UNIVERSITY HOUSING CORPORATION

Financial Report
for the Years Ended July 31, 2008 and 2007

Mary Taylor, CPA
Auditor of State

Board of Directors
University Housing Corporation
One University Plaza
Youngstown State University
Youngstown, Ohio 44555

We have reviewed the *Report of Independent Auditors* of the University Housing Corporation, Mahoning County, prepared by Crowe Horwath LLP, for the audit period August 1, 2007 through July 31, 2008. 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 University Housing Corporation is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 8, 2009

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Crowe Horwath

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
University Housing Corporation
Youngstown, Ohio

We have audited the accompanying statements of financial position of University Housing Corporation (the Corporation) as of July 31, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Corporation as of July 31, 2007, were audited by other auditors whose report dated October 15, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of July 31, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 13, 2008 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 14, 2008

STATEMENTS OF FINANCIAL POSITION

	July 31, 2008	July 31, 2007
Assets		
Current Assets		
Cash	$ 227,557	$ 471,637
Accounts receivable, net	7,442	32,285
Accounts receivable, Youngstown State University	-	14,934
Interest receivable	11,893	15,476
Investments	3,772,088	3,324,291
Prepaid expenses	26,059	30,305
Total Current Assets	**4,045,039**	**3,888,928**
Property, Facilities, and Equipment	**15,651,725**	**16,267,002**
Other Assets		
Bond issue costs, net	329,559	343,434
Total Assets	**$ 20,026,323**	**$ 20,499,364**
Liabilities and net deficit		
Liabilities		
Current Liabilities		
Accounts payable	$ 23,624	$ 29,895
Accounts payable, Youngstown State University	9,766	-
Capital lease payable, current portion	11,269	23,977
Accrued bond interest payable	98,390	68,646
Bonds payable, current portion	130,000	100,000
Prepaid rent	60,678	42,320
Due to Ambling Companies	9,626	9,626
Security deposits	70,475	77,838
Other accruals	5,862	77,703
Total Current Liabilities	**419,690**	**430,005**
Long Term Debt		
Bonds payable	21,025,000	21,430,000
Interest rate swap	1,021,121	429,618
Loan payable - Youngstown State University Foundation	113,912	121,592
Capital lease payable	-	18,067
Total Long Term Debt	**22,160,033**	**21,999,277**
Total Liabilities	**22,579,723**	**22,429,282**
Unrestricted Net Deficit	**(2,553,400)**	**(1,929,918)**
Total Liabilities and Unrestricted Net Deficit	**$ 20,026,323**	**$ 20,499,364**

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES

	Year ended July 31, 2008	Year ended July 31, 2007
Revenue		
Rental income	$ 2,277,627	$ 2,214,370
Interest income	163,681	173,436
Other income	105,401	123,237
Total Revenue	**2,546,709**	**2,511,043**
Expenses		
Administrative	35,933	40,845
Contract services	70,304	56,525
Interest expense	915,683	866,782
Bond fees	78,895	278,792
Depreciation and amortization expense	722,433	577,171
Loss on disposal of property, facilities, and equipment	8,100	-
Bad debt expense	44,878	75,382
Management fees	114,312	114,312
Advertising costs	19,033	26,001
Payroll and payroll-related	181,073	148,735
Accounting and legal	37,923	46,310
Repairs and maintenance	105,749	116,331
Insurance and taxes	46,653	46,951
Unit utilities expense	197,719	155,920
Total Expenses	**2,578,688**	**2,550,057**
(Increase) in Unrestricted Net Deficit before other items	**(31,979)**	**(39,014)**
Fair value of interest rate swap adjustment	(591,503)	(64,404)
(Increase) in Unrestricted Net Deficit	**(623,482)**	**(103,418)**
Unrestricted Net Deficit at beginning of year	**(1,929,918)**	**(1,826,500)**
Unrestricted Net Deficit at July 31	**$ (2,553,400)**	**$ (1,929,918)**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year ended July 31,	
	2008	**2007**
Cash Flows from Operating Activities		
(Increase) in unrestricted net deficit	$ (623,482)	$ (103,418)
Adjustments to reconcile change in unrestricted net deficit to net cash provided by operating activities:		
Depreciation and amortization	722,433	577,171
Fair value of interest rate swap adjustment	591,503	64,404
Loss on disposal of property, facilities, and equipment	8,100	-
Changes in Assets and Liabilities:		
Accounts receivable, net	24,844	(8,746)
Interest receivable	3,583	(1,960)
Prepaid expenses	4,245	186,380
Accounts payable	(6,270)	23,096
Accrued bond interest payable	29,744	2,503
Prepaid rent	18,358	314
Accounts receivable/payable-Youngstown State University	24,700	945
Security deposits	(7,364)	(18,705)
Other accruals	(71,841)	60,286
Net Cash Provided by Operating Activities	**718,553**	**782,270**
Cash Flows from Investing Activities		
Purchase of property, facilities, and equipment	(101,380)	(59,227)
Change in investments	(447,798)	(389,050)
Net Cash (Used in) Investing Activities	**(549,178)**	**(448,277)**
Cash Flows from Financing Activities		
Loan payable - Youngstown State University Foundation	(7,680)	13,216
Principal payments on debt and capital lease	(405,775)	(130,968)
Net Cash (Used in) Financing Activities	**(413,455)**	**(117,752)**
Net (decrease) increase in cash	(244,080)	216,241
Cash at beginning of year	471,637	255,396
Cash at End of Year	**$ 227,557**	**$ 471,637**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS, *(CONTINUED)*
YEARS ENDED JULY 31, 2008 AND 2007

