliance and Internal Controls	
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 <i>Government Auditing Standards</i> .....	57
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 .....	58
Schedule of Findings and Questioned Costs.....	60

# YOUNGSTOWN STATE UNIVERSITY

## MESSAGE FROM PRESIDENT SWEET

October 6, 2006

Youngstown State University continued the focused implementation of its Centennial Strategic Plan during fiscal year 2006. 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 the University's fiscal year 2006 Annual Plan is available on the University's website. It details progress in addressing the Strategic Plan's ten critical issues. Progress continues despite Ohio's increasingly challenging financial environment and reflects the hard work of faculty, staff, administration, and the Board of Trustees. The highlights of fiscal year 2006 include:

- Graduation of 2,132 students, the largest number in the past twenty years.
- Initiation of the campus-wide self-study process as part of the Higher Learning Commission (North Central Association) decennial University-wide accreditation process.
- Opening the Andrews Student Recreation and Wellness Center in September which during the first year of operation achieved more than 100,000 visits by 6,600 individuals.
- Implementation of two major modules (finance and development) of the SCT Banner project, a \$12 million investment in improving our management information systems, which has engaged our staff in over 30,000 hours training.
- Continued high marks in the 2005 Performance Report for Ohio's Colleges and universities, an annual snapshot of how the state's public universities and colleges are performing, and strong financial position as evidenced by healthy Senate Bill 6 ratios.
- Engagement of Johnson Controls in an energy-savings performance contract with projected savings of \$13 million over the ten-year life of the contract.
- A commitment of the two largest gifts in the University's history (\$5 million and \$4 million) as part of the Centennial Capital Campaign for the Williamson College of Business building project.

While the University has had to increase tuition to maintain academic quality and address flat state funding in the face of increasing costs, 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. These have resulted in the average YSU student paying 46% of the stated tuition, the best ratio in the state. 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

The 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, 2006 and 2005, 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 reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, 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. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Youngstown State University and its discretely presented component units, as of June 30, 2006 and 2005, 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.

Management's discussion and analysis on pages 4 through 17 are not a required part of the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006 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, and 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, 2006 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 6, 2006

# 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, 2006 with comparative information for the fiscal years ended June 30, 2005 and 2004. 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, The 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. Fall 2005 enrollment was approximately 12,800 students and Spring 2006 enrollment was approximately 12,200. There were approximately 710 full-time equivalents (FTE) faculty and more than 1,780 FTE employed in fiscal year 2006.

### Using the Financial Statements

The 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 GASB 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**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

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In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, 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 is 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 Services, University Plaza, Youngstown, Ohio 44555.

### **Financial and Other University Highlights**

- Stable enrollment
- Continued decrease in State of Ohio support
- Positive Senate Bill 6 ratios
- Progress on four major planning initiatives including enrollment management, technology, the campus master plan, and the centennial capital campaign
- Continuation of partnership with SunGard Higher Education Solutions to implement an Enterprise Resource Planning (ERP) System to replace all administrative and financial information systems within the University
- Completion of West Gate Campus Gateway project

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### The Statements of Net Assets

These statements present the financial position of the University at the end of the fiscal year and include 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 follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Assets			
Current assets	\$ 29,766,825	\$ 35,321,462	\$ 40,245,160
Capital assets, net	160,912,963	152,956,510	142,257,459
Other assets	34,617,676	30,675,292	29,070,282
Total Assets	<u>225,297,464</u>	<u>218,953,264</u>	<u>211,572,901</u>
Liabilities			
Current liabilities	23,020,653	22,187,810	18,992,688
Noncurrent liabilities	30,888,229	21,232,048	20,937,814
Total Liabilities	<u>53,908,882</u>	<u>43,419,858</u>	<u>39,930,502</u>
Total Net Assets	<u>\$ 171,388,582</u>	<u>\$ 175,533,406</u>	<u>\$ 171,642,399</u>
Net Assets			
Invested in capital assets, net of related debt	138,839,999	139,692,381	128,979,986
Restricted - nonexpendable	5,273,847	5,267,429	5,125,548
Restricted - expendable	11,079,831	11,486,023	16,046,325
Unrestricted	16,194,905	19,087,573	21,490,540
Total Net Assets	<u>\$ 171,388,582</u>	<u>\$ 175,533,406</u>	<u>\$ 171,642,399</u>

### Assets

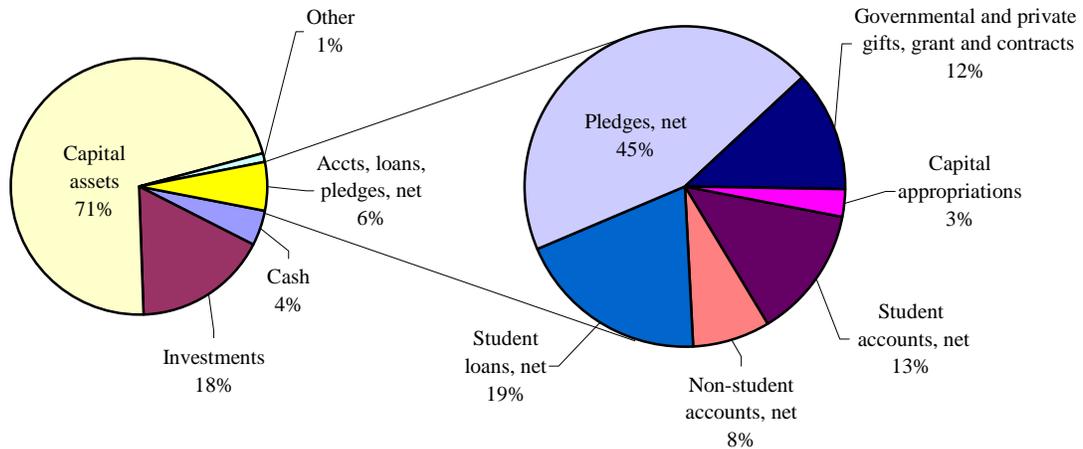
Assets primarily consist of cash and cash equivalents, investments, receivables and capital assets as reflected in the following table and graphs:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash and cash equivalents	\$ 10,106,720	\$ 16,411,426	\$ 13,246,709
Investments	37,847,254	29,779,808	36,578,580
Accounts, loans and pledges receivable, net	13,503,715	17,053,878	16,492,723
Capital assets, net	160,912,963	152,956,510	142,257,459
Other	2,926,812	2,751,642	2,997,430
Total Assets	<u>\$ 225,297,464</u>	<u>\$ 218,953,264</u>	<u>\$ 211,572,901</u>

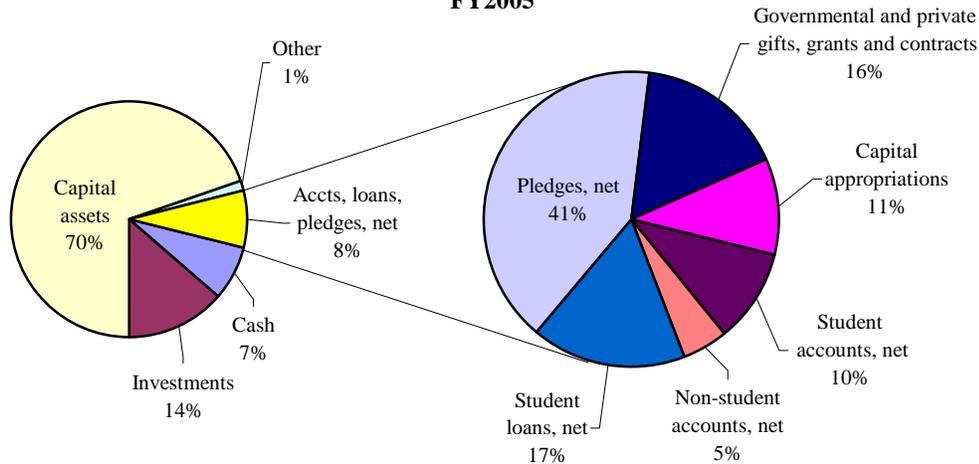
# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

**Total Assets  
FY2006**



**Total Assets  
FY2005**



Although total cash and cash equivalents, and investments only increased \$1.8 million from fiscal year 2005 to fiscal year 2006, the composition between cash and cash equivalents and investments fluctuated significantly. Cash and cash equivalents decreased \$6.3 million or 38.4% from fiscal year 2005 to fiscal year 2006 while investments increased \$8 million or 27.1%. The University's asset allocation guidelines specify a 20-40% range for cash and cash equivalents with a strategic target of 30%. Cash and cash equivalents were at the high end of the range at the end of fiscal year 2005 due to a planned transition to a new custodial investment manager, and a need for more liquidity to address scheduled payments of \$3.9 million for the West Campus Gateway Project including \$1.9 million in construction payables at June 30, 2005. Cash and cash equivalents were at the low end of the range at the end of fiscal year 2006 largely due to a shift of working capital from cash and cash equivalents to investments upon completion of the West Campus Gateway Project and

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

depletion of cash and cash equivalents in the last quarter of fiscal year 2006 to address ERIP and other retirement-related payouts. See Note 4 for more information on investment types and maturities. Invested balances for the construction of the Andrews Recreation and Wellness Center decreased \$5.1 million in fiscal year 2005 and were reflected in current assets at June 30, 2004.

Endowment principal and other investments are included in noncurrent assets. The Statement of Cash Flows provides additional information on sources and uses of the University's cash and cash equivalents. Refer to Notes 3 and 4 for additional information on cash and cash equivalents, and investments.

Net accounts, loans and pledges receivable decreased \$3.6 million or 20.8% from fiscal year 2005 to fiscal year 2006 due to:

- a \$1.4 million decrease in State capital appropriations resulting largely from reimbursement of technology upgrade projects receivable at June 30, 2005;
- a \$1.5 million decrease in grants and contracts receivable; and
- a \$1.2 million decrease in pledges receivable for the Andrews Recreation and Wellness Center.

See Notes 5 and 6 for additional information on net accounts, loans, and pledges receivable.

At June 30, 2006, the University had \$160,912,963 in capital assets, net of accumulated depreciation. Depreciation and amortization charges totaled \$8,816,031 in fiscal year 2006, \$8,320,547 in fiscal year 2005, and \$7,853,906 in fiscal year 2004. Details of net capital assets are shown below.

	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>
Land	\$ 13,380,116	\$ 13,329,592	\$ 13,104,291
Buildings	121,103,113	109,440,750	111,032,198
Improvements other than buildings	6,287,958	6,410,980	7,231,219
Construction-in-progress	11,815,023	14,246,102	3,962,224
Moveable equipment and furniture	7,303,979	8,340,583	6,414,879
Vehicles	163,267	210,131	169,912
Historical treasures	297,513	297,513	297,513
Capital leased assets	561,994	680,859	45,223
Total	<u>\$ 160,912,963</u>	<u>\$ 152,956,510</u>	<u>\$ 142,257,459</u>

Major capital activity during fiscal year 2006 included the completion of the West Campus Gateway Project, which includes the Andrews Recreation and Wellness Center and Bookstore renovation and expansion; the completion of the Chiller Steamline Project; the inception of an Energy Management System; and the continued construction of the East Campus Gateway Project, which includes parking lot improvements, street renovations and repairs. Major capital activity during fiscal year 2005 included the Campus Electronic Upgrade, the Beeghly Gym Roof Renovations, and construction of the Andrews Recreation and Wellness Center reflected in Construction in Progress at June 30, 2005. The addition of properties to allow for future expansion of the University campus, and technology upgrades occurred in both fiscal years 2006

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

and 2005. More detailed information about the University's capital assets is presented in Note 7 to the financial statements.

### Liabilities

Liabilities substantially consist of a note payable, accrued payroll and payroll withholdings, debt, deferred revenue, and compensated absences. The following table summarizes balances at:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Accounts and construction payable	\$ 1,427,637	\$ 3,249,294	\$ 1,161,860
Payroll liabilities	8,901,927	8,688,678	7,843,203
Note payable	9,796,000	-	-
Bonds and capital leases payable, net	12,366,550	13,268,653	13,492,373
Deferred revenue	8,765,906	8,484,716	7,705,117
Compensated absences	8,990,506	6,636,242	6,092,104
Refundable advance	2,793,698	2,808,777	2,758,350
Other	866,658	283,498	877,495
Total Liabilities	<u>\$ 53,908,882</u>	<u>\$ 43,419,858</u>	<u>\$ 39,930,502</u>

Total liabilities increased \$10.5 million in fiscal year 2006 primarily due to the addition of a \$9.8 million note payable for an energy management system. Accounts and construction payable increased in fiscal 2005 primarily due to construction payables related to the West Campus Gateway Project. At June 30, 2006, the University had \$12,030,000 in principal debt outstanding compared to \$12,875,000 at June 30, 2005 and \$13,680,000 at June 30, 2004. Compensated absences increased \$2.4 million primarily due to the establishment of an Early Retirement Incentive Plan (ERIP) during fiscal year 2006 and an increase in the estimated sick leave liability. More detailed information about the University's ERIP, debt and long-term liabilities is presented in Note 9 to the financial statements. See Note 8 for a further breakout of accrued and other liabilities.

### Net Assets

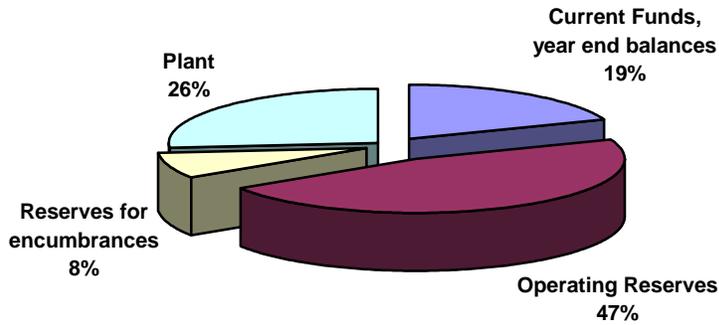
Many of the University's unrestricted net assets have been designated or reserved for specific purposes such as operating reserves, capital projects and reserve for encumbrances. The following table shows allocations of unrestricted net assets at:

# YOUNGSTOWN STATE UNIVERSITY

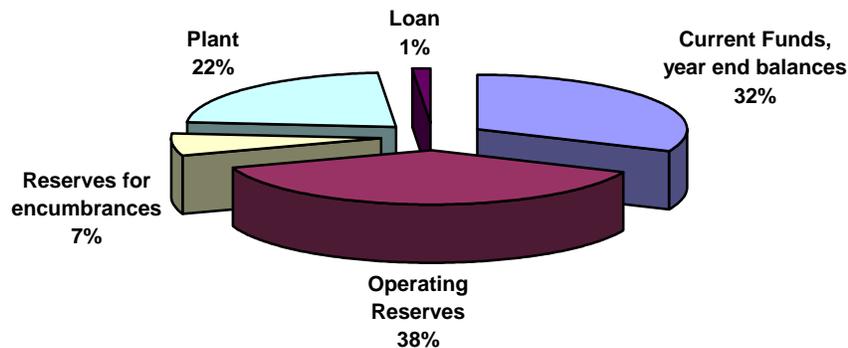
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current funds, year end balances			
Unallocated			
General operating	\$ -	\$ 2,990,136	\$ 3,406,987
Auxiliary enterprises	-	216,663	632,571
Allocated	<u>3,103,682</u>	<u>2,826,398</u>	<u>3,155,320</u>
Subtotal	3,103,682	6,033,197	7,194,878
Operating reserves			
General operating	6,560,000	6,308,386	6,308,386
Auxiliary enterprises	<u>978,575</u>	<u>970,000</u>	<u>922,500</u>
Subtotal	7,538,575	7,278,386	7,230,886
Reserves for encumbrances	1,250,460	1,275,559	1,732,291
Plant	4,281,731	4,228,827	5,060,881
Loan	20,457	271,604	271,604
Total	<u>\$ 16,194,905</u>	<u>\$ 19,087,573</u>	<u>\$ 21,490,540</u>

**Unrestricted Net Assets  
2006**



**Unrestricted Net Assets  
2005**



# **YOUNGSTOWN STATE UNIVERSITY**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

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Effective in fiscal year 2006, year end general carryforward funds are segregated into allocated funds that require approved spending plans prior to expenditure. Auxiliary year end carryforward funds have, and continue to be, transferred to plant reserve funds. The June 30, 2006 result is a \$1 million transfer from general operating to allocated funds, and a \$1.1 million transfer from auxiliary to plant reserve funds. The \$2 million decrease in year end general carryforward funds is largely attributable to June 30, 2006 unfunded compensated absences including ERIP. The \$0.25 million reduction in loan funds from fiscal year 2005 to fiscal year 2006 is the result of a reallocation of inactive loan funds to scholarship reserves.

Unrestricted net assets decreased \$2.4 million or 11% from June 30, 2004 to June 30, 2005. Current year end operating fund balances decreased \$1.1 million due to a reduction in the year end operating fund balance carry forward, transfers of Bookstore operating funds to fund the Bookstore expansion project, equipment purchases, and a decrease in the compensated sick leave reserve fund. In total, plant funds decreased \$0.8 million due to construction of the Bookstore expansion project which was approximately 90% complete at June 30, 2005. Also, reserves for encumbrances were significantly reduced due to anticipation of new financial system conversion.

### **Overall Analysis of Fiscal Year 2005 Versus 2004**

Assets increased in fiscal year 2005 primarily due to the capitalization of fixed assets which included the Andrews Recreation and Wellness Center. Liabilities increased slightly in fiscal year 2005 primarily due to construction payables related to the West Campus Gateway Project. Net Assets decreased from fiscal year 2004 to 2005 primarily due to a reduction in the year end operating fund balance carry forward, transfers of Bookstore operating funds to fund the Bookstore expansion project, and equipment purchases.

### **Overall Analysis of Fiscal Year 2004 Versus 2003**

Assets increased in 2004 primarily due to receipt of gifts for the construction of the Andrews Recreation and Wellness Center. Liabilities decreased slightly from 2003 to 2004 with liabilities primarily consisting of accrued payroll and payroll withholding, debt, compensated absences, and deferred revenue. Net assets increased due to funds designated for the Technology Master Plan and in Auxiliary operating funds designated for future plant expenditures including parking improvements and the Bookstore expansion.

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### 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 follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating Revenues			
Net tuition, fees and other student charges	\$ 67,801,731	\$ 62,490,186	\$ 58,880,154
Auxiliary enterprises	15,617,059	15,049,075	15,112,244
Grants and contracts	13,807,232	13,576,193	14,630,097
Other	1,269,415	1,825,178	1,995,908
Total Operating Revenues	<u>98,495,437</u>	<u>92,940,632</u>	<u>90,618,403</u>
Operating Expenses	<u>168,597,834</u>	<u>163,214,249</u>	<u>152,739,865</u>
Operating Loss	<u>(70,102,397)</u>	<u>(70,273,617)</u>	<u>(62,121,462)</u>
Nonoperating Revenues (Expenses)			
State appropriations	42,256,300	43,534,244	44,482,947
Gifts, grants, and contracts	20,024,534	19,560,137	19,338,226
Investment income	1,550,845	1,776,256	830,018
Other nonoperating expenses, net	(1,897,913)	(1,221,188)	(2,405,860)
Net Nonoperating Revenues	<u>61,933,766</u>	<u>63,649,449</u>	<u>62,245,331</u>
(Loss) Income Before Other Revenues, Expenses, and Changes	(8,168,631)	(6,624,168)	123,869
Other Revenues, Expenses, and Changes			
State capital appropriations	3,870,015	8,477,922	4,947,102
Capital grants and gifts	103,757	1,987,639	3,535,536
Other	50,035	49,614	70,125
Total Other Revenues, Expenses, and Changes	<u>4,023,807</u>	<u>10,515,175</u>	<u>8,552,763</u>
(Decrease) Increase in Net Assets	(4,144,824)	3,891,007	8,676,632
Net Assets at Beginning of Year	<u>175,533,406</u>	<u>171,642,399</u>	<u>162,965,767</u>
Net Assets at End of the Year	<u>\$ 171,388,582</u>	<u>\$ 175,533,406</u>	<u>\$ 171,642,399</u>

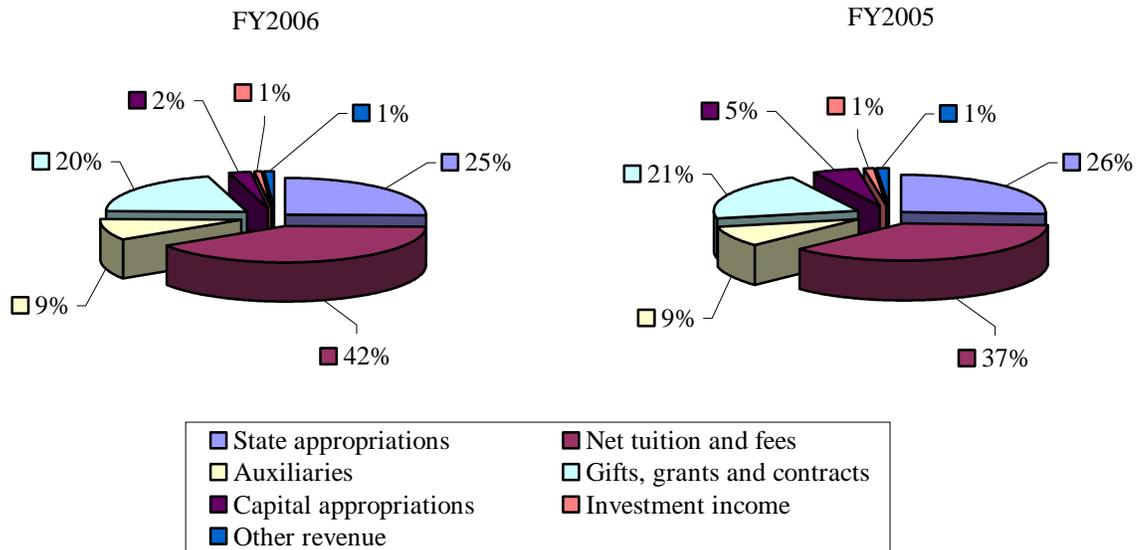
# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### Revenues

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Net tuition, fees and other student charges	\$ 67,801,731	\$ 62,490,186	\$ 58,880,154
Auxiliary enterprises	15,617,059	15,049,075	15,112,244
Gifts, grants, and contracts	33,985,558	35,173,583	37,503,859
State appropriations	42,256,300	43,534,244	44,482,947
Investment income	1,550,845	1,776,256	830,018
Other revenue	1,858,363	2,277,135	2,089,195
State capital appropriations	3,870,015	8,477,922	4,947,102
<b>Total Revenues</b>	<b>\$ 166,939,871</b>	<b>\$ 168,778,401</b>	<b>\$ 163,845,519</b>



Overall, the University's total net revenue decreased \$1.8 million or 1.1% in fiscal year 2006 and increased \$4.9 million or 3.0% in fiscal year 2005. The majority of the University's revenue, 67% in fiscal year 2006 and 63% in fiscal years 2005 and fiscal year 2004, is attributed to State appropriations and tuition and fees. Combined, these two revenue streams increased \$4.0 million in fiscal year 2006 and \$2.6 million in fiscal year 2005. State capital appropriations revenue decreased \$4.6 million in fiscal year 2006 and increased approximately \$3.5 million in fiscal year 2005 primarily due to increased capital activity in fiscal year 2005, most notably the West Campus Gateway project.

From fiscal year 2005 to fiscal year 2006, net tuition, fees, and other student charges increased \$5.3 million, primarily due to a 7.63% increase in tuition and fees charged to all students, offset by a 1.8% decrease in full-time equivalent students. From fiscal year 2004 to fiscal year 2005, net tuition, fees, and other student charges increased \$3.6 million, the result of a 2% increase in full-time equivalent students and a 6% increase in tuition and fees charged to all students.

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### Expenses

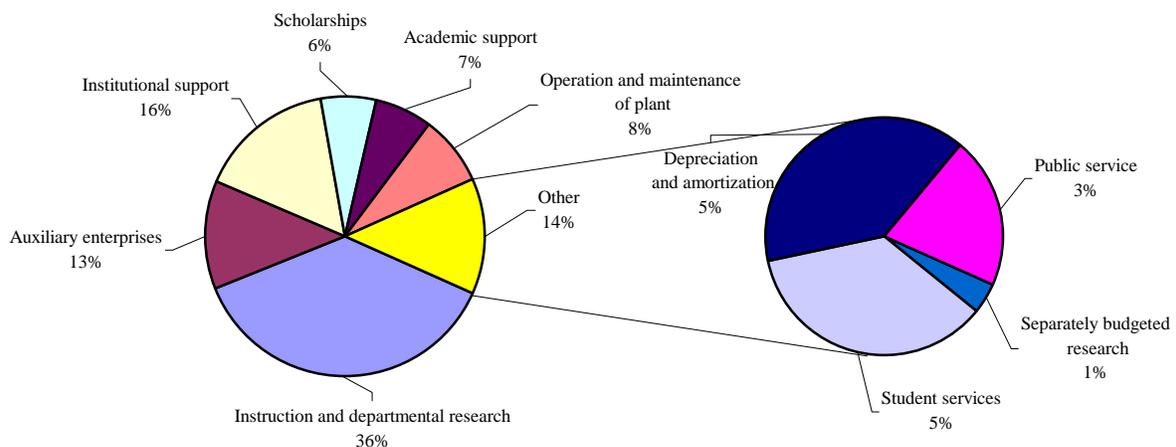
Operating expenses can be displayed in two formats: natural classification and functional classification. The table below, summarizing both formats, is followed by graphs of the functional expenses.

Functional Classification	Natural Classification				2006	2005	2004
	Compensation	Operating	Scholarships	Depreciation and Amortization	Total Functional	Total Functional	Total Functional
Instruction and departmental research	\$ 57,947,980	\$ 4,628,322	\$ 89,398	\$ -	\$ 62,665,700	\$ 63,608,020	\$ 59,411,582
Separately budgeted research	575,806	371,093	9,046	-	955,945	1,543,391	1,545,185
Public service	3,341,022	1,222,736	1,647	-	4,565,405	5,396,600	4,587,247
Academic support	8,699,518	2,652,925	2,614	-	11,355,057	10,325,582	9,805,434
Student services	6,740,364	1,273,064	1,720	-	8,015,148	8,747,696	8,280,175
Institutional support	19,658,109	6,980,194	16,070	-	26,654,373	22,749,601	20,210,101
Operation and maintenance of plant	6,977,546	6,504,736	652	-	13,482,934	13,022,133	12,352,682
Scholarships	-	-	10,917,454	-	10,917,454	9,391,805	9,627,199
Auxiliary enterprises	7,910,780	10,476,906	2,782,101	-	21,169,787	20,108,874	19,066,354
Depreciation and amortization	-	-	-	8,816,031	8,816,031	8,320,547	7,853,903
<b>Total Natural Expenses</b>	<b>\$ 111,851,125</b>	<b>\$ 34,109,976</b>	<b>\$ 13,820,702</b>	<b>\$ 8,816,031</b>	<b>\$ 168,597,834</b>	<b>\$ 163,214,249</b>	<b>\$ 152,739,862</b>

Overall operating expenses increased \$5.4 million or 3.3% between fiscal year 2006 and fiscal year 2005. The largest increase was a \$3.9 million increase in institutional support largely due to \$2 million ERIP OPERS purchases and retirement related payouts.

Operating expenses by natural classification remained constant between fiscal year 2005 and fiscal year 2004. Overall operating expenses increased \$10.5 million or 6.8% from \$152.7 million in 2004 to \$163.2 million in 2005. The largest increase was in instruction and departmental research, which increased approximately 7% over the prior year, and is consistent with budgeted amounts and institutional goals emphasizing academic instruction. Additionally, institutional support increased \$2.5 million reflecting institutional commitment to technology improvements.

