Northeastern Ohio Universities College of Medicine

Single Audit Report for the Year Ended June 30, 2005

Auditor of State
Betty Montgomery

Board of Trustees
Northeastern Ohio Universities College of Medicine
4209 State Route 44
PO Box 95
Rootstown, Ohio 44272-0095

We have reviewed the Independent Auditor's Report of the Northeastern Ohio Universities College of Medicine, Portage County, prepared by Hausser + Taylor, LLC for the audit period July 1, 2004 through June 30, 2005. 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 Northeastern Ohio Universities College of Medicine is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 19, 2005

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NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

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HAUSSER + TAYLOR LLC
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Northern Ohio Universities College of Medicine
Rootstown, Ohio

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northern Ohio Universities College of Medicine (the "College") as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the business-type activities of the College as of June 30, 2004 and for the year then ended were audited by other auditors, whose report dated November 19, 2004 expressed an unqualified opinion on those statements. We have audited the discretely presented component unit of the College as of June 30, 2004 and for the year then ended.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the College at June 30, 2005 and the financial position of the discretely presented component unit as of June 30, 2004, and the respective changes in financial position and cash flows of the business-type activities and the discretely presented component unit for the year ended June 30, 2005 and the changes in financial position of the discretely presented component unit for the year ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 - 9 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005 on our consideration of the College'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 conducted in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying supplemental schedule of expenditures of federal awards for the year ended June 30, 2005 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This supplemental schedule is the responsibility of the management of the College. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the year ended June 30, 2005 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hausser + Taylor LLC

Canton, Ohio
October 21, 2005

NORTHEASTERN OHIO UNIVERSITIES
COLLEGE OF MEDICINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Northeastern Ohio Universities College of Medicine ("College") annual financial report presents management's discussion and analysis of the financial performance of the College during the fiscal years ended June 30, 2005 and 2004. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of College management.

Introduction

The College was established in 1973 by action of the Ohio General Assembly under Chapter 3350 of the Ohio Revised Code as a public institution of higher education.

The College is a free standing, state-assisted, community-based medical school. The medical College was formed by three consortial partners: University of Akron, Kent State University, and Youngstown State University. The College does not have its own hospital – rather the College has established affiliation agreements with eight hospitals in Akron, Canton and Youngstown to serve as the primary clinical sites for medical education.

Using the Annual Financial Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statements prescribed by GASB Statement No. 35 (the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment and the condition of facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. A public institution's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as non-operating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities, and helps measure the ability to meet financial obligations as they mature.

Noteworthy Financial Activity

In response to five successive years of flat or declining core state funding, the College reduced its hourly and administrative head count by approximately 10 percent in fiscal year 2005 enabling annualized operating savings of approximately $1.4 million.

Effective July 1, 2004, the College increased its capitalization threshold for capital assets from $1,500 to $2,500. Accordingly, approximately $2.7 million, at cost, in capital assets were written down resulting in $1.1 million recorded loss on disposal.

The College's financial position, as a whole, improved during the fiscal year ended June 30, 2005 as compared to the previous year as evidenced by:

- The College's total assets increased over the prior year by $1.3 million. Current assets increased by $6.5 million, due to the shorter duration of the College's investment portfolio as well as an overall increase in cash and investment balances.

- Capital assets decreased by $2.8 million primarily due to the increase in the College's capitalization threshold to $2,500. Of the $2.8 million decrease, approximately $1.1 million resulted from the write off of assets below the threshold.

- The College's net assets increased by $1.6 million to $53.1 million, of which $45.5 million is invested in capital assets or restricted. Of the remaining $7.6 million in unrestricted assets, all but $4.0 million is designated for specific purposes.

- Operating revenues increased by $1.5 million compared to the prior year, of which $1.4 million is directly related to a net increase in student tuition and fees.

- The College's operating expenses decreased by $2.4 million due to decreases in salary and related benefit costs associated with the reduction in work force and spending restraint across the institution.

- Net non-operating revenue increased by $425,000 primarily due to an increase in investment income.

- Loss on disposal of assets increased $701,000 primarily due to the write down of assets as a result of the increase in the College's capitalization threshold from $1,500 to $2,500.

Northeastern Ohio Universities College of Medicine
Condensed Statements of Net Assets
as of June 30, 2005, 2004 and 2003

	2005	2004	2003
ASSETS			
Current assets	$14,028,147	$ 7,525,711	$11,572,092
Noncurrent			
Capital	41,939,080	44,757,381	45,922,159
Other	3,924,445	6,279,448	3,946,952
Total assets	59,891,672	58,562,540	61,441,203
LIABILITIES			
Current liabilities	4,923,166	5,037,103	6,183,027
Noncurrent liabilities	1,781,427	1,976,068	2,106,921
Total liabilities	6,704,593	7,013,171	8,289,948
NET ASSETS			
Invested in capital assets, net of related debt	40,892,473	43,519,540	44,524,969
Restricted			
Nonexpendable	4,107,176	3,956,306	3,898,721
Expendable	548,391	1,275,022	1,336,094
Unrestricted	7,639,039	2,798,501	3,391,471
Total net assets	$53,187,079	$51,549,369	$53,151,255

2005 versus 2004 During the year ended June 30, 2005:

In fiscal 2005, the College's current assets of $14.02 million were sufficient to cover current liabilities of $4.9 million (current ratio of 2.9). In fiscal 2004, current assets of $7.5 million were sufficient to cover current liabilities of $5.0 million (current ratio of 1.5).

In fiscal 2005, the College's capital assets decreased to $41.9 million from $44.8 million in fiscal 2004 while other non-current assets decreased to $3.9 million from $6.3 million.

At June 30, 2005, total College assets were $59.9 million, compared to $58.6 million in fiscal 2004.

College liabilities total $6.7 million at June 30, 2005 compared to $7.0 million in fiscal 2004. Non-current liabilities of $1.8 million, consisting primarily of $1.3 million owed to affiliated hospitals for clinical experiences, is the largest liability.

Total net assets increased by $1.6 million to $53.1 million. Unrestricted net assets total $7.6 million, 47.4% of which ($3.6 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

2004 versus 2003 During the year ended June 30, 2004:

In fiscal 2004, the College's current assets of $7.5 million were sufficient to cover current liabilities of $5.0 million (current ratio of 1.5). In fiscal 2003, current assets of $11.6 million were sufficient to cover current liabilities of $6.2 million (current ratio of 1.9).

In fiscal 2004, the College's capital assets decreased to $44.8 million from $46.0 million in fiscal 2003 while other non-current assets increased to $6.3 million from $3.9 million.

At June 30, 2004, total College assets were $58.6 million, compared to $61.4 million in fiscal 2003.

College liabilities total $7.0 million at June 30, 2004 compared to $8.3 million in fiscal 2003. Non-current liabilities of $2.0 million, consisting primarily of $1.6 million owed to affiliated hospitals for clinical experiences, is the largest liability.

Total net assets decreased by $1.7 million to $51.5 million. Unrestricted net assets total $2.8 million, 71.4% of which ($2.0 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

Northeastern Ohio Universities College of Medicine
Condensed Statements of Revenues, Expenses and Changes in Net Assets
as of June 30, 2005, 2004, and 2003

	2005	2004	2003
Revenues			
Tuition and Fees	$10,347,573	$ 8,951,825	$ 7,824,161
State appropriations	15,285,891	15,228,297	15,822,793
Federal, state, and private grants and contracts	10,199,838	9,996,247	9,048,473
Auxiliary activities	642,245	661,012	721,599
Other	1,520,057	1,601,359	1,811,651
Total revenues	37,995,604	36,438,740	35,228,677
Expenses			
Instruction	11,657,515	12,397,425	12,244,022
Research	4,058,709	4,084,555	3,267,584
Institutional support	6,248,394	6,839,124	6,396,281
Scholarships and fellowships	82,677	87,705	107,033
Other	14,310,599	14,631,817	14,030,051
Total expenses	36,357,894	38,040,626	36,044,971
Increase/(Decrease) in net assets	$ 1,637,710	$(1,601,886)	$ (816,294)

2005 versus 2004 During the year ended June 30, 2005:

The most significant sources of operating revenues for the College are tuition and fees, auxiliary services, and grants and contracts. Tuition revenues grew during fiscal year 2005 as compared to 2004 by 15.6%. These increases were a result of a combination of increases in rates for tuition and other student charges.

