

YOUNGSTOWN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. The following table summarizes the categories of net assets at:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Invested in capital assets, net of related debt	\$ 135,463,081	\$ 140,443,646	\$ 142,454,074
Restricted-nonexpendable	6,535,407	5,980,963	5,230,061
Restricted-expendable	20,721,446	20,299,409	21,553,140
Unrestricted	<u>29,135,555</u>	<u>26,779,200</u>	<u>34,119,692</u>
Total Net Assets	<u>\$ 191,855,489</u>	<u>\$ 193,503,218</u>	<u>\$ 203,356,967</u>

Overall, the University's net assets decreased \$1.6 million or 1% from \$193.5 million at June 30, 2011 to \$191.9 million at June 30, 2012. This resulted from excess expenses over revenues and includes a \$5 million decrease in the net amount invested in capital assets, a \$1 million increase in restricted net assets, and a \$2.4 million increase in unrestricted net assets.

The University's net assets decreased \$9.8 million or 4.9% from \$203.4 million at June 30, 2010 to \$193.5 million at June 30, 2011. This resulted from excess expenses over revenues and includes a \$2 million decrease in the net amount invested in capital assets, a \$500,000 decrease in restricted net assets and a \$7.3 million decrease in unrestricted net assets.

Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, and increased by unspent borrowings at year-end. The overall decrease of \$5 million in fiscal year 2012 was largely due to the spending of \$7.6 million for capital projects financed with bond proceeds, a \$2.3 million reduction in outstanding debt, net capital assets additions of \$10.9 million and current year depreciation of \$10.5 million. Outstanding plant debt was \$76,378,683 and unspent bond proceeds were \$12,075,282 at June 30, 2012 compared to \$78,656,592 and \$19,690,217 at June 30, 2011.

At June 30, 2011 capital assets increased \$25.4 million primarily due to construction in progress activity, the purchase of the University Courtyard Apartments, and depreciation expense of \$9.4 million. Outstanding plant debt was \$78,656,592 and unspent bond proceeds were \$19,690,217 compared to outstanding plant debt of \$62,083,924 and unspent bond and note proceeds of \$30,613,642 in fiscal year 2010.

Restricted non-expendable net assets consist primarily of endowment funds held by the University. Changes in this category are driven primarily by investment performance, which was positive in fiscal years 2012 and 2011.

Restricted expendable net assets are subject to externally imposed restrictions governing their use. Changes in this category are due to the timing of revenues and expenses in funds provided by donors and grantors.

YOUNGSTOWN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

The following table summarizes restricted expendable net assets at:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current funds	\$ 7,166,503	\$ 6,525,880	\$ 6,353,392
Plant funds	13,359,692	13,651,000	15,076,425
Quasi-Endowments	131,963	56,963	56,963
Loan funds	63,288	65,566	66,360
Total Restricted Expendable Net Assets	<u>\$ 20,721,446</u>	<u>\$ 20,299,409</u>	<u>\$ 21,553,140</u>

Current restricted funds include grants and sponsored programs and gifts, including scholarship donations and program support. These funds increased slightly from \$6.5 million at June 30, 2011 to \$7.1 million at June 30, 2012. Plant funds primarily include donations and pledges for construction or renovation. Approximately \$10.5 million of the \$13.4 million balance at June 30, 2012 relates to gifts which have been internally designated for future debt service attributed to those projects.

Current restricted funds include grants and sponsored programs and gifts, including scholarship donations and program support. These funds increased slightly from \$6.4 million at June 30, 2010 to \$6.5 million at June 30, 2011. Plant funds primarily include donations and pledges for construction or renovation. The net decrease of \$1.4 million or 9% was largely due to a combination of spending of capital gifts for the new WCBA building and the WATTS Center projects, funding of debt service attributed to the WCBA project, and an increase of gift funds for future debt service. Capital revenue for these projects totaling \$2.5 million is included in capital grants and gifts in the Statement of Revenues, Expenses, and Changes in Net Assets.