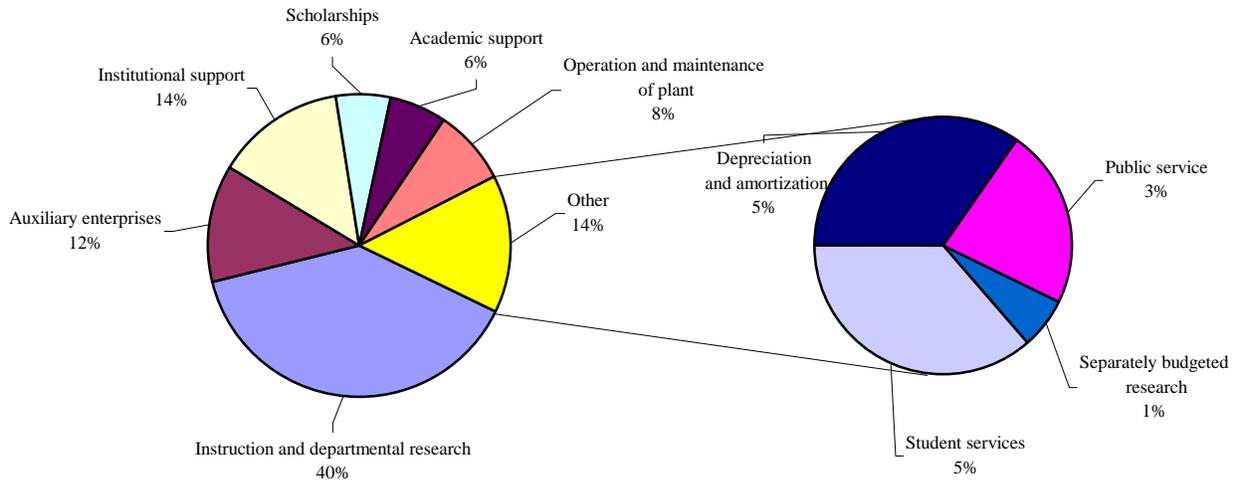
**Operating Expenses by Function  
FY 2006**



# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### Operating Expenses by Function FY 2005



Total operating and non-operating expenses are \$171,084,695, \$164,887,394, and \$155,168,887 in fiscal years 2006, 2005 and 2004, respectively.

### The Statements of Cash Flows

The 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 follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash provided by (used in):			
Operating activities	\$ (56,164,080)	\$ (60,618,862)	\$ (53,334,657)
Investing activities	(6,718,020)	8,716,735	3,245,449
Capital and related financing activities	(4,010,036)	(8,164,766)	(685,813)
Noncapital financing activities	60,587,430	63,231,610	60,836,425
Net (decrease) increase in cash	<u>(6,304,706)</u>	<u>3,164,717</u>	<u>10,061,404</u>
Cash and cash equivalents - Beginning of year	16,411,426	13,246,709	3,185,305
Cash and cash equivalents - End of year	<u>\$ 10,106,720</u>	<u>\$ 16,411,426</u>	<u>\$ 13,246,709</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, suppliers, and vendors. Significant fluctuations between investing and capital financing activities occurred due

# YOUNGSTOWN STATE UNIVERSITY

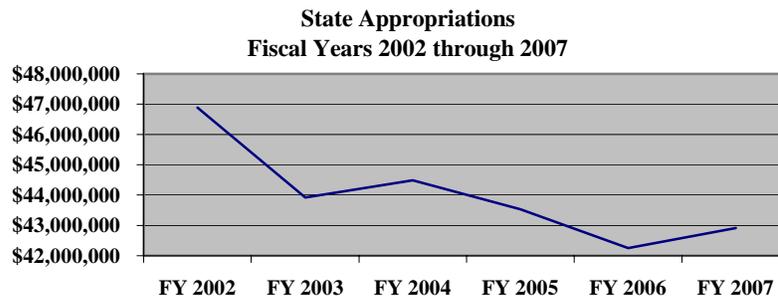
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

to drawing down investments to fund the West Gate Campus Project and \$9.8 million in note payable proceeds in fiscal year 2006 to finance an energy management system.

### 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, 2006 was 2.9 compared to 3.3 at June 30, 2005 and 4.0 at June 30, 2004. The decrease in the composite score is primarily the result of expending reserves for the purpose of construction of the West Campus Gateway Project.

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 continued to experience a decline in its revenue from State appropriations through fiscal year 2006. While the University's relative share of State appropriations is projected to remain constant in fiscal year 2007, the University's State allocation is projected to increase by 1.5%, which is directly tied to a \$30 million increase in the total State Share of Instruction subsidy that is allocated to all state colleges and universities in Ohio. The University's State appropriations are illustrated below:



Note: Graph includes five years actual plus budgeted amount for fiscal year 2007

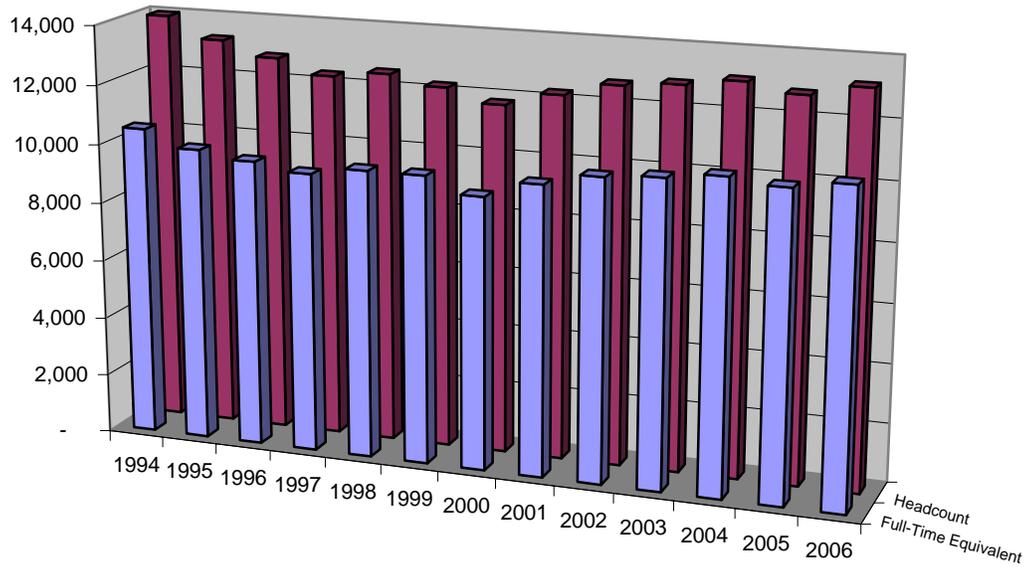
There is an inverse relationship between State support and the University's tuition rates, as declines in State appropriations continue to result in higher tuition, fees and other related charges.

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

The University's enrollment has stabilized:

**Fall Term Enrollment Trends  
1994 through 2006**



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
■ Full-Time Equivalent	10,508	9,954	9,714	9,462	9,729	9,733	9,203	9,766	10,171	10,311	10,518	10,332	10,590
■ Headcount	13,979	13,273	12,801	12,324	12,533	12,222	11,787	12,250	12,698	12,858	13,101	12,812	13,183

# YOUNGSTOWN STATE UNIVERSITY

## STATEMENTS OF NET ASSETS AT JUNE 30, 2006 AND 2005

	June 30, 2006	June 30, 2005
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 10,106,720	\$ 16,411,426
Investments	5,406,308	2,812,681
Restricted investments	890,724	679,960
Interest receivable	277,339	75,920
Accounts receivable, net	4,875,359	7,203,748
Pledges receivable, net	1,426,117	1,397,929
Pledges receivable, net - Youngstown State University Foundation	3,600,000	3,525,000
Loans receivable, net	601,950	543,600
Inventories	1,869,298	1,906,840
Prepaid expenses and deferred charges	713,010	764,358
<b>Total Current Assets</b>	29,766,825	35,321,462
<b>Noncurrent Assets</b>		
Investments	26,593,693	21,435,886
Endowments and other restricted investments	4,956,529	4,851,281
Pledges receivable, net	1,004,982	2,028,623
Loans receivable, net	1,995,307	2,354,978
Deposits on land	67,165	4,524
Capital assets, net	160,912,963	152,956,510
<b>Total Noncurrent Assets</b>	195,530,639	183,631,802
<b>Total Assets</b>	225,297,464	218,953,264
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	1,051,927	726,693
Construction payable	375,710	2,522,601
Payroll liabilities	8,901,927	8,688,678
Bonds payable	865,000	845,000
Note payable	833,867	-
Capital leases payable	89,763	79,129
Deferred revenue	8,765,906	8,484,716
Compensated absences	1,269,895	557,495
Other liabilities	866,658	283,498
<b>Total Current Liabilities</b>	23,020,653	22,187,810
<b>Noncurrent Liabilities</b>		
Bond payable, net	10,983,967	11,826,942
Note payable	8,962,133	-
Capital leases payable	427,820	517,582
Compensated absences	7,720,611	6,078,747
Refundable advance	2,793,698	2,808,777
<b>Total Noncurrent Liabilities</b>	30,888,229	21,232,048
<b>Total Liabilities</b>	53,908,882	43,419,858
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	138,839,999	139,692,381
Restricted:		
Nonexpendable	5,273,847	5,267,429
Expendable	11,079,831	11,486,023
Unrestricted	16,194,905	19,087,573
<b>Total Net Assets</b>	\$ 171,388,582	\$ 175,533,406

# THE YOUNGSTOWN STATE UNIVERSITY FOUNDATION

## STATEMENTS OF FINANCIAL POSITION AT JUNE 30, 2006 AND 2005

	June 30, 2006	June 30, 2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,040,308	\$ 3,940,395
Accrued interest receivable	776,283	768,475
Due from University Housing Corporation	107,391	102,376
Prepaid insurance	18,019	5,406
Property acquired for resale to Youngstown State University	108,834	108,834
Investments - at market value:		
Common stock	90,113,223	80,557,090
Preferred stock	5,539,445	5,700,479
Fixed income securities:		
U.S. Government and Agencies	28,243,611	25,657,716
Corporate	17,652,617	22,876,410
Temporary cash investments	1,205,240	1,019,435
	142,754,136	135,811,130
Contribution receivable	4,653	14,653
Contribution receivable from remainder trusts	1,329,997	1,256,980
Cash surrender value of insurance policies	63,371	61,705
Office furniture and equipment, at cost, less accumulated depreciation of \$31,924 in 2006 and \$30,436 in 2005	2,177	3,666
<b>TOTAL ASSETS</b>	<b>149,205,169</b>	<b>142,073,620</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	24,325	21,870
Retirement benefits payable	39,270	41,904
Grant commitments to Youngstown State University for scholarship awards	3,600,000	3,525,000
<b>Total Liabilities</b>	<b>3,663,595</b>	<b>3,588,774</b>
 <b>Net Assets</b>		
Unrestricted:		
Designated by Board for endowment	111,525,359	107,126,243
Undesignated	1,638,264	1,646,735
	113,163,623	108,772,978
Temporarily restricted	1,627,434	1,506,644
Permanently restricted	30,750,517	28,205,224
<b>Total Net Assets</b>	<b>145,541,574</b>	<b>138,484,846</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 149,205,169</b>	<b>\$ 142,073,620</b>

See accompanying notes to financial statements.

# UNIVERSITY HOUSING CORPORATION

## STATEMENTS OF FINANCIAL POSITION AT JULY 31, 2006 AND 2005

	July 31, 2006	July 31, 2005
<b>ASSETS</b>		
Current Assets		
Cash	\$ 171,539	\$ 147,667
Restricted cash	83,857	83,959
Accounts receivable, net	23,539	27,144
Interest receivable	13,516	9,980
Accounts receivable - Youngstown State University	15,879	73,768
Restricted investments	2,935,241	2,613,366
Prepaid expenses	216,685	199,887
Total Current Assets	3,460,256	3,155,771
Property, Facilities, and Equipment, net	16,771,069	17,272,367
Bond issue costs, net	357,311	371,187
<b>TOTAL ASSETS</b>	<b>20,588,636</b>	<b>20,799,325</b>
<b>LIABILITIES AND NET DEFICIT</b>		
Liabilities		
Current Liabilities		
Accounts payable	6,799	9,030
Accrued bond interest payable	66,143	69,191
Bonds payable, current portion	60,000	30,000
Capital lease payable, current portion	21,273	18,528
Prepaid rent	42,006	35,473
Due to Ambling Company	9,626	9,626
Security deposits	96,543	98,588
Other accruals	17,417	22,985
Total Current Liabilities	319,807	293,421
Long-Term Debt		
Bonds payable	21,580,000	21,740,000
Interest rate swap	365,214	1,092,304
Loan payable - Youngstown State University Foundation	108,376	103,463
Capital lease payable	41,739	62,816
Total Long-Term Debt	22,095,329	22,998,583
Total Liabilities	22,415,136	23,292,004
Unrestricted Net Deficit	(1,826,500)	(2,492,679)
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<b>\$ 20,588,636</b>	<b>\$ 20,799,325</b>

See accompanying notes to financial statements.

# YOUNGSTOWN STATE UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	June 30, 2006	June 30, 2005
<b>REVENUES</b>		
<b>Operating Revenues</b>		
Tuition, fees, and other student charges (net of scholarship allowance of \$16,907,746 in 2006 and \$17,449,206 in 2005)	\$ 67,801,731	\$ 62,490,186
Federal grants and contracts	3,640,710	4,179,781
State grants and contracts	8,672,343	8,365,159
Local grants and contracts	267,745	130,894
Private grants and contracts	1,226,434	900,359
Sales and services	243,638	311,697
Auxiliary enterprises	15,617,059	15,049,075
Other operating revenues	1,025,777	1,513,481
<b>Total Operating Revenues</b>	<b>98,495,437</b>	<b>92,940,632</b>
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
Instruction and departmental research	62,665,700	63,608,020
Separately budgeted research	955,945	1,543,391
Public service	4,565,405	5,396,600
Academic support	11,355,057	10,325,582
Student services	8,015,148	8,747,696
Institutional support	26,654,373	22,749,601
Operation and maintenance of plant	13,482,934	13,022,133
Scholarships	10,917,454	9,391,805
Auxiliary enterprises	21,169,787	20,108,874
Depreciation and amortization	8,816,031	8,320,547
<b>Total Operating Expenses</b>	<b>168,597,834</b>	<b>163,214,249</b>
<b>Operating Loss</b>	<b>(70,102,397)</b>	<b>(70,273,617)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	42,256,300	43,534,244
Federal grants	12,301,380	12,617,354
Private gifts	7,723,154	6,942,783
Unrestricted investment income (net of investment expense)	1,260,400	1,400,169
Restricted investment income (net of investment expense)	290,445	376,087
Interest on capital asset-related debt	(594,105)	(633,658)
Other nonoperating expenses, net	(1,303,808)	(587,530)
<b>Net Nonoperating Revenues</b>	<b>61,933,766</b>	<b>63,649,449</b>
<b>(Loss) Before Other Revenues, Expenses, and Changes</b>	<b>(8,168,631)</b>	<b>(6,624,168)</b>
<b>OTHER REVENUES, EXPENSES, AND CHANGES</b>		
State capital appropriations	3,870,015	8,477,922
Capital grants and gifts	103,757	1,987,639
Additions to the principal of endowments	50,035	49,614
<b>Total Other Revenues, Expenses, and Changes</b>	<b>4,023,807</b>	<b>10,515,175</b>
<b>(Decrease) Increase In Net Assets</b>	<b>(4,144,824)</b>	<b>3,891,007</b>
<b>NET ASSETS</b>		
<b>Net Assets at Beginning of the Year</b>	<b>175,533,406</b>	<b>171,642,399</b>
<b>Net Assets at End of the Year</b>	<b>\$ 171,388,582</b>	<b>\$ 175,533,406</b>

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, 2006 AND 2005

	June 30, 2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses) and other support:				
Contributions	\$ 384,153	\$ 75,000	\$ 2,290,780	\$ 2,749,933
Investment earnings	5,883,522	42,999	-	5,926,521
Net realized gain (loss) on sale of investments	45,390	1,770	(47,431)	(271)
Net unrealized gain on long-term investments	4,017,950	53,938	228,927	4,300,815
Increase in value of deferred gifts	-	-	73,017	73,017
Net assets released from restrictions	52,917	(52,917)	-	-
Total revenues, gains (losses) and other support	10,383,932	120,790	2,545,293	13,050,015
Expenditures and other distributions:				
Administrative expenditures	580,704	-	-	580,704
Distribution to Youngstown State University:				
Grants for property	27,687	-	-	27,687
Scholarships and other	5,364,599	-	-	5,364,599
Benefits for retired Youngstown University faculty	20,297	-	-	20,297
Total Expenditures	5,993,287	-	-	5,993,287
Change in Net Assets	4,390,645	120,790	2,545,293	7,056,728
Net Assets at Beginning of the Year	108,772,978	1,506,644	28,205,224	138,484,846
<b>NET ASSETS</b>	<b>\$ 113,163,623</b>	<b>\$ 1,627,434</b>	<b>\$ 30,750,517</b>	<b>\$ 145,541,574</b>

	June 30, 2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses) and other support:				
Contributions	\$ 689,308	\$ 107,000	\$ 1,921,510	\$ 2,717,818
Investment earnings	5,534,967	33,234	-	5,568,201
Net realized gain (loss) on sale of investments	298,402	(378)	53,915	351,939
Net unrealized gain (loss) on long-term investments	930,299	113,264	713,640	1,757,203
Increase in value of deferred gifts	-	-	67,756	67,756
Net assets released from restrictions	29,024	(29,024)	-	-
Total revenues, gains (losses) and other support	7,482,000	224,096	2,756,821	10,462,917
Expenditures and other distributions:				
Administrative expenditures	548,507	-	-	548,507
Distribution to Youngstown State University:				
Scholarships and other	5,200,109	-	-	5,200,109
Benefits for retired Youngstown University faculty	23,023	-	-	23,023
Total Expenditures	5,771,639	-	-	5,771,639
Change in Net Assets	1,710,361	224,096	2,756,821	4,691,278
Net Assets at Beginning of the Year	107,062,617	1,282,548	25,448,403	133,793,568
<b>NET ASSETS</b>	<b>\$ 108,772,978</b>	<b>\$ 1,506,644</b>	<b>\$ 28,205,224</b>	<b>\$ 138,484,846</b>

See accompanying notes to financial statements.

# UNIVERSITY HOUSING CORPORATION

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2006 AND 2005

	<u>July 31, 2006</u>	<u>July 31, 2005</u>
Income:		
Rental income	\$ 2,131,506	\$ 1,848,418
Interest income	148,670	119,907
Gain on interest rate swap	727,090	119,723
Other income	87,816	76,730
Total Income	<u>3,095,082</u>	<u>2,164,778</u>
Expenses:		
Administrative	31,124	27,700
Contract services	48,709	34,657
Interest expense	868,847	901,567
Bond fees	258,883	258,925
Depreciation and amortization expense	562,913	571,923
Bad debt expense	59,179	65,997
Management fees	114,312	114,312
Advertising costs	13,880	13,672
Payroll and payroll-related	149,479	147,640
Accounting and legal	25,125	27,529
Repairs and maintenance	85,202	74,142
Insurance	48,546	51,860
Unit utilities expense	162,704	148,298
Total Expenses	<u>2,428,903</u>	<u>2,438,222</u>
Decrease (Increase) in Unrestricted Net Deficit	666,179	(273,444)
Unrestricted Net Deficit at Beginning of Year	<u>(2,492,679)</u>	<u>(2,219,235)</u>
UNRESTRICTED NET DEFICIT AT END OF YEAR	<u>\$ (1,826,500)</u>	<u>\$ (2,492,679)</u>

See accompanying notes to financial statements.

# YOUNGSTOWN STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	June 30, 2006	June 30, 2005
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 67,199,320	\$ 62,159,175
Federal, state, and local grants and contracts	14,105,458	12,468,573
Private grants and contracts	1,210,560	880,411
Sales and services of educational and other departmental activities	15,267,451	16,316,276
Payments to suppliers	(34,880,870)	(38,782,583)
Payments to employees	(81,926,490)	(80,476,639)
Payments for benefits	(27,379,890)	(25,247,098)
Payments for scholarships	(10,917,454)	(9,391,805)
Student loans issued	(499,393)	(636,365)
Student loans collected	631,451	577,712
Student loan interest and fees collected	32,859	49,895
Other receipts, net	992,918	1,463,586
<b>Total Cash Flows Used In Operating Activities</b>	(56,164,080)	(60,618,862)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	65,703,842	79,535,375
Purchase of investments	(73,771,288)	(72,736,603)
Interest on investments	1,349,426	1,917,963
<b>Total Cash Flows (Used In) Provided By Investing Activities</b>	(6,718,020)	8,716,735
<b>Cash Flows From Capital and Related Financing Activities</b>		
State capital appropriations	5,300,923	7,425,883
Private capital gifts and grants	1,351,264	1,987,639
Note payable proceeds	9,796,000	-
Purchase of capital assets	(18,962,015)	(15,963,319)
Principal payments on capital debt	(924,128)	(1,004,811)
Interest payments on capital debt	(572,080)	(610,158)
<b>Total Cash Flows Used In Capital and Related Financing Activities</b>	(4,010,036)	(8,164,766)
<b>Cash Flows from Noncapital Financing Activities</b>		
Federal grants	12,540,007	12,692,967
State educational appropriations	42,256,300	43,534,244
Private gifts	7,045,194	7,542,494
Additions to the principal of endowments	50,035	49,614
Other nonoperating expenses	(1,304,106)	(587,709)
<b>Total Cash Flows Provided by Noncapital Financing Activities</b>	60,587,430	63,231,610
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(6,304,706)	3,164,717
<b>Cash and Cash Equivalents, Beginning of Year</b>	16,411,426	13,246,709
<b>Cash and Cash Equivalents, End of Year</b>	\$ 10,106,720	\$ 16,411,426

# YOUNGSTOWN STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS (CONT.) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating loss	\$ (70,102,397)	\$ (70,273,617)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	8,816,031	8,320,547
Provision for bad debts	781,396	307,131
Gifts in kind	330,906	
Changes in assets and liabilities:		
Accounts receivable, net	31,938	(382,315)
Loans receivable, net	132,059	(58,653)
Inventories	37,542	(1,596)
Prepaid expenses and deferred charges	51,348	(104,696)
Accounts payable	796,409	(879)
Accrued and other liabilities	325,234	251,479
Deferred revenue	281,190	779,599
Compensated absences	2,354,264	544,138
<b>Net Cash Flows Used In Operating Activities</b>	<u><u>\$ (56,164,080)</u></u>	<u><u>\$ (60,618,862)</u></u>
<b>Noncash Transactions</b>		
Additional capital leases	<u><u>\$ -</u></u>	<u><u>\$ 757,591</u></u>
Gifts in kind	<u><u>\$ 350,906</u></u>	<u><u>\$ 51,636</u></u>

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

### 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. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, 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.
- 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.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

- 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, an 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 submits 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 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 gains (losses) 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.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 gains and 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 an allowance for uncollectible amounts and are discounted to net present value.

Inventories – Inventories are determined on the 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 consist 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 (including amortization of capital leased assets) is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. Historical collections, including assets that are held for public exhibition, education, or research in furtherance of public service, which are protected and preserved, are not depreciated.

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

<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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 the current fiscal year.

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, fees and other student charges. 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 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 the end of the fiscal year do not constitute expenses incurred or liabilities and are not reflected in the financial statements.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

Newly Issued Accounting Pronouncements –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.

Reclassification – Certain reclassifications have been made to the 2005 amounts to conform with the 2006 presentation.

Internal Eliminations – Internal charges are eliminated from the Statement of Revenues, Expenses, and Changes in Net Assets.

### **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 \$42,256,300, including \$39,436,598 of State share of instruction and \$2,819,702 in challenge funds in fiscal year 2006 compared to State appropriations of \$43,534,244, including \$40,434,478 in State share of instruction and \$3,099,766 in challenge funds in fiscal year 2005. The State share of instruction is student based and determined annually by the Ohio Board of Regents.

Capital appropriations from the State totaled \$3,870,015 in fiscal year 2006 and \$8,477,922 in fiscal year 2005 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.

# **YOUNGSTOWN STATE UNIVERSITY**

## **NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006**

### **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.

The aggregate cost of repurchase agreements, which approximates market value, included in cash and cash equivalents is \$27,380 and \$22,508 at June 30, 2006 and 2005, 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 105% 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 or by a designated trustee as agent for the public depositories used by the University.

At June 30, 2006 and 2005, the carrying amount of the University's bank deposits and cash equivalents was \$10,106,720 and \$16,411,426 and the bank balances were \$10,051,416 and \$17,446,765, respectively. The difference in carrying amount and bank balance is caused by items in transit and outstanding checks. Of the balance, \$200,000 in fiscal year 2006 and \$184,757 in fiscal year 2005 was covered by federal depository insurance leaving \$9,851,416 in 2006 and \$17,262,008 in 2005 exposed to custodial credit risk. At times during the year, uncollateralized deposits may have been higher. Deposits held in safekeeping by a bank, as trustee or escrow agent, included in cash and investments totaled \$1,014,189 as of June 30, 2006 and \$84,757 as of June 30, 2005, 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 and in escrow for final payment of an energy management system.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a formal deposit policy for custodial credit risk.

### **Note 4 – Investments**

The University's investment policy authorizes the University to invest non-endowment and endowment University funds in compliance with provisions of the Ohio Revised Code including House Bill 524, Section 3345.05 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, investment types are not specifically limited but shall be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Furthermore, investments shall be managed for the use and benefit of the University in a

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

diversified portfolio that focuses, over time, on the preservation of capital, minimization of cost and risk, and maintenance of required levels of liquidity in the overall portfolio to meet cash flow requirements. 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.

The University utilizes investment managers for non-endowment and endowment funds. The University's endowment funds are managed by the Youngstown State University Foundation (see Note 13).

The University has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires certain reporting changes for the disclosure of deposits and investment risk.

As of June 30, 2006, the University had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Obligations	\$ 11,729,268	\$ 2,627,397	\$ 7,302,056	\$ 1,799,815	\$ -
Corporate Bonds	10,194,612	434,094	6,256,996	2,193,892	1,309,630
Foreign Bonds	196,877	130,054	-	66,823	-
U.S. Government Bonds	9,072,849	113,275	1,208,466	1,579,478	6,171,630
Preferred and Common Stock	5,685,763	5,685,763	-	-	-
Other Securities	967,885	967,885	-	-	-
Total	<u>\$ 37,847,254</u>	<u>\$ 9,958,468</u>	<u>\$ 14,767,518</u>	<u>\$ 5,640,008</u>	<u>\$ 7,481,260</u>

Note: All callable stocks were assumed to mature in less than one year.

As of June 30, 2006, investments had the following quality credit ratings.

Investment Type	Fair Value	Quality Ratings			
		A	Aa	Baa	Unrated
Corporate Bonds	\$ 10,194,612	\$ 1,801,674	\$ 6,930,505	\$ 1,046,833	\$ 415,600
Foreign Bonds	196,877	159,899	-	36,978	-
Total	<u>\$ 10,391,489</u>	<u>\$ 1,961,573</u>	<u>\$ 6,930,505</u>	<u>\$ 1,083,811</u>	<u>\$ 415,600</u>

As of June 30, 2005 the University had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Certificates of Deposit	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -
U.S. Government Obligations	6,402,945	681,587	4,830,453	890,905	-
Corporate Bonds	8,654,203	469,555	5,589,692	1,794,668	800,288
U.S. Government Bonds	8,785,786	-	2,849,607	2,042,204	3,893,975
Preferred and Common Stock	5,333,748	5,333,748	-	-	-
Other Securities	403,126	403,126	-	-	-
Total	<u>\$ 29,779,808</u>	<u>\$ 7,088,016</u>	<u>\$ 13,269,752</u>	<u>\$ 4,727,777</u>	<u>\$ 4,694,263</u>

Note: All callable stocks were assumed to mature in less than one year.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

As of June 30, 2005, investments had the following quality credit ratings.

Investment Type	Fair Value	Quality Ratings			
		A	Aa	Baa	Unrated
Corporate Bonds	\$ 8,654,203	\$ 2,274,462	\$ 4,797,254	\$ 1,340,933	\$ 241,554

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University has no provisions in its investment policy that would limit its choices.