Operating expenditures, including depreciation of $3.3 million, totaled $35.2 million.

State appropriations were the most significant non-operating revenue totaling $15.3 million.

2004 versus 2003 During the year ended June 30, 2004:

The most significant sources of operating revenues for the College are tuition and fees, auxiliary services, and grants and contracts. Tuition revenues grew during fiscal year 2004 as compared to 2003 by 14.4%. These increases were a result of a combination of increases in rates for tuition and other student charges.

Operating expenditures, including depreciation of $3.4 million, totaled $37.5 million.

State appropriations were the most significant non-operating revenue totaling $15.2 million.

Northeastern Ohio Universities College of Medicine
Condensed Statements of Cash Flows
as of June 30, 2005, 2004, and 2003

	2005	2004	2003
Cash provided by/(used in):			
Operating activities	$ (9,841,858)	$ (15,727,293)	$ (14,794,742)
Investing activities	865,813	(5,444,210)	219,752
Capital and related financing activities	(906,509)	(2,058,933)	(2,745,679)
Non-capital financing activities	15,285,891	15,228,297	15,825,793
Net increase/(decrease) in cash	5,403,337	(8,002,139)	(1,494,876)
Cash and cash equivalents, beginning of year	2,296,494	10,298,633	11,793,509
Cash and cash equivalents, end of year	$ 7,699,831	$ 2,296,494	$ 10,298,633

2005 versus 2004 During the year ended June 30, 2005:

Major sources of cash included student tuition and fees ($10.3 million), state appropriations ($15.3 million), auxiliary activities ($0.7 million), and grants and contracts ($10.4 million). The largest payments were for suppliers ($11.5 million) and employees ($19.3 million).

2004 versus 2003 During the year ended June 30, 2004:

Major sources of cash included student tuition and fees ($9.0 million), state appropriations ($15.2 million), auxiliary activities ($0.6 million), and grants and contracts ($9.9 million). The largest payments were for suppliers ($13.5 million) and employees ($20.4 million).

Capital Asset and Debt Administration

Capital Assets

At the end of 2005, the College had invested $41.9 million (net of accumulated depreciation of $35.2 million) in a broad range of capital assets, including equipment, buildings, building improvements and land. This amount represents a net decrease (including additions and deductions) of $2.8 million, or 6.3 percent, over last year (see discussion in Noteworthy Financial Activity).

	2005	2004	2003
Land	$ 298,200	$ 298,200	$ 298,200
Equipment, furnishing, and library materials	22,421,339	24,434,820	22,693,294
Buildings, infrastructure, improvements, and construction in progress	54,488,854	53,849,110	53,657,250
Total	$77,208,393	$78,582,130	$76,648,744

More detailed information about the College's capital assets is presented in Note 5 to the financial statements.

Long-term Debt

At June 30, 2005, the College had $1.0 million in outstanding capital lease obligations – a decrease of 15.4 percent over the prior year. At June 30, 2004, the College had $1.2 million in outstanding capital lease obligations – a decrease of 11.4 percent over the prior year. More detailed information about the College's long-term liabilities is presented in Note 6 to the financial statements.

Factors Affecting Future Periods

The most significant factor affecting future periods is the amount of funding appropriated for Northeastern Ohio Universities College of Medicine by the State of Ohio. Changes in state support are important both for its direct impact on College revenues and its indirect impact on the cost of tuition. State funding in Ohio is full-time equivalent based and subsidy eligible enrollment for medical schools is statutorily capped. Thus in periods of flat or declining funding, the College can also be negatively impacted when enrollments at other state-assisted public schools are growing.

It is expected that state appropriations per student will remain relatively flat or decline modestly in the next two fiscal years with more significant decreases expected in the subsequent biennium. Continuing increases in tuition and increased productivity will be used to offset the reductions in state support.

Opportunities for future enrollment growth, while modest, are anticipated. The College has sufficient capacity, on the Rootstown and clinical campuses, to increase class size by approximately 10 percent. Any class size increases will be in accordance with accreditation requirements as specified by the Liaison Committee on Medical Education (LCME) of the American Association of Medical Colleges (AAMC).

In addition to flat or declining state support for operations, the College has experienced a decline in state capital appropriations of approximately 20 percent for the FY05-06 biennium. Flat to decreased funding is expected to continue for the FY07-08 biennium.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENTS OF NET ASSETS
JUNE 30, 2005 and 2004

	NEOUCOM June 30, 2005	NEOUCOM June 30, 2004	Component Unit NEOUCOM Foundation June 30, 2005	Component Unit NEOUCOM Foundation June 30, 2004
ASSETS				
Current assets				
Cash and cash equivalents	$ 6,984,985	$ 1,801,669	$ 81,975	$ 358,776
Investments	4,873,206	2,882,788		
Accounts receivable	1,281,691	1,794,782	435	786
Inventories	79,003	136,135		
Prepaid expenses and deferred charges	626,531	733,033		
Pledges receivable			54,919	86,061
Notes receivable	182,731	177,304		
Total current assets	14,028,147	7,525,711	137,329	445,623
Noncurrent assets				
Cash-restricted	714,846	494,825		
Long term investments	397,204	2,846,773	6,760,972	6,387,291
Funds held in trust			2,669,960	2,806,855
Pledges receivable			377,015	285,856
Notes receivable	2,812,395	2,937,850	486,622	493,643
Capital assets, net	41,939,080	44,757,381		
Total noncurrent assets	45,863,525	51,036,829	10,294,569	9,973,645
Total assets	59,891,672	58,562,540	10,431,898	10,419,268
LIABILITIES				
Current liabilities				
Accounts payable	545,659	500,479		
Accrued compensation and benefits	1,469,753	1,245,434		
Deferred revenue	922,572	863,774		
Other accrued liabilities	1,816,920	2,236,182	357,015	740,397
Capital lease obligations	168,262	191,234		
Total current liabilities	4,923,166	5,037,103	357,015	740,397
Noncurrent liabilities				
Compensated absences	903,082	929,461		
Annuity obligations			187,916	143,679
Capital lease obligations	878,345	1,046,607		
Total noncurrent liabilities	1,781,427	1,976,068	187,916	143,679
Total liabilities	6,704,593	7,013,171	544,931	884,076
NET ASSETS				
Invested in capital assets, net of related debt	40,892,473	43,519,540		
Restricted				
Nonexpendable				
Student loans	3,709,972	3,570,847	661,619	628,712
Endowments	397,204	385,459	5,017,189	4,799,161
Annuity and life income			91,564	42,772
Expendable				
Current operations	548,391	1,275,022	4,300,558	4,298,592
Unrestricted	7,639,039	2,798,501	(183,963)	(234,045)
Total net assets	$ 53,187,079	$ 51,549,369	$ 9,886,967	$ 9,535,192

