UNIVERSITY HOUSING CORPORATION

Financial Report
for the Years Ended July 31, 2006 and 2005

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the University Housing Corporation, Mahoning County, prepared by Ernst & Young LLP, for the audit period August 1, 2005 through July 31, 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 University Housing Corporation is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2007

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Report of Independent Auditors

Board of Directors
University Housing Corporation

We have audited the accompanying statements of financial position of University Housing Corporation as of July 31, 2006 and 2005, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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. We were not engaged to perform an audit of the University Housing Corporation'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 Housing Corporation'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 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 University Housing Corporation as of July 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years 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 September 22, 2006 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, 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 considered in assessing the results of our audit.

Ernst & Young LLP

September 22, 2006

0611-0783417

STATEMENTS OF FINANCIAL POSITION

	July 31, 2006	July 31, 2005
ASSETS		
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	16,771,069	17,272,367
Bond issue costs, net	357,311	371,187
TOTAL ASSETS	**$ 20,588,636**	**$ 20,799,325**
LIABILITIES & NET DEFICIT		
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 Companies	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)
TOTAL LIABILITIES & NET DEFICIT	**$ 20,588,636**	**$ 20,799,325**

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES

	Year ended July 31, 2006	2005
REVENUE		
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 REVENUE	3,095,082	2,164,778
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	2,428,903	2,438,222
DECREASE (INCREASE) IN UNRESTRICTED NET DEFICIT	666,179	(273,444)
UNRESTRICTED NET DEFICIT AT BEGINNING OF YEAR	(2,492,679)	(2,219,235)
UNRESTRICTED NET DEFICIT AT END OF YEAR	$ (1,826,500)	$ (2,492,679)

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year ended July 31, 2006	Year ended July 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease (increase) in unrestricted net deficit	$ 666,179	$ (273,444)
Adjustments to reconcile decrease (increase) in unrestricted net deficit to net cash provided by (used in) operating activities:		
Depreciation and amortization	562,913	571,923
Gain on interest rate swap	(727,090)	(119,723)
Changes in assets and liabilities:		
Accounts receivable, net	3,605	1,283
Interest receivable	(3,536)	(9,041)
Prepaid expenses	(16,798)	5,338
Accounts payable	(2,231)	(8,711)
Accrued bond interest payable	(3,048)	(1,883)
Prepaid rent	6,533	(2,866)
Loan payable - Youngstown State University Foundation	4,913	4,691
Accounts receivable/payable - Youngstown State University	57,889	(193,768)
Security deposits	(2,045)	(28,509)
Other accruals	(5,568)	12,484
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**541,716**	**(42,226)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, facilities, and equipment	(47,739)	-
Net (purchase) sales of restricted investments	(321,875)	73,140
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(369,614)	**73,140**
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on debt and capital lease	(148,332)	(256,287)
NET CASH (USED IN) FINANCING ACTIVITIES	(148,332)	**(256,287)**
NET INCREASE (DECREASE) IN CASH	**23,770**	**(225,373)**
CASH AT BEGINNING OF YEAR	**231,626**	**456,999**
CASH AT END OF YEAR	**$ 255,396**	**$ 231,626**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS, YEARS ENDED JULY 31, 2006 AND 2005

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. The University Courtyard Project opened in August 2003. Its rental units are located in Youngstown, Ohio and house approximately 400 residents.

In accordance with Government Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Corporation's financial statements are included, as a discretely presented component unit, in Youngstown State University's annual financial report.

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, expires in 2008 and can be renewed annually thereafter.

Under the Management Agreement, Ambling Management receives a monthly management fee of $9,526. The Corporation owed Ambling Management $9,526 at July 31, 2006 and 2005 for the July 2006 and 2005 management fees, respectively, which are recorded in Due to Ambling Companies on the statement of financial position.

In fiscal year 2006, additional payments to Ambling Management included:

Reimbursement for:	Amount
Payroll and payroll related	$ 149,479
Administrative expenses	4,243
Total	$ 153,722

Note 2 – Summary of Significant Accounting Policies

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.

Restricted Cash and Restricted Investments
Restricted cash and restricted investments are required to be maintained 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, 2006 and 2005, $3,019,098 and $2,697,325, respectively, were recorded as restricted cash and investments for these purposes on the statement of financial position.

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 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.