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The total investments in the amount of \$37,847,254 as of June 30, 2006 and \$29,779,808 as of June 30, 2005 were uninsured and unregistered with securities held by the broker or by its trust department or agent, but not in the University's name.

### **Note 5 – Accounts and Loans Receivable**

Accounts and loans receivable at June 30, 2006 and 2005 consist of the following:

	2006	2005
Accounts Receivable		
Student accounts	\$ 3,752,130	\$ 3,365,185
Grants and contracts	1,265,300	2,790,591
State capital appropriations	362,777	1,793,685
Other receivables	1,470,183	867,774
Subtotal	<u>6,850,390</u>	<u>8,817,235</u>
Less: Allowance for doubtful accounts		
Student	(1,952,853)	(1,590,913)
Non student	(22,178)	(22,574)
Accounts receivable, net	<u>\$ 4,875,359</u>	<u>\$ 7,203,748</u>
Loans receivable - student notes	\$ 3,260,487	\$ 3,392,545
Less: Allowance for doubtful accounts	(663,230)	(493,967)
Loan receivable, net	<u>\$ 2,597,257</u>	<u>\$ 2,898,578</u>

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

### Note 6 – Pledges Receivable

Unconditional promises to give to the University recorded as pledges receivable at June 30, 2006 and June 30, 2005 were as follows:

	2006	2006	
	Pledges Receivable	Current Portion	2005
Total pledges receivable	\$ 6,303,734	\$ 5,066,777	\$ 7,422,002
Less: amount estimated to be uncollectible	(106,539)	(40,660)	(192,274)
present value discount	(166,096)	-	(278,176)
Pledges receivable, net	<u>6,031,099</u>	<u>\$ 5,026,117</u>	6,951,552
Less: current portion	(5,026,117)		(4,922,929)
Pledges receivable, noncurrent portion	<u>\$ 1,004,982</u>		<u>\$ 2,028,623</u>

Pledges have been discounted to net present value at a rate of 3.875% in fiscal year 2006 and fiscal year 2005.

### Note 7 – Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 13,329,592	\$ 50,524	\$ -	\$ 13,380,116
Construction-in-progress	14,246,102	13,499,892	(15,930,971)	11,815,023
Historical treasures	297,513	-	-	297,513
Depreciable assets:				
Buildings	230,016,286	956,530	15,373,822	246,346,638
Improvements other than buildings	21,278,421	786,627	177,544	22,242,592
Moveable equipment and furniture	24,962,332	1,703,295	(487,180)	26,178,447
Vehicles	1,092,632	23,517	(87,722)	1,028,427
Capital leases	930,181	-	(139,995)	790,186
Total cost	<u>306,153,059</u>	<u>17,020,385</u>	<u>(1,094,502)</u>	<u>322,078,942</u>
Less accumulated depreciation:				
Buildings	120,575,536	4,667,989	-	125,243,525
Improvements other than buildings	14,867,441	1,087,193	-	15,954,634
Moveable equipment and furniture	16,621,749	2,874,837	(622,118)	18,874,468
Vehicles	882,501	67,147	(84,488)	865,160
Capital leases	249,322	118,865	(139,995)	228,192
Total accumulated depreciation	<u>153,196,549</u>	<u>8,816,031</u>	<u>(846,601)</u>	<u>161,165,979</u>
Capital assets, net	<u>\$ 152,956,510</u>	<u>\$ 8,204,354</u>	<u>\$ (247,901)</u>	<u>\$ 160,912,963</u>

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

Capital assets activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 13,104,291	\$ 225,301	\$ -	\$ 13,329,592
Construction-in-progress	3,962,224	11,738,090	(1,454,212)	14,246,102
Historical treasures	297,513	-	-	297,513
Depreciable assets:				
Buildings	227,229,745	1,689,734	1,096,807	230,016,286
Improvements other than buildings	20,710,162	272,733	295,526	21,278,421
Moveable equipment and furniture	24,303,488	4,304,933	(3,646,089)	24,962,332
Vehicles	1,052,025	100,493	(59,886)	1,092,632
Capital leases	172,590	757,591	-	930,181
Total cost	<u>290,832,038</u>	<u>19,088,875</u>	<u>(3,767,854)</u>	<u>306,153,059</u>
Less accumulated depreciation:				
Buildings	116,197,547	4,377,989	-	120,575,536
Improvements other than buildings	13,478,943	1,388,498	-	14,867,441
Moveable equipment and furniture	17,888,609	2,375,149	(3,642,009)	16,621,749
Vehicles	882,113	56,956	(56,568)	882,501
Capital leases	127,367	121,955	-	249,322
Total accumulated depreciation	<u>148,574,579</u>	<u>8,320,547</u>	<u>(3,698,577)</u>	<u>153,196,549</u>
Capital assets, net	<u>\$ 142,257,459</u>	<u>\$ 10,768,328</u>	<u>\$ (69,277)</u>	<u>\$ 152,956,510</u>

### Note 8 – Accrued and Other Liabilities

Accrued and other liabilities at June 30, 2006 and 2005 consist of the following:

	2006	2005
Payroll liabilities:		
Accrued compensation and benefits	\$ 5,743,358	\$ 5,441,067
Accrued health care benefits and insurance payable	1,096,575	1,206,976
Retirement system contribution payable	2,061,994	2,040,635
Subtotal	<u>8,901,927</u>	<u>8,688,678</u>
Other liabilities:		
Deposits held in custody	591,169	227,158
Refunds payable	20,254	22,178
Interest payable	202,145	24,719
Other liabilities	53,090	9,443
Subtotal	<u>866,658</u>	<u>283,498</u>
Totals	<u>\$ 9,768,585</u>	<u>\$ 8,972,176</u>

Encumbrances representing estimated amounts of expenses ultimately to result, if unperformed contracts in process at June 30, 2006 are completed, totaled \$3,839,032 and included \$2,401,076 in State capital appropriations compared to \$6,102,004 and \$2,026,436 at June 30, 2005. These amounts do not constitute expenses incurred or liabilities.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

### Note 9 – Liabilities

#### Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable					
General receipts bonds principal	\$12,875,000	\$ -	\$ 845,000	\$12,030,000	\$ 865,000
Less: unamortized bond discount and issue cost	(203,058)	-	(22,025)	(181,033)	-
Bonds payable, net	<u>12,671,942</u>	<u>-</u>	<u>822,975</u>	<u>11,848,967</u>	<u>865,000</u>
Note payable	-	9,796,000	-	9,796,000	833,867
Capital leases payable	596,711	-	79,128	517,583	89,763
Compensated absences	6,636,242	2,354,264	-	8,990,506	1,269,895
Refundable advance	2,808,777	38,691	53,770	2,793,698	-
Total long-term liabilities	<u>\$22,713,672</u>	<u>\$12,188,955</u>	<u>\$ 955,873</u>	<u>\$33,946,754</u>	<u>\$ 3,058,525</u>

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable					
General receipts bonds principal	\$13,680,000	\$ -	\$ 805,000	\$12,875,000	\$ 845,000
Less: unamortized bond discount and issue cost	(226,558)	-	(23,500)	(203,058)	-
Bonds payable, net	<u>13,453,442</u>	<u>-</u>	<u>781,500</u>	<u>12,671,942</u>	<u>845,000</u>
Capital leases payable	38,931	757,591	199,811	596,711	79,129
Compensated absences	6,092,104	544,138	-	6,636,242	557,495
Refundable advance	2,758,350	113,949	63,522	2,808,777	-
Total long-term liabilities	<u>\$22,342,827</u>	<u>\$ 1,415,678</u>	<u>\$ 1,044,833</u>	<u>\$22,713,672</u>	<u>\$ 1,481,624</u>

Management is unable to determine the additions and reductions for compensated absences; therefore, a net number is presented.

#### Bonds Payable

Bonds payable consist of General Receipts Bonds, Series 1997 and Series 1998. The Series 1997 Bonds were issued May 15, 1997. 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. The Series 1996B bonds were issued December 18, 1996 and matured December 15, 2005.

Details of the outstanding Bonds Payable are as follows:

	Stated Interest Rate	Maturity Through	Original Principal
1997 - Term Bonds	6.25%	2017	200,000
1998 - Serial Bonds	4.15%-4.75%	2012	11,920,000
1998 - Term Bonds, fixed	4.75%	2016	5,030,000

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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, excluding State appropriations and 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
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	985,000	415,917	1,400,917
2011	1,025,000	370,507	1,395,507
2012-2018	7,310,000	1,095,890	8,405,890
Totals	<u>\$ 12,030,000</u>	<u>\$ 3,374,314</u>	<u>\$ 15,404,314</u>

Maturities of bonds payable for the fiscal years subsequent to June 30, 2006 are as follows:

Fiscal Year	General Receipts		Total
	Series 1997	Series 1998	
2007	\$ 10,000	\$ 855,000	\$ 865,000
2008	10,000	890,000	900,000
2009	10,000	935,000	945,000
2010	10,000	975,000	985,000
2011	10,000	1,015,000	1,025,000
2012-2018	100,000	7,210,000	7,310,000
Totals	<u>\$ 150,000</u>	<u>\$11,880,000</u>	<u>\$12,030,000</u>

### Note Payable

During fiscal year 2006, the University's Board of Trustees authorized the Administration to secure third party financing to implement energy conservation measures for its building, structures and systems using an installment financing plan, pursuant to Ohio Revised Code (ORC) Section 3345.65; with repayment of such loan with the annual savings in energy and operating costs realized as a result of such improvements.

In addition, the University entered into a ten year performance contract with Johnson Controls, which includes an assured performance providing for an annual measured cost savings of \$1,296,298. The contract amount of \$9,796,000 was financed with Chase Equipment Leasing, Inc. over 10 years, bears interest at 3.53%, and requires annual equal installment payments. Details of the installment schedule follows:

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Principal	Interest	Total
2007	\$ 833,867	\$ 345,799	\$ 1,179,666
2008	863,303	316,363	1,179,666
2009	893,777	285,889	1,179,666
2010	925,328	254,338	1,179,666
2011	957,992	221,674	1,179,666
2012-2016	5,321,733	576,597	5,898,330
Totals	<u>\$ 9,796,000</u>	<u>\$ 2,000,660</u>	<u>\$ 11,796,660</u>

Title to the assets shall vest in the University. The debt is secured by a pledge of all University general receipts, excluding State appropriations and receipts previously pledged or otherwise restricted. The University has complied with all covenant requirements.

As of June 30, 2006, \$8,816,400 was disbursed to the contractor and is reflected in Construction in Progress (See Note 7). The remaining \$979,600 is held in a special escrow fund in accordance with an escrow agreement, and is reflected in the University's cash and cash equivalents. The funding expiration date is June 23, 2007.

### Capital Lease Obligations

The University leases a mail inserting and folding system, two postage machines and address printer, and sixty-eight Steinway pianos under capital lease agreements. The mail inserting and folding system bears interest at 21.72%. The two postage machines and address printer bear interest at 7.60%. The Steinway pianos bear interest at 4.05%. The net book value of capital leased assets included in net Capital Assets in the Statements of Net Assets at June 30, 2006 and 2005, was \$561,994 and \$680,859, respectively.

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

Year Ending June 30,	Mail System	Mailroom Equipment	Steinway Pianos	Total
2007	\$ 9,845	\$ 17,460	\$ 85,773	\$ 113,078
2008	-	17,460	85,773	103,233
2009	-	17,460	85,773	103,233
2010	-	17,460	85,773	103,233
2011	-	-	85,773	85,773
2012	-	-	85,775	85,775
Total future minimum lease payments	<u>9,845</u>	<u>69,840</u>	<u>514,640</u>	<u>594,325</u>
Less amount representing interest	990	10,095	65,657	76,742
Total obligations under capital leases	<u>\$ 8,855</u>	<u>\$ 59,745</u>	<u>\$ 448,983</u>	<u>\$ 517,583</u>

### Operating Lease Obligations

The University has an operating lease for the purpose of classroom and general office purposes. The University has future minimum payments of \$103,740 thru December 31, 2006 and two renewal options: January 1, 2007 thru December 31, 2008 at \$221,590 annually and January 1, 2009 thru December 31, 2010 at \$236,658 annually.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

### Compensated Absences

During fiscal year 2006, the University's Board of Trustees authorized the implementation of the Youngstown State University Early Retirement Incentive Plan (ERIP) for its eligible employees who are members of the Ohio Public Employees Retirement System (OPERS). Provisions of the ERIP are based on ORC Section 145.297, Ohio Administrative Rule 145-2-42. The plan is effective from March 1, 2006 through December 31, 2007. The latest benefit effective date for participating employees who are eligible to retire by December 31, 2007 will be March 1, 2008. Participation shall be open to all eligible members of OPERS employed at the University as of the first day of the ERIP period. The University shall pay the cost (as determined by OPERS) of the lesser of two (2) years of service credit or one-fifth (1/5) of each member's total service credit for eligible members of OPERS who participate.

An estimated 185 employees were eligible to participate. During fiscal year 2006, the University recorded \$1,764,310 of ERIP OPERS purchases, which is reflected in institutional support on the Statement of Revenues, Expenses, and Changes in Net Assets. Current year payouts totaled \$1,071,703. The remaining \$692,607 is recorded as a current liability at June 30, 2006 and is reflected in the current portion of the compensated absences liability. Amounts recorded were based on actual purchases and estimates utilizing OPERS's benefit estimator and based on assumptions that everyone who signed the irrevocable form would indeed retire as of that date.

### 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 ORC.

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.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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) 222-6701 or 1-800-222-PERS (7377), and the STRS report by making a written request to 275 East Broad Street, Columbus, Ohio, 43215-3771.

### Alternative Retirement Plan

In 1997, the State approved an Alternative Retirement Plan (ARP) for full-time academic and administrative employees which allows new employees and those with less than five years of service to opt out of STRS and OPERS and contribute to one of the ARPs formed as Section 401(a) defined contribution plans. The legislation, as amended, requires employees and employers to contribute to the ARPs at the same rates as STRS and OPERS employee contributions.

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

Employee Contribution Rate						
Fiscal Year	STRS		OPERS		OPERSLE	
	Traditional	ARP	Traditional	ARP	Traditional	ARP
1/1/06-6/30/06	10.0%	10.0%	9.0%	9.0%	10.1%	10.1%
7/1/05-12/31/05	10.0%	10.0%	8.5%	8.5%	10.1%	10.1%
2005	10.0%	10.0%	8.5%	8.5%	9.0%	9.0%
2004	10.0%	10.0%	8.5%	8.5%	9.0%	9.0%

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

Employer Contributions							
Fiscal Year	STRS			OPERS		OPERSLE	
	Traditional	ARP		Traditional	ARP	Traditional	ARP
		STRS	ARP				
1/1/06-6/30/06	14.00%	3.50%	10.50%	13.54%	13.54%	16.93%	16.93%
7/1/05-12/31/05	14.00%	3.50%	10.50%	13.31%	13.31%	16.70%	16.70%
2005	14.00%	3.50%	10.50%	13.31%	13.31%	16.70%	16.70%
2004	14.00%	3.50%	10.50%	13.31%	13.31%	16.70%	16.70%

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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

Employer Contributions							
Fiscal Year	STRS			OPERS		OPERSLE	
	Traditional	ARP		Traditional	ARP	Traditional	ARP
		STRS	ARP				
2006	\$ 5,062,128	\$ 169,332	\$ 515,193	\$ 4,169,825	\$ 428,625	\$ 160,211	-
2005	\$ 4,987,888	\$ 168,916	\$ 506,748	\$ 4,063,880	\$ 389,577	\$ 134,740	-
2004	\$ 4,712,815	\$ 143,988	\$ 431,966	\$ 3,926,947	\$ 346,933	\$ 147,492	-

The OPERS employee contributions to the ARP totaled \$283,126 and the STRS employee contributions to the ARP totaled \$483,804.

### **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 4.0% in 2005, 4.0% in 2004 and 5.0% in 2003.

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 OPERS' latest actuarial review performed as of December 31, 2004
- **Funding method** – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- **Assets valuation method** – All investments are carried at market value. For actuarial valuation purposes a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25.0% of unrealized market appreciation or depreciation on investment assets.
- **Investment return** – The investment assumption rate for 2004 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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

increases over and above the 4.0% base increase were assumed to range from 0.5% to 6.3%.

- **Health care** – Health care costs were assumed to increase 4.0% annually. The number of active contribution participants at December 31, 2005 (the latest date information is available) was 376,109. The portion of the University's 2006, 2005 and 2004 contributions to OPERS used to fund postretirement benefits was \$1,301,175, \$1,221,196, and \$1,519,513, respectively. The actuarial value of the Retirement System's net assets available for payment of benefits at December 31, 2004 (the latest date information is available) was \$10.8 billion.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 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 2006, 2005 and 2004. 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, 2005 (the latest date information is available) were 115,395. The portion of the University's 2006, 2005 and 2004 contributions to STRS used to fund postretirement benefits was \$358,454, \$356,278 and \$336,630, respectively.

The health care reserve fund within the employers' trust fund from which payments for health care benefits are paid had a balance of \$3.3 billion at June 30, 2005.

Health care benefits paid by the plan were \$254,780,000 for the fiscal year ended June 30, 2005.

### 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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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:

	2006	2005
Liability at beginning of fiscal year	\$ 1,131,861	\$ 1,172,597
Current year claims including changes in estimates	7,515,715	7,614,540
Claim payments	(7,639,416)	(7,655,276)
Liability at end of fiscal year	<u>\$ 1,008,160</u>	<u>\$ 1,131,861</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.

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University has joined with other state-assisted universities in Ohio to form an insurance pool for the acquisition of commercial property and casualty insurance. The University pays annual premiums to the pool for its property and casualty insurance coverage based on its percentage of the total insurance value to the pool. Future contributions will be adjusted based upon each university's loss history.

The University has the following commercial insurance policies:

Type	Deductible	Coverage
Property	\$ 25,000	Replacement cost
Crime	\$ 100,000	\$5,000,000
General liability	\$ 100,000	\$1,000,000/occurrence \$10,000,000 general aggregate
Educator liability	\$ 100,000	\$1,000,000/occurrence \$1,000,000 aggregate
Excess liability	\$ 5,000,000	\$45,000,000 shared
Automobile liability	\$ 100,000	\$1,000,000
Medical malpractice	\$ 25,000	\$1,000,000/occurrence \$3,000,000 aggregate
Umbrella	\$ 1,000,000	\$4,000,000
Foreign Liability	-	\$1,000,000/occurrence \$2,000,000 aggregate

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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 or UHC's financial information in the University's financial report for these differences.

### **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 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 \$4,681,325 for the fiscal year ended June 30, 2006 and \$4,448,900 for the fiscal year ended June 30, 2005. Financial support from YSUF has been committed for fiscal year 2007 in the amount of \$4,851,450 and is reflected in deferred revenue on the University's Statement of Net Assets at June 30, 2006. At June 30, 2006 and June 30, 2005, \$3,600,000 and \$3,525,000, respectively, was due from YSUF and is included in pledges receivable on the University's Statement of Net Assets at June 30, 2006. In addition, rental income from YSUF of \$10,528 in fiscal year 2006 and \$11,456 in fiscal year 2005 was recorded and is reflected in the University's Statements of Revenues, Expenses and Changes in Net Assets.

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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

needed basis to satisfy the individual endowment purposes. Fair value of such investments held by YSUF at June 30, 2006 and June 30, 2005 was \$5,847,254 and \$5,531,247, respectively. The management services are provided at no 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. The amounts collected and remitted to the various entities by the Foundation in 2006 and 2005 amounted to \$140,008 and \$98,787, respectively.

### UHC

UHC operates University Student Courtyard Apartments complex with 130 dormitory housing units for 408 students and staff. This unique public-private partnership includes YSUF, University Housing Corporation (UHC), the City of Youngstown, Mahoning County, and Ambling Companies, Inc., a national leader in developing student housing communities. UHC is a tax-exempt organization.

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

### UHC Property

Property, facilities and equipment as of July 31, 2006 and 2005 are as follows:

	2006	2005
Buildings	\$ 17,442,241	\$ 17,442,241
Other capital asset	963,229	915,491
Total cost	<u>18,405,470</u>	<u>18,357,732</u>
Less accumulated depreciation:	(1,634,401)	(1,085,365)
Property, facilities and equipment, net	<u>\$ 16,771,069</u>	<u>\$ 17,272,367</u>

### UHC 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 JPMorgan Chase Bank as Remarketing Agent based on the weekly tax-exempt index as determined by JPMorgan Chase Bank, and are due at various dates until 2033. These variable interest rates at July 31, 2006 and 2005 were 3.7% and 2.3%, respectively with an average weekly rate of 3.1% during fiscal year 2006 and 1.9% during fiscal year 2005. The bonds are secured by the assignment of incomes and revenues of the University Courtyard Project.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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
2007	\$ 60,000
2008	100,000
2009	130,000
2010	175,000
2011	220,000
Thereafter	20,955,000
Total	<u>\$ 21,640,000</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 \$20,685,000 at July 31, 2006 and \$20,715,000 at July 31, 2005. 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 years 2006 and 2005 the 1-Month USD-LIBOR-BBA Index ranged from 3.52% to 5.39% (5.39% at July 31, 2006) and 1.52% to 3.52% (3.52% at July 31, 2005), respectively.

The fair value of the swap agreement at July 31, 2006 and 2005 was \$365,214 and \$1,092,304 respectively, and is recorded as a liability on UHC's Statement of Financial Position.

### ***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 UHC 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.

# **YOUNGSTOWN STATE UNIVERSITY**

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## **NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006**

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 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, 2006 and 2005, the amount due from to the Foundation from UHC is \$107,391 and \$102,375, respectively.

# YOUNGSTOWN STATE UNIVERSITY

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## BOARD OF TRUSTEES

H. S. Wang, Chair	<i>Ophthalmologist Eye Care Associates, Inc.</i>
William J. Bresnahan	<i>President Hynes Industries</i>
Donald 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>
Dianne Bitonte Miladore	<i>Physician Member of the Clinical Faculty at Northeast Ohio Universities College of Medicine</i>
John L. Pogue	<i>Attorney Harrington, Hoppe &amp; Mitchell, Ltd.</i>
Scott R. Schulick	<i>Vice President Butler Wick Trust Co.</i>
Paul L. Walker	<i>Student Trustee</i>

## PRINCIPAL ADMINISTRATORS

David C. Sweet	<i>President</i>
Cynthia E. Anderson	<i>Vice President for Student Affairs</i>
Bege Bowers	<i>Interim Provost</i>
Donna J. Esterly	<i>Interim Chief Technology Officer</i>
John Habat	<i>Vice President for Administration</i>
George E. McCloud	<i>Special Assistant for University Advancement</i>

Youngstown State University

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>Student Financial Aid – Cluster</b>			
Department of Education:			
Direct Programs:			
Federal Pell Grant Program	84.063		\$ 12,301,786
Federal Work Study Program	84.033		589,863
Federal Supplemental Educational Opportunity Grants	84.007		627,930
Federal Perkins Loan Program ( <i>Note 2</i> )	84.038		53,770
Federal Family Education Loan Program ( <i>Note 3</i> )	84.032		–
Total Student Financial Aid – Cluster			<u>13,573,349</u>
<b>Research and Development – Cluster</b>			
Department of Education:			
Direct Programs:			
Chemistry Teachers New Masters Degree	84.116B		12,683
Material Engineering Program	84.116Z		88,202
Pass Through Program:			
Teach Analytical Reason in Biology	84.116B	*	<u>13,255</u>
Total Department of Education			<u>114,140</u>
Department of Agriculture			
Direct Program:			
Monitoring Agricultural Sewage Sludge	10.224		304
Department of Health and Human Services:			
Direct Program:			
Glycommimetrics of S. Aurous of Capsular Polysaccharide Aminiosugars	93.856		31,562

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>Research and Development – Cluster (continued)</b>			
National Science Foundation:			
Direct Programs:			
Protemic Profiling/Dimorphism	47.074		162,639
NSF – Microeconomic Principles	47.076		8,445
Technological Leaders Scholarship Program	47.076		11,219
Research Experiments in Undergraduate Chemistry	47.049		883
Chemx: Assessing Cognitive Chemistry			
Expectations for Learning	47.076		18,883
NSF – Organometallic Nano Stars	47.049		12,177
Selenium Homeostasis	47.074		16,456
Pass Through Program:			
Develop Finite Element Method Learning Environment	47.076	DMS-0241090	22,022
Total National Science Foundation			252,724
Department of Defense:			
Pass Through Program:			
National Ocean Sciences Bowl '05	12.300	NA160M2411	15,022
United States Air Force Office of Scientific Research:			
Direct Programs:			
Foundations of Isomer Physics for Energy Applications	12.800		178,837
High Resolution Xray Study	12.800		341,380
Trigger Electromagnetic Pulse II	12.800		93,354
Total United States Air Force Office of Scientific Research			613,571
Battelle Army Research Office:			
Direct Program:			
Isomer Production Basics	AD19-02-D-0001		15,066
National Aeronautics and Space Administration			
Direct Program:			
Determine the Origin of Virgo's Interactive Stars	43.001		16,703
Total Research and Development – Cluster			1,059,092

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>Trio – Cluster</b>			
Department of Education:			
Direct Program:			
Upward Bound FY 03-06	84.047A		233,475
Total Trio – Cluster			<u>233,475</u>
<b>Other Financial Assistance Programs</b>			
Department of Education:			
Direct Programs:			
The Emerging Markets Initiative	84.153		59,013
Tri-County Partnership of Excellence	84.336B		29,350
Evaluation of Gear Up Project	84.334		27,818
Fellows in Science Education	84.215K		5,500
Pass Through Programs:			
State of Ohio Department of Education for			
2-year College:			
Strategic Plan C.D. Perkins, Yr. 11, FY 05	84.048	CPIII-A02	344
Strategic Plan C.D. Perkins, Yr. 12, FY 06	84.048	*	93,250
State of Ohio Department of Education for Tech			
Prep Programs:			
Tech Prep 03 Federal Base Grant	84.243	*	148
Tech Prep 04 Federal Base Grant	84.243	VETP2004-22-FB	5,181
Tech Prep 06 Federal Base Grant	84.243	VETP2005-22-FB	119,831
Office of Elementary and Secondary Education:			
Teaching Physical Science Through Inquiry	84.367	*	5,252
Ohio Partnership for East Region Science Teachers	84.367	*	10,714
Conceptually-based Mathematics	84.367	*	35,468
Inquiring Minds: Teach Physical Science	84.367	*	29,929
Ongoing Development and Implementation	84.367	*	10,390
Office of Educational Research and Improvement:			
Counseling 21st Century Grant	84.287	*	(1,998)
Smarts 21st Century Grant	84.287	*	7,960
Smarts 21st Century Grant, Hayes, Hillman, East	84.287	*	(564)
Smarts: CDA 2005-2006	84.287	*	12,717
CDA Funding for Youngstown Afterschool Alliance	84.287	*	20,667
Afterschool Alliance/21st Century	84.287	*	12,472
21st Century MREP for Spring 2005	84.287	*	230
MCESC MREP Year 2	84.215x	*	5,570

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>Other Financial Assistance Programs (continued)</b>			
Evaluation Girard Schools 21st Century, Yr 1	84.287	*	5,046
Evaluation Girard Schools 21st Century, Yr 2	84.287	*	6,996
Austintown 21st Century, 04-05	84.287	*	430
Austintown 21st Century, 05-06	84.287	*	13,886
Ohio Afterschool Network	84.287	*	495
Evaluating Youngstown City Middle School 21st Century, Yr 1	84.287	*	5,237
Evaluating Youngstown City Schools 21st Century	84.287	*	12,757
Reading First State Grants:			
Reading First '05	84.357	RFP#0A03034	484
Reading First Ohio Literacy Specialist Grant	84.357	*	46,196
Improving Teacher Quality State Grants:			
Teacher Candidate Assessment System	84.367	*	9,691
Total Department of Education			590,460
Department of Health and Human Services			
Direct Programs:			
National Youth Sports Program FY 05	93.570		60,833
National Youth Sports Program FY 06	93.570		5,885
Creating Leaders for Children with Autism	93.569		13,282
Pass Through Program:			
Bioterrorism/Disaster Prepared	93.283	U90/CCU524240	8,525
Total Department of Health and Human Services			88,525
Small Business Administration:			
Pass Through Programs:			
Small Business Development Center, Year 18	59.037	ECDD 04-102	6,025
Small Business Development Center, Year 19	59.037	ECDD 05-170	115,399
Total Small Business Administration			121,424
United States Department of Housing and Urban Development:			
Direct Programs:			
HUD Homeless Management Information System	14.511		61,143
HUD Homeless Management Information System 04-07	14.235		31,592

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>Other Financial Assistance Programs (continued)</b>			
Pass Through Programs:			
Buy Into Youngstown – Live in Youngstown	14.218	*	13,323
Buy Into Youngstown – Live in Youngstown III	14.228	*	4,793
Evaluating YMHA Hope VI Grant 06-07	N/A	*	7,193
Arlington Heights Buy Into Youngstown Program	14.866	*	5,211
Community Development Agency – City of Youngstown	14.208	*	<u>(376)</u>
Total United States Department of Housing and Urban Development			122,879
United States Department of Justice:			
Pass Through Programs:			
Evaluation Youngstown Police Weed/Seed 05-06	16.595	*	8,355
East Cleveland Gang-free Schools	16.544	*	57
Law Enforcement Trust Fund - Department of Justice	N/A	*	<u>2,324</u>
Total United States Department of Justice			10,736
United States Department of Labor:			
Pass Through Programs:			
Third Frontier Internship Program Grant	17.255	ECDD04-229	70,836
Bridges to Opportunity Implementation	17.267	*	<u>11,002</u>
Total United States Department of Labor			81,838
Corporation for Public Broadcasting			
Pass Through Programs:			
WYSU-FM Audience Service Challenge Grant II	N/A	*	23,007
Community Service Grant 04-06	N/A	*	<u>131,375</u>
Total Corporation for Public Broadcasting			154,382
National Science Foundation			
Direct Program:			
Technological Leaders Scholarship Program	47.076		58,152
Pass Through Programs:			
Using Manipulative Math Course	47.076	*	2,976
Regional Undergraduate Math Conference	47.049	*	21,106
Ohio Science and Engineering Alliance	47.076	*	<u>28,040</u>
Total National Science Foundation			110,274

Youngstown State University

Schedule of Expenditures of Federal Awards (continued)

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>Other Financial Assistance Programs (continued)</b>			
National Aeronautics and Space Administration			
Direct Programs:			
Ohio Space Grant Consortium Scholarship Program	43.001		5,000
A Briefer History of Time	43.001		<u>1,102</u>
Total National Aeronautics and Space Administration			6,102
Total Other Financial Assistance Programs			<u>1,286,620</u>
Total Expenditures and Awards			<u><u>\$16,152,536</u></u>

\* – Pass Through number not available

N/A – CFDA number not available

Youngstown State University

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

**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**

	<b>CFDA Number</b>	<b>Outstanding Balance at June 30, 2006</b>
Federal Perkins Loan Program	84.038	\$ <b>3,090,451</b>

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

	<b>CFDA Number</b>	<b>Loans Advanced to Students</b>
Federal Perkins Loan Program	84.038	\$ <b>462,350</b>

The Schedule of Expenditures of Federal Awards for the Federal Perkins Loan Program represents the Federal Capital Contribution for the year ended June 30, 2006 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, 2006, 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):

	<b>CFDA Number</b>	<b>Amount Processed</b>
Federal Family Education Loan Program	84.032	<b>\$ 50,389,540</b>

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 Youngstown State University (the University) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006, 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.