The accompanying notes are an integral part of the financial statements

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 and 2004

	NEOUCOM		Component Unit NEOUCOM Foundation	
	2005	2004	2005	2004
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of $110,383, and $202,622, respectively)	$ 10,347,573	$ 8,951,825	$	$
Federal grants and contracts	5,020,565	4,342,847		
State grants and contracts	2,949,997	3,212,067		
Local grants and contracts	23,311	27,518		
Private grants and contracts	2,205,965	2,413,815		
Contributions and bequests			703,325	3,508,476
In-kind contributions from NEOUCOM			338,232	363,406
Sales and services of departments	382,563	472,912		
Sales and services of auxiliary enterprises	642,245	661,012		
Other			33,820	51,196
Total operating revenues	21,572,219	20,081,996	1,075,377	3,923,078
OPERATING EXPENSES				
Educational and general				
Instruction and departmental research	11,657,515	12,397,425	165,638	143,035
Separately budgeted research	4,058,709	4,084,555	73,747	84,940
Public service	363,710	356,073		16,545
Academic support	4,424,047	4,541,793	366,385	345,282
Student services	1,382,970	1,697,686		
Institutional support	6,248,394	6,839,124	635,772	655,455
Operation and maintenance of plant	2,819,287	3,298,934		24,215
Scholarships and fellowships	82,677	87,705	218,254	266,845
Allowance for uncollectible pledges			54,655	(2,962)
Other expenses	6,666	22,723		
Auxiliary enterprises	854,079	822,358		
Depreciation	3,278,581	3,401,250		
Total operating expenses	35,176,635	37,549,626	1,514,451	1,533,355
Operating income/(loss)	(13,604,416)	(17,467,630)	(439,074)	2,389,723
NONOPERATING REVENUES (EXPENSES)				
State share of instruction	15,285,891	15,228,297		
Investment income	406,662	38,303	541,610	1,022,529
Interest expense	(66,038)	(77,257)		
Loss on disposal of assets	(1,115,221)	(413,743)		
Annuity obligations & other expenses			(14,774)	(3,001)
Net nonoperating revenues/(expenses)	14,511,294	14,775,600	526,836	1,019,528
GAIN (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	906,878	(2,692,030)	87,762	3,409,251
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Capital appropriations and grants	730,832	1,089,264		
Contibutions permanently restricted		880	264,013	186,802
Total other revenues, expenses, gains or losses	730,832	1,090,144	264,013	186,802
INCREASE (DECREASE) IN NET ASSETS	1,637,710	(1,601,886)	351,775	3,596,053
NET ASSETS AT BEGINNING OF YEAR	51,549,369	53,151,255	9,535,192	5,939,139
NET ASSETS AT END OF YEAR	$ 53,187,079	51,549,369	$ 9,886,967	9,535,192

The accompanying notes are an integral part of the financial statements

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 10,338,575	$ 8,955,478
Grants and contracts	10,438,836	9,947,939
Employee compensation	(19,430,492)	(20,378,287)
Payments to suppliers	(11,456,761)	(13,546,230)
Payments for utilities	(1,209,714)	(1,287,689)
Payments for student financial aid	(82,677)	(87,705)
Student loan advances	(475,875)	(575,441)
Student loan repayments	589,407	554,901
Sales and services of auxiliary enterprises	664,976	636,074
Sales and services of departments	707,865	78,003
Other operating receipts/(disbursements)	74,002	(24,336)
Net cash and cash equivalents used in operating activities	(9,841,858)	(15,727,293)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State share of instruction	15,285,891	15,228,297
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	696,280	989,929
Capital gifts and grants	5,514	47,283
Purchases of capital assets	(1,351,031)	(2,840,911)
Principal paid on capital leases	(191,234)	(177,977)
Interest paid on capital leases	(66,038)	(77,257)
Net cash and cash equivalents used in capital financing activities	(906,509)	(2,058,933)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	383,442	122,004
Purchase of investments, net	482,371	(5,566,214)
Net cash and cash equivalents provided by (used in) investing activities	865,813	(5,444,210)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	5,403,337	(8,002,139)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	2,296,494	10,298,633
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 7,699,831	$ 2,296,494
RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES		
Operating loss	$ (13,604,416)	$ (17,467,630)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	3,278,581	3,401,250
Changes in assets and liabilities		
Receivables	523,884	(411,103)
Inventories	57,132	67,347
Prepaid expenses and deferred charges	(96,897)	(200,441)
Notes receivable	120,028	(20,541)
Accounts payable	43,702	(433,981)
Accrued compensation	14,252	169,231
Deferred revenue	58,798	31,044
Other accrued liabilities	(236,922)	(862,469)
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	$ (9,841,858)	$ (15,727,293)

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Northeastern Ohio Universities College of Medicine (hereinafter referred to as the "College") was created as a public institution of higher learning by the General Assembly of the State of Ohio on November 23, 1973, by statutory act under Chapter 3350 of the Ohio Revised Code (the "ORC"). The College's mission, as stated in the ORC, is to graduate qualified physicians oriented to the practice of medicine at the community level, with an emphasis on primary care.

The College is a freestanding, state-supported, community-based medical school, which offers a combined BS/MD program in an educational consortium with three state-funded institutions, namely, The University of Akron, Kent State University, and Youngstown State University. Faculties at the consortium universities provide the undergraduate arts and sciences curriculum, and the College faculty provides the MD curriculum on the Rootstown campus and in the associated clinical hospitals and health department. Associated community hospitals serve as a base for clinical education with more than 1,700 practicing physicians providing the instruction during the clinical years.

The associated community hospitals and health department are:

Major Teaching Hospitals and Health Department:

Akron Children's Hospital
Akron General Medical Center
Aultman Hospital, Canton
Barberton Citizens Hospital
Forum Health
    Northside Medical Center, Youngstown
Humility of Mary Health Partners, Youngstown
    St. Elizabeth Health Center
Mercy Medical Center, Canton
Summa Health System Hospital, Akron
    Akron City Hospital
    St. Thomas Hospital
Akron Health Department

Other Associated Hospitals:

Edwin Shaw Hospital for Rehabilitation, Akron
Forum Health
    Hillside Rehabilitation Hospital, Warren
    Trumbull Memorial Hospital, Warren
Heartland Behavioral Healthcare, Massillon
Lodi Community Hospital
Medina General Hospital
Med Central Health System, Mansfield
Robinson Memorial Hospital, Ravenna
Salem Community Hospital
Wadsworth-Rittman Hospital, Wadsworth

The College is governed by a nine-member board of trustees, three of whom are presidents of the three consortium universities, three of whom are current trustees of the consortium universities and three of whom are appointed by each board of trustees of the consortium universities.

The College is fully accredited by the Liaison Committee on Medical Education of the Association of American Medical Colleges, the American Medical Association, and by the North Central Association of Colleges and Schools.

The College has established collaborative arrangements with the consortium universities to offer graduate-level education in the biomedical sciences and biomedical engineering leading to masters and doctoral degrees. In addition, the Northeastern Ohio Universities Master of Public Health program is a partnership among The University of Akron, Cleveland State University, Kent State University, Youngstown State University, and the College. This program is a non -traditional course of study geared toward working professionals who seek to broaden their role in improving community health, enhancing current job skills or seeking career advancement.

The College and its associated hospitals co-sponsor continuing medical education programs for residents, physicians and allied health professionals.

The State of Ohio has determined that the College is not a component unit because the governor does not directly appoint its board of trustees and the state is not financially accountable for the College. As defined by Governmental Accounting Standards Board (the "GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* the financial statements of the College do not include as component units the financial activities of organizations associated or affiliated with, but not controlled by, the College, such as its associated hospitals and health department are not included in the accompanying financial statements.

GASB Statement No. 39 was issued in May 2002 and it provides additional guidance in determining whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units of the primary Institution based on the nature and significance of their relationship with the primary institution. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. In accordance with GASB Statement No. 39, the NEOUCOM Foundation (the "Foundation") is required to be included as a discretely presented component unit in the College's basic financial statements beginning in 2004 as the College and its students are the sole beneficiaries of the Foundation's financial resources. The Foundation financials are discreetly displayed in separate columns but not in a consolidated format, thus transactions between it and the College have not been eliminated in the accompanying financial statements. The Foundation's notes to its financial statements are summarized in Note 12.