Note 1 – Organization

Nature of Business
University Housing Corporation (the Corporation) was formed on July 18, 2001 to further the educational mission of Youngstown State University (University) by developing and owning housing for the students, faculty and staff of the University. Its rental units are located in Youngstown, Ohio and house approximately 400 residents.

Management Agreement
On May 1, 2002 the Corporation entered into a Management Agreement with Ambling Management Company (Ambling Management) to manage the operations of the student housing facility and act as its leasing agent. The Management Agreement was effective August 1, 2003, expired at the end of fiscal year 2008, and has been renewed for an additional five years. Under the Management Agreements, Ambling Management receives a monthly management fee of $9,526. The Corporation owed Ambling Management $9,526 at July 31, 2008 and 2007 for management fees, which are recorded in Due to Ambling Companies on the statement of financial position. In fiscal year 2008, additional payments to Ambling Management included:

Reimbursement for:	Amount
Payroll and payroll related	$ 181,073
Administrative expenses	4,012
Total	$ 185,085

Note 2 – Summary of Significant Accounting Policies

Financial Statement Presentation
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Corporation is required to report information regarding its financial positions and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue Recognition
The Corporation recognizes revenue for rent in the period that it is due from the tenant.

Cash
The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Corporation maintains its cash balances in financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000. The Corporation's deposits may at times exceed the insured limit.

Restrictions on Cash and Investments
Certain restrictions on cash and investments are required per the Reimbursement Agreement (see Note 6). The Reimbursement Agreement limits the use of some of these amounts to principal and interest payments on the bonds. As of July 31, 2008 and 2007, $3,643,621 and $3,471,570, respectively, of cash and investments were restricted for these purposes.

Property, Facilities and Equipment
Property, facilities and equipment are recorded at cost. Renewals and replacements of a routine nature are expensed, while those that extend or improve the life of existing properties are capitalized. Assets are depreciated by the straight-line method over their estimated useful

Note 2 – Summary of Significant Accounting Policies, *(continued)*

lives once the assets have been placed into service (see Note 5). Leased equipment is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment.

The Corporation capitalizes interest in accordance with Financial Accounting Standard No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants* (Statement 62), which requires the Corporation to capitalize interest costs of restricted tax-exempt borrowings less any interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use.

Financial Instruments
The carrying values of cash, accounts receivable, prepaid expenses, accounts payable, and other current liabilities approximate their carrying values due to the short-term nature of these financial instruments. The carrying values of the Corporation's long-term obligations approximate fair value.

Bond Issue Costs
The costs related to the issuance of bonds are capitalized and amortized using the straight-line method over the life of the bonds.

Security Deposits
Each tenant is required to pay a refundable security deposit. The security deposit or any portion thereof may be withheld for unpaid rent or damage in excess to normal wear and tear to the premises, common areas, major appliances and furnishings. The security deposit is recorded as a liability on the statement of financial position.

Derivatives and Hedging Activities
The Corporation follows Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133), which requires derivative financial instruments, such as interest rate swaps, to be recognized as assets or liabilities in the statement of financial position at fair value.

