UNIVERSITY HOUSING CORPORATION

Financial Report
for the Years Ended July 31, 2003 and 2002

Auditor of State
Betty Montgomery

Board of Directors
University Housing Corporation

We have reviewed the Independent Auditor's Report of the University Housing Corporation, Mahoning County, prepared by Ernst & Young LLP for the audit period August 1, 2002 through July 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 11, 2004

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Report of Independent Auditors

Board of Directors
University Housing Corporation

We have audited the accompanying statement of financial position of University Housing Corporation as of July 31, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of University Housing Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of University Housing Corporation for the year ended July 31, 2002, were audited by other auditors whose report dated December 11, 2002, expressed an unqualified opinion on those statements.

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

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of University Housing Corp as of July 31, 2003 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2003 on our consideration of University Housing Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst & Young LLP

December 18, 2003

STATEMENTS OF FINANCIAL POSITION

	July 31, 2003	July 31, 2002
ASSETS		
Current Assets		
Cash	$ 125,984	$ -
Restricted cash	5,494	44,219
Interest receivable	17,996	81,830
Accounts receivable - Youngstown State University	-	4,900
Restricted investments	5,786,387	18,856,065
Prepaid expenses	172,037	209,299
Total Current Assets	**6,107,898**	**19,196,313**
Property, Facilities, and Equipment		
Construction in progress	16,533,548	3,100,131
Deposit on furniture	-	698,204
Total Property, Facilities, and Equipment	**16,533,548**	**3,798,335**
Other Assets		
Bond issue costs, net	398,939	412,947
TOTAL ASSETS	**$ 23,040,385**	**$ 23,407,595**
LIABILITIES & NET DEFICIT		
Liabilities		
Current Liabilities		
Accounts payable	$ 1,020,597	$ 1,195,926
Retainage payable	412,750	-
Accrued bond interest payable	69,543	101,098
Bonds payable, current portion	30,000	-
Due to Ambling Development	11,576	100
Loan payable - Youngstown State University Foundation	93,066	85,687
Accounts payable - Youngstown State University	4,900	-
Security deposits	121,700	-
Total Current Liabilities	**1,764,132**	**1,382,811**
Long Term Debt		
Bonds payable	22,010,000	22,040,000
Interest rate swap	1,193,725	1,007,566
Total Long Term Debt	**23,203,725**	**23,047,566**
Total Liabilities	**24,967,857**	**24,430,377**
Unrestricted Net Deficit	(1,927,472)	(1,022,782)
TOTAL LIABILITIES & NET DEFICIT	**$ 23,040,385**	**$ 23,407,595**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF ACTIVITIES

	Year ended July 31,	
	2003	2002
REVENUE		
Interest income	$ -	$ 118,049
Application fee income	10,287	-
TOTAL REVENUE	10,287	118,049
EXPENSES		
Bond issue cost amortization	14,008	3,337
Interest expense	420,286	55,079
Loss on interest rate swap	186,159	1,007,566
Professional fees	23,172	-
Start up costs	265,204	74,849
Other	6,148	-
TOTAL EXPENSES	914,977	1,140,831
(DECREASE) IN UNRESTRICTED NET ASSETS	(904,690)	(1,022,782)
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	(1,022,782)	-
UNRESTRICTED NET ASSETS AT END OF YEAR	$ (1,927,472)	$ (1,022,782)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Year ended July 31, 2003	Year ended July 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in total net assets	$ (904,690)	$ (1,022,782)
Adjustments to reconcile decrease in total net assets to net cash (used in) provided by operating activities:		
Bond amortization	14,008	3,337
Loss on interest rate swap	186,159	1,007,566
Changes in assets and liabilities:		
Interest receivable	63,834	(81,830)
Prepaid expenses	37,262	(209,299)
Accounts payable	(175,329)	1,196,026
Retainage payable	412,750	-
Accrued bond interest payable	(31,555)	101,098
Due to Ambling Company	11,476	100
Loan payable - Youngstown State University Foundation	7,379	85,587
Accounts payable, net - Youngstown State University	9,800	(4,900)
Security deposits	121,700	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(247,206)**	**1,074,903**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, facilities, and equipment	(12,735,213)	(3,805,312)
Purchase of investments	(454,837)	(19,512,528)
Proceeds from sale of investments	13,524,515	656,463
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**334,465**	**(22,661,377)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds	-	22,040,000
Costs of issuance of bonds, net	-	(409,307)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**-**	**21,630,693**
NET INCREASE IN CASH	**87,259**	**44,219**
CASH AT BEGINNING OF YEAR	**44,219**	**-**
CASH AT END OF YEAR	**$ 131,478**	**$ 44,219**

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

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.