Basis of Presentation
The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The College follows the "business-type activities" reporting requirements of GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis – for Public College and Universities.* In accordance with GASB Statement No. 35, the accompanying basic financial statements are reported on a College-wide basis.

Statement No. 35 requires the following, which collectively make up the College's basic financial statements:

Management's Discussion and Analysis
Basic financial statements:
  Statement of Net Assets
  Statement of Revenues, Expenses, and Changes in Net Assets
  Statement of Cash Flows
Notes to the financial statements

Basis of Accounting
The accompanying financial statements of the College have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Restricted grant revenue and State capital appropriations are recognized only to the extent expended. Non-capital State appropriations are recognized as revenue in the year appropriated.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College is required to follow all applicable GASB pronouncements. In addition, the College should apply all applicable Financial Accounting Standards Board (the "FASB") Statements and Interpretations, Accounting Principles Board (the "APB") Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The College has elected to not apply FASB statements and interpretations issued after November 30, 1989.

Cash Equivalents
Cash equivalents are defined as highly liquid unrestricted investments with a maturity of three months or less when purchased.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the College's investments are reported at fair value based on market quotations. The College does not invest in derivatives.

During March 2003, the GASB issued Statement No.40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* This statement amend GASB Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that entities communicate key information about such risks in four principal areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that include investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment's denomination. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2004.

Inventories

Inventories are stated at the lower of cost or market. Cost is generally determined on an average cost basis.

Capital Assets

Capital assets include land and infrastructure assets such as roads and sidewalks, buildings and improvements, equipment with an original cost of $2,500 or more, and all library materials. Such assets are recorded at cost at the date of acquisition, or if acquired by gift, at an estimated fair value at the date of donation. Interest expense relating to construction is capitalized net of interest income on resources set aside for that purpose.

Depreciation of College capital assets is calculated on a straight-line basis over the estimated useful life of the property as follows:

Asset	Estimated Useful Life
Buildings	40 Years
Building improvements and fixed equipment	20 Years
Infrastructure	20 Years
Furnishings and movable equipment	7 Years
Library materials	10 Years

Change in Accounting Estimate

During the year ended June 30,2005, the College changed its threshold for capitalization of capital assets purchases from $1,500 to $2,500. The net book value of capital assets existing at the beginning of the year, primarily computers and related equipment, totaling $1,116,371 was written off. This change had the effect of reducing the increase in net assets by $896,600 for the year ended June 30, 2005, which is calculated as follows:

Write off of existing capital assets, net of sales proceeds of $1,150	$ (1,115,221)
Depreciation which would have been written off	246,987
Assets purchases between $1,500 and $2,500 during fiscal 2005	(28,366)
Net effect of change	$ (896,600)

Compensated Absences

The College records a liability for vacation accrued by full time employees, all of whom are eligible for this benefit. Within certain limitations, payment is made for accrued vacation upon separation from the College.

Accumulated sick leave is also accrued by the College. All leave will either be absorbed by time off from work or, within certain limitations, be paid to employees only upon retirement or termination of employment with the College.

Operating Revenues
Operating revenues of the College principally consist of tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprises. Revenues related to noncapital financing activities (including State appropriations) capital and related financing activities, and investing activities, are reported as nonoperating revenues.

Deferred Revenues
Deferred revenues represent unspent (and therefore unearned) revenues from various restricted grants and contracts.

Net Asset Classifications
In accordance with GASB Statement No. 35 guidelines, the College's resources are classified into the following three net asset categories:

Invested in Capital Assets, Net of Related Debt – capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – Nonexpendable – net assets whose use is subject to externally imposed stipulations that they be maintained permanently by the College.

Restricted – Expendable – net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Unrestricted – net assets that are not subject to externally imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Trustees.

Gifts and Pledges
The College does not report pledges in the financial statements until the gifts are collected. The College's gift records indicate that no material pledges were outstanding on June 30, 2005 and 2004. Since the pledges are often payable either at the discretion of the donors or through their estates, neither the realizable value nor the period of collection can be determined.

Income Taxes
The College is exempt from federal income taxes under Section 115 of the Internal Revenue Code, with the exception of unrelated business income, which is not significant.

Use of Estimates
The preparation of financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosure in the notes to financial statements. Actual results could differ from those estimates.

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

Recently Issued Accounting Pronouncements
During November 2003, the GASB issued Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement requires entities to report the effects of capital asset impairment in their financial statements when it occurs. The statement requires entities to evaluate major events affecting capital assets to determine whether they are impaired. Those events include physical damage, changes in legal or environment factors, technological changes or obsolescence, changes in manner or duration of use and construction stoppage. Impairment will be measured using methods that are designed to isolate the cost of the capital asset's service capacity that has been rendered unusable by impairment. The statement also enhances comparability of financial statements

by requiring all governmental entities to account for insurance recoveries in the same manner. Statement 42 is effective for fiscal years beginning after December 15, 2004. The College has not determined the impact, if any, that this statement will have on its financial statements.

During August, 2004, the GASB issued a Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. Statement 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement 45 will not be effective for the College until fiscal 2009 and as such, the College has not determined the impact, if any, that this statement will have on its financial statements.

In June, 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are either voluntarily or involuntarily terminated. For termination benefits provided through an existing defined benefit other postemployment benefits plan, the provisions of this statement should be implemented simultaneously with the requirement of Statement 45. For all other termination benefits, this statement is effective for periods beginning after June 15, 2005. The College has not determined the impact, if any, that this statement will have on its financial statements.

2. STATE SUPPORT

The College is a state-assisted institution of higher education, which receives a student-based subsidy from the State of Ohio (the "State"). The subsidy is determined annually based upon a formula developed by the Ohio Board of Regents.

In addition to student subsidies, the State of Ohio provides the funding for construction of certain major plant facilities on the College's campus and medical education facilities at associated teaching hospitals. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission ("OPFC"), which in turn causes the construction and subsequent transfer of the facility to the College by the Ohio Board of Regents. Upon completion of a facility, the Ohio Board of Regents turns control over to the College. Not included in these financial statements are medical education facilities financed by the state agencies that have been constructed at the locations of the associated hospitals.

College facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the treasurer of state. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the state.

Plant facilities on the College's campus are reflected as buildings or construction in progress in the accompanying statement of net assets. The state appropriations for these facilities are recognized as fund additions in the plant funds when funds are expended by the state. Neither the obligations for the revenue bonds issued by OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the College's financial statements. Debt service is funded through appropriations to the Ohio Board of Regents by the Ohio General Assembly. Debt service charges allocated by the Ohio Board of Regents to the College are included in the accompanying financial statements.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The College's bank deposits and cash on hand for all fund groups at June 30, 2005 and 2004 are summarized as follows:

	June 30, 2005	June 30, 2004
College's book value (overdraft)	$ (137,528)	$ (1,251,306)
Cash on hand	10,993	9,485
Bank balances	64,362	319,920

The difference in the College's book values and bank balances is caused by items in transit, consisting primarily of outstanding checks.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the College's deposits would not be returned. Of the bank balances at June 30, 2005 and 2004, $64,362 and $100,000 was covered by federal depository insurance and $0 and $219,920, respectively, was uninsured and uncollateralized as defined by the GASB. The College does not have a deposit policy for custodial credit risk.

Statement No. 3 and 40 of the GASB requires government entities to categorize investments to give an indication of the level of various interest rate, credit, and foreign currency risks assumed by the entity at year end.