The fair value of the interest rate swap reflects the present value of the future potential gains (losses), if settlement were to take place. The Corporation does not designate its derivative instrument as a hedging instrument, thus gains and losses on the derivative instrument are recognized in the statement of activities during the period of change (see Note 6).

Net Assets
The Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are those whose use has been limited by donor-imposed time or purpose restrictions. Permanently restricted net assets are net assets required by donor restriction or by law to be maintained by the Corporation in perpetuity. Unrestricted net assets are all other net assets.

Advertising Costs
The Corporation incurs advertising costs in the form of television, radio, newspaper and other print ads. Such costs are expensed as incurred. Advertising costs charged to expense were

Note 2 – Summary of Significant Accounting Policies, *(continued)*

$19,033 in fiscal year 2008 and $26,001 in fiscal year 2007.

Federal Income Taxes

The Corporation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Use of Estimates

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

Reclassification

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

Note 3 – Accounts Receivable

Accounts receivable are recorded at net realizable value with an allowance for doubtful accounts of $3,800 and $6,500, respectively, at July 31, 2008 and 2007. The allowance is determined based on historical losses and recoveries. Uncollected balances are written off in the year turned over to collection. Recoveries are recorded in the year received.

Note 4 – Investments

Investments consist of the following as of July 31, 2008 and 2007:

	July 31, 2008	July 31, 2007
Guaranteed Investment Contract:		
MBIA	$1,742,041	$1,742,041
Other investments:		
Government Obligation Fund	2,030,047	1,582,250
Total	$3,772,088	$3,324,291

The debt service reserve fund is invested in a guaranteed investment contract pursuant to a May 2002 agreement authorizing U.S. Bank (the trustee) to invest with MBIA, Inc. The investment agreement was modified and a custodial agreement enacted in July 2008 to appoint the trustee bank as custodian and collateral agent for the purpose of perfecting the trustee's security interest in collateral required as a result of the insurer's downgraded rating.

The guaranteed investment contract is recorded at cost plus accrued interest in the statements of financial position. MBIA pays interest at the rate of 5.8385% per annum.

Note 5 – Property, Facilities, and Equipment

Property, facilities and equipment are recorded at cost, net of accumulated depreciation. Recorded values as of July 31, 2008 and 2007 are as follows:

	July 31, 2008	July 31, 2007
Buildings	$17,108,042	$17,442,241
Other capital assets	1,441,836	1,022,457
Total cost	18,549,878	18,464,698
Less accumulated depreciation	(2,898,153)	(2,197,696)
Property, facilities and equipment, net	$15,651,725	$16,267,002

Note 6 – Long-Term Debt

In May 2002, the Corporation 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. At July 31,2008 and 2007, these variable interest rates were set at 4.63% and 3.60% respectively, with an average weekly rate of 3.0% during fiscal year 2008 and 3.6% during fiscal year 2007. The bonds are secured by the assignment of incomes and revenues of the University Courtyard Project.

The Series 2002 Bonds were issued pursuant to a Trust Indenture dated May 1, 2002 between Mahoning County (County) and the Trustee. Under the terms of the current Reimbursement Agreement dated May 30, 2007, the Corporation entered into an alternate, five year, Irrevocable Direct Pay Letter of Credit Agreement with a bank, with a stated expiration date of September 16, 2012. Under the terms of the Reimbursement Agreement, the Corporation maintains a debt service reserve fund at the maximum amount ($1,742,041 at July 31, 2008 and 2007).

Under a Partial Assignment and Assumption of Collateral Documents and Guaranty dated May 30, 2007, the alternate letter of credit bank assumed a letter of credit guaranty of the Youngstown State University Foundation (Foundation or Guarantor) from the predecessor letter of credit bank. The original Guaranty Agreement for payment of the Series 2002 Bonds was dated May 1, 2002. The Foundation guarantees the maintenance of the debt service fund and replenishes any deficits on a semi-annual basis. No replenishments were required in fiscal years 2008 or 2007.

The Foundation provides a conditional full guaranty of the Letter of Credit only under conditions which would indicate a failure of the Project to attain a sustained cash flow sufficient to maintain service of the debt as outlined in the Letter of Credit Agreement.