Unrestricted net assets are not subject to externally imposed restrictions. The following table summarizes unrestricted net assets at:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current funds	\$ 7,356,124	\$ 6,143,978	\$ 12,716,264
Operating reserves	8,670,049	8,549,683	8,522,683
Plant funds	13,084,030	12,058,242	12,853,071
Loan funds	25,352	27,297	27,674
Total Unrestricted Net Assets	<u>\$ 29,135,555</u>	<u>\$ 26,779,200</u>	<u>\$ 34,119,692</u>

The \$2.4 million increase in unrestricted net assets, reflects generally the excess of revenues over expenses during fiscal year 2012 from non capital asset activity. Unrestricted net assets are designated for future operations, plant construction and maintenance, and debt service.

YOUNGSTOWN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Overall Analysis of Fiscal Year 2011 Versus 2010

The most significant factors affecting the decrease in net assets for fiscal year 2011 included the implementation of an early retirement incentive program (ERIP) and a faculty severance plan, spending of bond proceeds and capital gifts for the new WCBA building and WATTS Center, and the purchase of University Courtyard Apartments from UHC.

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, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating Revenues			
Net tuition, fees and other student charges	\$ 88,491,653	\$ 85,801,400	\$ 82,354,269
Auxiliary enterprises	22,105,338	19,330,455	18,986,335
Grants and contracts	10,200,470	14,153,120	13,449,823
Other	2,466,280	2,391,157	2,195,520
Total Operating Revenues	<u>123,263,741</u>	<u>121,676,132</u>	<u>116,985,947</u>
Operating Expenses	<u>202,319,959</u>	<u>220,457,885</u>	<u>205,485,037</u>
Operating Loss	(79,056,218)	(98,781,753)	(88,499,090)
Nonoperating Revenues (Expenses)			
Federal and state appropriations	39,347,845	46,720,852	47,508,169
Gifts, grants, and contracts	38,219,829	40,130,229	35,631,160
Investment income	1,360,702	4,226,478	4,343,765
Other	(3,703,386)	(4,202,364)	(4,276,825)
Net Nonoperating Revenues	<u>75,224,990</u>	<u>86,875,195</u>	<u>83,206,269</u>
Loss Before Other Revenues, Expenses, and Changes	(3,831,228)	(11,906,558)	(5,292,821)
Other Revenues, Expenses, and Changes			
State capital appropriations	133,552	998,881	10,614,635
Capital grants and gifts	1,578,453	4,082,194	5,036,783
Other	471,494	14,636	26,614
Contribution of capital to UHC	-	(3,042,902)	-
Total Other Revenues, Expenses, and Changes	<u>2,183,499</u>	<u>2,052,809</u>	<u>15,678,032</u>
Change in Net Assets	(1,647,729)	(9,853,749)	10,385,211
Net Assets at Beginning of the Year	193,503,218	203,356,967	192,971,756
Net Assets at End of the Year	<u>\$ 191,855,489</u>	<u>\$ 193,503,218</u>	<u>\$ 203,356,967</u>

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Revenues

Following is a recap 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, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Net tuition, fees, and other student charges	\$ 88,491,653	\$ 85,801,400	\$ 82,354,269
Gifts, grants and contracts	50,470,246	58,380,179	54,144,380
State appropriations	39,347,845	39,992,134	40,791,039
Federal appropriations	-	6,728,718	6,717,130
Auxiliary enterprises	22,105,338	19,330,455	18,986,335
Investment income	1,360,702	4,226,478	4,343,765
Other revenue	2,903,865	2,660,784	2,431,603
State capital appropriations	133,552	998,881	10,614,635
Total Revenues	<u>\$ 204,813,201</u>	<u>\$ 218,119,029</u>	<u>\$ 220,383,156</u>

Overall, the University's total net revenues decreased \$13.3 million or 6% in fiscal year 2012 and decreased \$2.3 million or 1% in fiscal year 2011. The majority of the University's revenue, 62% in fiscal year 2012, 61% in fiscal year 2011, and 59% in fiscal year 2010 is attributed to Federal and State appropriations and net tuition and fees. Combined, these two revenue streams decreased \$4.7 million in fiscal year 2012 and increased \$2.7 million in fiscal year 2011.