The College's investments, at fair value, at June 30, 2005 and 2004 are summarized as follows:

	June 30, 2005	June 30, 2004
Money market funds	$7,891,547	$2,091,303
U.S. government obligations	2,635,169	2,494,650
U.S. government agency obligations	871,411	1,093,025
Corporate bonds and notes	566,463	1,116,663
Fixed income mutual funds	464,869	428,500
Equities	655,541	596,723
State Treasury Asset Reserve of Ohio	11,776	1,447,012
Total Investments	$ 13,096,776	$ 9,267,876

Interest rate risk. This is the risk of losses arising from rising interest rates. In accordance with its investment policy, at least fifty percent of the short-term investments of the College must be in U.S. Government securities and/or Agency issues. In addition, the short-term investment pool must maintain an average weighted maturity between one day and one year.

The maturities of the College's interest-bearing investments at June 30, 2005 are as follows:

		Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 2,635,169	$ 779,671	$ 1,394,133	$ 334,413	$ 126,952
U.S. government agency obligations	871,411	125,787	51,141		694,483
Corporate bonds and notes	566,463	5,146	351,158	208,896	1,263
Fixed income mutual funds	464,869			464,869	
Total	$ 4,537,912	$ 910,604	$ 1,796,432	$ 1,008,178	$ 822,698

Credit risk. The College's investment policy stipulates that the weighted-average credit quality is to be no less than "AAA" for its short-term investment pool, no less than "AA" for its intermediate pool, and no less than "A" for the fixed income portion of the long-term investment pool.

The credit ratings for the College's interest bearing investments, as rated by Standard & Poor's, at June 30, 2005 was as follows:

Credit Rating (S & P)	Total	STAR Ohio	Corporate Bonds and Notes	Fixed Income Mutual Funds
AAA	$ 578,239	$ 11,776	$ 566,463	$
AA	464,869			464,869
Total	$ 1,043,108	$ 11,776	$ 566,463	$ 464,869

Custodial credit risk- investments. This is the risk that in the event of failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2005, investments included $4,728,584 consisting of government securities, corporate bonds and equities, which were uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the College. The comparable similar investments at June 30, 2004 were $5,301,045 and consisted of government securities. At June 30, 2005 money market funds totaling $7,891,547 were uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the College's name. The comparable amount at June 30, 2004 was $2,091,303 which consisted of money market agreements. The College's investment in fixed income and real estate equity mutual funds is not classified by custodial credit risk category because it is not evidenced by securities that exist in physical or book entry form.

The College's investment in the State Treasury Asset Reserve of Ohio ("STAROhio") is also not classified by custodial credit risk category because it represents an investment pool managed by the Treasurer of the State of Ohio and is not evidenced by securities that exist in physical or book entry form. STAROhio allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2005 and 2004.

In December, 2002 the College's Board adopted a new investment policy, which permitted investments in equities and other securities for both endowed and non-endowed funds, in accordance with changes to the Ohio Revised Code. The new policy was implemented by soliciting bids for investment management services. An investment manager was selected and resulted in the College diversifying its investment holdings.

4. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2005 and 2004:

	June 30, 2005	June 30, 2004
Student notes	$ 2,995,126	$ 3,115,154
Grants and contracts	1,179,026	1,629,067
Sales and services	96,864	163,493
Tuition and fees	5,801	2,222
Total	$ 4,276,817	$ 4,909,936

Federal Family Education Loans processed for students by the College during the year ended June 30, 2005 totaled $10,199,965 and the year ended June 30, 2004 totaled $9,046,532. The College is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan programs and, accordingly, these loans are not included in the College's financial statements.

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	July 1, 2004 Beginning Balance	Additions	Reclassifications and deductions	June 30, 2005 Ending Balance
Land	$ 298,200	$	$	$ 298,200
Infrastructure	1,605,051			1,605,051
Buildings, improvements and fixed equipment	52,244,059	448,179		52,692,238
Furnishings and moveable equipment	14,706,639	281,684	2,882,213	12,106,110
Library materials	9,728,181	655,225	68,177	10,315,229
Construction in progress		191,565		191,565
Total historical cost	78,582,130	1,576,653	2,950,390	77,208,393
Less accumulated depreciation:				
Infrastructure	588,837	75,237		664,074
Buildings, improvements and fixed equipment	17,194,641	1,511,446		18,706,087
Furnishings and moveable equipment	9,473,803	1,055,827	1,765,842	8,763,788
Library materials	6,567,468	636,073	68,177	7,135,364
Total accumulated depreciation	33,824,749	3,278,583	1,834,019	35,269,313
Total capital assets, net of depreciation	$ 44,757,381	$(1,701,930)	$ 1,116,371	$ 41,939,080

Capital asset activity for the year ended June 30, 2004 was as follows:

	July 1, 2003 Beginning Balance	Additions	Reclassifications and Deductions	June 30, 2004 Ending Balance
Land	$ 298,200	$	$	$ 298,200
Infrastructure	1,593,853	11,198		1,605,051
Buildings, improvements and fixed equipment	52,063,397	180,662		52,244,059
Furnishings and movable equipment	13,550,559	1,802,434	646,354	14,706,639
Library materials	9,142,735	638,172	52,726	9,728,181
Total historical cost	76,648,744	2,632,466	699,080	78,582,130
Less accumulated depreciation:				
Infrastructure	515,857	74,957	1,977	588,837
Buildings, improvements and fixed equipment	15,381,148	1,502,512	(310,981)	17,194,641
Furnishings and movable equipment	8,781,928	1,251,239	559,364	9,473,803
Library materials	6,047,652	572,542	52,726	6,567,468
Total accumulated depreciation	30,726,585	3,401,250	303,086	33,824,749
Total capital assets, net of depreciation	$ 45,922,159	$ (768,784)	$ 395,994	$ 44,757,381

6. LONG-TERM LIABILITIES

The College has entered into various noncancelable lease agreements to finance the purchase of energy conservation improvements (under the provisions of Ohio House Bill 7), and duplicating equipment. These leases are accounted for as capital leases (total net book value at June 30, 2005 of $1,180,245) and payments of $257,273 were made under the agreements during the year ended June 30, 2005.

Future minimum lease payments subsequent to June 30, 2005 are summarized as follows:

Fiscal Year	Principal	Interest	Total
2006	$ 168,262	$ 55,156	$ 223,418
2007	178,046	45,373	223,419
2008	188,398	35,020	223,418
2009	197,301	24,077	221,378
2010	206,732	12,609	219,341
2011	107,868	1,803	109,671
Total	$ 1,046,607	$ 174,038	$ 1,220,645

The improvements financed by the leases through June 30, 2005 totaled $1,827,181 and are included in capital assets in the accompanying statement of net assets.

	Year Ended June 30, 2005					
	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion	Noncurrent Portion
Compensated absences	$ 1,211,582	$ 308,331	$ 230,257	$ 1,289,656	$ 386,574	$ 903,082
Capital lease obligations	1,237,841		191,234	1,046,607	168,262	878,345
Total long-term liabilities	$ 2,449,423	$ 308,331	$ 421,491	$ 2,336,263	$ 554,836	$ 1,781,427

	Year Ended June 30, 2004					
	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion	Noncurrent Portion
Compensated absences	$ 1,102,799	$ 252,560	$ 143,777	$ 1,211,582	$ 282,121	$ 929,461
Capital lease obligations	1,397,190	16,913	176,262	1,237,841	191,234	1,046,607
Total long-term liabilities	$ 2,499,989	$ 269,473	$ 320,039	$ 2,449,423	$ 473,355	$ 1,976,068

7. COMMITMENTS AND CONTINGENCIES

The College has entered into various contractual service agreements with its consortium universities, associated hospitals and health department primarily for clinical instruction, and for research and other services. For fiscal years ended June 30, 2005 and 2004, these contracts totaled $3,496,936, and $4,073,963, respectively. At June 30, 2005 and 2004, the College had recorded accrued liabilities of $1,381,974 and $1,622,317, respectively, which represented unbilled services rendered by the related organizations under these contracts.