Maturities of the bonds are as follows:

Year ending July 31,	Amount
2009	130,000
2010	175,000
2011	220,000
2012	270,000
2013	325,000
Thereafter	20,035,000
Total	**$21,155,000**

The Corporation'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, the Corporation entered into an interest rate swap in May 2002 with a notional amount of $20,525,000 at July 31, 2008 and $20,625,000 at July 31, 2007.

Note 6 – Long-Term Debt, (*continued*)

An Intercreditor Agreement dated May 30, 2007 establishes the respective rights between the senior creditor for the swap with the junior creditor for the letter of credit.

The swap agreement effectively changes the Corporation'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, the Corporation makes payments calculated at a fixed rate of 3.97% to the counterparty of the swap. In return, the counterparty makes payments to the Corporation equal to 67% of the 1-Month USD-LIBOR-BBA Index. Only the net difference in payments is exchanged with the counterparty. During fiscal year 2008 and 2007 the 1-Month USD-LIBOR-BBA Index ranged from 2.38% to 5.82% (2.46% at July 31, 2008) and 5.32% to 5.42% (5.32% at July 31, 2007), respectively.

The fair value of the swap agreement at July 31, 2008 and 2007 was $1,021,121 and $429,618, respectively, and is recorded as a liability on the statements of financial position. The changes in fair value of the swap of $591,503 during fiscal year 2008 and $64,404 during fiscal year 2007 are recorded as loss on interest rate swap in the statements of activities.

Total interest paid was $912,927 and $854,492 in fiscal year 2008 and fiscal year 2007, respectively.

Note 7 – Leases

In May 2002, the Corporation entered into a 40-year lease with Youngstown State University for land to develop the Project. The lease contains a renewal option to extend the term for an additional 40 years. Future minimum annual lease payments are $100 per year over the life of the lease. An October 2004 amendment provided for an additional payment of $10,000 per month to offset electrical usage, adjusted annually in accordance with a prescribed annual reconciliation statement. Due to lower than expected cost, Youngstown State University billed $5,000 per month to minimize the annual adjustment.

In November 2003, the Corporation entered into a 5-year capital lease for building equipment. As a result, property rights under the capital lease obligation totaling $5,074 and $25,368, net of accumulated depreciation, are included in property, facilities and equipment on the statement of financial position at July 31, 2008 and 2007, respectively. The net present value of future lease payments is recorded as a liability in the amount of $11,269 and $42,044 at July 31, 2008 and 2007, respectively. The future lease payments are as follows:

Year ending July 31,	Amount
2009	$ 11,665
Less interest	(396)
Principal	$ 11,269

Note 8 - Related Party Transactions

Periodically, Youngstown State University Foundation pays expenses on behalf of the Corporation. Amounts owed to the affiliate are payable upon demand and bear interest at Prime Rate on the beginning date of each loan and fixed thereafter. As of July 31, 2008 and 2007, the interest rates averaged 4.75% on the outstanding loan payable of $113,912 and

NOTES TO FINANCIAL STATEMENTS, *(CONTINUED)*
YEARS ENDED JULY 31, 2008 AND 2007

Note 8 - Related Party Transactions, *(continued)*

$121,592 respectively. Principal additions totaled $0 for legal expenses in fiscal year 2008 and $8,069 in fiscal year 2007. Principal and interest payments were $13,215 and $0 during fiscal year 2008 and 2007 respectively.

The University is committed to marketing the housing facility. In addition, the University annually awards housing scholarships to University students for a minimum of $25,000.

Accounts payable of $9,766 to the University at July 31, 2008 and accounts receivable of $14,934 from the University at July 31, 2007 represented reimbursements due the Corporation in accordance with the reconciliation statement provision of the ground lease (see Note 7).

Payments to the University during fiscal year 2008 included:

Reimbursement for:	Amount
Telephone/internet	$ 63,129
Electricity	69,766
Ground rent	100
Advertising	4,025
Total	**$137,020**

BOARD OF TRUSTEES
at JULY 31, 2008

Crowe Horwath LLP
Member Horwath International

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
University Housing Corporation
Youngstown, Ohio

We have audited the financial statements of University Housing Corporation (the Corporation) as of and for the year ended June 30, 2008, and have issued our report thereon dated the same date as this report. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 Corporation in a separate letter dated October 14, 2008.

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

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 14, 2008

UHC

UNIVERSITY HOUSING CORPORATION

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
JANUARY 20, 2009

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