Net tuition, fees and other student charges increased \$2.7 million or 3%, due to increased tuition and mandatory fees. Gifts, grants, and contracts decreased \$7.9 million or 14% over the prior year primarily due to a combination of a \$2.7 million decrease in federal grant activity including a \$1 million decrease due to elimination of the Academic Competitiveness and the National SMART federal aid grants, a \$2.6 million decrease in Pell Grants due to decreased enrollment, a \$1.2 million decrease in Ohio College Opportunity Grants due to decreased enrollment and an overall decrease in state funding, and a \$1.4 million decrease in gifts due to completion of fundraising for the WATTS Center. Combined, Federal and State appropriations decreased \$7.4 million from fiscal year 2011 to fiscal year 2012. The University received \$6.7 million in Federal stimulus funds as a pass through the State Share of Instruction (SSI) to offset reductions in State appropriation in both fiscal years 2011 and 2010; whereas these funds were not received in fiscal year 2012. The \$2.8 million increase in Auxiliary Enterprises resulted mainly from first year activity of the University Courtyard Apartments. Investment income decreased \$2.9 million or 68% primarily due to a lower asset base and lower interest yields on fixed income investments compared to the prior year. State Capital appropriations decreased \$.9 million or 87% from fiscal year 2011 to fiscal year 2012, primarily due to utilization of bond proceeds and gifts for current projects. Approximately \$10.1 million in Capital appropriations has been re-appropriated for future projects.

Overall, the University's total revenues decreased \$2.3 million or 1% in fiscal year 2011 and increased \$21.9 million or 11% in fiscal year 2010. The majority of the University's revenue, 61% in fiscal year 2011, 59% in fiscal year 2010, and 65% in fiscal year 2009 is attributed to Federal and State appropriations and net tuition and fees. Combined, these revenue streams increased \$2.7 million in fiscal year 2011 and \$1.8 million in fiscal year 2010.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

During fiscal years 2011 and 2010, the University received \$6.7 million in stimulus funds as a pass through the State Share of Instruction (SSI) to offset reductions in State appropriations. These are recorded as Federal appropriations. Net tuition, fees and other student charges increased \$3.5 million or 4% due to the combination of increased enrollment and increased tuition and mandatory fees. Gifts, grants, and contracts increased \$4.2 million or 7.8% over the prior year mainly due to a \$4.7 million or 17% increase in Federal Pell grants, resulting from an increase in the number of eligible students. State capital appropriations decreased \$9.6 million or 91% from fiscal year 2010 to fiscal year 2011, primarily due to completion of the new WCBA building and other campus renovations.

Expenses

Operating expenses can be displayed in two formats: functional classification and natural classification. The functional classification can be found on the Statements of Revenues, Expenses, and Changes in Net Assets. The table below summarizes the natural classification.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Compensation	\$ 126,365,366	\$ 139,775,937	\$ 128,827,835
Operations	41,496,195	44,852,343	42,375,839
Scholarships	23,911,055	26,360,841	24,713,583
Depreciation and Amortization	10,547,343	9,468,764	9,567,780
Total Operating Expenses	<u>\$ 202,319,959</u>	<u>\$ 220,457,885</u>	<u>\$ 205,485,037</u>

Total operating expenses decreased \$18.1 million or 8% between fiscal year 2012 and fiscal year 2011. The \$13.4 million or 9.6% decrease in compensation included a \$5.2 million decrease salaries and wages, a \$2.3 million decrease in ERIP OPERS purchases, and a \$3.5 million decrease in health care costs resulting from changes in the health care benefit plans. Operations expenses decreased \$3.3 million or 7.5% due to a combination of current year spending containment and \$1.74 million in faculty severance plan payments in the prior year. Both the ERIP and faculty severance plan resulted in extraordinary levels of vacant staff and faculty positions.