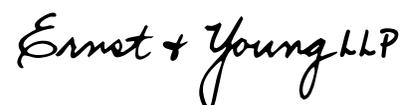
**Internal Control Over Financial Reporting**

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, based on the auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants, 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 6, 2006.

This report is intended for the information and use of the audit committee, management, 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 6, 2006

## 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

The Board of Trustees  
Youngstown State University

### Compliance

We have audited the compliance of Youngstown State University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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 of the University's compliance with those requirements.

As described in item 06-01 in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding allowable costs that are applicable to its research and development cluster. Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

## 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-01, 06-02, and 06-03.

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 the 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we considered item 06-01 to be a material weakness.

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



January 10, 2007

Youngstown State University

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

**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   None Reported

Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards Section**

Internal control over major programs:

Material weakness(es) identified?   X   Yes        No

Reportable condition(s) identified that are not considered to be material weakness(es)?   X   Yes        None Reported

Type of auditor’s reports issued on compliance for major programs: Student Financial Aid Cluster-  
Unqualified Opinion

R&D Cluster-Qualified Opinion

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



## Youngstown State University

### Schedule of Findings and Questioned Costs (continued)

#### 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 (a) (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.

**06-01**

Research and Development Cluster – Applicable to all CFDA Numbers

**Criteria Requirement:**

In accordance with 45 CFR Part 74 Appendix E, Part IX, paragraph B7 an institution must have a time and effort reporting system to support the distribution and allowability of salaries and wages.

**Condition:**

The University has policies and procedures over time and effort reporting that require payroll to be charged to Federal grants based on effort reporting. When a research grant is entered into, payroll expense is charged to the grant based on the budgeted level of effort in the grant agreement. Grant administrators are then required to report actual level of effort by completing a certified effort report. However, University grant administrators were given improper instructions on how to complete certified effort reports resulting in incorrect effort reporting. In addition, there are insufficient controls to match the period being certified with the pay period being charged. We further noted there are insufficient controls to ensure certified effort reports are completed.

**Questioned costs:**

\$0 – Based on the recertification of effort reports the University performed for all applicable research personnel, the grants were properly charged for payroll charges.

## Youngstown State University

### Schedule of Findings and Questioned Costs (continued)

<b>Context:</b>	<p>The University has 13 research and development grants in which one or more employees are subject to effort reporting requirements. We performed a combined test of internal controls and compliance by selecting one individual's level of effort report for one month for each of the 13 grants selected.</p> <p>Our testing noted that administrators were certifying their level effort as 100% related to research due to improper instructions on how to certify their level effort. Subsequent to June 30, 2006, management obtained recertifications from the administrators which supported the amount of payroll actually charged to the grant.</p> <p>Our testing of the original certifications completed indicated four instances where no staff effort reports could be located and two instances where the staff effort reports were not reviewed and approved.</p>
<b>Effect:</b>	<p>As a result, the University could be improperly reimbursed for payroll charges based on incorrect level of effort.</p>
<b>Cause:</b>	<p>Management did not have a proper understanding of level of effort reporting resulting in improper instructions being given to research administrators. In addition, management's policies are not sufficient to ensure that level of effort reports are submitted timely.</p>
<b>Recommendation:</b>	<p>Management should enhance its internal controls and policies and procedures over level effort reporting to ensure research administrators are properly educated on effort reporting. In addition, policies over documenting actual versus estimated effort should be developed. Further, procedures should be developed to ensure certified level of effort reports are completed.</p>

## Youngstown State University

### Schedule of Findings and Questioned Costs (continued)

**View of Responsible Officials  
and Corrective Action:**

The University agrees that improvement of internal controls and procedures for time and effort reporting are needed.

Actions Already Taken:

1. A recertification process, accompanied with accurate instructions for completion, was undertaken to ensure the appropriateness of all time and effort charged to research and development grants for the entire audit period. With the exception of one principal investigator who has left the employ of the University, the recertification process is complete with no unsubstantiated payroll charges.
2. An externally-provided time and effort workshop has been scheduled for March 6, 2007 for principal investigators, grants accounting, and other support staff.
3. The Time and Effort certification form has been modified to require supervisory review and signature.

Actions Planned (to be completed by February 1, 2007):

1. The frequency of time and effort reporting and follow-up is being evaluated to ensure compliance while improving efficiency and effectiveness of monitoring processes.
2. Content and documentation of policies, procedures and instructions are being reviewed and updated.

Youngstown State University

Schedule of Findings and Questioned Costs (continued)

<b>06-02</b>	Research and Development Cluster – Applicable to all CFDA Numbers
<b>Criteria or specific requirement (including statutory, regulatory, or other citation):</b>	In accordance with <i>OMB Circular A-110</i> Section 48e and Appendix A paragraph 8, internal controls are required over the suspension and debarment process. Further, no contract shall be made to entities on the General Services Administration’s List of Parties Excluded from Federal Procurement.
<b>Condition:</b>	Entities are required to ensure its vendors are not suspended or debarred by reviewing the <i>Excluded Parties List System (EPLS)</i> maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.
<b>Questioned costs:</b>	\$0.
<b>Context:</b>	We inquired with management and noted that procedures are not in place to ensure that vendors and non-vendors are not suspended and debarred. We performed compliance testing and noted for a sample of 15 vendors none were suspended or debarred.
<b>Effect:</b>	Management cannot document its compliance with the suspension and debarment requirements.
<b>Cause:</b>	Management does not have internal controls over the suspension and debarment process.
<b>Recommendation:</b>	Management should develop written internal controls to document compliance with their policies and procedures over suspension and debarment.

Youngstown State University

Schedule of Findings and Questioned Costs (continued)

<b>Views of Responsible Officials and Planned Corrective Actions:</b>	Although no noncompliance was noted, the University agrees that internal controls and procedures over suspension and debarment should be improved to document compliance. Financial Services is working with Legal Counsel to clarify requirements, and improvements in internal controls will be documented and implemented by February 1, 2007
<b>06-03</b>	Research and Development Cluster – Applicable to all CFDA Numbers
<b>Criteria or specific requirement (including statutory, regulatory, or other citation):</b>	In accordance with <i>OMB Circular A-110</i> Section 51, internal controls are required over performance reports.  Additional performance requirements are outlined in various research and development contracts that the University has entered into.
<b>Condition:</b>	We reviewed management’s policies and procedures and noted that the controls are not sufficient to ensure that progress reports are submitted timely.
<b>Questioned costs:</b>	\$0.
<b>Context:</b>	Since there are insufficient controls over progress reporting, we were unable to test internal controls over progress reporting. We performed compliance testing and noted that all progress reports were submitted timely.
<b>Effect:</b>	As a result, the University is unable to ensure timely submission of progress reports.
<b>Cause:</b>	Management does not have sufficient internal controls over progress reporting to ensure they are completed timely and that appropriate supporting documentation is maintained.

Youngstown State University

Schedule of Findings and Questioned Costs (continued)

**Recommendation:**

Management should develop written internal controls to ensure that progress reports are reviewed and submitted timely and supporting documentation is maintained.

**Views of Responsible Officials  
and Planned Corrective  
Actions:**

University guidelines clearly assign responsibility for non-financial progress reporting to principal investigators. To strengthen internal controls over decentralized progress reporting, the University is updating its written guidelines to further clarify that principal investigators are required to maintain auditable records concerning filing of progress reports. The new guidelines will be communicated to all principal investigators by February 1, 2007.

Youngstown State University

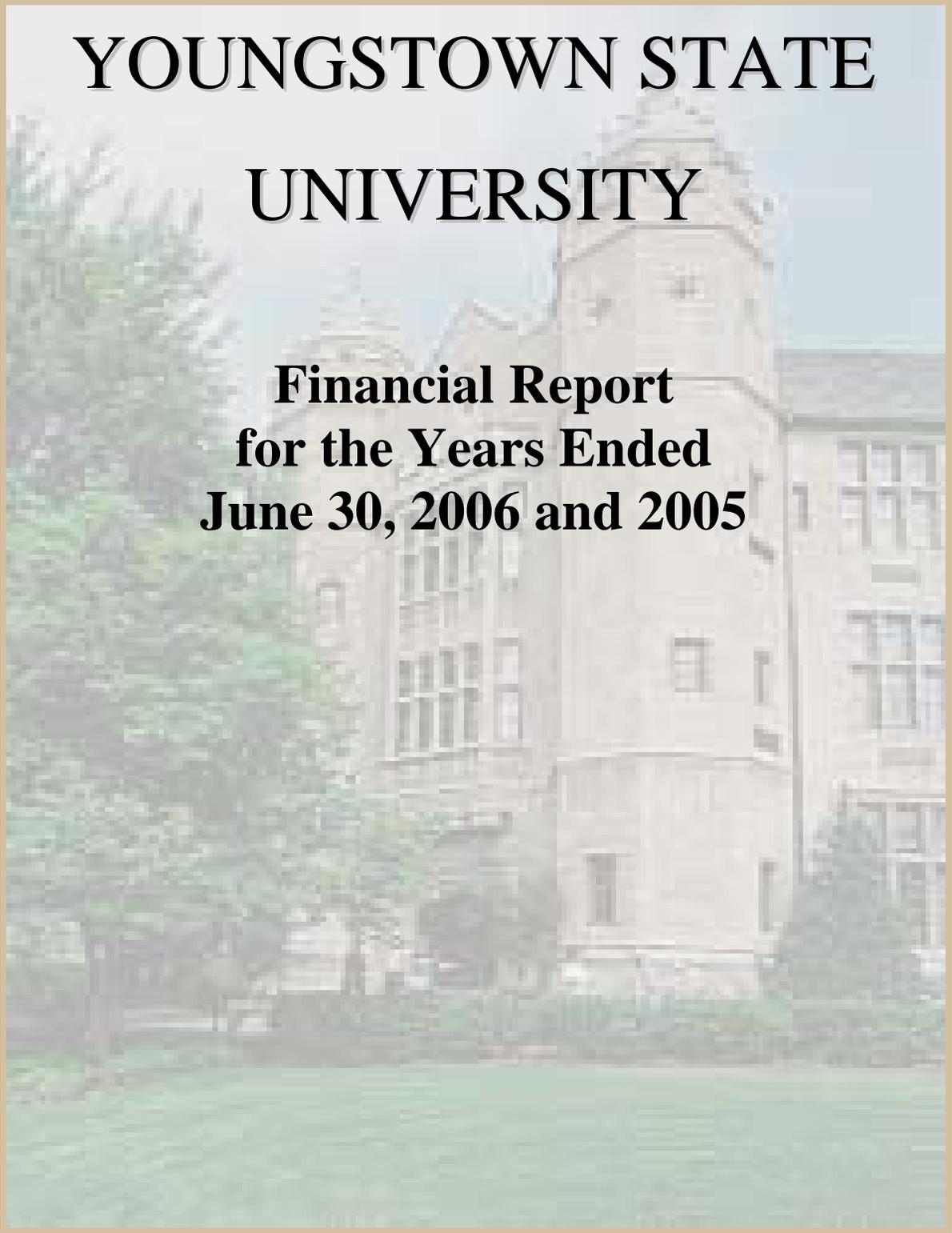
Schedule of Findings and Questioned Costs (continued)

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

**05-01**

US Department of Education Student Financial Aid Cluster—Federal Family Education Loan (FFEL) Program CFDA #84.032. The University did not timely submit status changes on the Roster File for students who graduated.

Management’s corrective action plan was implemented as outlined in the prior year finding.

The background of the cover is a faded photograph of a large, multi-story brick building, likely a university hall, with a prominent central tower. The building is set behind a green lawn and some trees. The entire image is framed by a thin, light brown border.

# YOUNGSTOWN STATE UNIVERSITY

**Financial Report  
for the Years Ended  
June 30, 2006 and 2005**

# YOUNGSTOWN STATE UNIVERSITY

## CONTENTS

	<i>Page</i>
<i>Message from President Sweet</i>	1
 <b><i>Financial Report</i></b>	
<i>Report of Independent Auditors</i> .....	2
<i>Management's Discussion and Analysis</i> .....	4
<i>Youngstown State University Statements of Net Assets</i> .....	18
<i>The Youngstown State University Foundation</i> <i>Statements of Financial Position</i> .....	19
<i>University Housing Corporation Statements of Financial Position</i> .....	20
<i>Youngstown State University Statements of</i> <i>Revenues, Expenses and Changes in Net Assets</i> .....	21
<i>The Youngstown State University Foundation</i> <i>Statements of Activities and Change in Net Assets</i> .....	22
<i>University Housing Corporation Statements of Activities</i> .....	23
<i>Youngstown State University Statements of Cash Flows</i> .....	24
<i>Notes to Financial Statements</i> .....	26
 <b><i>Board of Trustees and Principal Administrators</i></b> .....	 48

# YOUNGSTOWN STATE UNIVERSITY

## MESSAGE FROM PRESIDENT SWEET

October 6, 2006

Youngstown State University continued the focused implementation of its Centennial Strategic Plan during fiscal year 2006. 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 the University's fiscal year 2006 Annual Plan is available on the University's website. It details progress in addressing the Strategic Plan's ten critical issues. Progress continues despite Ohio's increasingly challenging financial environment and reflects the hard work of faculty, staff, administration, and the Board of Trustees. The highlights of fiscal year 2006 include:

- Graduation of 2,132 students, the largest number in the past twenty years.
- Initiation of the campus-wide self-study process as part of the Higher Learning Commission (North Central Association) decennial University-wide accreditation process.
- Opening the Andrews Student Recreation and Wellness Center in September which during the first year of operation achieved more than 100,000 visits by 6,600 individuals.
- Implementation of two major modules (finance and development) of the SCT Banner project, a \$12 million investment in improving our management information systems, which has engaged our staff in over 30,000 hours training.
- Continued high marks in the 2005 Performance Report for Ohio's Colleges and universities, an annual snapshot of how the state's public universities and colleges are performing, and strong financial position as evidenced by healthy Senate Bill 6 ratios.
- Engagement of Johnson Controls in an energy-savings performance contract with projected savings of \$13 million over the ten-year life of the contract.
- A commitment of the two largest gifts in the University's history (\$5 million and \$4 million) as part of the Centennial Capital Campaign for the Williamson College of Business building project.

While the University has had to increase tuition to maintain academic quality and address flat state funding in the face of increasing costs, 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. These have resulted in the average YSU student paying 46% of the stated tuition, the best ratio in the state. 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 the Youngstown State University (University), a component unit of the State of Ohio, as of June 30, 2006 and 2005, 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 reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University for the discretely presented component unit, is based solely on the reports 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. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Youngstown State University and its discretely presented component units, as of June 30, 2006 and 2005, 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 17 are not a required part of the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



October 6, 2006

# 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, 2006 with comparative information for the fiscal years ended June 30, 2005 and 2004. 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, The 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. Fall 2005 enrollment was approximately 12,800 students and Spring 2006 enrollment was approximately 12,200. There were approximately 710 full-time equivalents (FTE) faculty and more than 1,780 FTE employed in fiscal year 2006.

### Using the Financial Statements

The 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 GASB 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**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

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In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, 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 is 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 Services, University Plaza, Youngstown, Ohio 44555.

### **Financial and Other University Highlights**

- Stable enrollment
- Continued decrease in State of Ohio support
- Positive Senate Bill 6 ratios
- Progress on four major planning initiatives including enrollment management, technology, the campus master plan, and the centennial capital campaign
- Continuation of partnership with SunGard Higher Education Solutions to implement an Enterprise Resource Planning (ERP) System to replace all administrative and financial information systems within the University
- Completion of West Gate Campus Gateway project

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### The Statements of Net Assets

These statements present the financial position of the University at the end of the fiscal year and include 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 follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Assets			
Current assets	\$ 29,766,825	\$ 35,321,462	\$ 40,245,160
Capital assets, net	160,912,963	152,956,510	142,257,459
Other assets	34,617,676	30,675,292	29,070,282
Total Assets	<u>225,297,464</u>	<u>218,953,264</u>	<u>211,572,901</u>
Liabilities			
Current liabilities	23,020,653	22,187,810	18,992,688
Noncurrent liabilities	30,888,229	21,232,048	20,937,814
Total Liabilities	<u>53,908,882</u>	<u>43,419,858</u>	<u>39,930,502</u>
Total Net Assets	<u>\$ 171,388,582</u>	<u>\$ 175,533,406</u>	<u>\$ 171,642,399</u>
Net Assets			
Invested in capital assets, net of related debt	138,839,999	139,692,381	128,979,986
Restricted - nonexpendable	5,273,847	5,267,429	5,125,548
Restricted - expendable	11,079,831	11,486,023	16,046,325
Unrestricted	16,194,905	19,087,573	21,490,540
Total Net Assets	<u>\$ 171,388,582</u>	<u>\$ 175,533,406</u>	<u>\$ 171,642,399</u>

### Assets

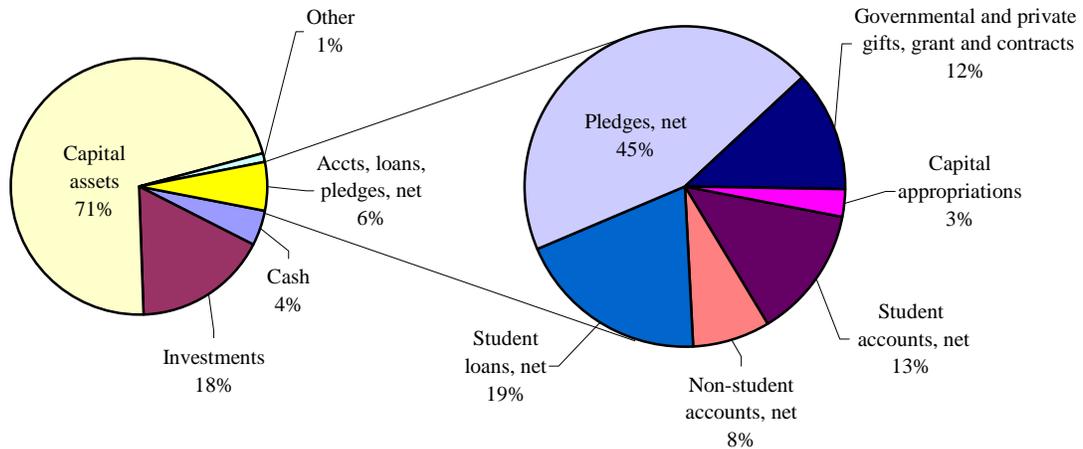
Assets primarily consist of cash and cash equivalents, investments, receivables and capital assets as reflected in the following table and graphs:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash and cash equivalents	\$ 10,106,720	\$ 16,411,426	\$ 13,246,709
Investments	37,847,254	29,779,808	36,578,580
Accounts, loans and pledges receivable, net	13,503,715	17,053,878	16,492,723
Capital assets, net	160,912,963	152,956,510	142,257,459
Other	2,926,812	2,751,642	2,997,430
Total Assets	<u>\$ 225,297,464</u>	<u>\$ 218,953,264</u>	<u>\$ 211,572,901</u>

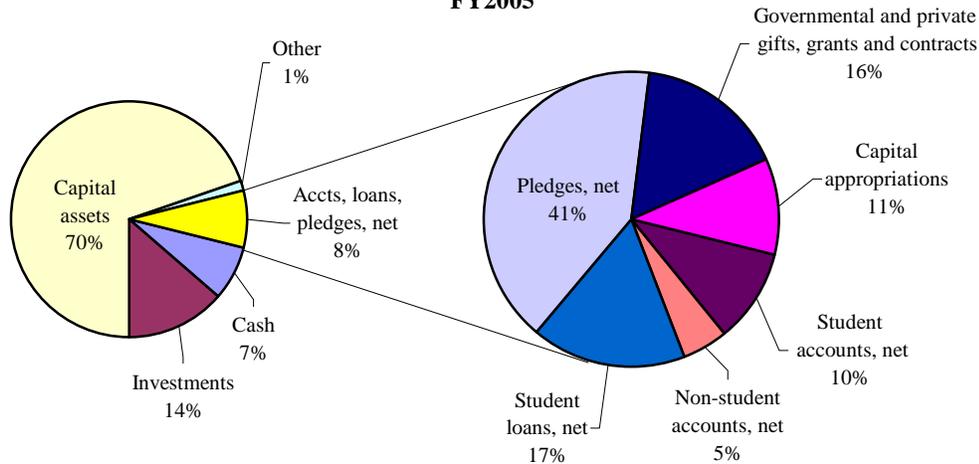
# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

**Total Assets  
FY2006**



**Total Assets  
FY2005**



Although total cash and cash equivalents, and investments only increased \$1.8 million from fiscal year 2005 to fiscal year 2006, the composition between cash and cash equivalents and investments fluctuated significantly. Cash and cash equivalents decreased \$6.3 million or 38.4% from fiscal year 2005 to fiscal year 2006 while investments increased \$8 million or 27.1%. The University's asset allocation guidelines specify a 20-40% range for cash and cash equivalents with a strategic target of 30%. Cash and cash equivalents were at the high end of the range at the end of fiscal year 2005 due to a planned transition to a new custodial investment manager, and a need for more liquidity to address scheduled payments of \$3.9 million for the West Campus Gateway Project including \$1.9 million in construction payables at June 30, 2005. Cash and cash equivalents were at the low end of the range at the end of fiscal year 2006 largely due to a shift of working capital from cash and cash equivalents to investments upon completion of the West Campus Gateway Project and

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

depletion of cash and cash equivalents in the last quarter of fiscal year 2006 to address ERIP and other retirement-related payouts. See Note 4 for more information on investment types and maturities. Invested balances for the construction of the Andrews Recreation and Wellness Center decreased \$5.1 million in fiscal year 2005 and were reflected in current assets at June 30, 2004.

Endowment principal and other investments are included in noncurrent assets. The Statement of Cash Flows provides additional information on sources and uses of the University's cash and cash equivalents. Refer to Notes 3 and 4 for additional information on cash and cash equivalents, and investments.

Net accounts, loans and pledges receivable decreased \$3.6 million or 20.8% from fiscal year 2005 to fiscal year 2006 due to:

- a \$1.4 million decrease in State capital appropriations resulting largely from reimbursement of technology upgrade projects receivable at June 30, 2005;
- a \$1.5 million decrease in grants and contracts receivable; and
- a \$1.2 million decrease in pledges receivable for the Andrews Recreation and Wellness Center.

See Notes 5 and 6 for additional information on net accounts, loans, and pledges receivable.

At June 30, 2006, the University had \$160,912,963 in capital assets, net of accumulated depreciation. Depreciation and amortization charges totaled \$8,816,031 in fiscal year 2006, \$8,320,547 in fiscal year 2005, and \$7,853,906 in fiscal year 2004. Details of net capital assets are shown below.

	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>
Land	\$ 13,380,116	\$ 13,329,592	\$ 13,104,291
Buildings	121,103,113	109,440,750	111,032,198
Improvements other than buildings	6,287,958	6,410,980	7,231,219
Construction-in-progress	11,815,023	14,246,102	3,962,224
Moveable equipment and furniture	7,303,979	8,340,583	6,414,879
Vehicles	163,267	210,131	169,912
Historical treasures	297,513	297,513	297,513
Capital leased assets	561,994	680,859	45,223
Total	<u>\$ 160,912,963</u>	<u>\$ 152,956,510</u>	<u>\$ 142,257,459</u>

Major capital activity during fiscal year 2006 included the completion of the West Campus Gateway Project, which includes the Andrews Recreation and Wellness Center and Bookstore renovation and expansion; the completion of the Chiller Steamline Project; the inception of an Energy Management System; and the continued construction of the East Campus Gateway Project, which includes parking lot improvements, street renovations and repairs. Major capital activity during fiscal year 2005 included the Campus Electronic Upgrade, the Beeghly Gym Roof Renovations, and construction of the Andrews Recreation and Wellness Center reflected in Construction in Progress at June 30, 2005. The addition of properties to allow for future expansion of the University campus, and technology upgrades occurred in both fiscal years 2006

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

and 2005. More detailed information about the University's capital assets is presented in Note 7 to the financial statements.