On May 1, 2002, the Corporation entered into a Development Agreement with Ambling Development Company Youngstown, L.L.C. (Ambling Development) to plan, design and construct a new student housing facility (The University Courtyard Project or Project). In addition, the Corporation entered into a Management Agreement with Ambling Corporation to manage the University Courtyard Apartments once construction is complete. In May 2002, the Corporation issued tax-exempt bonds with Mahoning County in order to finance the cost of The University Courtyard Project. Construction began in May of 2002 and was completed at the end of August 2003. Rental units are located in Youngstown, Ohio and house approximately 400 residents.

Development Agreement

Ambling Development will receive a development fee of $1,200,000, of which $530,769 was paid in fiscal year 2002 ($500,000 in conjunction with the bond closing and $30,769 in conjunction with the construction) and $169,231 was paid in fiscal year 2003; the remaining fee is due on final completion of the Project. The development fee is capitalized as a component of construction in progress and will be amortized over the life of the Project. In addition the Corporation paid start-up management fees of $9,540 per month for the period January 2003 through July 2003. Management fees paid and expensed in fiscal year 2003 totaled $66,780.

The Corporation owed Ambling Development fees of $11,576 at July 31, 2003 for reimbursement of certain expenses paid on the Corporation's behalf which is recorded in due to Ambling Development on the statement of financial position. During fiscal year 2003, the Corporation paid Ambling Development $63,084 for reimbursement of payroll, architect fees and various zoning and permit fees.

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 is effective August 1, 2003 and expires in 2008 and can be renewed annually thereafter. Under the Management Agreement, Ambling Management will receive a monthly management fee of $9,526.

Note 2 – Summary of Significant Accounting Policies

Cash and Investments

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.

Restricted cash and restricted investments are required to be maintained per the Reimbursement Agreement (see Note 4). The

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

Reimbursement Agreement limits the use of some of these amounts to principal and interest payments on the bonds and for the construction costs of the University Courtyard Project. As of July 31, 2003 and 2002, $5,791,881 and $18,900,284, respectively, were recorded as restricted cash and investments 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 will be depreciated by the straight-line method over their estimated useful lives once the assets have been placed into service. No depreciation expense was recorded in fiscal year 2002 and 2003.

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, accounts payable and other short-term obligations 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 $300 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. During fiscal 2002, the Corporation entered into an interest rate swap. The fair value of the interest rate swap reflects the present value of the future potential gains (losses) if settlement were to take place. This derivative instrument is not designed as a hedging instrument and therefore, gains and losses on the derivative instrument are recognized in the statement of activities during the period of change (see Note 4).

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-

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

imposed time restrictions 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 $62,494 in fiscal year 2003. There were no advertising costs incurred in fiscal year 2002.

Start Up Costs
In accordance with Statement of Position 98-5, "*Reporting on the Costs of Start-Up Activities*," the Corporation has expensed all start-up activities, including management fees, advertising costs, training costs, and travel expenses, when incurred.

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 generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Note 3 – Investments

Investments are carried at fair value. Investments consist of the following as of July 31, 2003 and 2002:

	July 31, 2003	July 31, 2002
Guaranteed Investment Contracts:		
AIGMFC	$4,044,346	$17,114,024
MBIA	1,742,041	1,742,041
Total	$5,786,387	$18,856,065

The Corporation has a Guaranteed Investment Contract in which National City Bank is authorized to invest in certain funds with AIG Matched Funding Corp. (AIGMFC) pursuant to an agreement dated May 16, 2002. Draws are made against this investment to pay for construction, interest payments and various fees associated with the University Courtyard Project. AIGMFC pays interest on the average balance at the rate of 2.488% per annum.

