

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

Details of the installment schedule follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 1,026,820	\$ 152,846	\$ 1,179,666
2014	1,063,067	116,600	1,179,667
2015	1,100,593	79,073	1,179,666
2016	1,139,443	40,224	1,179,667
Totals	\$ 4,329,923	\$ 388,743	\$ 4,718,666

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

Note 11 – Leases

Capital Lease Obligations

The University leases an inserting and folding system for its mailroom under a capital lease agreement which bears interest at 7.84%. The net book value of capital leased assets included in net Capital Assets in the Statements of Net Assets at June 30, 2012 and 2011, was \$669 and \$18,676, respectively. Future minimum lease payments under the capital lease in fiscal year 2013 are \$811 including \$5 in interest.

Operating Lease Obligations

The University, in its fifth renewal option which ends June 30, 2013, has an operating lease for the purpose of classroom and general office purposes. The University has another operating lease for the usage of mailroom equipment which ends April 30, 2016 and bears interest at 9.904%.

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

Year Ending June 30,	Classroom	Mailroom Equipment	Total
2013	\$ 159,005	\$ 34,056	\$ 193,061
2014	-	34,056	34,056
2015	-	34,056	34,056
2016	-	28,380	28,380
Total future minimum lease payments	159,005	130,548	289,553
Less amount representing maintenance	-	42,274	42,274
Less amount representing interest	-	15,071	15,071
Total obligations under operating leases	\$ 159,005	\$ 73,203	\$ 232,208

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NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

Note 12 – Compensated Absences

During fiscal year 2009, the University's Board of Trustees authorized the development of a limited Early Retirement Incentive Program (ERIP) for all eligible employees who are members of the Ohio Public Employees Retirement System (OPERS). The effective period for eligibility determination in the planned ERIP was January 1, 2011 through December 31, 2011. The University purchased up to two (2) years of service credit for eligible employees who voluntarily participated. The University abided by the rules as established by (OPERS) except as otherwise specified in labor agreements. Expenses of \$833,711 in fiscal year 2012 and \$3,110,252 in fiscal year 2011 are reflected in the Statement of Revenues, Expenses and Changes in Net Assets.

Note 13 – Long-Term Liabilities

Long-term liability activity (also see notes 9-12) for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable					
General receipts bonds principal	\$ 73,010,000	\$ -	\$ 1,120,000	\$ 71,890,000	\$ 1,685,000
Unamortized premium/discount	232,342	-	74,388	157,954	-
Bonds payable, net	73,242,342	-	1,194,388	72,047,954	1,685,000
Note payable	5,321,732	-	991,809	4,329,923	1,026,820
Capital leases payable	92,518	-	91,712	806	806
Compensated absences	12,065,045	-	3,032,566	9,032,479	930,780
Refundable advance	2,741,340	31,027	87,414	2,684,953	-
Other liabilities	1,560,000	-	756,043	803,957	803,957
Total long-term liabilities	<u>\$95,022,977</u>	<u>\$ 31,027</u>	<u>\$ 6,153,932</u>	<u>\$ 88,900,072</u>	<u>\$ 4,447,363</u>

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable					
General receipts bonds principal	\$ 55,440,000	\$ 18,660,000	\$ 1,090,000	\$ 73,010,000	\$ 1,120,000
Unamortized premium/discount	(91,704)	346,093	(22,047)	232,342	-
Bonds payable, net	55,348,296	19,006,093	1,067,953	73,242,342	1,120,000
Note payable	6,554,724	-	1,232,992	5,321,732	991,809
Capital leases payable	180,904	-	88,386	92,518	91,712
Compensated absences	9,793,129	3,631,188	1,359,272	12,065,045	2,619,259
Refundable advance	2,782,279	38,869	79,808	2,741,340	-
Other liabilities	-	1,740,000	180,000	1,560,000	810,000
Total long-term liabilities	<u>\$ 74,659,332</u>	<u>\$ 24,416,150</u>	<u>\$ 4,008,411</u>	<u>\$ 95,022,977</u>	<u>\$ 5,632,780</u>

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

Note 14 - Retirement Plans

Basic Retirement Benefits

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System of Ohio (STRS Ohio). Certain OPERS members are covered by the law enforcement benefit provisions (OPERSLE), Section 145.33(B) of the Ohio Revised Code. These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. Each provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members and beneficiaries. These plans also provide health care benefits to vested retirees. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code.