### Liabilities

Liabilities substantially consist of a note payable, accrued payroll and payroll withholdings, debt, deferred revenue, and compensated absences. The following table summarizes balances at:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Accounts and construction payable	\$ 1,427,637	\$ 3,249,294	\$ 1,161,860
Payroll liabilities	8,901,927	8,688,678	7,843,203
Note payable	9,796,000	-	-
Bonds and capital leases payable, net	12,366,550	13,268,653	13,492,373
Deferred revenue	8,765,906	8,484,716	7,705,117
Compensated absences	8,990,506	6,636,242	6,092,104
Refundable advance	2,793,698	2,808,777	2,758,350
Other	866,658	283,498	877,495
Total Liabilities	<u>\$ 53,908,882</u>	<u>\$ 43,419,858</u>	<u>\$ 39,930,502</u>

Total liabilities increased \$10.5 million in fiscal year 2006 primarily due to the addition of a \$9.8 million note payable for an energy management system. Accounts and construction payable increased in fiscal 2005 primarily due to construction payables related to the West Campus Gateway Project. At June 30, 2006, the University had \$12,030,000 in principal debt outstanding compared to \$12,875,000 at June 30, 2005 and \$13,680,000 at June 30, 2004. Compensated absences increased \$2.4 million primarily due to the establishment of an Early Retirement Incentive Plan (ERIP) during fiscal year 2006 and an increase in the estimated sick leave liability. More detailed information about the University's ERIP, debt and long-term liabilities is presented in Note 9 to the financial statements. See Note 8 for a further breakout of accrued and other liabilities.

### Net Assets

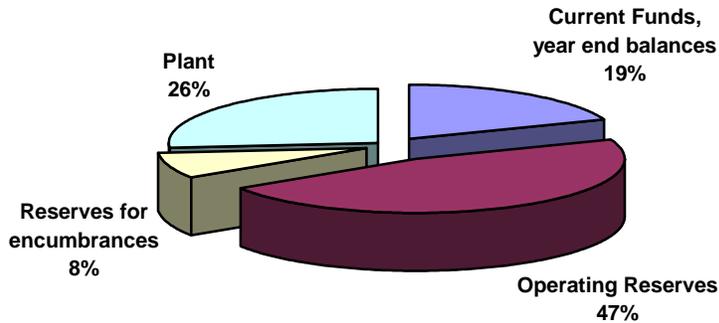
Many of the University's unrestricted net assets have been designated or reserved for specific purposes such as operating reserves, capital projects and reserve for encumbrances. The following table shows allocations of unrestricted net assets at:

# YOUNGSTOWN STATE UNIVERSITY

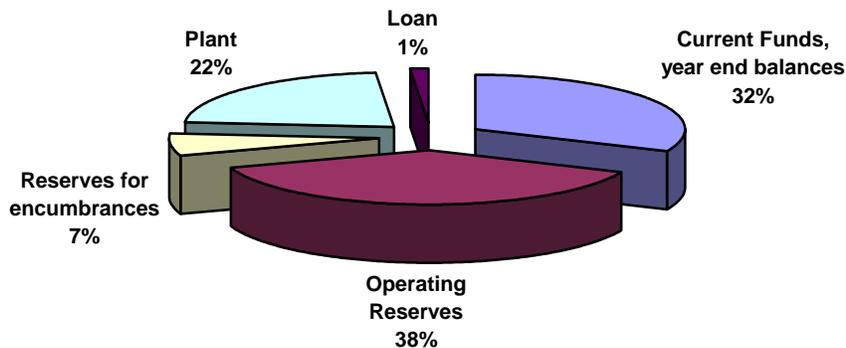
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current funds, year end balances			
Unallocated			
General operating	\$ -	\$ 2,990,136	\$ 3,406,987
Auxiliary enterprises	-	216,663	632,571
Allocated	<u>3,103,682</u>	<u>2,826,398</u>	<u>3,155,320</u>
Subtotal	3,103,682	6,033,197	7,194,878
Operating reserves			
General operating	6,560,000	6,308,386	6,308,386
Auxiliary enterprises	<u>978,575</u>	<u>970,000</u>	<u>922,500</u>
Subtotal	7,538,575	7,278,386	7,230,886
Reserves for encumbrances	1,250,460	1,275,559	1,732,291
Plant	4,281,731	4,228,827	5,060,881
Loan	20,457	271,604	271,604
Total	<u>\$ 16,194,905</u>	<u>\$ 19,087,573</u>	<u>\$ 21,490,540</u>

**Unrestricted Net Assets  
2006**



**Unrestricted Net Assets  
2005**



# **YOUNGSTOWN STATE UNIVERSITY**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

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Effective in fiscal year 2006, year end general carryforward funds are segregated into allocated funds that require approved spending plans prior to expenditure. Auxiliary year end carryforward funds have, and continue to be, transferred to plant reserve funds. The June 30, 2006 result is a \$1 million transfer from general operating to allocated funds, and a \$1.1 million transfer from auxiliary to plant reserve funds. The \$2 million decrease in year end general carryforward funds is largely attributable to June 30, 2006 unfunded compensated absences including ERIP. The \$0.25 million reduction in loan funds from fiscal year 2005 to fiscal year 2006 is the result of a reallocation of inactive loan funds to scholarship reserves.

Unrestricted net assets decreased \$2.4 million or 11% from June 30, 2004 to June 30, 2005. Current year end operating fund balances decreased \$1.1 million due to a reduction in the year end operating fund balance carry forward, transfers of Bookstore operating funds to fund the Bookstore expansion project, equipment purchases, and a decrease in the compensated sick leave reserve fund. In total, plant funds decreased \$0.8 million due to construction of the Bookstore expansion project which was approximately 90% complete at June 30, 2005. Also, reserves for encumbrances were significantly reduced due to anticipation of new financial system conversion.

### **Overall Analysis of Fiscal Year 2005 Versus 2004**

Assets increased in fiscal year 2005 primarily due to the capitalization of fixed assets which included the Andrews Recreation and Wellness Center. Liabilities increased slightly in fiscal year 2005 primarily due to construction payables related to the West Campus Gateway Project. Net Assets decreased from fiscal year 2004 to 2005 primarily due to a reduction in the year end operating fund balance carry forward, transfers of Bookstore operating funds to fund the Bookstore expansion project, and equipment purchases.

### **Overall Analysis of Fiscal Year 2004 Versus 2003**

Assets increased in 2004 primarily due to receipt of gifts for the construction of the Andrews Recreation and Wellness Center. Liabilities decreased slightly from 2003 to 2004 with liabilities primarily consisting of accrued payroll and payroll withholding, debt, compensated absences, and deferred revenue. Net assets increased due to funds designated for the Technology Master Plan and in Auxiliary operating funds designated for future plant expenditures including parking improvements and the Bookstore expansion.

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### 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 follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating Revenues			
Net tuition, fees and other student charges	\$ 67,801,731	\$ 62,490,186	\$ 58,880,154
Auxiliary enterprises	15,617,059	15,049,075	15,112,244
Grants and contracts	13,807,232	13,576,193	14,630,097
Other	1,269,415	1,825,178	1,995,908
Total Operating Revenues	<u>98,495,437</u>	<u>92,940,632</u>	<u>90,618,403</u>
Operating Expenses	<u>168,597,834</u>	<u>163,214,249</u>	<u>152,739,865</u>
Operating Loss	<u>(70,102,397)</u>	<u>(70,273,617)</u>	<u>(62,121,462)</u>
Nonoperating Revenues (Expenses)			
State appropriations	42,256,300	43,534,244	44,482,947
Gifts, grants, and contracts	20,024,534	19,560,137	19,338,226
Investment income	1,550,845	1,776,256	830,018
Other nonoperating expenses, net	(1,897,913)	(1,221,188)	(2,405,860)
Net Nonoperating Revenues	<u>61,933,766</u>	<u>63,649,449</u>	<u>62,245,331</u>
(Loss) Income Before Other Revenues, Expenses, and Changes	(8,168,631)	(6,624,168)	123,869
Other Revenues, Expenses, and Changes			
State capital appropriations	3,870,015	8,477,922	4,947,102
Capital grants and gifts	103,757	1,987,639	3,535,536
Other	50,035	49,614	70,125
Total Other Revenues, Expenses, and Changes	<u>4,023,807</u>	<u>10,515,175</u>	<u>8,552,763</u>
(Decrease) Increase in Net Assets	(4,144,824)	3,891,007	8,676,632
Net Assets at Beginning of Year	<u>175,533,406</u>	<u>171,642,399</u>	<u>162,965,767</u>
Net Assets at End of the Year	<u>\$ 171,388,582</u>	<u>\$ 175,533,406</u>	<u>\$ 171,642,399</u>

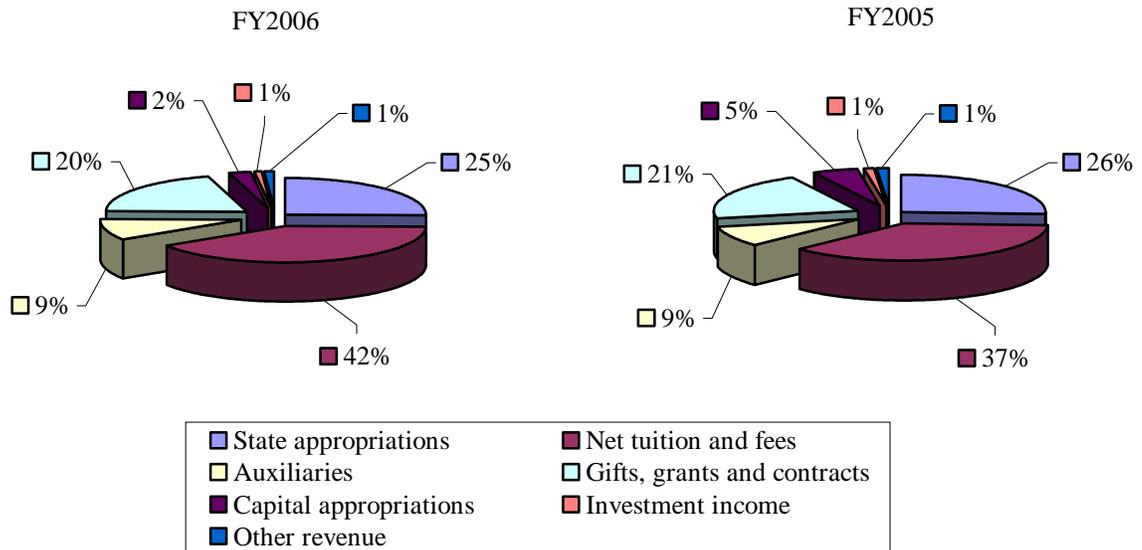
# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### Revenues

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Net tuition, fees and other student charges	\$ 67,801,731	\$ 62,490,186	\$ 58,880,154
Auxiliary enterprises	15,617,059	15,049,075	15,112,244
Gifts, grants, and contracts	33,985,558	35,173,583	37,503,859
State appropriations	42,256,300	43,534,244	44,482,947
Investment income	1,550,845	1,776,256	830,018
Other revenue	1,858,363	2,277,135	2,089,195
State capital appropriations	3,870,015	8,477,922	4,947,102
<b>Total Revenues</b>	<b>\$ 166,939,871</b>	<b>\$ 168,778,401</b>	<b>\$ 163,845,519</b>



Overall, the University's total net revenue decreased \$1.8 million or 1.1% in fiscal year 2006 and increased \$4.9 million or 3.0% in fiscal year 2005. The majority of the University's revenue, 67% in fiscal year 2006 and 63% in fiscal years 2005 and fiscal year 2004, is attributed to State appropriations and tuition and fees. Combined, these two revenue streams increased \$4.0 million in fiscal year 2006 and \$2.6 million in fiscal year 2005. State capital appropriations revenue decreased \$4.6 million in fiscal year 2006 and increased approximately \$3.5 million in fiscal year 2005 primarily due to increased capital activity in fiscal year 2005, most notably the West Campus Gateway project.

From fiscal year 2005 to fiscal year 2006, net tuition, fees, and other student charges increased \$5.3 million, primarily due to a 7.63% increase in tuition and fees charged to all students, offset by a 1.8% decrease in full-time equivalent students. From fiscal year 2004 to fiscal year 2005, net tuition, fees, and other student charges increased \$3.6 million, the result of a 2% increase in full-time equivalent students and a 6% increase in tuition and fees charged to all students.

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### Expenses

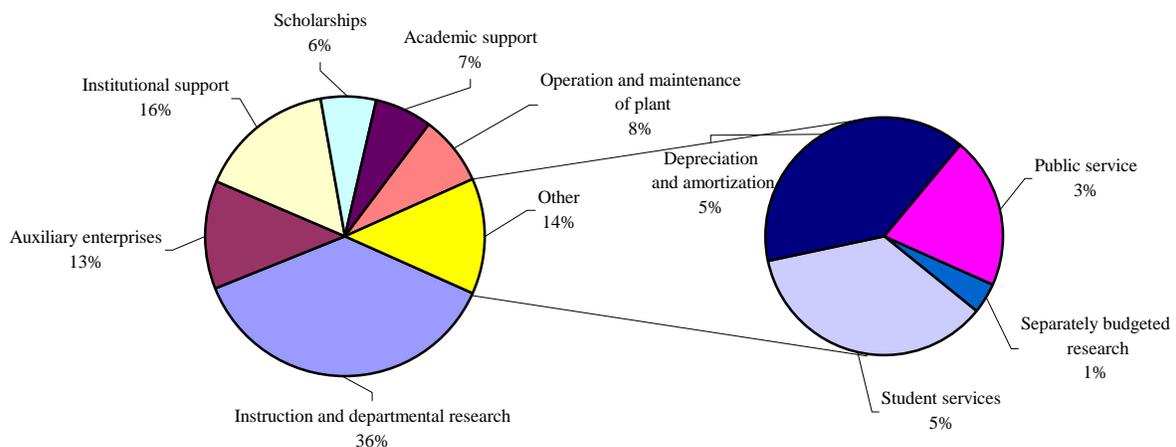
Operating expenses can be displayed in two formats: natural classification and functional classification. The table below, summarizing both formats, is followed by graphs of the functional expenses.

Functional Classification	Natural Classification				2006	2005	2004
	Compensation	Operating	Scholarships	Depreciation and Amortization	Total Functional	Total Functional	Total Functional
Instruction and departmental research	\$ 57,947,980	\$ 4,628,322	\$ 89,398	\$ -	\$ 62,665,700	\$ 63,608,020	\$ 59,411,582
Separately budgeted research	575,806	371,093	9,046	-	955,945	1,543,391	1,545,185
Public service	3,341,022	1,222,736	1,647	-	4,565,405	5,396,600	4,587,247
Academic support	8,699,518	2,652,925	2,614	-	11,355,057	10,325,582	9,805,434
Student services	6,740,364	1,273,064	1,720	-	8,015,148	8,747,696	8,280,175
Institutional support	19,658,109	6,980,194	16,070	-	26,654,373	22,749,601	20,210,101
Operation and maintenance of plant	6,977,546	6,504,736	652	-	13,482,934	13,022,133	12,352,682
Scholarships	-	-	10,917,454	-	10,917,454	9,391,805	9,627,199
Auxiliary enterprises	7,910,780	10,476,906	2,782,101	-	21,169,787	20,108,874	19,066,354
Depreciation and amortization	-	-	-	8,816,031	8,816,031	8,320,547	7,853,903
<b>Total Natural Expenses</b>	<b>\$ 111,851,125</b>	<b>\$ 34,109,976</b>	<b>\$ 13,820,702</b>	<b>\$ 8,816,031</b>	<b>\$ 168,597,834</b>	<b>\$ 163,214,249</b>	<b>\$ 152,739,862</b>

Overall operating expenses increased \$5.4 million or 3.3% between fiscal year 2006 and fiscal year 2005. The largest increase was a \$3.9 million increase in institutional support largely due to \$2 million ERIP OPERS purchases and retirement related payouts.

Operating expenses by natural classification remained constant between fiscal year 2005 and fiscal year 2004. Overall operating expenses increased \$10.5 million or 6.8% from \$152.7 million in 2004 to \$163.2 million in 2005. The largest increase was in instruction and departmental research, which increased approximately 7% over the prior year, and is consistent with budgeted amounts and institutional goals emphasizing academic instruction. Additionally, institutional support increased \$2.5 million reflecting institutional commitment to technology improvements.

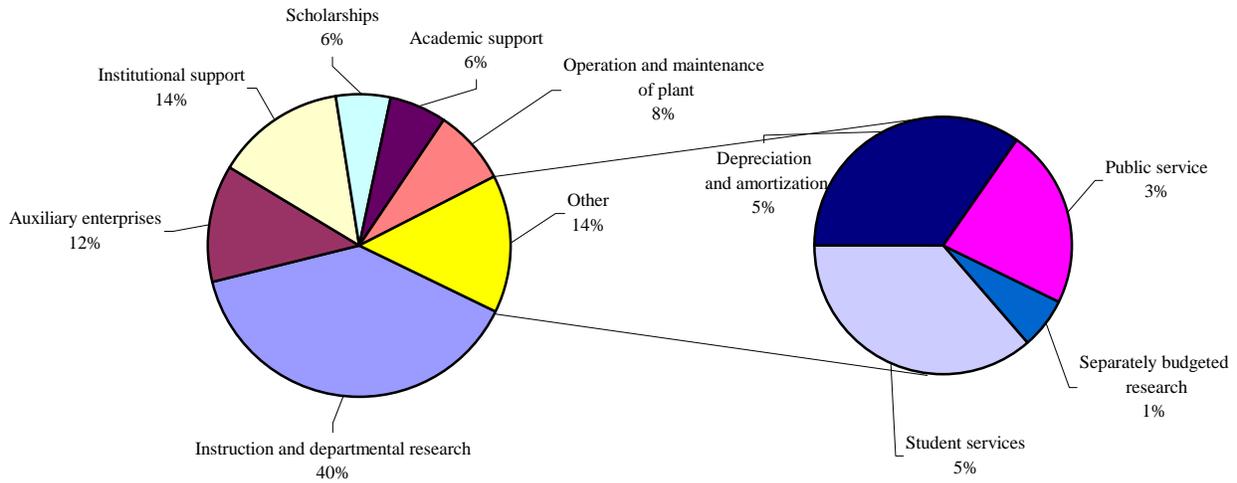
**Operating Expenses by Function  
FY 2006**



# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### Operating Expenses by Function FY 2005



Total operating and non-operating expenses are \$171,084,695, \$164,887,394, and \$155,168,887 in fiscal years 2006, 2005 and 2004, respectively.

### The Statements of Cash Flows

The 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 follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash provided by (used in):			
Operating activities	\$ (56,164,080)	\$ (60,618,862)	\$ (53,334,657)
Investing activities	(6,718,020)	8,716,735	3,245,449
Capital and related financing activities	(4,010,036)	(8,164,766)	(685,813)
Noncapital financing activities	60,587,430	63,231,610	60,836,425
Net (decrease) increase in cash	<u>(6,304,706)</u>	<u>3,164,717</u>	<u>10,061,404</u>
Cash and cash equivalents - Beginning of year	16,411,426	13,246,709	3,185,305
Cash and cash equivalents - End of year	<u>\$ 10,106,720</u>	<u>\$ 16,411,426</u>	<u>\$ 13,246,709</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, suppliers, and vendors. Significant fluctuations between investing and capital financing activities occurred due

# YOUNGSTOWN STATE UNIVERSITY

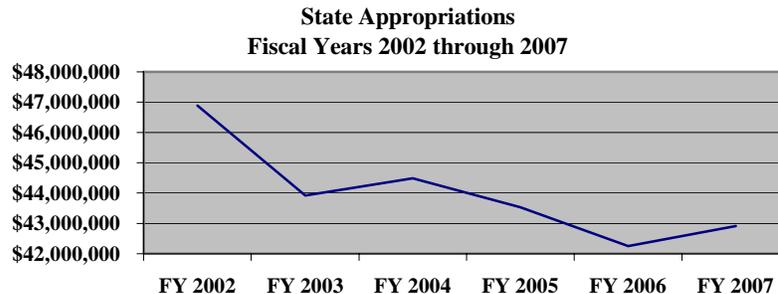
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

to drawing down investments to fund the West Gate Campus Project and \$9.8 million in note payable proceeds in fiscal year 2006 to finance an energy management system.

### 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, 2006 was 2.9 compared to 3.3 at June 30, 2005 and 4.0 at June 30, 2004. The decrease in the composite score is primarily the result of expending reserves for the purpose of construction of the West Campus Gateway Project.

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 continued to experience a decline in its revenue from State appropriations through fiscal year 2006. While the University's relative share of State appropriations is projected to remain constant in fiscal year 2007, the University's State allocation is projected to increase by 1.5%, which is directly tied to a \$30 million increase in the total State Share of Instruction subsidy that is allocated to all state colleges and universities in Ohio. The University's State appropriations are illustrated below:



Note: Graph includes five years actual plus budgeted amount for fiscal year 2007

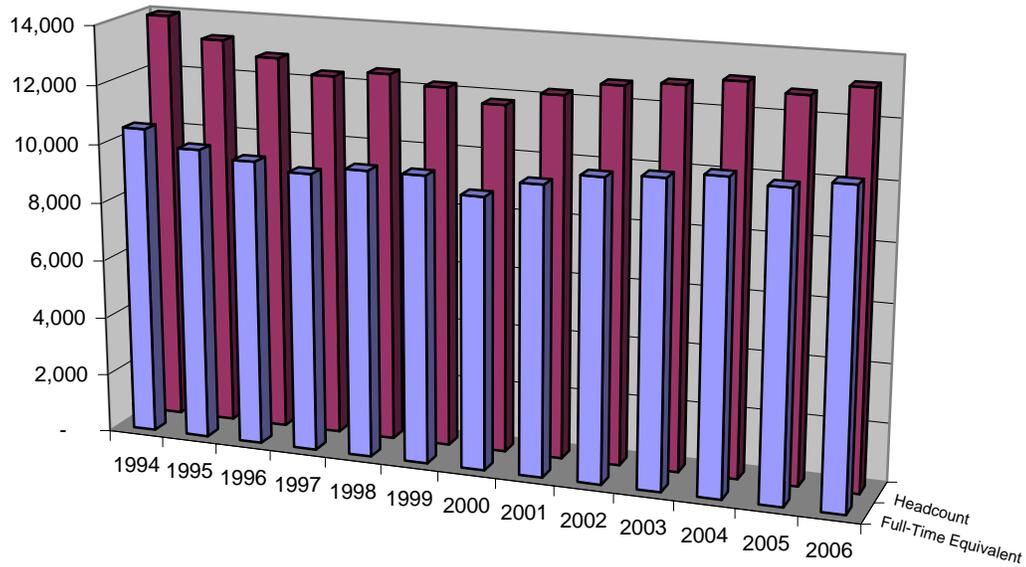
There is an inverse relationship between State support and the University's tuition rates, as declines in State appropriations continue to result in higher tuition, fees and other related charges.

# YOUNGSTOWN STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

The University's enrollment has stabilized:

**Fall Term Enrollment Trends  
1994 through 2006**



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
■ Full-Time Equivalent	10,508	9,954	9,714	9,462	9,729	9,733	9,203	9,766	10,171	10,311	10,518	10,332	10,590
■ Headcount	13,979	13,273	12,801	12,324	12,533	12,222	11,787	12,250	12,698	12,858	13,101	12,812	13,183

# YOUNGSTOWN STATE UNIVERSITY

## STATEMENTS OF NET ASSETS AT JUNE 30, 2006 AND 2005

	June 30, 2006	June 30, 2005
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 10,106,720	\$ 16,411,426
Investments	5,406,308	2,812,681
Restricted investments	890,724	679,960
Interest receivable	277,339	75,920
Accounts receivable, net	4,875,359	7,203,748
Pledges receivable, net	1,426,117	1,397,929
Pledges receivable, net - Youngstown State University Foundation	3,600,000	3,525,000
Loans receivable, net	601,950	543,600
Inventories	1,869,298	1,906,840
Prepaid expenses and deferred charges	713,010	764,358
<b>Total Current Assets</b>	<b>29,766,825</b>	<b>35,321,462</b>
<b>Noncurrent Assets</b>		
Investments	26,593,693	21,435,886
Endowments and other restricted investments	4,956,529	4,851,281
Pledges receivable, net	1,004,982	2,028,623
Loans receivable, net	1,995,307	2,354,978
Deposits on land	67,165	4,524
Capital assets, net	160,912,963	152,956,510
<b>Total Noncurrent Assets</b>	<b>195,530,639</b>	<b>183,631,802</b>
<b>Total Assets</b>	<b>225,297,464</b>	<b>218,953,264</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	1,051,927	726,693
Construction payable	375,710	2,522,601
Payroll liabilities	8,901,927	8,688,678
Bonds payable	865,000	845,000
Note payable	833,867	-
Capital leases payable	89,763	79,129
Deferred revenue	8,765,906	8,484,716
Compensated absences	1,269,895	557,495
Other liabilities	866,658	283,498
<b>Total Current Liabilities</b>	<b>23,020,653</b>	<b>22,187,810</b>
<b>Noncurrent Liabilities</b>		
Bond payable, net	10,983,967	11,826,942
Note payable	8,962,133	-
Capital leases payable	427,820	517,582
Compensated absences	7,720,611	6,078,747
Refundable advance	2,793,698	2,808,777
<b>Total Noncurrent Liabilities</b>	<b>30,888,229</b>	<b>21,232,048</b>
<b>Total Liabilities</b>	<b>53,908,882</b>	<b>43,419,858</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	138,839,999	139,692,381
Restricted:		
Nonexpendable	5,273,847	5,267,429
Expendable	11,079,831	11,486,023
Unrestricted	16,194,905	19,087,573
<b>Total Net Assets</b>	<b>\$ 171,388,582</b>	<b>\$ 175,533,406</b>

# THE YOUNGSTOWN STATE UNIVERSITY FOUNDATION

## STATEMENTS OF FINANCIAL POSITION AT JUNE 30, 2006 AND 2005

	June 30, 2006	June 30, 2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,040,308	\$ 3,940,395
Accrued interest receivable	776,283	768,475
Due from University Housing Corporation	107,391	102,376
Prepaid insurance	18,019	5,406
Property acquired for resale to Youngstown State University	108,834	108,834
Investments - at market value:		
Common stock	90,113,223	80,557,090
Preferred stock	5,539,445	5,700,479
Fixed income securities:		
U.S. Government and Agencies	28,243,611	25,657,716
Corporate	17,652,617	22,876,410
Temporary cash investments	1,205,240	1,019,435
	142,754,136	135,811,130
Contribution receivable	4,653	14,653
Contribution receivable from remainder trusts	1,329,997	1,256,980
Cash surrender value of insurance policies	63,371	61,705
Office furniture and equipment, at cost, less accumulated depreciation of \$31,924 in 2006 and \$30,436 in 2005	2,177	3,666
<b>TOTAL ASSETS</b>	<b>149,205,169</b>	<b>142,073,620</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	24,325	21,870
Retirement benefits payable	39,270	41,904
Grant commitments to Youngstown State University for scholarship awards	3,600,000	3,525,000
<b>Total Liabilities</b>	<b>3,663,595</b>	<b>3,588,774</b>
 <b>Net Assets</b>		
Unrestricted:		
Designated by Board for endowment	111,525,359	107,126,243
Undesignated	1,638,264	1,646,735
	113,163,623	108,772,978
Temporarily restricted	1,627,434	1,506,644
Permanently restricted	30,750,517	28,205,224
<b>Total Net Assets</b>	<b>145,541,574</b>	<b>138,484,846</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 149,205,169</b>	<b>\$ 142,073,620</b>

See accompanying notes to financial statements.

# UNIVERSITY HOUSING CORPORATION

## STATEMENTS OF FINANCIAL POSITION AT JULY 31, 2006 AND 2005

	July 31, 2006	July 31, 2005
<b>ASSETS</b>		
Current Assets		
Cash	\$ 171,539	\$ 147,667
Restricted cash	83,857	83,959
Accounts receivable, net	23,539	27,144
Interest receivable	13,516	9,980
Accounts receivable - Youngstown State University	15,879	73,768
Restricted investments	2,935,241	2,613,366
Prepaid expenses	216,685	199,887
Total Current Assets	3,460,256	3,155,771
Property, Facilities, and Equipment, net	16,771,069	17,272,367
Bond issue costs, net	357,311	371,187
<b>TOTAL ASSETS</b>	<b>20,588,636</b>	<b>20,799,325</b>
<b>LIABILITIES AND NET DEFICIT</b>		
Liabilities		
Current Liabilities		
Accounts payable	6,799	9,030
Accrued bond interest payable	66,143	69,191
Bonds payable, current portion	60,000	30,000
Capital lease payable, current portion	21,273	18,528
Prepaid rent	42,006	35,473
Due to Ambling Company	9,626	9,626
Security deposits	96,543	98,588
Other accruals	17,417	22,985
Total Current Liabilities	319,807	293,421
Long-Term Debt		
Bonds payable	21,580,000	21,740,000
Interest rate swap	365,214	1,092,304
Loan payable - Youngstown State University Foundation	108,376	103,463
Capital lease payable	41,739	62,816
Total Long-Term Debt	22,095,329	22,998,583
Total Liabilities	22,415,136	23,292,004
Unrestricted Net Deficit	(1,826,500)	(2,492,679)
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<b>\$ 20,588,636</b>	<b>\$ 20,799,325</b>

See accompanying notes to financial statements.