Not included in these financial statements are unexpended capital appropriations due from the state for various construction and improvement projects as described in Note 2. During the years ended June 30, 2005 and 2004, approximately $0.7 million and $0.9 million, respectively, were expended from state capital appropriations and capitalized in the College's financial statements. On June 30, 2005, capital appropriations of approximately $3.9 million remained unexpended: $1.3 million for renovation of multi-disciplinary lab, $1.2 million for Olson and Meshel Lecture Hall renovations, $0.5 million for expansion of the Cooperative Library Depository, and $0.9 million for various other capital improvements.

Also, not included in these financial statements are the following contractual commitments, in the form of College purchase orders for goods and services:

	June 30, 2005	June 30, 2004
To be funded by College	$ 538,321	$ 962,984
To be funded by State of Ohio capital appropriations	1,304,483	1,000,683
Total	$ 1,842,804	$ 1,963,667

The College receives grants and contracts from certain federal, state, and private agencies to fund research and other programs. The costs, both direct and indirect, which have been charged to the grant or contract, are audited annually in accordance with Office of Management and Budget Circular A-133. Such audits are subject to the approval of the granting agency, which reserves the right to conduct further examinations. It is the opinion of the College's management that any potential disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

8. EMPLOYEE BENEFIT PLANS

Retirement Plans

Retirement benefits are available to substantially all College employees by participation in the Ohio Public Employers Retirement System ("OPERS"), the State Teachers Retirement System of Ohio ("STRS"), or an Alternative Retirement Plan ("ARP").

OPERS and STRS are statewide, cost-sharing, multiple-employer defined benefit pension plans. OPERS and STRS provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefits are established by state statute. Both OPERS and STRS issue separate, publicly available financial reports that include financial statements and required supplementary information. The OPERS financial report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6702, or 1-800-222 OPERS (7377) or visiting their Web site at www.OPERS.org. The STRS financial report may be obtained by writing to State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090 or visiting their Web site at www.strsoh.org.

Both OPERS and STRS administer three separate pension plans: The Traditional/Defined Benefit Pension Plan-a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed/Defined Contribution Plan-a defined contribution plan; and the Combined Plan-a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS and STRS provide retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

The Ohio Revised Code provides statutory authority for employee and employer contributions to OPERS and STRS. For OPERS, the required, actuarially determined contribution rates for plan members and the College are 8.5% and 13.31% of covered payroll, respectively. The required, actuarially determined contribution rates for STRS plan members and the College are 10.0% and 14.0% of covered payroll, respectively. These OPERS and STRS contribution rates incorporate the required contributions to fund post-retirement benefits other than pensions.

Eligible College employees may choose an Alternative Retirement Plan ("ARP") in lieu of OPERS or STRS. For employees electing an ARP, the College is required to make employer contributions of 3.5% of earned compensation to STRS. In addition, the College contributes 13.31% or 10.5% of earned compensation for OPERS or STRS-eligible employees, respectively, to the employee's account with the ARP provider.

The ARP is a defined contribution pension plan available to full-time administrative and professional staff in lieu of OPERS or STRS. For the employees who elected participation in ARP, prior employee contributions to OPERS and STRS were transferred from those plans and invested in individual accounts established with selected external investment managers.
The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

The College's contributions, including employer contributions for pensions and other postretirement benefits, for the year ended June 30, 2005 and for each of the two preceding years are:

Year Ended June 30	OPERS Contributions	STRS Contributions	ARP Contributions
2005	$1,163,733	$501,920	$316,643
2004	1,336,825	482,591	308,692
2003	1,287,596	450,605	305,369

Postretirement Benefits Other Than Pensions ("OPEB")
In addition to basic retirement benefits, both the Ohio Public Employees and State Teachers Retirement Systems also provide eligible members with disability, health care, survivor and death benefits based on eligible credited service. The Ohio Revised Code ("ORC") provides the statutory authority requiring public employers to fund postretirement health care benefits through their contributions to OPERS and STRS.

OPERS provides postretirement health care coverage to eligible retirants and their dependents with ten or more years of qualifying Ohio service. Employer contributions equal to 4% of member-covered payroll were allocated to fund health care expenses.

The OPEB is advanced-funded on an actuarially determined basis through employer contributions and investment earnings thereon. The principal assumptions used and actuarial computations for the year ended December 31, 2003 (latest available) were as follows:

Funding Method
An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method
All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

Investment Return
The investment return assumption rate for 2003 was 8.0%.

Active Employee Total Payroll
An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.

Health Care
Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

At December 31, 2004 (latest information available), there were 369,885 active participants contributing to the plan. The College's actuarially required OPEB contribution for 2003 equaled $349,702, the actual amount contributed to OPERS by the College. In addition, at December 31, 2003, the actuarial value of the plan's net assets available for OPEB approximated $10.5 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were $26.9 billion and $16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

STRS provides access to healthcare coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependants. Coverage includes hospitalization, physician fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for healthcare coverage. Pursuant to the ORC, STRS has discretionary authority over how much, if any, of the healthcare costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The ORC grants authority to STRS to provide healthcare coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. Of the 14% employee contribution rate, 1% of covered payroll was allocated to post employment health care.

For the year ended June 30, 2004 (latest information available), net healthcare costs paid by STRS were $268.7 million. There were 111,853 eligible benefit recipients on June 30, 2004. The balance in the Health Care Reserve Fund increased from $2.80 billion on June 30, 2003 to $3.09 billion on June 30, 2004. Several changes to STRS health care program have been made for 2004, which included increased premiums charged to benefit recipients effective January 1, 2004.

9. RISK MANAGEMENT

The College is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. Commercial insurance has been obtained to cover damage or destruction to the College's property and for public liability, personal injury, and third-party damage claims. The College is insured through the State of Ohio for workers' compensation benefits. To provide employee health care and other benefits (including dental, life insurance and long-term disability benefits), the College participates in the University of Akron health care program. Premiums paid to the University of Akron by the College are for providing employee benefit coverage. Settled claims have not exceeded the College's commercial insurance coverage for any of the past three years.

10. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2005 and 2004, the Foundation made disbursements of $870,368 and $909,216, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition the Foundation granted loans of $100,740 and $102,672, respectively, for the years ended June 30, 2005 and 2004.

The Foundation provided reimbursements of $106,053 and $118,324, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2005 and 2004. Amounts for such services provided by the College which are not reimbursed by the Foundation are reported as in-kind contributions in the Statement of Activities. The College's in-kind support for these services was valued at $338,232 and $363,406, respectively, for the years ended June 30, 2005 and 2004.

Certain Foundation Board Members have affiliations with financial institutions with which the foundation has deposit and investment accounts.

11. FUNDS HELD IN CUSTODY FOR OTHERS

The College provides banking services for various student activities, clubs and groups. In addition, the College served as the fiscal agent for the Canton Regional Area Health Education Center ("CRAHEC") and the Summit-Portage Area Health Education Center ("SPAHEC") until June 30, 2004. Both CRAHEC and SPAHEC are separately incorporated not-for-profit organizations.

Net assets held in custody by the College on June 30, 2005 and 2004 were as follows:

	June 30, 2005	June 30, 2004
CRAHEC	$	$ 91,563
SPAHEC		70,767
Student activities & clubs	35,593	45,831
Other organizations	7,436	6,874
Total agency net assets	$ 43,029	$ 215,035

12. COMPONENT UNIT – THE NEOUCOM FOUNDATION

A. Organization and Significant Accounting Policies

The NEOUCOM Foundation (hereinafter referred to as the "Foundation") was incorporated on April 14, 1978, as a nonprofit tax-exempt corporation. The purpose of the Foundation is to serve as the gift receiving arm of the Northeastern Ohio Universities College of Medicine (hereinafter referred to as the "College"), and to assist in developing and increasing its resources to provide broader educational opportunities and services for charitable, educational, and scientific purposes. The Foundation is governed by a volunteer Board of Directors consisting of a maximum forty-two members.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, with the exception of taxable unrelated business income. The Foundation had no unrelated business income in fiscal 2005 and 2004.