A large portion of all aid is classified as scholarship allowance on the Statement of Revenues, Expenses and Changes in Net Assets; therefore the \$2.4 million decrease in scholarship expense is a partial reflection of a combination of a \$2.6 million decrease in federal financial aid for Pell grant recipients, a \$1.2 million reduction in state supported aid, and a \$.5 million increase in scholarship donations. Overall, the University disbursed \$46.8 million to students including \$29.9 million in Federal Pell grants compared to \$50.9 million and \$34 million in the prior year, respectively.

Overall operating expenses increased \$15 million or 7.38% between fiscal year 2011 and fiscal year 2010. Significant contributors to the increase included an increase of \$10.9 million or 8.5% in compensation including \$4.1 million in scheduled increases in salaries and wages, \$3.4 million in ERIP purchases and retirement related payouts, \$1.7 million in Faculty Severance Plan payout obligations and a \$2.7 million increase in health care costs. Operating expenses increased slightly by \$2.5 million or 5.8%.

YOUNGSTOWN STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

A large portion of all aid is classified as scholarship allowance on the Statement of Revenues, Expenses and Changes in Net Assets; therefore, the \$1.6 million increase in scholarships expense is a partial reflection of a combination of a \$4.7 million increase in federal financial aid for Pell grant recipients, a reduction in state supported aid, and a \$1.3 million decrease in donation supported scholarships. Overall, the University disbursed \$50.9 million to students including \$34 million in Federal Pell grants compared to \$47.1 million and \$27.8 in the prior year.

Also reflected on the Statement of Revenues, Expenses and Changes in Net Assets in the Other Revenue, Expenses and Changes section is the \$3 million contribution of capital to UHC. UHC's Statement of Activities reflects this as a contribution of capital from YSU. Therefore, the combined results of the acquisition on the financial statements of the University and UHC reflect no net gain or loss on this transaction and the property is recorded by the University on the same historical cost basis as it was prior to the acquisition. See Notes 9 and 17 for details.

Total operating and non-operating expenses were \$206,460,930, 227,972,778, and \$209,997,945, in fiscal years 2012, 2011 and 2010, respectively. Fiscal year 2011 includes \$3,042,902 contribution of capital to UHC for the purchase of The University Courtyard Apartments.

YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

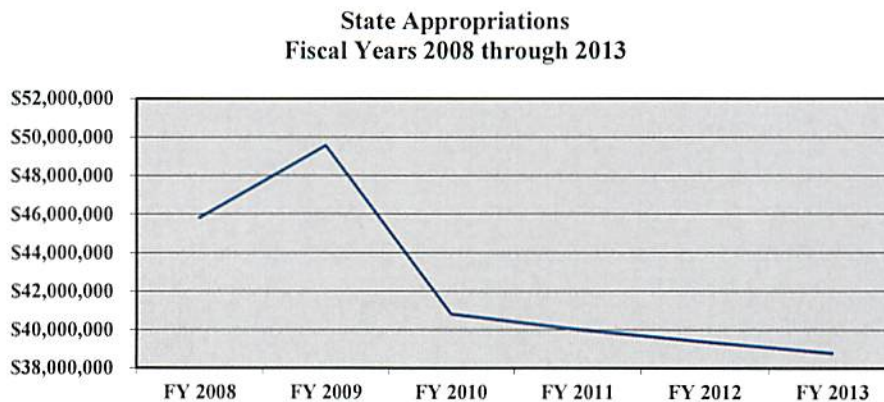
Economic Factors for the Future

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 healthy 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, 2012 was 2.6 compared to 2.3 at June 30, 2011 and 3.7 at June 30, 2010. The increase in the composite score in fiscal year 2012 reflects the effect of the increase in unrestricted net assets and the reduction of long term debt.

Despite interim increases in state funding during the fiscal years 2010-2011 biennium that were funded by a one-time infusion of \$619 million federal stimulus dollars from the American Recovery & Reinvestment Act, the trend in state funding over the past decade has been decidedly negative. Consequently, a structural deficit in the state's higher education budget has and continues to result in declines in state funding appropriations. A further reduction to the University's state appropriations of \$1 million is expected for fiscal year 2013.