# YOUNGSTOWN STATE UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	June 30, 2006	June 30, 2005
<b>REVENUES</b>		
<b>Operating Revenues</b>		
Tuition, fees, and other student charges (net of scholarship allowance of \$16,907,746 in 2006 and \$17,449,206 in 2005)	\$ 67,801,731	\$ 62,490,186
Federal grants and contracts	3,640,710	4,179,781
State grants and contracts	8,672,343	8,365,159
Local grants and contracts	267,745	130,894
Private grants and contracts	1,226,434	900,359
Sales and services	243,638	311,697
Auxiliary enterprises	15,617,059	15,049,075
Other operating revenues	1,025,777	1,513,481
<b>Total Operating Revenues</b>	98,495,437	92,940,632
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
Instruction and departmental research	62,665,700	63,608,020
Separately budgeted research	955,945	1,543,391
Public service	4,565,405	5,396,600
Academic support	11,355,057	10,325,582
Student services	8,015,148	8,747,696
Institutional support	26,654,373	22,749,601
Operation and maintenance of plant	13,482,934	13,022,133
Scholarships	10,917,454	9,391,805
Auxiliary enterprises	21,169,787	20,108,874
Depreciation and amortization	8,816,031	8,320,547
<b>Total Operating Expenses</b>	168,597,834	163,214,249
<b>Operating Loss</b>	(70,102,397)	(70,273,617)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	42,256,300	43,534,244
Federal grants	12,301,380	12,617,354
Private gifts	7,723,154	6,942,783
Unrestricted investment income (net of investment expense)	1,260,400	1,400,169
Restricted investment income (net of investment expense)	290,445	376,087
Interest on capital asset-related debt	(594,105)	(633,658)
Other nonoperating expenses, net	(1,303,808)	(587,530)
<b>Net Nonoperating Revenues</b>	61,933,766	63,649,449
<b>(Loss) Before Other Revenues, Expenses, and Changes</b>	(8,168,631)	(6,624,168)
<b>OTHER REVENUES, EXPENSES, AND CHANGES</b>		
State capital appropriations	3,870,015	8,477,922
Capital grants and gifts	103,757	1,987,639
Additions to the principal of endowments	50,035	49,614
<b>Total Other Revenues, Expenses, and Changes</b>	4,023,807	10,515,175
<b>(Decrease) Increase In Net Assets</b>	(4,144,824)	3,891,007
<b>NET ASSETS</b>		
<b>Net Assets at Beginning of the Year</b>	175,533,406	171,642,399
<b>Net Assets at End of the Year</b>	\$ 171,388,582	\$ 175,533,406

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, 2006 AND 2005

	June 30, 2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses) and other support:				
Contributions	\$ 384,153	\$ 75,000	\$ 2,290,780	\$ 2,749,933
Investment earnings	5,883,522	42,999	-	5,926,521
Net realized gain (loss) on sale of investments	45,390	1,770	(47,431)	(271)
Net unrealized gain on long-term investments	4,017,950	53,938	228,927	4,300,815
Increase in value of deferred gifts	-	-	73,017	73,017
Net assets released from restrictions	52,917	(52,917)	-	-
Total revenues, gains (losses) and other support	10,383,932	120,790	2,545,293	13,050,015
Expenditures and other distributions:				
Administrative expenditures	580,704	-	-	580,704
Distribution to Youngstown State University:				
Grants for property	27,687	-	-	27,687
Scholarships and other	5,364,599	-	-	5,364,599
Benefits for retired Youngstown University faculty	20,297	-	-	20,297
Total Expenditures	5,993,287	-	-	5,993,287
Change in Net Assets	4,390,645	120,790	2,545,293	7,056,728
Net Assets at Beginning of the Year	108,772,978	1,506,644	28,205,224	138,484,846
<b>NET ASSETS</b>	<b>\$ 113,163,623</b>	<b>\$ 1,627,434</b>	<b>\$ 30,750,517</b>	<b>\$ 145,541,574</b>

	June 30, 2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses) and other support:				
Contributions	\$ 689,308	\$ 107,000	\$ 1,921,510	\$ 2,717,818
Investment earnings	5,534,967	33,234	-	5,568,201
Net realized gain (loss) on sale of investments	298,402	(378)	53,915	351,939
Net unrealized gain (loss) on long-term investments	930,299	113,264	713,640	1,757,203
Increase in value of deferred gifts	-	-	67,756	67,756
Net assets released from restrictions	29,024	(29,024)	-	-
Total revenues, gains (losses) and other support	7,482,000	224,096	2,756,821	10,462,917
Expenditures and other distributions:				
Administrative expenditures	548,507	-	-	548,507
Distribution to Youngstown State University:				
Scholarships and other	5,200,109	-	-	5,200,109
Benefits for retired Youngstown University faculty	23,023	-	-	23,023
Total Expenditures	5,771,639	-	-	5,771,639
Change in Net Assets	1,710,361	224,096	2,756,821	4,691,278
Net Assets at Beginning of the Year	107,062,617	1,282,548	25,448,403	133,793,568
<b>NET ASSETS</b>	<b>\$ 108,772,978</b>	<b>\$ 1,506,644</b>	<b>\$ 28,205,224</b>	<b>\$ 138,484,846</b>

See accompanying notes to financial statements.

# UNIVERSITY HOUSING CORPORATION

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2006 AND 2005

	<u>July 31, 2006</u>	<u>July 31, 2005</u>
Income:		
Rental income	\$ 2,131,506	\$ 1,848,418
Interest income	148,670	119,907
Gain on interest rate swap	727,090	119,723
Other income	87,816	76,730
Total Income	<u>3,095,082</u>	<u>2,164,778</u>
Expenses:		
Administrative	31,124	27,700
Contract services	48,709	34,657
Interest expense	868,847	901,567
Bond fees	258,883	258,925
Depreciation and amortization expense	562,913	571,923
Bad debt expense	59,179	65,997
Management fees	114,312	114,312
Advertising costs	13,880	13,672
Payroll and payroll-related	149,479	147,640
Accounting and legal	25,125	27,529
Repairs and maintenance	85,202	74,142
Insurance	48,546	51,860
Unit utilities expense	162,704	148,298
Total Expenses	<u>2,428,903</u>	<u>2,438,222</u>
Decrease (Increase) in Unrestricted Net Deficit	666,179	(273,444)
Unrestricted Net Deficit at Beginning of Year	<u>(2,492,679)</u>	<u>(2,219,235)</u>
UNRESTRICTED NET DEFICIT AT END OF YEAR	<u>\$ (1,826,500)</u>	<u>\$ (2,492,679)</u>

See accompanying notes to financial statements.

# YOUNGSTOWN STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	June 30, 2006	June 30, 2005
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 67,199,320	\$ 62,159,175
Federal, state, and local grants and contracts	14,105,458	12,468,573
Private grants and contracts	1,210,560	880,411
Sales and services of educational and other departmental activities	15,267,451	16,316,276
Payments to suppliers	(34,880,870)	(38,782,583)
Payments to employees	(81,926,490)	(80,476,639)
Payments for benefits	(27,379,890)	(25,247,098)
Payments for scholarships	(10,917,454)	(9,391,805)
Student loans issued	(499,393)	(636,365)
Student loans collected	631,451	577,712
Student loan interest and fees collected	32,859	49,895
Other receipts, net	992,918	1,463,586
<b>Total Cash Flows Used In Operating Activities</b>	(56,164,080)	(60,618,862)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	65,703,842	79,535,375
Purchase of investments	(73,771,288)	(72,736,603)
Interest on investments	1,349,426	1,917,963
<b>Total Cash Flows (Used In) Provided By Investing Activities</b>	(6,718,020)	8,716,735
<b>Cash Flows From Capital and Related Financing Activities</b>		
State capital appropriations	5,300,923	7,425,883
Private capital gifts and grants	1,351,264	1,987,639
Note payable proceeds	9,796,000	-
Purchase of capital assets	(18,962,015)	(15,963,319)
Principal payments on capital debt	(924,128)	(1,004,811)
Interest payments on capital debt	(572,080)	(610,158)
<b>Total Cash Flows Used In Capital and Related Financing Activities</b>	(4,010,036)	(8,164,766)
<b>Cash Flows from Noncapital Financing Activities</b>		
Federal grants	12,540,007	12,692,967
State educational appropriations	42,256,300	43,534,244
Private gifts	7,045,194	7,542,494
Additions to the principal of endowments	50,035	49,614
Other nonoperating expenses	(1,304,106)	(587,709)
<b>Total Cash Flows Provided by Noncapital Financing Activities</b>	60,587,430	63,231,610
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(6,304,706)	3,164,717
<b>Cash and Cash Equivalents, Beginning of Year</b>	16,411,426	13,246,709
<b>Cash and Cash Equivalents, End of Year</b>	\$ 10,106,720	\$ 16,411,426

# YOUNGSTOWN STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS (CONT.) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating loss	\$ (70,102,397)	\$ (70,273,617)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	8,816,031	8,320,547
Provision for bad debts	781,396	307,131
Gifts in kind	330,906	
Changes in assets and liabilities:		
Accounts receivable, net	31,938	(382,315)
Loans receivable, net	132,059	(58,653)
Inventories	37,542	(1,596)
Prepaid expenses and deferred charges	51,348	(104,696)
Accounts payable	796,409	(879)
Accrued and other liabilities	325,234	251,479
Deferred revenue	281,190	779,599
Compensated absences	2,354,264	544,138
<b>Net Cash Flows Used In Operating Activities</b>	<u>\$ (56,164,080)</u>	<u>\$ (60,618,862)</u>
<b>Noncash Transactions</b>		
Additional capital leases	<u>\$ -</u>	<u>\$ 757,591</u>
Gifts in kind	<u>\$ 350,906</u>	<u>\$ 51,636</u>

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

### 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. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, 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.
- 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.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

- 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, an 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 submits 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 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 gains (losses) 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.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 gains and 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 an allowance for uncollectible amounts and are discounted to net present value.

Inventories – Inventories are determined on the 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 consist 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 (including amortization of capital leased assets) is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. Historical collections, including assets that are held for public exhibition, education, or research in furtherance of public service, which are protected and preserved, are not depreciated.

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

<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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 the current fiscal year.

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, fees and other student charges. 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 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 the end of the fiscal year do not constitute expenses incurred or liabilities and are not reflected in the financial statements.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

Newly Issued Accounting Pronouncements –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.

Reclassification – Certain reclassifications have been made to the 2005 amounts to conform with the 2006 presentation.

Internal Eliminations – Internal charges are eliminated from the Statement of Revenues, Expenses, and Changes in Net Assets.

### **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 \$42,256,300, including \$39,436,598 of State share of instruction and \$2,819,702 in challenge funds in fiscal year 2006 compared to State appropriations of \$43,534,244, including \$40,434,478 in State share of instruction and \$3,099,766 in challenge funds in fiscal year 2005. The State share of instruction is student based and determined annually by the Ohio Board of Regents.

Capital appropriations from the State totaled \$3,870,015 in fiscal year 2006 and \$8,477,922 in fiscal year 2005 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.

# **YOUNGSTOWN STATE UNIVERSITY**

## **NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006**

### **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.

The aggregate cost of repurchase agreements, which approximates market value, included in cash and cash equivalents is \$27,380 and \$22,508 at June 30, 2006 and 2005, 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 105% 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 or by a designated trustee as agent for the public depositories used by the University.

At June 30, 2006 and 2005, the carrying amount of the University's bank deposits and cash equivalents was \$10,106,720 and \$16,411,426 and the bank balances were \$10,051,416 and \$17,446,765, respectively. The difference in carrying amount and bank balance is caused by items in transit and outstanding checks. Of the balance, \$200,000 in fiscal year 2006 and \$184,757 in fiscal year 2005 was covered by federal depository insurance leaving \$9,851,416 in 2006 and \$17,262,008 in 2005 exposed to custodial credit risk. At times during the year, uncollateralized deposits may have been higher. Deposits held in safekeeping by a bank, as trustee or escrow agent, included in cash and investments totaled \$1,014,189 as of June 30, 2006 and \$84,757 as of June 30, 2005, 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 and in escrow for final payment of an energy management system.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a formal deposit policy for custodial credit risk.

### **Note 4 – Investments**

The University's investment policy authorizes the University to invest non-endowment and endowment University funds in compliance with provisions of the Ohio Revised Code including House Bill 524, Section 3345.05 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, investment types are not specifically limited but shall be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Furthermore, investments shall be managed for the use and benefit of the University in a

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

diversified portfolio that focuses, over time, on the preservation of capital, minimization of cost and risk, and maintenance of required levels of liquidity in the overall portfolio to meet cash flow requirements. 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.

The University utilizes investment managers for non-endowment and endowment funds. The University's endowment funds are managed by the Youngstown State University Foundation (see Note 13).

The University has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires certain reporting changes for the disclosure of deposits and investment risk.

As of June 30, 2006, the University had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Obligations	\$ 11,729,268	\$ 2,627,397	\$ 7,302,056	\$ 1,799,815	\$ -
Corporate Bonds	10,194,612	434,094	6,256,996	2,193,892	1,309,630
Foreign Bonds	196,877	130,054	-	66,823	-
U.S. Government Bonds	9,072,849	113,275	1,208,466	1,579,478	6,171,630
Preferred and Common Stock	5,685,763	5,685,763	-	-	-
Other Securities	967,885	967,885	-	-	-
Total	<u>\$ 37,847,254</u>	<u>\$ 9,958,468</u>	<u>\$ 14,767,518</u>	<u>\$ 5,640,008</u>	<u>\$ 7,481,260</u>

Note: All callable stocks were assumed to mature in less than one year.

As of June 30, 2006, investments had the following quality credit ratings.

Investment Type	Fair Value	Quality Ratings			
		A	Aa	Baa	Unrated
Corporate Bonds	\$ 10,194,612	\$ 1,801,674	\$ 6,930,505	\$ 1,046,833	\$ 415,600
Foreign Bonds	196,877	159,899	-	36,978	-
Total	<u>\$ 10,391,489</u>	<u>\$ 1,961,573</u>	<u>\$ 6,930,505</u>	<u>\$ 1,083,811</u>	<u>\$ 415,600</u>

As of June 30, 2005 the University had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Certificates of Deposit	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -
U.S. Government Obligations	6,402,945	681,587	4,830,453	890,905	-
Corporate Bonds	8,654,203	469,555	5,589,692	1,794,668	800,288
U.S. Government Bonds	8,785,786	-	2,849,607	2,042,204	3,893,975
Preferred and Common Stock	5,333,748	5,333,748	-	-	-
Other Securities	403,126	403,126	-	-	-
Total	<u>\$ 29,779,808</u>	<u>\$ 7,088,016</u>	<u>\$ 13,269,752</u>	<u>\$ 4,727,777</u>	<u>\$ 4,694,263</u>

Note: All callable stocks were assumed to mature in less than one year.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

As of June 30, 2005, investments had the following quality credit ratings.

Investment Type	Fair Value	Quality Ratings			
		A	Aa	Baa	Unrated
Corporate Bonds	\$ 8,654,203	\$ 2,274,462	\$ 4,797,254	\$ 1,340,933	\$ 241,554

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University has no provisions in its investment policy that would limit its choices.

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The total investments in the amount of \$37,847,254 as of June 30, 2006 and \$29,779,808 as of June 30, 2005 were uninsured and unregistered with securities held by the broker or by its trust department or agent, but not in the University's name.

### **Note 5 – Accounts and Loans Receivable**

Accounts and loans receivable at June 30, 2006 and 2005 consist of the following:

	2006	2005
Accounts Receivable		
Student accounts	\$ 3,752,130	\$ 3,365,185
Grants and contracts	1,265,300	2,790,591
State capital appropriations	362,777	1,793,685
Other receivables	1,470,183	867,774
Subtotal	<u>6,850,390</u>	<u>8,817,235</u>
Less: Allowance for doubtful accounts		
Student	(1,952,853)	(1,590,913)
Non student	(22,178)	(22,574)
Accounts receivable, net	<u>\$ 4,875,359</u>	<u>\$ 7,203,748</u>
Loans receivable - student notes	\$ 3,260,487	\$ 3,392,545
Less: Allowance for doubtful accounts	(663,230)	(493,967)
Loan receivable, net	<u>\$ 2,597,257</u>	<u>\$ 2,898,578</u>

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

### Note 6 – Pledges Receivable

Unconditional promises to give to the University recorded as pledges receivable at June 30, 2006 and June 30, 2005 were as follows:

	2006	2006	
	Pledges Receivable	Current Portion	2005
Total pledges receivable	\$ 6,303,734	\$ 5,066,777	\$ 7,422,002
Less: amount estimated to be uncollectible	(106,539)	(40,660)	(192,274)
present value discount	(166,096)	-	(278,176)
Pledges receivable, net	<u>6,031,099</u>	<u>\$ 5,026,117</u>	6,951,552
Less: current portion	(5,026,117)		(4,922,929)
Pledges receivable, noncurrent portion	<u>\$ 1,004,982</u>		<u>\$ 2,028,623</u>

Pledges have been discounted to net present value at a rate of 3.875% in fiscal year 2006 and fiscal year 2005.

### Note 7 – Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 13,329,592	\$ 50,524	\$ -	\$ 13,380,116
Construction-in-progress	14,246,102	13,499,892	(15,930,971)	11,815,023
Historical treasures	297,513	-	-	297,513
Depreciable assets:				
Buildings	230,016,286	956,530	15,373,822	246,346,638
Improvements other than buildings	21,278,421	786,627	177,544	22,242,592
Moveable equipment and furniture	24,962,332	1,703,295	(487,180)	26,178,447
Vehicles	1,092,632	23,517	(87,722)	1,028,427
Capital leases	930,181	-	(139,995)	790,186
Total cost	<u>306,153,059</u>	<u>17,020,385</u>	<u>(1,094,502)</u>	<u>322,078,942</u>
Less accumulated depreciation:				
Buildings	120,575,536	4,667,989	-	125,243,525
Improvements other than buildings	14,867,441	1,087,193	-	15,954,634
Moveable equipment and furniture	16,621,749	2,874,837	(622,118)	18,874,468
Vehicles	882,501	67,147	(84,488)	865,160
Capital leases	249,322	118,865	(139,995)	228,192
Total accumulated depreciation	<u>153,196,549</u>	<u>8,816,031</u>	<u>(846,601)</u>	<u>161,165,979</u>
Capital assets, net	<u>\$ 152,956,510</u>	<u>\$ 8,204,354</u>	<u>\$ (247,901)</u>	<u>\$ 160,912,963</u>

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

Capital assets activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 13,104,291	\$ 225,301	\$ -	\$ 13,329,592
Construction-in-progress	3,962,224	11,738,090	(1,454,212)	14,246,102
Historical treasures	297,513	-	-	297,513
Depreciable assets:				
Buildings	227,229,745	1,689,734	1,096,807	230,016,286
Improvements other than buildings	20,710,162	272,733	295,526	21,278,421
Moveable equipment and furniture	24,303,488	4,304,933	(3,646,089)	24,962,332
Vehicles	1,052,025	100,493	(59,886)	1,092,632
Capital leases	172,590	757,591	-	930,181
Total cost	<u>290,832,038</u>	<u>19,088,875</u>	<u>(3,767,854)</u>	<u>306,153,059</u>
Less accumulated depreciation:				
Buildings	116,197,547	4,377,989	-	120,575,536
Improvements other than buildings	13,478,943	1,388,498	-	14,867,441
Moveable equipment and furniture	17,888,609	2,375,149	(3,642,009)	16,621,749
Vehicles	882,113	56,956	(56,568)	882,501
Capital leases	127,367	121,955	-	249,322
Total accumulated depreciation	<u>148,574,579</u>	<u>8,320,547</u>	<u>(3,698,577)</u>	<u>153,196,549</u>
Capital assets, net	<u>\$ 142,257,459</u>	<u>\$ 10,768,328</u>	<u>\$ (69,277)</u>	<u>\$ 152,956,510</u>

### Note 8 – Accrued and Other Liabilities

Accrued and other liabilities at June 30, 2006 and 2005 consist of the following:

	2006	2005
Payroll liabilities:		
Accrued compensation and benefits	\$ 5,743,358	\$ 5,441,067
Accrued health care benefits and insurance payable	1,096,575	1,206,976
Retirement system contribution payable	2,061,994	2,040,635
Subtotal	<u>8,901,927</u>	<u>8,688,678</u>
Other liabilities:		
Deposits held in custody	591,169	227,158
Refunds payable	20,254	22,178
Interest payable	202,145	24,719
Other liabilities	53,090	9,443
Subtotal	<u>866,658</u>	<u>283,498</u>
Totals	<u>\$ 9,768,585</u>	<u>\$ 8,972,176</u>

Encumbrances representing estimated amounts of expenses ultimately to result, if unperformed contracts in process at June 30, 2006 are completed, totaled \$3,839,032 and included \$2,401,076 in State capital appropriations compared to \$6,102,004 and \$2,026,436 at June 30, 2005. These amounts do not constitute expenses incurred or liabilities.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

### Note 9 – Liabilities

#### Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable					
General receipts bonds principal	\$12,875,000	\$ -	\$ 845,000	\$12,030,000	\$ 865,000
Less: unamortized bond discount and issue cost	(203,058)	-	(22,025)	(181,033)	-
Bonds payable, net	<u>12,671,942</u>	<u>-</u>	<u>822,975</u>	<u>11,848,967</u>	<u>865,000</u>
Note payable	-	9,796,000	-	9,796,000	833,867
Capital leases payable	596,711	-	79,128	517,583	89,763
Compensated absences	6,636,242	2,354,264	-	8,990,506	1,269,895
Refundable advance	2,808,777	38,691	53,770	2,793,698	-
Total long-term liabilities	<u>\$22,713,672</u>	<u>\$12,188,955</u>	<u>\$ 955,873</u>	<u>\$33,946,754</u>	<u>\$ 3,058,525</u>

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable					
General receipts bonds principal	\$13,680,000	\$ -	\$ 805,000	\$12,875,000	\$ 845,000
Less: unamortized bond discount and issue cost	(226,558)	-	(23,500)	(203,058)	-
Bonds payable, net	<u>13,453,442</u>	<u>-</u>	<u>781,500</u>	<u>12,671,942</u>	<u>845,000</u>
Capital leases payable	38,931	757,591	199,811	596,711	79,129
Compensated absences	6,092,104	544,138	-	6,636,242	557,495
Refundable advance	2,758,350	113,949	63,522	2,808,777	-
Total long-term liabilities	<u>\$22,342,827</u>	<u>\$ 1,415,678</u>	<u>\$ 1,044,833</u>	<u>\$22,713,672</u>	<u>\$ 1,481,624</u>

Management is unable to determine the additions and reductions for compensated absences; therefore, a net number is presented.

#### Bonds Payable

Bonds payable consist of General Receipts Bonds, Series 1997 and Series 1998. The Series 1997 Bonds were issued May 15, 1997. 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. The Series 1996B bonds were issued December 18, 1996 and matured December 15, 2005.

Details of the outstanding Bonds Payable are as follows:

	Stated Interest Rate	Maturity Through	Original Principal
1997 - Term Bonds	6.25%	2017	200,000
1998 - Serial Bonds	4.15%-4.75%	2012	11,920,000
1998 - Term Bonds, fixed	4.75%	2016	5,030,000

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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, excluding State appropriations and 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
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	985,000	415,917	1,400,917
2011	1,025,000	370,507	1,395,507
2012-2018	7,310,000	1,095,890	8,405,890
Totals	<u>\$ 12,030,000</u>	<u>\$ 3,374,314</u>	<u>\$ 15,404,314</u>

Maturities of bonds payable for the fiscal years subsequent to June 30, 2006 are as follows:

Fiscal Year	General Receipts		Total
	Series 1997	Series 1998	
2007	\$ 10,000	\$ 855,000	\$ 865,000
2008	10,000	890,000	900,000
2009	10,000	935,000	945,000
2010	10,000	975,000	985,000
2011	10,000	1,015,000	1,025,000
2012-2018	100,000	7,210,000	7,310,000
Totals	<u>\$ 150,000</u>	<u>\$11,880,000</u>	<u>\$12,030,000</u>

### Note Payable

During fiscal year 2006, the University's Board of Trustees authorized the Administration to secure third party financing to implement energy conservation measures for its building, structures and systems using an installment financing plan, pursuant to Ohio Revised Code (ORC) Section 3345.65; with repayment of such loan with the annual savings in energy and operating costs realized as a result of such improvements.

In addition, the University entered into a ten year performance contract with Johnson Controls, which includes an assured performance providing for an annual measured cost savings of \$1,296,298. The contract amount of \$9,796,000 was financed with Chase Equipment Leasing, Inc. over 10 years, bears interest at 3.53%, and requires annual equal installment payments. Details of the installment schedule follows:

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Principal	Interest	Total
2007	\$ 833,867	\$ 345,799	\$ 1,179,666
2008	863,303	316,363	1,179,666
2009	893,777	285,889	1,179,666
2010	925,328	254,338	1,179,666
2011	957,992	221,674	1,179,666
2012-2016	5,321,733	576,597	5,898,330
Totals	<u>\$ 9,796,000</u>	<u>\$ 2,000,660</u>	<u>\$ 11,796,660</u>

Title to the assets shall vest in the University. The debt is secured by a pledge of all University general receipts, excluding State appropriations and receipts previously pledged or otherwise restricted. The University has complied with all covenant requirements.

As of June 30, 2006, \$8,816,400 was disbursed to the contractor and is reflected in Construction in Progress (See Note 7). The remaining \$979,600 is held in a special escrow fund in accordance with an escrow agreement, and is reflected in the University's cash and cash equivalents. The funding expiration date is June 23, 2007.

### Capital Lease Obligations

The University leases a mail inserting and folding system, two postage machines and address printer, and sixty-eight Steinway pianos under capital lease agreements. The mail inserting and folding system bears interest at 21.72%. The two postage machines and address printer bear interest at 7.60%. The Steinway pianos bear interest at 4.05%. The net book value of capital leased assets included in net Capital Assets in the Statements of Net Assets at June 30, 2006 and 2005, was \$561,994 and \$680,859, respectively.

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

Year Ending June 30,	Mail System	Mailroom Equipment	Steinway Pianos	Total
2007	\$ 9,845	\$ 17,460	\$ 85,773	\$ 113,078
2008	-	17,460	85,773	103,233
2009	-	17,460	85,773	103,233
2010	-	17,460	85,773	103,233
2011	-	-	85,773	85,773
2012	-	-	85,775	85,775
Total future minimum lease payments	<u>9,845</u>	<u>69,840</u>	<u>514,640</u>	<u>594,325</u>
Less amount representing interest	990	10,095	65,657	76,742
Total obligations under capital leases	<u>\$ 8,855</u>	<u>\$ 59,745</u>	<u>\$ 448,983</u>	<u>\$ 517,583</u>

### Operating Lease Obligations

The University has an operating lease for the purpose of classroom and general office purposes. The University has future minimum payments of \$103,740 thru December 31, 2006 and two renewal options: January 1, 2007 thru December 31, 2008 at \$221,590 annually and January 1, 2009 thru December 31, 2010 at \$236,658 annually.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

### Compensated Absences

During fiscal year 2006, the University's Board of Trustees authorized the implementation of the Youngstown State University Early Retirement Incentive Plan (ERIP) for its eligible employees who are members of the Ohio Public Employees Retirement System (OPERS). Provisions of the ERIP are based on ORC Section 145.297, Ohio Administrative Rule 145-2-42. The plan is effective from March 1, 2006 through December 31, 2007. The latest benefit effective date for participating employees who are eligible to retire by December 31, 2007 will be March 1, 2008. Participation shall be open to all eligible members of OPERS employed at the University as of the first day of the ERIP period. The University shall pay the cost (as determined by OPERS) of the lesser of two (2) years of service credit or one-fifth (1/5) of each member's total service credit for eligible members of OPERS who participate.