The Foundation has adopted the accrual method of accounting in accordance with not-for-profit accounting principles generally accepted in the United States of America. The Foundation reports net assets based on the existence or absence of donor-imposed restrictions.

B. Pledges Receivable

Promises to give to the Foundation are recorded as an asset when the pledge is received. The net present value of outstanding pledges discounted at between 2% and 5% as of June 30 is due as follows:

	2005	2004
Less than one year	$ 58,966	$ 89,752
One to five years	450,000	318,000
Total outstanding pledges	508,966	407,752
Less net present value discount	(54,299)	(18,261)
Less allowance for uncollectible pledges	(22,733)	(17,574)
Net outstanding pledges	$ 431,934	$ 371,917

C. Investments

Investments are carried at fair market value based on quoted market prices. Realized and unrealized gains and losses are reflected in the Statement of Revenues, Expenses, and Changes in Net Assets. Following is a summary of investments at June 30:

	2005		2004	
	Cost	Market	Cost	Market
Money market funds	$ 247,788	$ 247,788	$ 517,048	$ 517,048
Cash surrender value of life insurance	145,041	145,041	119,371	119,371
Equities	3,773,866	4,039,709	3,647,130	3,709,904
Fixed income	2,267,563	2,328,434	2,008,926	2,040,968
Total long-term investments	$6,434,258	$6,760,972	$6,292,475	$6,387,291

The Foundation's investment policy specifies that 55%-65% of funds to be invested shall be held in equities while the remaining 35%-45% shall be placed in government or corporate investment grade instruments or cash equivalents. No investment will be made in tax exempt instruments with the exception of conditions placed upon the Foundation by a donor, making a charitable trust or annuity agreement with the Foundation. No investments should be made in commodities, real estate, venture capital, or similar options without the express approval of the NEOUCOM Foundation's Board of Directors.

D. Beneficial Interest in Trusts

During fiscal year 2005, the Foundation was informed it was the beneficiary of a Charitable Remainder Trust. Upon the death of the donors, the Foundation will receive its share of the trust funds. The Foundation has recorded an investment in this trust equal to the expected future distribution discounted at a rate of five percent. The value of the Foundation's interest in the trust at June 30, 2005 equaled $54,993.

During fiscal year 2004, the Foundation was informed that it was the sole beneficiary of an irrevocable grantor trust. According to the trust, the Foundation is to receive annually the sum of $300,000 for its unrestricted use, until such time that the trust is fully liquidated. The value of the Foundation's interest in the trust has been recorded at its fair market value and at June 30, 2005 and 2004, respectively, the value totaled $2,564,967 and $2,806,855.

E. Temporarily Restricted Net Assets

Temporarily restricted net assets represents net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. This category includes true endowment earnings, quasi-endowment principal and earnings, a property annuity and property assets. All temporarily restricted net assets are available for charitable purposes benefiting the College's faculty, staff, and students in educational and general functional categories including academic support, student scholarship and other student aid, instructional and departmental research and other. Temporarily restricted net assets total $4,300,558 and $4,298,592 as of June 30, 2005 and 2004, respectively, and are shown as Restricted Expendable Net Assets in the accompanying Statements of Net Assets.

F. Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations that will be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. This category includes annuity funds and true endowment principal and are restricted to student scholarships and awards, community health science professorship, anatomy endowed chair, student loans, and other. Permanently restricted net assets total $5,770,372 and $5,470,645 as of June.30, 2005 and 2004, respectively, and are shown as Restricted Nonexpendable Net Assts in the accompanying Statements of Net Assets.

The Foundation's distribution policy is to distribute up to 5.0 percent of the average of the June 30 market values of the endowment fund of the previous three years. Distributions, based on this budgeted amount, will be made in the current fiscal year. All unspent funds distributed to temporarily restricted accounts will be reinvested in the endowment each year.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
STUDENT FINANCIAL AID CLUSTER (SFA)			
U.S. Department of Education (Direct Programs):			
Federal Perkins Loans (FPL)	84.038	P038A75236	$ 16,438
U.S. Department of Health and Human Services (Direct Program):			
Health Professionals Student Loans (HPSL)	93.342	5979101-04	170
Scholarships to Disadvantage Students (SDS)	93.925	5979109-04	6,247
TOTAL STUDENT FINANCIAL AID CLUSTER			22,855
RESEARCH AND DEVELOPMENT CLUSTER			
U.S. Department of Health and Human Services:			
National Institutes of Health:			
Direct Programs:			
Auditory Information Processing in Midbrain	93.173	R01DC000937	328,176
Temporal Dynamics of Central Auditory Processing	93.173	R01DC005377	207,156
Total CFDA#93.173			535,332
Gender, Estrogen/Tomoxifen Modulation of Amphetamine	93.279	R15DA13381	32,105
Mineral-Matrix Relations in Calcifying Tissues	93.846	R01AR41452	331,578
The Role of BCL-2 Proteins in Chondrocyte Biology	93.846	R01AR46459	163,737
Mouse Model for Cartilage Degeneration and Repair	93.846	R21AR47086	1,943
Total CFDA#93.846			497,258
Molecular Biology of Bile Acid Synthesis	93.848	R01DK44442	196,752
Regulation of Bile Acid Synthesis by Nuclear Receptor	93.848	R01DK58379	264,484
Total CFDA#93.848			461,236
Female Reproductive Organs and Their Innvervation	93.853	R01NS22526	297,810
Microglia in Retrovirus-Induced Neurodegeneration	93.853	R29NS37614	230,055
Total CFDA#93.853			527,865

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
U.S. Department of Health and Human Services:			
National Institutes of Health:			
Direct Programs:			
DerG (a new Immunolmodulator) Treatment of Viral Encephalitis	93.856	U01AI054747	$ 367,711
Passed through Washington State University:			
Analyses of Communication Sounds in Auditory Midbrain	93.173	R01DC04733	11,451
Passed through Summa Health System Hospitals:			
A Post Discharge Intervention to Improve Stroke Outcomes	93.853	R01NS41333	24,406
Passed through CEL-SCI Corp.:			
DerG Immunostimulant Prevention/Treatment of HSV Disease	93.856	R43A1055069	863
Total National Institutes of Health			2,458,227
Passed through Summa Health System:			
Collaborative Management of Indigent Diabetic Patients	93.226	R03HS13267	3,681
Total U.S. Department of Health and Human Services			2,461,908
Department of Defense/US Army (Direct Program):			
Prevalence and Outcomes of Restless Legs Syndrome Among Veterans	12.420	DAMD17-03-1-0082	166,557
Department of Defense/TSWG (Direct Program):			
Rapid Detection of Fluid Borne Pathogens Using Liquid Crystals	12.XXX*	W91CRB-04-C-0016	534,270
U.S. Department of Housing and Urban Development:			
Passed through Akron Health Department			
Evaluation of a Lead Hazard Program	14.900	OHLHB0219-02	15,352
U.S. Department of Justice:			
Passed through Ohio Office of Criminal Justice Services and Kent State University:			
The Consequences of Mental Health Court – 2003	16.579	2003-DG-CO1-7068	277