The reduction in state funding support was partially offset by an increase in tuition and fees of 3.5% for fiscal year 2012 and fiscal year 2013. However, after several years of consistent enrollment growth, declines in enrollment levels in fiscal year 2012 and in the start of fiscal year 2013 has created additional budgetary challenges and uncertainty about the future.

The following graph reflects five years actual data plus the budgeted amount for fiscal year 2013. Fiscal years 2010 and 2011 do not include federal stimulus funds.

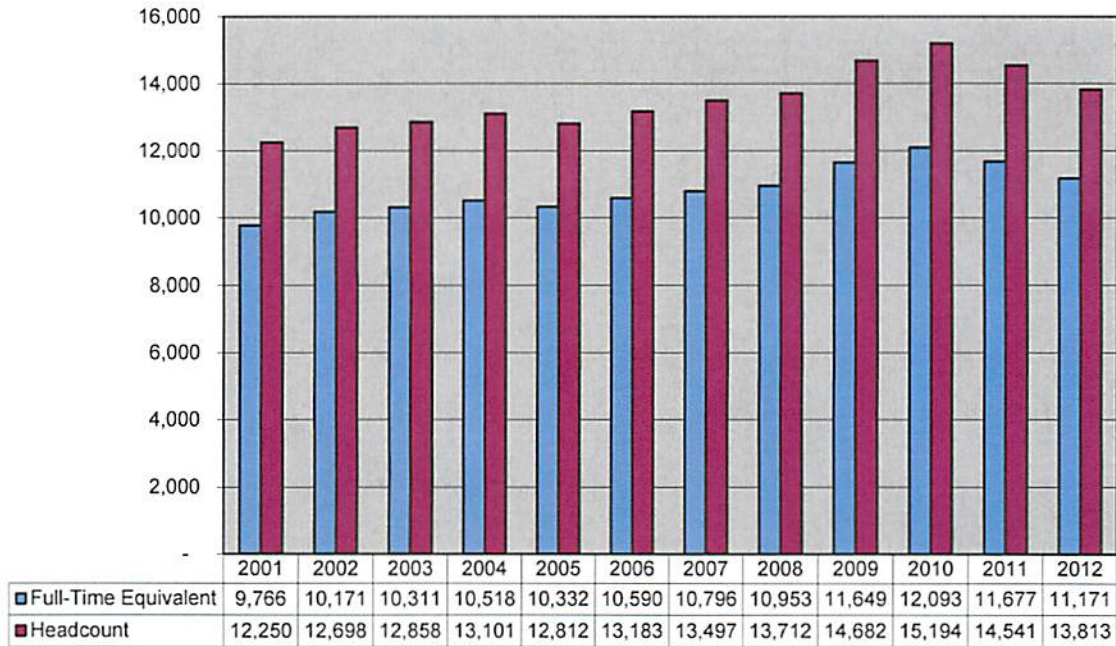


YOUNGSTOWN STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

The following graph reflects fall enrollment trends.

**Fall Semester Enrollment Trends
2001 through 2012**



The reduction in state funding and the decline in enrollments have prompted the University to take actions to control operating expenses, especially personnel costs. The unusually large number of staff vacancies, largely due to the ERIP for eligible OPERS employees, has presented the University opportunities to streamline operations and realign personnel resources, which has resulted in administrative efficiencies and long-term cost reductions. The University has also implemented a Faculty Severance Plan for eligible faculty.

The University has negotiated generally concessionary labor agreements with each of its four bargaining units. These labor agreements will help control compensation expenses, especially for health care insurance for which employee contributions will progressively increase each year through fiscal year 2014.