Plan Options - Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member. In addition, the defined benefit payment is at a reduced level from the regular DB Plan.

Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Both administrators issue a stand-alone financial report. Interested parties may obtain a copy of the OPERS report by making a written request to 277 East Town St., Columbus, OH, 43215-4642 or by calling (614) 222-5601 or 1-800-222-PERS (7377), and the STRS Ohio report by making a written request to 275 East Broad Street, Columbus, Ohio, 43215-3771 or by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Alternative Retirement Plan

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

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

Employee and Employer Contributions

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

Employee Contribution Rate						
Period	STRS		OPERS		OPERSLE	
	Traditional	ARP	Traditional	ARP	Traditional	ARP
1/1/12-6/30/12	10.0%	10.0%	10.0%	10.0%	12.1%	12.1%
1/1/11-12/31/11	10.0%	10.0%	10.0%	10.0%	11.6%	11.6%
1/1/10-12/31/10	10.0%	10.0%	10.0%	10.0%	11.1%	11.1%
7/1/09-12/31/09	10.0%	10.0%	10.0%	10.0%	10.1%	10.1%

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

Employer Contribution Rate								
Period	STRS			OPERS			OPERSLE	
	Traditional	ARP		Traditional	ARP		Traditional	ARP
		STRS	ARP		OPERS	ARP		
1/1/11-6/30/12	14.00%	3.50%	10.50%	14.00%	0.77%	13.23%	18.10%	18.10%
1/1/10-12/31/10	14.00%	3.50%	10.50%	14.00%	0.77%	13.23%	17.87%	17.87%
7/1/09-12/31/09	14.00%	3.50%	10.50%	14.00%	0.77%	13.23%	17.63%	17.63%

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

Employer Contributions								
Fiscal Year	STRS			OPERS			OPERSLE	
	Traditional	ARP		Traditional	ARP		Traditional	ARP
		STRS	ARP		OPERS	ARP		
2012	\$ 5,581,018	\$ 226,206	\$ 684,577	\$ 5,495,523	\$ 42,946	\$ 734,723	\$ 224,091	\$ -
2011	\$ 5,795,702	\$ 213,889	\$ 641,948	\$ 5,557,471	\$ 39,352	\$ 682,041	\$ 217,456	\$ -
2010	\$ 5,580,112	\$ 203,623	\$ 610,868	\$ 5,158,797	\$ 32,985	\$ 538,233	\$ 203,259	\$ -

The OPERS employee contributions to the ARP totaled \$555,362 and the STRS Ohio employee contributions to the ARP totaled \$651,979.

Note 15 – Other Postemployment Benefits (OPEB)

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS Ohio and OPERS.

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NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

State Teachers Retirement System of Ohio

STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio Law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of the covered payroll was allocated to post-employment health care for 2012, 2011 and 2010. The portion of the University's 2012, 2011 and 2010 contributions to STRS Ohio used to fund post-employment benefits was \$398,644, \$413,979 and \$398,579, respectively.

Ohio Public Employees Retirement System

OPERS provides post-employment health care coverage to age-and-service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefits is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011, 5.5% from 1/1/10-2/28/10 and 5.0% from 3/1/10-12/31/10, 7.0% from 1/1/09-3/31/09 and 5.5% from 4/1/09-12/31/09. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011, 4.73% from 1/1/10-2/28/10 and 4.23% from 3/1/10-12/31/10, 5.90% from 1/1/09-3/31/09 and 4.73% from 4/1/09-12/31/09. The portion of the University's 2012, 2011 and 2010 contributions to OPERS used to fund post retirement benefits was \$1,706,795, \$2,039,931, and \$2,188,584. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Note 16 – Contingencies and Risk Management

The University is a defendant in various lawsuits. It is the opinion of University management that disposition of pending litigation will not have a material adverse effect on the financial statements of the University.