An estimated 185 employees were eligible to participate. During fiscal year 2006, the University recorded \$1,764,310 of ERIP OPERS purchases, which is reflected in institutional support on the Statement of Revenues, Expenses, and Changes in Net Assets. Current year payouts totaled \$1,071,703. The remaining \$692,607 is recorded as a current liability at June 30, 2006 and is reflected in the current portion of the compensated absences liability. Amounts recorded were based on actual purchases and estimates utilizing OPERS's benefit estimator and based on assumptions that everyone who signed the irrevocable form would indeed retire as of that date.

### 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 ORC.

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.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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) 222-6701 or 1-800-222-PERS (7377), and the STRS report by making a written request to 275 East Broad Street, Columbus, Ohio, 43215-3771.

### Alternative Retirement Plan

In 1997, the State approved an Alternative Retirement Plan (ARP) for full-time academic and administrative employees which allows new employees and those with less than five years of service to opt out of STRS and OPERS and contribute to one of the ARPs formed as Section 401(a) defined contribution plans. The legislation, as amended, requires employees and employers to contribute to the ARPs at the same rates as STRS and OPERS employee contributions.

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

Employee Contribution Rate						
Fiscal Year	STRS		OPERS		OPERSLE	
	Traditional	ARP	Traditional	ARP	Traditional	ARP
1/1/06-6/30/06	10.0%	10.0%	9.0%	9.0%	10.1%	10.1%
7/1/05-12/31/05	10.0%	10.0%	8.5%	8.5%	10.1%	10.1%
2005	10.0%	10.0%	8.5%	8.5%	9.0%	9.0%
2004	10.0%	10.0%	8.5%	8.5%	9.0%	9.0%

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

Employer Contributions							
Fiscal Year	STRS			OPERS		OPERSLE	
	Traditional	ARP		Traditional	ARP	Traditional	ARP
		STRS	ARP				
1/1/06-6/30/06	14.00%	3.50%	10.50%	13.54%	13.54%	16.93%	16.93%
7/1/05-12/31/05	14.00%	3.50%	10.50%	13.31%	13.31%	16.70%	16.70%
2005	14.00%	3.50%	10.50%	13.31%	13.31%	16.70%	16.70%
2004	14.00%	3.50%	10.50%	13.31%	13.31%	16.70%	16.70%

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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

Employer Contributions							
Fiscal Year	STRS			OPERS		OPERSLE	
	Traditional	ARP		Traditional	ARP	Traditional	ARP
		STRS	ARP				
2006	\$ 5,062,128	\$ 169,332	\$ 515,193	\$ 4,169,825	\$ 428,625	\$ 160,211	-
2005	\$ 4,987,888	\$ 168,916	\$ 506,748	\$ 4,063,880	\$ 389,577	\$ 134,740	-
2004	\$ 4,712,815	\$ 143,988	\$ 431,966	\$ 3,926,947	\$ 346,933	\$ 147,492	-

The OPERS employee contributions to the ARP totaled \$283,126 and the STRS employee contributions to the ARP totaled \$483,804.

### **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 4.0% in 2005, 4.0% in 2004 and 5.0% in 2003.

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 OPERS' latest actuarial review performed as of December 31, 2004
- **Funding method** – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- **Assets valuation method** – All investments are carried at market value. For actuarial valuation purposes a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25.0% of unrealized market appreciation or depreciation on investment assets.
- **Investment return** – The investment assumption rate for 2004 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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

increases over and above the 4.0% base increase were assumed to range from 0.5% to 6.3%.

- **Health care** – Health care costs were assumed to increase 4.0% annually. The number of active contribution participants at December 31, 2005 (the latest date information is available) was 376,109. The portion of the University's 2006, 2005 and 2004 contributions to OPERS used to fund postretirement benefits was \$1,301,175, \$1,221,196, and \$1,519,513, respectively. The actuarial value of the Retirement System's net assets available for payment of benefits at December 31, 2004 (the latest date information is available) was \$10.8 billion.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 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 2006, 2005 and 2004. 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, 2005 (the latest date information is available) were 115,395. The portion of the University's 2006, 2005 and 2004 contributions to STRS used to fund postretirement benefits was \$358,454, \$356,278 and \$336,630, respectively.

The health care reserve fund within the employers' trust fund from which payments for health care benefits are paid had a balance of \$3.3 billion at June 30, 2005.

Health care benefits paid by the plan were \$254,780,000 for the fiscal year ended June 30, 2005.

### 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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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:

	2006	2005
Liability at beginning of fiscal year	\$ 1,131,861	\$ 1,172,597
Current year claims including changes in estimates	7,515,715	7,614,540
Claim payments	(7,639,416)	(7,655,276)
Liability at end of fiscal year	<u>\$ 1,008,160</u>	<u>\$ 1,131,861</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.

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University has joined with other state-assisted universities in Ohio to form an insurance pool for the acquisition of commercial property and casualty insurance. The University pays annual premiums to the pool for its property and casualty insurance coverage based on its percentage of the total insurance value to the pool. Future contributions will be adjusted based upon each university's loss history.

The University has the following commercial insurance policies:

Type	Deductible	Coverage
Property	\$ 25,000	Replacement cost
Crime	\$ 100,000	\$5,000,000
General liability	\$ 100,000	\$1,000,000/occurrence \$10,000,000 general aggregate
Educator liability	\$ 100,000	\$1,000,000/occurrence \$1,000,000 aggregate
Excess liability	\$ 5,000,000	\$45,000,000 shared
Automobile liability	\$ 100,000	\$1,000,000
Medical malpractice	\$ 25,000	\$1,000,000/occurrence \$3,000,000 aggregate
Umbrella	\$ 1,000,000	\$4,000,000
Foreign Liability	-	\$1,000,000/occurrence \$2,000,000 aggregate

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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 or UHC's financial information in the University's financial report for these differences.

### **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 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 \$4,681,325 for the fiscal year ended June 30, 2006 and \$4,448,900 for the fiscal year ended June 30, 2005. Financial support from YSUF has been committed for fiscal year 2007 in the amount of \$4,851,450 and is reflected in deferred revenue on the University's Statement of Net Assets at June 30, 2006. At June 30, 2006 and June 30, 2005, \$3,600,000 and \$3,525,000, respectively, was due from YSUF and is included in pledges receivable on the University's Statement of Net Assets at June 30, 2006. In addition, rental income from YSUF of \$10,528 in fiscal year 2006 and \$11,456 in fiscal year 2005 was recorded and is reflected in the University's Statements of Revenues, Expenses and Changes in Net Assets.

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

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

needed basis to satisfy the individual endowment purposes. Fair value of such investments held by YSUF at June 30, 2006 and June 30, 2005 was \$5,847,254 and \$5,531,247, respectively. The management services are provided at no 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. The amounts collected and remitted to the various entities by the Foundation in 2006 and 2005 amounted to \$140,008 and \$98,787, respectively.

### UHC

UHC operates University Student Courtyard Apartments complex with 130 dormitory housing units for 408 students and staff. This unique public-private partnership includes YSUF, University Housing Corporation (UHC), the City of Youngstown, Mahoning County, and Ambling Companies, Inc., a national leader in developing student housing communities. UHC is a tax-exempt organization.

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

### UHC Property

Property, facilities and equipment as of July 31, 2006 and 2005 are as follows:

	2006	2005
Buildings	\$ 17,442,241	\$ 17,442,241
Other capital asset	963,229	915,491
Total cost	<u>18,405,470</u>	<u>18,357,732</u>
Less accumulated depreciation:	(1,634,401)	(1,085,365)
Property, facilities and equipment, net	<u>\$ 16,771,069</u>	<u>\$ 17,272,367</u>

### UHC 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 JPMorgan Chase Bank as Remarketing Agent based on the weekly tax-exempt index as determined by JPMorgan Chase Bank, and are due at various dates until 2033. These variable interest rates at July 31, 2006 and 2005 were 3.7% and 2.3%, respectively with an average weekly rate of 3.1% during fiscal year 2006 and 1.9% during fiscal year 2005. The bonds are secured by the assignment of incomes and revenues of the University Courtyard Project.

# YOUNGSTOWN STATE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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
2007	\$ 60,000
2008	100,000
2009	130,000
2010	175,000
2011	220,000
Thereafter	20,955,000
Total	<u>\$ 21,640,000</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 \$20,685,000 at July 31, 2006 and \$20,715,000 at July 31, 2005. 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 years 2006 and 2005 the 1-Month USD-LIBOR-BBA Index ranged from 3.52% to 5.39% (5.39% at July 31, 2006) and 1.52% to 3.52% (3.52% at July 31, 2005), respectively.

The fair value of the swap agreement at July 31, 2006 and 2005 was \$365,214 and \$1,092,304 respectively, and is recorded as a liability on UHC's Statement of Financial Position.

### ***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 UHC 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.

# **YOUNGSTOWN STATE UNIVERSITY**

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## **NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006**

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 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, 2006 and 2005, the amount due from to the Foundation from UHC is \$107,391 and \$102,375, respectively.

# YOUNGSTOWN STATE UNIVERSITY

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## BOARD OF TRUSTEES

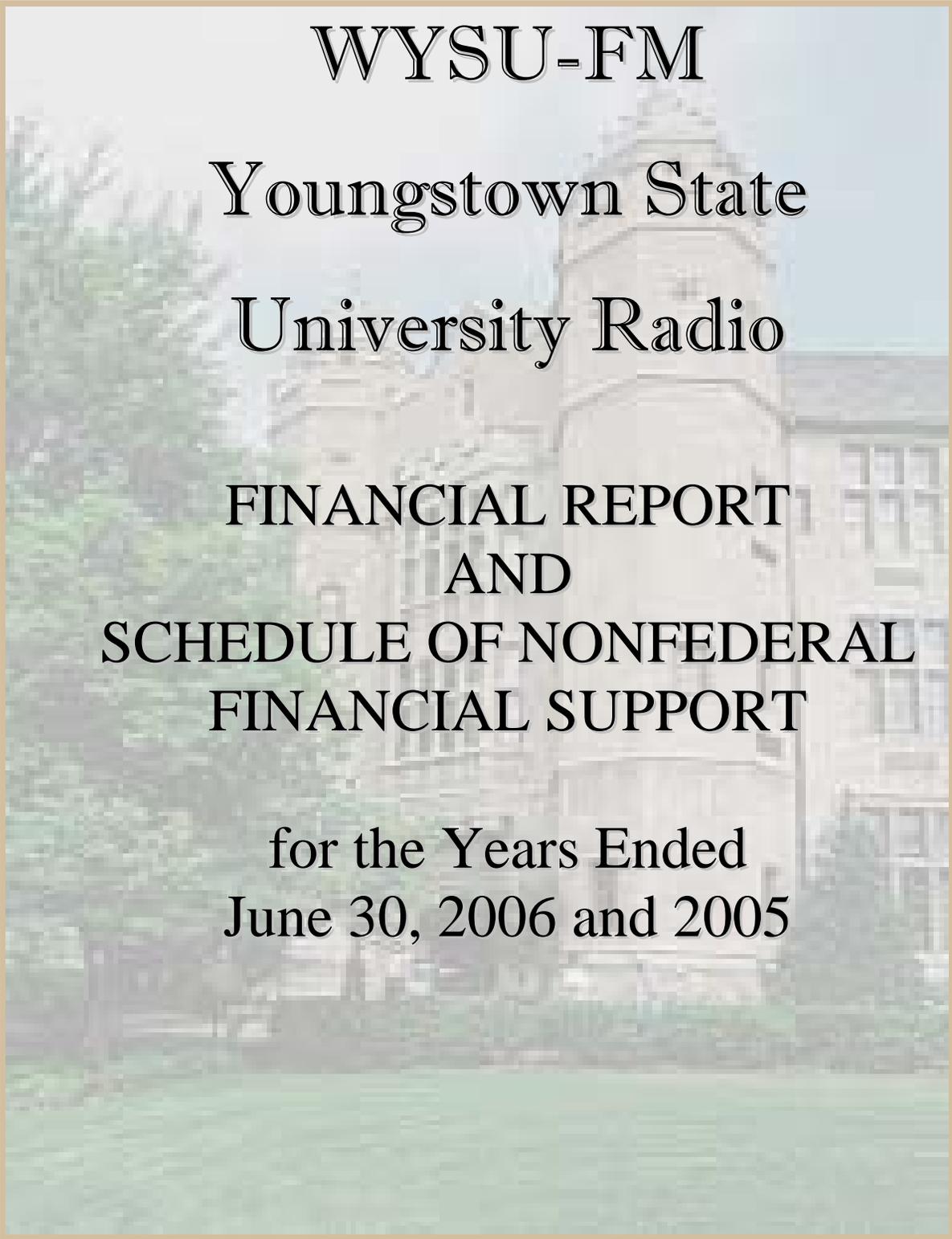
H. S. Wang, Chair	<i>Ophthalmologist Eye Care Associates, Inc.</i>
William J. Bresnahan	<i>President Hynes Industries</i>
Donald Cagigas	<i>President and Chief Professional Officer Youngstown/Mahoning Valley United Way</i>
Millicent S. Counts	<i>Executive Director United Methodist Community Center</i>
Larry D. DeJane	<i>Mayor City of Salem</i>
Dianne Bitonte Miladore	<i>Physician Member of the Clinical Faculty at Northeast Ohio Universities College of Medicine</i>
John L. Pogue	<i>Attorney Harrington, Hoppe &amp; Mitchell, Ltd.</i>
Scott R. Schulick	<i>Vice President Butler Wick Trust Co.</i>
Paul L. Walker	<i>Student Trustee</i>

## PRINCIPAL ADMINISTRATORS

David C. Sweet	<i>President</i>
Cynthia E. Anderson	<i>Vice President for Student Affairs</i>
Bege Bowers	<i>Interim Provost</i>
Donna J. Esterly	<i>Interim Chief Technology Officer</i>
John Habat	<i>Vice President for Administration</i>
George E. McCloud	<i>Special Assistant for University Advancement</i>



**YOUNGSTOWN STATE UNIVERSITY**

The background of the page is a faded, sepia-toned photograph of a large, multi-story brick building with a prominent central tower and arched windows, likely a university building. The text is overlaid on this image.

WYSU-FM

Youngstown State

University Radio

FINANCIAL REPORT  
AND  
SCHEDULE OF NONFEDERAL  
FINANCIAL SUPPORT

for the Years Ended  
June 30, 2006 and 2005

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# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

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## CONTENTS

	<i>Page</i>
<b><i>Financial Report</i></b>	
<i>Report of Independent Auditors</i> .....	1
<i>Management's Discussion and Analysis</i> .....	3
<i>Statements of Net Assets</i> .....	9
<i>Statements of Revenues, Expenses and Changes in Net Assets</i> .....	10
<i>Statements of Cash Flows</i> .....	11
<i>Notes to Financial Statements</i> .....	12
 <i>Schedule of Nonfederal Financial Support</i> .....	 19

## Report of Independent Auditors

The Board of Trustees  
Youngstown State University

We have audited the accompanying financial statements of WYSU-FM, Youngstown State University Radio (Station), as of and for the years ended June 30, 2006 and 2005 as shown on pages 9 through 11. 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.

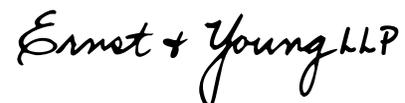
As discussed in Note 1, the financial statements of the Station are intended to present the financial position, the changes in net assets and cash flows, of only that portion of the activities of Youngstown State University that is attributable to the transactions of the Station. They do not purport to, and do not, present fairly the financial position of Youngstown State University as of June 30, 2006 and 2005, 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, 2006 and 2005 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 3-8 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 January 26, 2007 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.



January 26, 2007

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

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## 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 years ended June 30, 2005 and June 30, 2006. 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 GASB Statement 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.

### Financial and Other Station Highlights

- Stable financial position
- Commencement of strategic planning process aimed at improved public service and financial performance
- Growth in underwriting
- Increased membership support
- Special campaign to raise funds for digital broadcasting

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### 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 the Station's assets, liabilities, and net assets follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>Assets</b>			
Current assets	\$ 785,860	\$ 611,158	\$ 500,765
Other noncurrent assets	136,672	134,776	133,088
Capital assets, net	115,358	161,247	209,956
<b>Total Assets</b>	<u><b>1,037,890</b></u>	<u><b>907,181</b></u>	<u><b>843,809</b></u>
<b>Liabilities</b>			
Current liabilities	13,339	5,939	7,351
Noncurrent liabilities	64,705	57,755	47,299
<b>Total Liabilities</b>	<u>78,044</u>	<u>63,694</u>	<u>54,650</u>
<b>Total Net Assets</b>	<u><b>\$ 959,846</b></u>	<u><b>\$ 843,487</b></u>	<u><b>\$ 789,159</b></u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	115,358	161,247	209,956
Restricted - nonexpendable	136,672	134,776	133,088
Restricted - expendable	170,257	54,716	42,512
Unrestricted	537,559	492,748	403,603
<b>Total Net Assets</b>	<u><b>\$ 959,846</b></u>	<u><b>\$ 843,487</b></u>	<u><b>\$ 789,159</b></u>

### 2006 Versus 2005

Current assets, consisting primarily of cash and cash equivalents, increased \$174,702 or 29% from fiscal year 2005 to fiscal year 2006 due to increases in subscription and membership income, underwriting revenues, and the general appropriation from the University. The Station also received additional funding from grants in fiscal year 2006. Net capital assets decreased \$45,889, or 28% in fiscal year 2006 as there were no capital asset purchases, but existing assets continued to depreciate.

Current liabilities consist of accounts payable and the current portion of compensated absences. Fiscal year 2006 accounts payable includes a liability of \$1,884 to the Corporation for Public Broadcasting (CPB) for a projected fiscal year 2006 grant overpayment. Current liabilities increased due to increases in accounts payable. The long-term portion of compensated absences is included in noncurrent liabilities.

Net assets invested in capital assets, net of related debt represents investments in capital assets net of depreciation. Restricted nonexpendable net assets represent the Station's

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

endowment. Restricted expendable net assets represent the capital portion of grants and a portion of the Corporation for Public Broadcasting (CPB) grant. Restricted expendable net assets increased \$115,541 due to the new Community Service Grant, the new Digital Radio Broadcasting grant, and the new Digital Radio Conversion grant received in fiscal year 2006. Unrestricted net assets increased \$44,811 due to an increase in cash and cash equivalents since there were no major capital asset outlays in fiscal year 2006.

### 2005 Versus 2004

Current assets increased \$110,393, or 22% due to increases in cash from net fundraising, subscription and membership income, and underwriting revenues. In fiscal year 2004, cash was used to acquire capital assets. Net capital assets in fiscal year 2005 represent the fiscal year 2004 equipment purchase less depreciation. Total liabilities increased \$9,044 or 17% from fiscal year 2004 to fiscal year 2005 due to increases in compensated absences resulting from staffing changes in broadcasting during fiscal year 2005. Unrestricted net assets increased due to an increase in cash and cash equivalents since there were no major capital asset outlays in fiscal year 2005.

### **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 non-operating. Operating revenues are generated by an annual Community Service Grant from the Corporation for Public Broadcasting and through an annual grant from the eTech Ohio Commission (eTech), which is administered by the State of Ohio. In addition, in-kind support is received from eTech and includes support for transmission of Radio Reading Service Programming. Operating revenues also include contributions from area businesses (program underwriting). Operating expenses are incurred to vendors and employees for providing goods or services for the overall operations of the Station. Net non-operating revenues include general appropriations, donated facilities and administrative support, membership revenue, private gifts, net revenue from fund raising, and net investment income.

A summary of the Station's revenues, expenses, and changes in net assets follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>Total operating revenues</b>	\$ 461,917	\$ 370,759	\$ 407,441
<b>Total operating expenses</b>	1,185,809	967,197	985,712
<b>Operating loss</b>	(723,892)	(596,438)	(578,271)
<b>Net non-operating revenues</b>	767,751	630,766	623,108
<b>Income before other changes</b>	43,859	34,328	44,837
<b>Total other changes</b>	72,500	20,000	-
Increase in Net Assets	116,359	54,328	44,837
Net Assets at the beginning of the year	843,487	789,159	744,322
<b>Net Assets at the end of the year</b>	<u>\$ 959,846</u>	<u>\$ 843,487</u>	<u>\$ 789,159</u>

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### Revenues

Total operating revenue increased \$91,158, or 25% from fiscal year 2005 to fiscal year 2006 primarily from increases in the Corporation for Public Broadcasting (CPB) grant, in-kind contributions, and underwriting revenue. Underwriting revenue increased \$32,935 or 46% as the Station increased its number of underwriters by approximately 57%. Between fiscal year 2004 and fiscal year 2005, total operating revenues had decreased \$36,682, or 9% due to decreases in the CPB grant and in-kind contributions.

The \$136,985, or 22% increase in net non-operating revenue between fiscal year 2005 and fiscal year 2006 was due to increases in the general appropriation, donated facilities and administrative support from the University, and subscription and membership income. Net non-operating revenues remained fairly consistent between fiscal year 2004 and fiscal year 2005.

### Expenses

Total operating expenses increased \$218,612, or 23% between fiscal year 2005 and fiscal year 2006. Of this increase, \$116,774 was attributed to increases in program expenses while \$101,838 was due to increases in support services. Programming and production expenses increased \$43,428, or 11%, primarily due to expenses stemming from the Audience Service Challenge Grant and the increase in in-kind expenses. Broadcasting expenses increased \$69,374, or 50%, primarily due to increases in broadcasting salaries and fringes and goodwill expenses. Management and general expenses increased \$44,261, or 22% due to increases in donated facilities and increases in salary and fringe allocations. Fundraising and membership development expenses increased \$22,697, or 40% due to increases in expenses stemming from the Station's special campaign to increase memberships to raise funds for digital broadcasting during fiscal year 2006 and due to an increase in salaries and fringes. Underwriting expenses increased \$36,340, or 119% due to increases in salaries and fringes and due to the Station's effort to expand its underwriting program during fiscal year 2006. Operating expenses remained fairly consistent between fiscal year 2004 and fiscal year 2005.

### Other changes

In 2006, total other changes included capital grants the Station received for a digital transmitter. In fiscal year 2006, the Station received the Digital Radio Broadcasting Grant from the Wean Foundation for \$40,000 and the Digital Radio Conversion Grant from CPB for \$32,500. In fiscal year 2005, the Station received a capital grant for \$20,000 from the Wean Foundation. A capital grant was not received during fiscal year 2004.

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

### 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 the Station's cash flows follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>Cash provided by (used in):</b>			
<b>Operating activities</b>	\$ (549,249)	\$ (435,365)	\$ (447,871)
<b>Investing activities</b>	5,005	6,251	5,179
<b>Noncapital &amp; related financing activities</b>	630,305	518,216	513,782
<b>Capital financing activities</b>	72,500	20,000	(210,457)
<b>Net increase (decrease) in cash</b>	158,561	109,102	(139,367)
Cash & Cash Equivalents - Beginning of year	593,473	484,371	623,738
Cash & Cash Equivalents - End of year	<u>\$ 752,034</u>	<u>\$ 593,473</u>	<u>\$ 484,371</u>

Cash used in operating activities remained fairly consistent between fiscal year 2004 and fiscal year 2005, then decreased between fiscal year 2005 and fiscal year 2006. The decrease in cash was due to the fact that the increase in payments to suppliers, employees, and benefits was greater than the increase in receipts from grants and business and underwriting support. Cash provided by investing activities remained consistent among the three fiscal years. Cash provided by noncapital and related financing activities remained fairly consistent between fiscal year 2004 and fiscal year 2005 then increased between fiscal year 2005 and fiscal year 2006 due to increases in the general appropriation from the University and membership revenue. As for capital financing activities, during fiscal year 2004, previous years' grants were expended for the purchase of studio and broadcast equipment. The \$20,000 capital grant received in fiscal year 2005 and the two capital grants totaling \$72,500 in fiscal year 2006 have not yet been expended. The Station plans to purchase a new digital transmitter with these funds during fiscal year 2007.

### Economic Factors for the Future

Nationally, overall radio listening continues to decline, and even public radio, after years of steady increases, has leveled off. New technologies and options will also continue to impact radio listening. Locally, the economic environment has become increasingly less stable and could affect the modest, but steady increases in non-federal financial support that the Station has experienced in recent years. Although the audience for WYSU-FM's news programming continues to grow, listening to the classical programming has been basically static.

# **WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

WYSU-FM is actively and aggressively addressing the aforementioned challenges. On the technology front, a new analog/digital hybrid transmitter will be operational by late Fall 2006, setting the foundation for a robust and flexible digital broadcast service.

With the assistance of an Audience Service Challenge Grant from the Corporation for Public Broadcasting, WYSU-FM began an extremely thorough and vigorous strategic planning process in February, with several phases of analysis completed. A community strategic planning team has met a number of times to discuss future services and directions for the Station aimed at improved public service and financial performance. Utilizing audience research analysis, Arbitron audience research methodology, focus group research, and business modeling to look at on-air format options; the station management plans on presenting service options to the University's Board of Trustees later in fiscal year 2007 with the intent of implementing the strategic plan in the first half of fiscal year 2008.

Fiscal year 2006 saw a substantial increase in WYSU-FM underwriting activity. Significant increases were achieved in both underwriting revenues, and in the number of underwriters. The number of active WYSU-FM underwriting sponsors substantially increased during fiscal year 2006. Forty-eight new underwriters were contracted throughout the fiscal year. This represented an increase of 57% in the number of underwriters, and brought the total number of underwriting sponsors to 132. As the underwriting program continues to expand and develop, the Station anticipates more modest but on-going growth in underwriting revenues during the upcoming fiscal years.

Membership support also grew, significantly aided by a special campaign to raise funds for digital broadcasting. WYSU-FM management and development staff are exploring the possibility of establishing major and planned giving programs. The WYSU-FM development staff has constructed a plan to raise more income with a variety of community events. Also, WYSU-FM continues to expand its off-air presence in the community through the sponsoring or co-sponsoring of numerous concerts, speakers and events.

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

## STATEMENTS OF NET ASSETS AT JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash & cash equivalents	\$ 752,034	\$ 593,473
Interest receivable	900	-
Accounts receivable, net	30,515	8,867
Pledges receivable, net	2,411	8,818
<b>Total Current Assets</b>	<u>785,860</u>	<u>611,158</u>
<b>Noncurrent Assets</b>		
Endowment	136,672	134,776
Capital assets, net	115,358	161,247
<b>Total Noncurrent Assets</b>	<u>252,030</u>	<u>296,023</u>
<b>Total Assets</b>	<u>1,037,890</u>	<u>907,181</u>
 <b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	7,863	1,200
Compensated absences	5,476	4,739
<b>Total Current Liabilities</b>	<u>13,339</u>	<u>5,939</u>
<b>Noncurrent Liabilities</b>		
Compensated absences	64,705	57,755
<b>Total Noncurrent Liabilities</b>	<u>64,705</u>	<u>57,755</u>
<b>Total Liabilities</b>	<u>78,044</u>	<u>63,694</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	115,358	161,247
Restricted:		
Nonexpendable	136,672	134,776
Expendable	170,257	54,716
Unrestricted	537,559	492,748
<b>Total Net Assets</b>	<u>\$ 959,846</u>	<u>\$ 843,487</u>

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, 2006 AND 2005

	2006	2005
<b>REVENUES</b>		
<b>Operating Revenues</b>		
Corporation for Public Broadcasting grant	\$ 160,601	\$ 133,171
In-Kind contributions	157,331	126,052
eTech Ohio Commission grant	38,773	39,259
Underwriting revenue	105,212	72,277
<b>Total Operating Revenues</b>	461,917	370,759
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
Program Services:		
Programming & production	441,831	398,403
Broadcasting	209,255	139,881
Program information	32,578	26,477
Traffic & continuity	4,961	7,090
Support Services:		
Management & general	249,900	205,639
Fund raising & membership development	79,031	56,334
Underwriting	66,783	30,443
Clerical	55,581	54,221
Depreciation & loss on disposal	45,889	48,709
<b>Total Operating Expenses</b>	1,185,809	967,197
<b>Operating Loss</b>	(723,892)	(596,438)
<b>NON-OPERATING REVENUES</b>		
General appropriation from the University	390,989	294,322
Donated facilities & administrative support from the University	128,784	95,793
Subscription & membership revenue	229,372	214,356
Private gifts	10,000	10,000
Net revenue from fund raising	804	8,356
Investment income, net	7,802	7,939
<b>Net Non-operating Revenues</b>	767,751	630,766
<b>Income before other changes</b>	43,859	34,328
<b>OTHER CHANGES</b>		
Capital grants and gifts	72,500	20,000
<b>Total other changes</b>	72,500	20,000
Total increase in Net Assets	116,359	54,328
<b>NET ASSETS</b>		
Net Assets at the beginning of the year	843,487	789,159
<b>Net Assets at the end of the year</b>	\$ 959,846	\$ 843,487

See accompanying notes to financial statements.