YOUNGSTOWN STATE UNIVERSITY
STATEMENTS OF NET ASSETS AT JUNE 30, 2012 AND 2011

	June 30, 2012	June 30, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 25,918,304	\$ 28,926,599
Investments	25,454,058	31,339,353
Restricted investments	58,909	70,249
Interest receivable	128,939	232,117
Accounts receivable, net	10,334,135	11,289,068
Bond proceeds receivable	-	19,006,093
Pledges receivable, net	2,335,406	1,604,697
Loans receivable, net	385,320	422,158
Inventories	1,806,882	2,073,655
Prepaid expenses and deferred charges	1,576,227	1,054,102
Total Current Assets	67,998,180	96,018,091
Noncurrent Assets		
Investments	19,248,586	20,983,550
Endowments and other restricted investments	6,384,566	5,707,586
Pledges receivable, net	3,303,096	5,709,711
Loans receivable, net	1,839,485	1,873,471
Unamortized bond issue cost	799,167	911,843
Nondepreciable capital assets	24,853,745	32,687,337
Depreciable capital assets, net	174,113,570	165,810,842
Total Noncurrent Assets	230,542,215	233,684,340
Total Assets	298,540,395	329,702,431
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	2,656,612	2,635,189
Payable to University Housing Corporation	-	17,214,945
Construction payable	1,609,472	3,094,468
Payroll liabilities	7,851,257	11,195,521
Bonds payable	1,685,000	1,120,000
Notes payable	1,026,820	991,809
Capital leases payable	806	91,712
Compensated absences	930,780	2,619,259
Deferred revenue	4,802,290	6,081,217
Other liabilities	1,669,160	1,764,896
Total Current Liabilities	22,232,197	46,809,016
Noncurrent Liabilities		
Bonds payable, net	70,362,954	72,122,342
Notes payable	3,303,103	4,329,923
Capital leases payable	-	806
Compensated absences	8,101,699	9,445,786
Refundable advance	2,684,953	2,741,340
Other liabilities	-	750,000
Total Noncurrent Liabilities	84,452,709	89,390,197
Total Liabilities	106,684,906	136,199,213
NET ASSETS		
Invested in capital assets, net of related debt	135,463,081	140,443,646
Restricted - Nonexpendable	6,535,407	5,980,963
Restricted - Expendable	20,721,446	20,299,409
Unrestricted	29,135,555	26,779,200
Total Net Assets	\$ 191,855,489	\$ 193,503,218

See accompanying notes to financial statements.

THE YOUNGSTOWN STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION AT JUNE 30, 2012 AND 2011

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
ASSETS		
Cash and cash equivalents	\$ 5,419,999	\$ 4,351,623
Accrued interest receivable	266,224	292,176
Due from University Housing Corporation	-	92,000
Prepaid insurance	12,655	5,142
Property acquired for resale to Youngstown State University	43,931	54,491
Investments-at fair value		
Common stock	139,186,976	132,856,637
Preferred stock	4,733,018	5,846,282
Fixed income securities		
U.S. Government and Agencies	5,618,905	5,691,399
Corporate	33,209,361	28,060,100
Temporary cash investments	2,049,234	7,444,673
	<u>184,797,494</u>	<u>179,899,091</u>
Contribution receivable from remainder trusts	1,857,264	1,756,945
Cash surrender value of insurance policies	22,323	36,087
Office furniture and equipment, at cost, less accumulated depreciation of \$40,086 in 2012 and \$37,358 in 2011	15,366	2,921
TOTAL ASSETS	<u><u>\$ 192,435,256</u></u>	<u><u>\$ 186,490,476</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 7,508	\$ -
Grant commitments to Youngstown State University for scholarship awards	5,157,940	3,570,000
TOTAL LIABILITIES	<u>5,165,448</u>	<u>3,570,000</u>
NET ASSETS		
Unrestricted		
Designated by Board for endowment	135,491,552	133,432,668
Undesignated	2,510,225	2,820,494
	<u>138,001,777</u>	<u>136,253,162</u>
Temporarily restricted	2,409,930	2,242,833
Permanently restricted	46,858,101	44,424,481
TOTAL NET ASSETS	<u>187,269,808</u>	<u>182,920,476</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 192,435,256</u></u>	<u><u>\$ 186,490,476</u></u>

See accompanying notes to financial statements.