YOUNGSTOWN STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

The University receives grants and contracts from certain federal, state and local agencies to fund research and other activities. The costs, both direct and indirect, that have been charged to the grants or contracts are subject to examination and approval by the granting agency. It is the opinion of the University's administration that any disallowance or adjustment of such costs would not have a material effect on the financial statements.

The University was self-insured for all employee health care benefits. The self-insured plan includes stop loss provisions.

Liabilities for estimates of outstanding claims and claims incurred but not reported under self-insurance programs have been recorded. Changes in the self-insured health care liabilities included in accrued health care benefits payable (see Note 8) at June 30, 2012 and June 30, 2011 were as follows:

	2012	2011
Liability at beginning of fiscal year	\$ 2,133,325	\$ 1,513,811
Current year claims including changes in estimates	14,367,259	16,907,723
Claim payments	<u>(15,541,867)</u>	<u>(16,288,209)</u>
Liability at end of fiscal year	<u>\$ 958,717</u>	<u>\$ 2,133,325</u>

Health insurance claims are based upon estimates of the claims liabilities. Estimates are based upon past experience, medical inflation trends, and current claims outstanding, including year-end lag analysis. Differences between the estimated claims payable and actual claims paid are reported in the Statement of Revenues, Expenses and Changes in Net Assets.

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University has joined with other state-assisted universities in Ohio to form an insurance pool for the acquisition of commercial property and casualty insurance. The University pays annual premiums to the pool for its property and casualty insurance coverage based on its percentage of the total insurance value to the pool. Future contributions will be adjusted based upon each university's loss history. The University had no significant reductions in coverage from the prior year. Insurance settlements have not exceeded insurance coverage for each of the past three fiscal years.

The University participates in a State pool of agencies and universities that pays workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating state agencies and universities in the Plan are accrued by the Ohio Bureau of Workers' Compensation (the Bureau) based on estimates that incorporate the past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the Plan annually fund the workers' compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the workers' compensation claims of participating State agencies and universities.

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NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

Note 17 – Component Unit

Youngstown State University Foundation (YSUF) is a nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to YSUF's financial information in the University's financial report for these differences. The University Housing Corporation (UHC) was recognized as a component unit in fiscal year 2011, but not in fiscal year 2012 due to the immaterial activity.

YSUF

YSUF is a legally separate nonprofit organization exempt from federal income tax and classified as a public charity. YSUF is devoted to the support, expansion, and development of educational programs at the University that are useful and beneficial to the students and the community. In order to maintain its public charity classification, YSUF must exclusively support the University, be responsive to its needs and distribute substantially all of its net income (other than net long-term capital gain) to the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University.

Financial support from YSUF was \$4,762,500 for the fiscal year ended June 30, 2012 and \$4,519,000 for the fiscal year ended June 30, 2011. Financial support from YSUF has been committed for fiscal year 2013 in the amount of \$5,157,940. Amounts reflected in deferred revenue were \$1,192,500 at June 30, 2011. In addition, rental income from YSUF of \$10,630 for the fiscal year ended June 30, 2012 and \$10,560 for the fiscal year ended June 30, 2011 was recorded and is reflected in the University's Statements of Revenues, Expenses and Changes in Net Assets.

Under the terms of an agreement with the University, the Foundation serves as an investment manager for the University's endowments and on occasion funds related to specific capital fundraising projects of a more long term nature. Proceeds are forwarded to the University on an as needed basis to satisfy the individual endowment purposes. Fair value of such investments held by YSUF at June 30, 2012 and June 30, 2011 was \$7,016,626 and \$6,306,642, respectively. The management services are provided at no charge and investments are made in a manner consistent with the YSUF funds.