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Corporation for Public Broadcasting grant	\$ 143,185	\$ 133,171
Receipts from eTech Ohio Commission grant	38,773	39,259
Business & underwriting support	110,132	79,804
Payments to suppliers	(330,884)	(278,837)
Payments to employees	(374,271)	(311,749)
Payments for benefits	(136,184)	(97,013)
<b>Total Cash Flows Used in Operating Activities</b>	(549,249)	(435,365)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	5,005	6,251
<b>Total Cash Flows Provided by Investing Activities</b>	5,005	6,251
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
General appropriation from the University	390,989	294,322
Membership revenue	228,512	205,538
Private gifts	10,000	10,000
Net revenue provided by fund raising	804	8,356
<b>Total Cash Flows Provided By Noncapital Financing Activities</b>	630,305	518,216
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Grant for capital purchases	72,500	20,000
<b>Total Cash Flows Provided by Capital Financing Activities</b>	72,500	20,000
<b>NET INCREASE IN CASH &amp; CASH EQUIVALENTS</b>	158,561	109,102
Cash & Cash Equivalents - Beginning of year	593,473	484,371
Cash & Cash Equivalents - End of year	\$ 752,034	\$ 593,473
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (723,892)	\$ (596,438)
Adjustments to reconcile operating loss to cash flows used in operating activities		
Depreciation Expense	45,889	48,709
Donated facilities & administrative support from the University	128,784	95,793
Changes in assets & liabilities:		
Accounts receivable	(14,380)	7,527
Accounts payable and compensated absences	14,350	9,044
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>	\$ (549,249)	\$ (435,365)

See accompanying notes to financial statements.

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

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## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

### 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 fund.
- Restricted Expendable - Net assets whose use by the Station is subject to externally imposed stipulations that can be fulfilled by actions of the Station pursuant to those stipulations or that expire by the passage of time.
- Unrestricted - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, Board of Trustees, Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially, all unrestricted net assets are designated for Station 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 Station 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.

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

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## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 toward unrestricted resources.

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

Accounts Receivable - Accounts receivable consist of underwriting charges for various Station programs. Also included are amounts due from private sources in connection with reimbursement of allowable expenditures under the applicable Station grants and contracts. 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. Pledges are recorded net of an allowance for uncollectible amounts and are discounted to net present value.

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 gains (losses) 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, which includes 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 gains and investment income monthly, based on each fund's pro-rata share to the total endowment shares.

Capital Assets - Equipment is recorded at cost, or if acquired by gift, at fair value at the date of the gift. The University's capitalization threshold for equipment is \$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

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

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## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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.

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.

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

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

Measurement Focus and Financial Statement Presentation - Operating revenues and expenses result from providing programming, production, and broadcasting support for the Station. The principal operating revenues include two grants, one from the Corporation of Public Broadcasting and one from the eTech Ohio commission, along with underwriting revenue from area businesses. Principal operating expenses include programming, production, broadcasting, fundraising, and management services and support. The principal non-operating revenues are 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.

Reclassification - Certain reclassifications have been made to the 2005 amounts to conform to the 2006 presentation. As a result of the reclassifications, management recalculated and reduced its donated facilities and administrative support from the University by \$6,764 with a corresponding decrease in management and general operating expenses.

### **Note 2 – 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 deposits.

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 or by a designated trustee as agent for the public depositories used by the University.

At June 30, 2006 and 2005, the carrying amount of the University's bank deposits and cash equivalents was \$10,106,720 and \$16,411,426 and the bank balances were \$10,051,416 and \$17,446,765, respectively. The Station's cash and cash equivalents are included in these totals and were \$752,034 and \$593,473 at June 30, 2006 and 2005, respectively. The difference in carrying amount and bank balance of the University is caused by items in transit and outstanding checks. Of the balance, \$200,000 in fiscal year 2006 and \$184,757 in fiscal year 2005 was covered by federal depository insurance; leaving \$9,851,416 in 2006 and \$17,262,008 in 2005 exposed to custodial credit risk. At times during the year, uncollateralized deposits may have been higher.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a formal deposit policy for custodial credit risk.

### Note 3 - Investments

The University's endowment funds are managed by the Youngstown State University Foundation (YSUF) under the provisions of an agreement.

The University has implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures, which requires certain reporting changes for the disclosure of deposits and investment risk.

The Station investments represent a portion of the University's total investments.

As of June 30, 2006 the Station had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Common Stock	\$ 73,458	\$ 73,458	\$ -	\$ -	\$ -
Corporate Notes & Bonds	11,079	2,373	2,974	3,865	1,867
Preferred Stock	8,826	4,483	3,204	-	1,139
U.S. Gov't. & Agency Securities	43,309	19,458	-	8,409	15,442
	<u>\$ 136,672</u>	<u>\$ 99,772</u>	<u>\$ 6,178</u>	<u>\$ 12,274</u>	<u>\$ 18,448</u>

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

As of June 30, 2006, investments had the following quality credit ratings:

Investment Type	Fair Value	Quality Ratings			
		A	Aa	Baa	Unrated
Common Stock	\$ 73,458	\$ -	\$ -	\$ -	\$ 73,458
Corporate Notes & Bonds	11,079	6,377	2,356	2,346	-
Preferred Stock	8,826	-	-	-	8,826
U.S. Gov't. & Agency Securities	43,309	-	-	-	43,309
	<u>\$ 136,672</u>	<u>\$ 6,377</u>	<u>\$ 2,356</u>	<u>\$ 2,346</u>	<u>\$ 125,593</u>

As of June 30, 2005, the University had the following investments and maturities:

Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Common Stock	\$ 71,200	\$ 71,200	\$ -	\$ -	\$ -
Corporate Notes & Bonds	15,443	4,296	5,820	3,128	2,199
Preferred Stock	9,745	3,757	5,988	-	-
U.S. Gov't. & Agency Securities	33,515	14,060	-	5,483	13,972
Other Securities	4,873	4,873	-	-	-
	<u>\$ 134,776</u>	<u>\$ 98,186</u>	<u>\$ 11,808</u>	<u>\$ 8,611</u>	<u>\$ 16,171</u>

***Interest Rate Risk*** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

***Credit Risk*** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University has no provisions in its investment policy that would limit its choices.

***Custodial Credit Risk*** - Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The total investments held by YSUF in the amount of \$5,847,253 as of June 30, 2006 and \$5,531,241 as of June 30, 2005 were uninsured and unregistered with securities held by the broker or by its trust department or agent, but not in the University's name.

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

### Note 4 – Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Depreciable assets				
Building, antenna, and tower	\$ 170,048	\$ -	\$ -	\$ 170,048
Studio and broadcast equipment	275,799	-	-	275,799
	<u>445,847</u>	<u>-</u>	<u>-</u>	<u>445,847</u>
Less: Accumulated depreciation	284,600	45,889	-	330,489
Capital assets, net	<u>\$ 161,247</u>	<u>\$ (45,889)</u>	<u>\$ -</u>	<u>\$ 115,358</u>

Capital assets activity for the year ended June 30, 2005 was as follows:

<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Depreciable assets				
Building, antenna, and tower	\$ 170,048	\$ -	\$ -	\$ 170,048
Studio and broadcast equipment	357,501	-	81,702	275,799
	<u>527,549</u>	<u>-</u>	<u>81,702</u>	<u>445,847</u>
Less: Accumulated depreciation	317,593	48,555	81,548	284,600
Capital assets, net	<u>\$ 209,956</u>	<u>\$ (48,555)</u>	<u>\$ 154</u>	<u>\$ 161,247</u>

### Note 5 – Long Term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Net Additions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	<u>\$ 62,494</u>	<u>\$ 7,687</u>	<u>\$ 70,181</u>	<u>\$ 5,476</u>

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Net Additions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	<u>\$ 50,085</u>	<u>\$ 12,409</u>	<u>\$ 62,494</u>	<u>\$ 4,739</u>

# WYSU-FM YOUNGSTOWN STATE UNIVERSITY RADIO

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## NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

### **Note 6 - 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 the University that are useful and beneficial to the students and 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

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## SCHEDULE OF NONFEDERAL FINANCIAL SUPPORT FOR THE YEAR ENDED JUNE 30, 2006

Direct Income	\$ 821,055
Indirect Administrative Support	128,784
In-Kind Contributions of Services and Other Intangibles	<u>157,331</u>
<b>Total Nonfederal Financial Support</b>	<b><u>\$ 1,107,170</u></b>



**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, 2006 and have issued our report thereon dated January 26, 2007. 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, based on the auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants, 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*

January 26, 2007

## Independent Auditor's Report on Applying Agreed-Upon Procedures

Mr. David Sweet  
Youngstown State University

We have performed the procedures enumerated below, which were agreed to by Youngstown State University (the University) and the National Collegiate Athletic Association (NCAA), solely to assist you with respect to complying with NCAA bylaws for the year ended June 30, 2006. 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 the 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 the associated findings are as follows:

### **I. Statement of Revenue, Support and Expenditures and Internal Controls**

1. We obtained the Statement of Revenue, Support, and Expenditures for the Intercollegiate Athletics Department (the Department) for the year ended June 30, 2006 as prepared by management (Schedule 1). We recomputed the subtotal and total line items on the Statement. We also agreed the amounts on the Statement to the appropriate general ledger accounts in the University's General Ledger System. We found no exceptions as a result of these procedures.
2. We performed a comparison of revenue, support, and expenditures per the Statement for fiscal years 2006 and 2005. We obtained management's explanations for variations greater than \$24,000 and 10% of each revenue and support and expenditure line item in the aggregate as follows:
  - a. Football guarantees revenue increased \$250,000, from \$0. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that this was due to the prior year having no guarantees and 2006 being the first time playing a major NCAA Division 1A opponent (University of Pittsburgh).

- b. NCAA distributions revenue increased approximately \$55,000, or 16%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that, the increase was due to increases in NCAA revenue sharing, which is comprised of two components: Grants-In-Aid and Sports Sponsorship. The Grants-In-Aid distribution increased due to two factors, an increase in points for YSU based on the number of sports and an increase in the distribution rate for all schools. Sports Sponsorship distribution increased due to a rate increase. These increases were offset by no supplemental distributions being received in 2006.
- c. Private gifts and grants revenue increased approximately \$191,500, or 74%. We were informed by management who has responsibility for financial and accounting matters that this was primarily due to better reporting/classifying available with a newly implemented financial system.
- d. Miscellaneous revenue increased approximately \$99,500, or 258%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that an unrelated business income tax refund was received in fiscal year 2006 which was not received in fiscal year 2005.
- e. Pouring rights revenue increased \$50,000, from \$0. We were informed by management who has responsibility for financial and accounting matters that there was no pouring rights revenue in the prior year. A new contract started in fiscal year 2005; however, pouring rights revenue did not begin until the second year of contract.
- f. Sports camp revenue decreased approximately \$79,500, or 27%. We were informed by management who has responsibility for financial and accounting matters that the variance was due to the timing of the youth camps in relation to the fiscal year end cut-off.
- g. General Fund Allocation support increased approximately \$888,300, or 16%. We were informed by management who has responsibility for financial and accounting matters that the increase was due to an increase in transfers approved through the budget process. Additional support was budgeted to more closely match anticipated activity. See related decrease in “transfers from other funds”, item 2q.
- h. Fringe benefits expenses increased approximately \$131,000, or 14%. We were informed by management who has responsibility for financial and accounting matters that the increase was due to anticipated and budgeted increases in health care costs.

- i. Supplies (including miscellaneous, office and athletic supplies) expenses increased approximately \$41,500, or 13%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase was due the increased cost of supplies.
- j. Recruiting and interviewing candidates expenses increased approximately \$34,500, or 26%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase was due to a new head coach and coaching staff in fiscal year 2006 that placed more emphasis on recruiting.
- k. Team travel expenses decreased approximately \$71,000, or 9%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the decrease was due to a decrease in flights for away football games, five away games in the prior year compared to three in the current year.
- l. Scholarship expenses increased approximately \$310,000, or 12%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase was partially due to the 6% increase related to tuition increases. The majority of the remaining increase was due to additional scholarships awarded for gender equity.
- m. Officials expenses increased approximately \$34,000, or 22%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase was due to increased cost of officials and more home games of various sports.
- n. Guarantees expenses increased approximately \$91,000, or 187%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase was due to a \$100,000 payout to the University of Maine for a cancellation fee in order to secure the University of Pittsburgh game on the same date.
- o. Athletic concessions expenses decreased approximately \$88,500, or 45%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the decrease was due to a decrease in concession sales.
- p. Mandatory transfers for indebtedness decreased \$74,000, or 27%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the decrease was due to the Series 1996B Bond issue being paid as of December 15, 2005.

- q. Transfers from other funds decreased approximately \$672,000, or 95%. We were informed by management who has responsibility for financial and accounting matters that the decrease was primarily due to a reduced need for transfers because of the increase in the General Fund Allocation approved through the budget process as support. See related increase in “general fund allocation”, item 2g.
  - r. Reserve for encumbrances decreased approximately \$28,500, or 100%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the decrease was due to a change in financial presentation.
3. We performed a comparison of actual operating revenue, support, and expenditures per the Statement to the budgeted amounts obtained from management. We obtained management’s explanation for variations greater than \$24,000 and 10% of each revenue and support and expenditures line item in the aggregate as follows:
- a. We were informed by management who has responsibility for financial and accounting matters that the budgeted amount for football ticket sales revenue exceeded the actual amount approximately \$374,000, or 47%, due to revenue being budgeted near maximum attendance capacity.
  - b. We were informed by management who has responsibility for financial and accounting matters that the budgeted amount for basketball ticket sales revenue exceeded the actual amount approximately \$114,000, or 48%, due to revenue being budgeted near maximum attendance capacity.
  - c. We were informed by management who has responsibility for financial and accounting matters that the actual amount for NCAA revenue sharing exceeded the budgeted amount approximately \$52,000, or 17%, due to the budgeted amount being based on prior year reimbursements that did not reflect the increased rates.
  - d. We were informed by management who has responsibility for financial and accounting matters that the actual amount for miscellaneous revenue exceeded the budgeted amount approximately \$29,000, or 26%, due to budgeting estimates.
  - e. We were informed by management who has responsibility for financial and accounting matters that the actual amount for pouring rights revenue exceeded the budgeted by the full amount, \$50,000, due to \$0 being budgeted because the prior year actual was \$0.
  - f. We were informed by management who has responsibility for financial and accounting matters that the budgeted amount for telephone and telephone equipment expenses exceeded the actual approximately \$26,000, or 33%, due to cell phone contract changes.

- g. We were informed by management who has responsibility for financial and accounting matters that the actual amount for publicity and promotions expenses exceeded the budgeted amount approximately \$74,000, or 670%, due to the budget excluding the impact of barter transactions.
  - h. We were informed by management who has responsibility for financial and accounting matters that the actual amount for guarantees expenses exceeded the budgeted amount \$49,500, or 55%, due to the budget amount of \$90,000 being a set standard for each year and the anticipated actual being completely unknown at budget time. Some years the variance is favorable and other years it is unfavorable.
  - i. We were informed by management who has responsibility for financial and accounting matters that the actual amount for mandatory transfers for indebtedness exceeded the budgeted amount approximately \$81,500, or 68%, due to only one bond issue being included in the budgeted amount.
  - j. We were informed by management who has responsibility for financial and accounting matters that the actual amount for transfers from other funds exceeded the budget \$40,000, or 100%, primarily due to a transfer from an operating reserve being excluded from the budget.
- 4. We obtained a description of accounts and compared classifications of revenue, support, and expenditures to NCAA guidelines. We found no exceptions as a result of these procedures.
  - 5. We reviewed and made inquiries of management on the organizational chart prepared by management. We reviewed the extent of documentation of accounting systems and procedures. We also made certain inquiries of management regarding control consciousness, competence of personnel, and protection of records and equipment.

6. We were informed by management that the Department follows the University's policies and procedures for acquiring, approving, depreciating, and disposing of assets. Capital assets are stated at cost or fair value at date of gift. 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. 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.
7. We obtained a summary of football ticket revenue. We agreed football ticket revenue per the performance sales and gate sales reports (the football reports) to the football summary. The football summary was \$2,630 less than the Statement (.6% of total football revenue). We performed analytical review procedures, comparing football revenues to ticket prices, number of games, and attendance figures, noting no unusual items.
8. We obtained a summary of basketball ticket revenue and for three games we agreed the season ticket, office and gate sales to performance sales and gate sales reports (the basketball reports) to the accounting records and the Statement. The basketball reports were \$4,370 more than the Statement (3.6% of total basketball revenue).
9. We agreed the General Fund Allocation in the Statement to the amount approved by the Board of Trustees for the year. We found no exceptions as a result of these procedures.
10. We reviewed the two football game guarantees that were paid to Slippery Rock University and the University of Maine and four basketball guarantees that were paid to Lock Haven University, Slippery Rock University, Geneva College and Ohio Legends. We reviewed the football game guarantee received from the University of Pittsburgh and three basketball guarantees that were received from Marshall University, St. Bonaventure University and Indiana University. We agreed the guarantee amounts from the contracts to the total guarantees recorded in the Statement. We found no exceptions as a result of these procedures.
11. We obtained the agreement with Clear Channel Broadcasting, Inc. related to the University's participation in revenues from radio. We obtained a detail listing of air time sold by the University for football and basketball games including the rights fee paid by Clear Channel and agreed the total radio revenues to Penguin Sports Network revenue on the Statement. We found no exceptions as a result of these procedures.

12. We agreed revenue from Coca Cola, Giant Eagle, Home Savings and Loan, Armstrong Cable, and Do Cut True Value sponsorship contracts to the University's accounting records. We found no exceptions as a result of these procedures.
13. We obtained a detail listing of expenses for the sports camps and agreed the total amount to the Statement. We selected a sample of five expenses from the listing, and obtained either the voucher package or journal entry noting agreement of amount, that the explanation of the expense related to the sports camp, and the expense was incurred during fiscal year 2006. We found no exceptions as a result of these procedures.
14. Although management maintains complete sports camp participant listings, individual cash receipt support is not maintained; therefore, the agreed upon procedures related to sports camp revenue were not performed.
15. We obtained a detail listing of scholarship recipients and agreed the total amount of the listing to the Statement noting the detail exceeded the Statement by \$5,860 (.2% of total scholarships). We selected a sample of twenty-five student scholarship recipients from the detail listing of scholarships. We agreed the amount received per the detail listing of scholarships to the SFA subledger and ensured amount disbursed was in accordance with student's aid award letter. We found no exceptions as a result of these procedures.
16. We obtained the detail of NCAA revenue sharing per the Statement and agreed distribution amounts from/to the NCAA distribution reports. We found no exceptions as a result of this procedure.
17. We obtained a detail listing of logholders and revenue and agreed the total revenue to the Stambaugh stadium viewing boxes line item on the Statement. We selected a sample of five lodge lease contracts and agreed the revenue per the individual contract to the listing. We found no exceptions as a result of these procedures.
18. We received documentation from management of private gifts and grants received during 2006. We agreed the total to the Statement. We reviewed the documentation noting one single gift greater than 10% 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. We obtained and reviewed the supporting documentation for that contribution, and found no exceptions as a result of these procedures.
19. We selected a sample of five coaches and three support staff employed by the University. We selected the June 2006 payroll distribution and obtained the employees contracts and calculated one twelfth, except for one individual where we calculated one eighth, of their pay and agreed it to the payroll distribution report. We found no exceptions as a result of these procedures.
20. We obtained the University's recruiting expense and team travel policies, comparing them to the NCAA policies.

## II. Booster Organizations

1. Management verbally represented that the Penguin Club was the only “outside organization” which had expenditures for or on behalf of the University’s Intercollegiate Athletic Program. The Penguin Club’s related financial activities for the year ended June 30, 2006 are shown in Schedules 2 and 3.
2. We reconciled the Penguin Club’s receipts and disbursements to a confirmation obtained directly from the Penguin Club without exception.
3. We noted the amounts included in Schedules 2 and 3 are not included in Schedule 1.
4. We received the audited financial statements of the Penguin Club for the year ended June 30, 2006, which reflected an unqualified opinion.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items, including Schedule 1, Schedule 2, and Schedule 3, or on the effectiveness of the internal control over financial reporting. 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 Youngstown State University and the National Collegiate Athletic Association and is not intended to be, and should not be, used by anyone other than these specified parties.



January 10, 2007

# Youngstown State University

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

Year Ended June 30, 2006

	Football	Basketball	Other Sports	Non-Program Specific	Restricted	Total
<b>Revenue and Support</b>						
Ticket Sales	\$ 414,209	\$ 121,392	\$ -	\$ -	\$ 3,135	\$ 538,736
Guarantees	250,000	51,767	-	-	-	301,767
Stambaugh Stadium Viewing Boxes	426,973	-	-	-	-	426,973
Scoreboard Panels	98,800	31,150	-	-	-	129,950
NCAA Distributions	92,265	49,496	210,361	-	55,954	408,076
Federal Gifts and Grants	-	-	-	-	23,002	23,002
Program Sales	7,544	1,077	-	-	134	8,755
Telephone and Vending Machine Commissions	-	-	-	100,955	-	100,955
Private Gifts and Grants	-	-	-	-	450,904	450,904
Athletic Concessions	97,214	30,463	98,064	-	-	225,741
Miscellaneous	400	-	-	137,571	-	137,971
Penguin Sports Network	-	-	-	35,693	-	35,693
Program Advertising	99,444	21,050	-	-	-	120,494
Pouring Rights	-	-	-	50,000	-	50,000
Tailgate Income	25,280	-	-	-	-	25,280
Endowment Income	-	-	-	-	2,106	2,106
Sports Camps	-	-	-	211,450	-	211,450
<b>Total Revenue</b>	<b>1,512,129</b>	<b>306,395</b>	<b>308,425</b>	<b>535,669</b>	<b>535,235</b>	<b>3,197,853</b>
<b>Support</b>						
Non-Mandatory Additions:						
General Fund Allocations	-	-	-	6,443,237	(550)	6,442,687
<b>Total Revenue and Support</b>	<b>1,512,129</b>	<b>306,395</b>	<b>308,425</b>	<b>6,978,906</b>	<b>534,685</b>	<b>9,640,540</b>
<b>Expenditures</b>						
Personal Services:						
Salaries	478,864	436,085	496,900	1,366,268	56,701	2,834,818
Federal Work Study	-	-	-	-	23,002	23,002
Fringe Benefits	186,830	139,979	215,335	548,336	90	1,090,570
<b>Total Personal Services</b>	<b>665,694</b>	<b>576,064</b>	<b>712,235</b>	<b>1,914,604</b>	<b>79,793</b>	<b>3,948,390</b>

# Youngstown State University

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

	Football	Basketball	Other Sports	Non-Program Specific	Restricted	Total
Operating Expenses:						
Miscellaneous Supplies	-	-	-	1,775	39,640	41,415
Office Supplies	-	-	-	-	2,181	2,181
Athletic Supplies	68,026	41,831	84,905	69,212	45,137	309,111
Software	-	-	-	6,612	-	6,612
Clinics and Meetings	-	-	-	32,198	-	32,198
Recruiting and Interviewing Candidates	40,989	87,014	35,999	1	2,874	166,877
Team Travel	236,910	149,683	241,746	(11,102)	83,182	700,419
Dues	-	-	-	70,660	-	70,660
Printing	-	-	1,688	69,922	4,438	76,048
Publicity and Promotions	-	-	-	84,723	1,633	86,356
Telephone and Telephone Equipment	6,151	20,080	6,302	20,241	-	52,774
Postage and Freight	4,491	4,895	-	14,196	-	23,582
Maintenance and Repairs	83	-	9,017	19,516	23,389	52,005
Rentals	-	-	-	53,274	441	53,715
Pre-season Practice	58,118	-	16,356	-	-	74,474
Liability Insurance	-	-	-	67,397	-	67,397
Scholarships	1,002,753	458,093	1,328,173	(18,835)	102,957	2,873,141
Awards	-	-	-	10,035	654	10,689
Officials	34,625	57,157	22,284	40,239	35,823	190,128
Business Relations	7,947	19,401	-	756	7,711	35,815
Bank Fees	-	-	-	3,813	-	3,813
Guarantees	130,000	9,500	-	-	-	139,500
Miscellaneous	1,900	809	4,447	21,409	13,351	41,916
Equipment	-	-	-	18,188	23,849	42,037
Athletic Concessions	42,383	13,281	29,378	13,376	8,785	107,203
Auxillary Overhead	-	-	-	13,622	-	13,622
Sports Camps	-	-	-	285,251	-	285,251
<b>Total Operating Expenses</b>	<b>1,634,376</b>	<b>861,744</b>	<b>1,780,295</b>	<b>886,479</b>	<b>396,045</b>	<b>5,558,939</b>
<b>Total Expenditures</b>	<b>2,300,070</b>	<b>1,437,808</b>	<b>2,492,530</b>	<b>2,801,083</b>	<b>475,838</b>	<b>9,507,329</b>

# Youngstown State University

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

	<b>Football</b>	<b>Basketball</b>	<b>Other Sports</b>	<b>Non-Program Specific</b>	<b>Restricted</b>	<b>Total</b>
Revenue and Support (Less Than) in Excess of Expenditures	(787,941)	(1,131,413)	(2,184,105)	4,177,823	58,847	133,211
Transfers From Other Funds	-	-	-	36,000	-	36,000
Mandatory Transfers for Indebtedness	-	-	-	(200,600)	-	(200,600)
Revenue and Support (Less Than) in Excess of Expenditures and Transfers	<u>\$ (787,941)</u>	<u>\$ (1,131,413)</u>	<u>\$ (2,184,105)</u>	<u>\$ 4,013,223</u>	<u>\$ 58,847</u>	<u>\$ (31,389)</u>

**Schedule 2**

Youngstown State University

Schedule of Intercollegiate Athletics Program  
Support by Booster Organization

Year Ended June 30, 2006

<b>Booster Organization</b>	<b>Beginning Fund Balance</b>	<b>Adjustments</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Ending Fund Balance</b>
The Penguin Club, Inc.	\$ 371,219	\$ -	\$ 552,482	\$ 464,695	\$ 459,006

### Schedule 3

## Youngstown State University

### Schedule of Financial Activities of the Penguin Club

Year Ended June 30, 2006

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 (Schedule 1) or the books of the University.

#### Penguin Club

Century Kingbird tickets	\$ 161,410
Fundraising expenses	64,902
Wages and payroll taxes	34,338
Scholarship awards	22,252
Office and loge rent	30,000
Sports banquets	18,592
Athletic awards	42,980
Printing and office expenses	8,467
Communications	5,731
Publicity events and hospitality	8,326
Car leases	8,142
Membership drive expenses	3,450
Hall of Fame expenses	2,930
Executive directors expenses	2,951
Miscellaneous	8,849
Total	<u>\$ 423,320</u>



Mary Taylor, CPA  
Auditor of State

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 8, 2007