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

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. This derivative instrument is not designated 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 $13,880 in fiscal year 2006 and $13,672 in fiscal year 2005.

NOTES TO FINANCIAL STATEMENTS, *(CONTINUED)*
YEARS ENDED JULY 31, 2006 AND 2005

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

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.

Note 3 – Accounts Receivable

Accounts receivable are recorded at net realizable value with an allowance for doubtful accounts of $12,000 at July 31, 2006 and 2005. The allowance is determined based on historical losses. Uncollected balances are written off in the year turned over to collection. Recoveries of accounts written off are recorded in the year received.

Note 4 – Investments

Investments consist of the following as of July 31, 2006 and 2005:

	July 31, 2006	July 31, 2005
Guaranteed Investment Contract:		
MBIA	$1,742,041	$1,742,041
Other investments:		
Mutual funds	1,193,200	871,325
Total	**$2,935,241**	**$2,613,366**

The guaranteed investment contract, whose fair value is not readily determinable, is recorded at cost plus accrued interest in the statements of financial position.

The Corporation has a Guaranteed Investment Contract in which U.S. 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 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, 2006 and 2005 are as follows:

	July 31, 2006	July 31, 2005
Buildings	$17,442,241	$17,442,241
Other capital assets	963,229	915,491
Total cost	18,405,470	18,357,732
Less accumulated depreciation	(1,634,401)	(1,085,365)
Property, facilities and equipment, net	**$16,771,069**	**$17,272,367**

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

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

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.

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, 2006 and 2005) 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. No replenishments were required in fiscal years 2006 or 2005.

Additionally, 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 year 2007, with the Letter of Credit expiring on May 15, 2008. 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
2007	$ 60,000
2008	100,000
2009	130,000
2010	175,000
2011	220,000
Thereafter	20,955,000
Total	**$21,640,000**

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 $20,685,000 at July 31, 2006 and $20,715,000 at July 31, 2005. 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 the 1-Month USD-LIBOR-BBA Index. Only the net difference in payments is exchanged with

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

the counterparty. During fiscal year 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 the statements of financial position. The change of $727,090 in the fair value of the swap during fiscal year 2006 is recorded as a gain on interest rate swap ($119,723 gain in fiscal year 2005) in the statements of activities.

Total interest paid was $854,269 and $887,051 in fiscal year 2006 and fiscal year 2005, 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.

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 $45,662 and $65,957, net of accumulated depreciation, are included in property, facilities and equipment on the statement of financial position at July 31, 2006 and 2005, respectively. The net present value of future lease payments is recorded as a liability in the amount of $63,012 and $81,344 at July 31, 2006 and 2005, respectively. The future lease payments are as follows:

Year ending July 31,	Amount
2007	$ 27,995
2008	27,995
2009	18,664
	74,654
Less interest	(11,642)
Principal	**$ 63,012**

Note 8 – Functional Expenses

The Corporation provides rental and other services. Expenses related to providing these functions are as follows for the years ended July 31, 2006 and 2005.

	2006	2005
Rental	707,136	$678,107
Depreciation	562,913	571,923
Administrative	1,158,854	1,188,192
Total	**$2,428,903**	**$2,438,222**

Note 9 - 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, 2006 and 2005, the interest rates averaged 4.75% on the outstanding loan payable of $108,376 and $103,463, respectively.

NOTES TO FINANCIAL STATEMENTS, *(CONTINUED)*
YEARS ENDED JULY 31, 2006 AND 2005

Note 9 - Related Party Transactions, *(continued)*

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 receivable of $15,879 and $73,768 from the University at July 31, 2006 and 2005, respectively, represented reimbursements due the Corporation in accordance with the reconciliation statement provision of the ground lease (see Note 7).

Additional payments to the University during fiscal year 2006 included:

Reimbursement for:	Amount
Telephone/Internet	$ 83,876
Electricity	44,121
Ground rent	100
Total	**$128,097**

BOARD OF TRUSTEES
at JULY 31, 2006

UHC

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

Board of Directors
University Housing Corporation

We have audited the financial statements of University Housing Corporation (the Corporation) as of and for the year ended July 31, 2006, and have issued our report thereon dated September 22, 2006. 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 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 September 22, 2006.

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

Ernst & Young LLP

September 22, 2006

Mary Taylor, CPA
Auditor of State

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
MAY 10, 2007

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