UHC

In fiscal year 2011, the University acquired through bond financing, the University Courtyard Apartments and assumed UHC's contracts. The acquisition cost was approximately \$17.2 million. Because of the component unit relationship between the University and UHC, the acquisition of the University Courtyard Apartments was recognized by the University on the historical cost basis of UHC. Therefore, the University recorded the property at approximately

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NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

\$14.2 million, the net book value of the property by UHC prior to the acquisition. The resulting difference of \$3 million was reflected by the University as a contribution of capital to UHC.

The following details the transaction.

YSU Series 2011 Bond proceeds to UHC	\$ 18,442,000
UHC cash to YSU	<u>(1,227,055)</u>
Fair value of property	<u>\$ 17,214,945</u>
Buildings, net	\$ 13,801,372
Other capital assets, net	<u>288,317</u>
Property, facilities and equipment, net	14,089,689
Assets	276,756
Liabilities	<u>(194,403)</u>
Net book value of property	<u>\$ 14,172,042</u>
YSU contribution of capital to UHC	<u>\$ 3,042,903</u>

The \$3,042,902 was reflected on YSU's Statement of Revenues, Expenses and Changes in Net Assets as a contribution of capital to UHC; whereas it was reflected on UHC's Statement of Activities as a contribution of capital from YSU. Therefore, the combined results of the acquisition on the financial statements of the University and UHC reflected no net gain or loss on the transaction and the property was recorded by the University on the same historical cost basis as it was prior to the acquisition.

The proceeds from the sale were used by UHC to redeem the UHC's outstanding series 2002 bonds payable. Summarized fiscal year 2011 information for UHC follows:

As of July 31, 2011 (UHC's fiscal year end)	
Cash and investments	\$ 209,000
Unrestricted net assets	\$ 209,000
For the year ended July 31, 2011	
Revenue	\$ 2,388,000
Expenses	\$(2,705,000)
Interest rate swap	\$ 610,000
Contribution of capital from YSU	\$ 3,043,000

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NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

BOARD OF TRUSTEES AS OF JUNE 30, 2012

Delores Crawford	<i>Community Affairs Director WKBN</i>
David C. Deibel	<i>Owner and President Boardman Steel</i>
Dr. Sudershan K. Garg, Chair	<i>Associate Professor of Internal Medicine Northeastern Ohio Universities College of Medicine President Blood & Cancer Center, Inc. Hematologist/Oncologist St. Joseph Health Center and St. Elizabeth Health Center</i>
James B. Greene	<i>Retired Executive Compco Industries</i>
Dr. John R. Jakubek, Vice-Chair	<i>Anesthesiologist Bel-Park Anesthesia Associates, Inc. And St. Elizabeth Boardman Health Center</i>
Ryan Meditz	<i>Student Trustee</i>
Harry Meshel	<i>Former Ohio State Senator and Former Chair of the Ohio Democratic Party</i>
Joshua M. Prest	<i>Student Trustee</i>
Leonard D. Schiavone	<i>Partner and Treasurer Friedman & Rummell Co., LPA</i>
Scott R. Schulick	<i>Vice President - Investments Stifel, Nicolaus and Co., Inc.</i>
Carol S. Weimer	<i>Special Education Teacher Liberty High School</i>
Franklin S. Bennett, Jr.	<i>Secretary to the Board of Trustees</i>

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NOTES TO FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2012

PRINCIPAL ADMINISTRATORS AS OF JUNE 30, 2012

Dr. Cynthia E. Anderson	<i>President</i>
Jack Fahey	<i>Vice President for Student Affairs</i>
Eugene Grilli	<i>Vice President for Finance & Administration</i>
Dr. Ikram Khawaja	<i>Provost and Vice President for Academic Affairs</i>