The Corporation has a second Guaranteed Investment Contract in which National City Bank is authorized to invest in certain funds with MBIA Inc. (MBIA) pursuant to an agreement dated May 16, 2002. This investment is for the Debt Service Reserve Fund. MBIA will pay interest at the rate of 5.8385% per annum.

Note 4 – 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 are

Note 4 – Long-Term Debt, *(continued)*

being used to finance the construction, site improvements, furnishing and equipping of the University Courtyard Project. The bonds bear interest at a variable rate determined weekly by BancOne Capital Markets, Inc. as Remarketing Agent based on the Municipal swap index and are due at various dates until 2033. These rates at July 31, 2003 and 2002 were .80% and 1.40%, respectively. The bonds are secured by the assignment of incomes and revenues of the Project of the Corporation.

The total cost of The University Courtyard Project is estimated at $17.9 million. At July 31, 2003, the remaining committed amount by the Corporation was approximately $1.4 million.

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, the Corporation entered into a Reimbursement Agreement with a bank. Under the terms of the Reimbursement Agreement, the Corporation must establish and maintain a debt service reserve fund ($1,742,041 at July 31, 2003) and the Youngstown State University Foundation (Foundation or Guarantor) is required to guarantee the maintenance of the debt service fund and replenish any deficits on a semi-annual basis. In addition, under the terms of the Reimbursement Agreement, the Corporation entered into an Irrevocable Letter of Credit Agreement dated May 8, 2002, which is automatically renewed on an annual basis through fiscal 2007. The Foundation will provide 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. Under the terms of the Reimbursement Agreement, the Guarantor executed and delivered a Guaranty Agreement for payment of the Series 2002 Bonds, dated May 1, 2002.

Maturities of the bonds are as follows:

Year ending July 31,	Amount
2004	$ 30,000
2005	30,000
2006	30,000
2007	60,000
2008	100,000
Thereafter	21,790,000
Total	**$22,040,000**

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 $20,775,000. This 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 68% of 1-Month USD-LIBOR-BBA Index. Only the net difference in payments is exchanged with the counterparty. During fiscal year 2003 the

NOTES TO FINANCIAL STATEMENTS, *(CONTINUED)*
YEARS ENDED JULY 31, 2003 AND 2002

Note 4 – Long-Term Debt, *(continued)*

1-Month USD-LIBOR-BBA Index ranged from 1.02% to 1.83% (1.10% at July 31, 2003).

The fair value of the swap agreement at July 31, 2003 of $1,193,725 payable is recorded as a liability on the statement of financial position. The change of $186,159 in the fair value of the swap during fiscal year 2003 is recorded as a loss on interest rate swap in the statement of activities.

The Corporation's capitalized interest costs for the years ended July 31, 2003 and 2002 were $611,408 and $193,715, respectively, which was net of capitalized investment income of $464,834 in fiscal year 2003.

Total interest paid was $914,081 and $92,617 in fiscal year 2003 and fiscal year 2002, respectively.

Note 5 – 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.

Note 6 - Related Party Transactions

At times, an affiliated entity, 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, 2003 and 2002, the interest rates averaged 4.78% on the outstanding loan payable of $93,066 and $85,687, respectively.

The University is committed to marketing the housing facility as well as funding and awarding housing scholarships to the University students for a minimum of $25,000 annually.

Accounts payable of $4,900 to the University at July 31, 2003 represent payments made by the University on behalf of the Corporation in excess of payments made by the Corporation on behalf of the University. Accounts receivable of $4,900 from the University at July 31, 2002 represented amounts owed to the Corporation for a small tract of land.

BOARD OF DIRECTORS

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

Board of Trustees
University Housing Corporation

We have audited the financial statements of the University Housing Corporation as of and for the year ended July 31, 2003 and have issued our report thereon dated December 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

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

Ernst & Young LLP

December 18, 2003

Auditor of State
Betty Montgomery

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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
MARCH 30, 2004