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
National Science Foundation (Direct Programs):			
Evolution of the Cetacean Body Plan:			
Eocene Whales from India	47.050	EAR0207370	$ 70,147
The Mechanics of Anterior Tooth Use in Primates	47.075	BCS0412153	13,911
US-India Cooperative Research—Eocene Whales from India	47.075	INT0216710	4,954
Total CFDA#47.075			18,865
Total National Science Foundation			89,012
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			3,267,376
OTHER PROGRAMS			
U.S. Department of Health and Human Services:			
Direct Programs:			
OAT Special Projects	93.211	1D1BTM00061	391,151
Center for Leadership in Public Health & Community Medicine	93.249	1D20HP30000	383,990
Faculty Development in Primary Care	93.884	D55HP03352	135,619
Academic Administrative Units in Primary Care	93.884	D54HP03397	64,612
Total CFDA#93.884			200,231
Health Care and Other Facilities	93.887	C76HF03251	4,830
Grants for Predoctoral Development in Family Medicine	93.896	D16HP00106	29,937
Passed through the Medical University of Ohio--Toledo			
Model State Supported AHEC Program			
($211,181 passed through to subrecipients)	93.107	HP03029	280,042
Passed through Congressional Glaucoma Caucus Fdn			
Student Sight Saver Program	93.988	E11/CCE220462	1,308
National Institutes of Health:			
Eighth Conference – Chemistry and Biology Mineralized Tissue	93.121	R13DE015631	19,095
Auditory Information Processing in the Midbrain	93.173	F31DC007298	21,213
Passed through Ohio Department of Mental Health and Summit County ADM Board:			
Center of Excellence Program—Jail Diversion—FY04	93.958	45-MHCJCCOE-BG-01-04	-743
Center of Excellence Program—Jail Diversion—FY05	93.958	CJ-05-CCOE	171,863
Total CFDA#93.958			171,120
Passed through the Ohio Department of Mental Health:			
Women's Health Month—CY 2004	93.991	WP0NRD/WP0T2N	5,898
Woman's Health Month—CY 2005	93.991	WP0VJ1	4,002
Total CFDA#93.991			9,900

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
OTHER PROGRAMS (CONTINUED)			
Passed through Ohio Department of Health and Mahoning County District Board of Health:			
Support for Medical Director	93.283	50-1-001-2-BI	27,499
Passed through Association of American Medical Colleges:			
Regional Public Health Medical Education Center	93.283	U36/CCU319276	26,053
Total CFDA#93.283			53,552
Passed through Case Western Reserve University:			
Grants for Geriatric Education Centers	93.969	HP70113	58,119
Developing a Comprehensive Assessment of Education and Training in Geriatric Palliative Care	93.XXX*	HHSH2302004120279	18,981
Passed through Ohio State University Research Foundation:			
The Ohio Center of Excellence in Education for Bioterrorism Preparedness and Response	93.996	T01HP01416	10,866
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			1,654,335
U.S. Department of Justice:			
Passed through OCJS and NAMI			
NAMI Ohio Crisis Intervention Team Program—CY04	16.579	2003-DG-B01-7440	4,896
Passed through OCJS and NAMI			
NAMI Ohio Crisis Intervention Team Program—CY05	16.579	2001-DG-B01-7440	4,896
Total CFDA#16.579			9,792
Federal Emergency Management Agency:			
Passed through Ohio Emergency Management Agency	97.036	FEMA1519-DR-133-02386	4,255
TOTAL OTHER PROGRAMS			1,668,382
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 4,958,613

* - CFDA number not available

See notes to Supplemental Schedule of Expenditures of Federal Awards.

(Concluded)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

NOTES TO THE SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

1. BASIS OF PRESENTATION

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of Northeastern Ohio Universities College of Medicine (the "College) under programs financed by the U.S. government for the year ended June 30, 2005. The schedule has been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

For purposes of the Schedule, federal awards include the following:

- Direct federal awards
- Pass through funds received from non-federal organizations made under federally sponsored programs conducted by those organizations.

All programs are presented by federal department or agency. Pass-through programs are also presented by the entity through which the College received the federal award. Catalog of Federal Domestic Assistance (CFDA) Numbers or Primary Grant Numbers are presented for those programs for which such numbers are available.

2. FEDERAL FAMILY EDUCATION LOANS

Federal Family Education Loans (Federal CFDA Number 84.032) processed for students by the College during the year ended June 30, 2005, totaled $10,199.965. The College is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan programs and, accordingly, these loans are not included in the College's financial statements or the Schedule.

3. OTHER FEDERAL LOAN PROGRAMS

The College administers the following additional federal loan programs:

	CFDA Number	Outstanding Balance at June 30, 2005
Federal Perkins Loan Program	84.038	$ 1,527,018
Health Professions Student Loan Program—Loans to Disadvantaged Students	93.342	288,716
Heath Professions Student Loan Program—Primary Care Loans	93.342	1,096,173

Total loan expenditures and disbursements under the U.S. Department of Education and the U.S. Department of Health and Human Services student financial assistance loan programs for the year ended June 30, 2005 are identified below:

	CFDA Number	Disbursements
Federal Perkins Loan Program	84.038	$ 328,750
Health Professions Student Loan Program—Loans to Disadvantaged Students	93.342	106,139
Heath Professions Student Loan Program—Primary Care Loans	93.342	27,336

The above expenditures include disbursements and expenditures such as loans to students and administrative expenditures. The Schedule only includes administrative costs of the loan programs because no new federal monies were used to issue loans during the year.

4. VARIOUS CFDA TOTALS

Total amount expended by the College under various CFDA numbers are summarized as follows:

	Amount Expended
CFDA No. 93.173	
Direct Program	$ 535,332
Passed through Washington State University	11,451
Total	$ 546,783
CFDA No. 93.853	
Direct Program	$ 527,865
Passed through Summa Health System Hospitals	24,406
Total	$ 552,271
CFDA No. 93.856	
Direct program	$ 367,711
Passed through CEL-SCI Corp.	863
Total	$ 368,574

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HAUSSER + TAYLOR LLC
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Board of Trustees
Northern Ohio Universities College of Medicine
Rootstown, Ohio

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

We have audited the financial statements of Northern Ohio Universities College of Medicine as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northern Ohio Universities College of Medicine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 Northern Ohio Universities College of Medicine'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 which are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees and management of Northern Ohio Universities College of Medicine, the U.S. Department of Education, applicable pass-through agencies, and the Auditor of the State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

Hausser + Taylor LLC

Canton, Ohio
October 21, 2005

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Board of Trustees
Northern Ohio Universities College of Medicine
Rootstown, Ohio

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Northern Ohio Universities College of Medicine (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Northern Ohio Universities College of Medicine's major program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northern Ohio Universities College of Medicine's management. Our responsibility is to express an opinion on Northern Ohio Universities College of Medicine's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northern Ohio Universities College of Medicine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northern Ohio Universities College of Medicine's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Northern Ohio Universities College of Medicine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northern Ohio Universities College of Medicine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and management of Northern Ohio Universities College of Medicine, the U.S. Department of Education, applicable pass-through agencies, and the Auditor of the State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

Hausser + Taylor LLC

Canton, Ohio
October 21, 2005

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified				
Internal control over financial reporting:					
Material weakness(es) identified?	______	yes	X	no
Reportable condition(s) identified not considered to be material weaknesses?	______	yes	X	none reported
Noncompliance material to financial statements noted?	______	yes	X	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	______	yes	X	no
Reportable condition(s) identified not considered to be material weaknesses?	______	yes	X	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	______	yes	X	no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
Various	Research and Development Cluster
84.007, 84.003, 84.038, 84.063 84.364, 84.268	Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000			
Auditee qualified as a low risk auditee?	______	yes	X	no

Section II – Federal Award Findings and Questioned Costs – No findings were noted

Section III – Federal Award Findings and Questioned Costs – No findings were noted

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2005

Finding
Number

There were no prior year findings.

Auditor of State
Betty Montgomery

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NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

PORTAGE 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
DECEMBER 30, 2005