

Northeastern Ohio Universities College of Medicine

*Single Audit Report
for the Year Ended
June 30, 2004*



**Auditor of State
Betty Montgomery**

Board of Trustees
Northeastern Ohio University College of Medicine

We have reviewed the Independent Auditor's Report of the Northeastern Ohio University College of Medicine, Portage County, prepared by Deloitte & Touche LLP for the audit period July 1, 2003 through June 30, 2004. 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 University College of Medicine is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 22, 2004

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NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the Northeastern Ohio Universities College of Medicine (the "College") as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. 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 audits. We did not audit the financial statements of the discretely presented component unit, NEOUCOM Foundation. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, NEOUCOM Foundation, is based solely on the report of the other auditors.

We conducted our audits 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, such financial statements present fairly, in all material respects, the financial position of the College at June 30, 2004 and 2003, and the changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2004 the College adopted Governmental Accounting Standards Board Statement ("GASB") No. 39, *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)* and, retroactively, restated the presentation of the 2003 financial statements for the change.

The Management's Discussion and Analysis on pages 2 - 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. 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 we do not express an opinion on it.

Our audits were performed for the purpose of forming an opinion on the College's basic financial statements. The accompanying supplemental schedule of expenditures of federal awards for the year ended June 30, 2004 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, 2004 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, on our consideration of the College's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our 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 read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

November 19, 2004

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004 and 2003

This discussion and analysis of the Northeastern Ohio Universities College of Medicine (the "College") should be read in conjunction with the financial statements and the accompanying notes. Its purpose is to provide an overview of the College's financial activities and performance for the fiscal year ended June 30, 2004.

Overview of the Financial Statements

This annual report includes the basic financial statements and accompanying notes prepared in accordance with the Governmental Accounting Standards Board (the "GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The Statement of Net Assets includes all assets and liabilities. Increases or decreases in net assets (the difference between assets and liabilities) as reported in the Statement of Revenues, Expenses and Changes in Net Assets, is one indicator of the improvement or erosion of the College's financial health when considered with other factors such as levels of state appropriation funding and the condition of facilities.

The College's financial statements are prepared on the accrual basis similar to most businesses. Under this accounting basis, all revenues and expenses, including depreciation of capital assets, are reported in the financial statements regardless of when cash is exchanged. The GASB reporting model classifies state appropriations and gifts as non-operating revenues, thus resulting in operating losses being reported by many public colleges and universities.

The Statement of Cash Flows presents the cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

For the year ended June 30, 2004, the College was required to implement GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)*. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. Included in the College financial statements is the NEOUCOM Foundation (the "Foundation"), which is considered a component unit, as the College and its students are the sole beneficiaries of the Foundation 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 10.

Introductory Comments

The College is a freestanding, state supported, community-based medical school. It neither owns nor operates any clinical facilities, but contracts with its major associated teaching hospitals for the clinical portion of its medical education program. It should be noted that, although not recorded in the accompanying financial statements, the associated hospitals and health department, the volunteer clinical faculty comprised of approximately 1,700 physicians and other health professionals, are the College's largest asset.

The College's accelerated program enables students to obtain their combined B.S./M.D. degrees in as few as six years, resulting in a lower student debt burden at graduation as compared to students at other medical colleges. The stepped-up pace is a challenge to some students, but the educational program is appropriately structured and in line with the mission of the College. The College is faced with unique challenges because of the relative youth of its students. This awareness serves as the catalyst for the College to offer programs that support and nurture our students from the consortium university level (Phase I) throughout the four years of medical school. Students who enroll at the College in the first year find that their costs are comparable with other public medical schools through the course of the four-year program.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

The College receives substantial state support. State share of instruction, operating grants and capital support comprised 55% of all College revenues during fiscal year 2004, and 59% in the prior year.

In a time of decreasing public support for medical education and higher education in general, the College enjoys stable financial position, thanks to imaginative leadership, prudent management and the ongoing cooperation and support of its associated teaching hospitals and clinical faculty. The College's strategic plan provides the blueprint for the development and implementation of operating and capital budgets. The College's teaching hospitals and clinical faculty remain committed to education, despite increasing financial pressure. A philosophy of diversifying its financial resources has led the College to initiatives beyond public support. Major efforts have focused on increasing the amount of support from grants and contracts, and private fund-raising.

Statement of Net Assets Highlights

A condensed Statement of Net Assets at June 30, 2004, 2003 and 2002 is presented below:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
ASSETS			
Current assets	\$ 7,525,711	\$11,572,092	\$13,944,838
Noncurrent			
Capital	44,757,381	45,922,159	45,647,036
Other	<u>6,279,448</u>	<u>3,946,952</u>	<u>4,052,867</u>
Total assets	<u>58,562,540</u>	<u>61,441,203</u>	<u>63,644,741</u>
LIABILITIES			
Current liabilities	5,037,103	6,183,027	7,284,103
Noncurrent liabilities	<u>1,976,068</u>	<u>2,106,921</u>	<u>2,393,089</u>
Total liabilities	<u>7,013,171</u>	<u>8,289,948</u>	<u>9,677,192</u>
NET ASSETS			
Invested in capital assets, net of related debt	43,519,540	44,524,969	44,320,776
Restricted			
Nonexpendable	3,956,306	3,898,721	3,746,760
Expendable	1,275,022	1,336,094	1,243,502
Unrestricted	<u>2,798,501</u>	<u>3,391,471</u>	<u>4,656,511</u>
Total net assets	<u>\$ 51,549,369</u>	<u>\$ 53,151,255</u>	<u>\$ 53,967,549</u>

Net Assets - Total net assets of the College experienced a decrease of \$0.817 million during fiscal 2003 and a further decrease \$1.602 million in net assets during fiscal 2004. Capital net assets increased only slightly during fiscal 2003 in the amount of \$0.204 and decreased by \$1.005 million during fiscal 2004 due to increased depreciation expense. Unrestricted net assets decreased \$1.265 and by \$0.593 million in fiscal years 2003 and 2004, respectively, due primarily to spending down of College designated funds, and also in part to cuts in state share of instruction, and lower investment income from declining cash balances and interest rates.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

Current assets - During fiscal 2004, the College began to invest funds on an intermediate term and long-term basis, thus current assets decreased significantly by \$4.046 million. Current assets had also decreased \$2.373 million during fiscal 2003 due to lower cash and receivable balances. Despite these decreases in current assets, the College's liquidity remains strong, with cash and short-term investments comprising 62% of all current assets. Although unrestricted cash and short term investments decreased \$4.583 million as indicated in the statement of cash flows, current assets totaling \$7.526 million exceeded current liabilities of \$5.037 million; for fiscal 2003, current assets of \$11.572 million exceeded current liabilities of \$6.183 million. Accounts receivable increased by \$0.363 million due primarily to increased external funding for research grants which are on a cost reimbursement basis. During the previous fiscal year accounts receivable decreased by \$0.965 million due primarily to reimbursement amounts due for construction expenses of the new Ralph Regula Conference Center completed in the prior year.

Liabilities - Total liabilities decreased \$1.387 at the end of fiscal 2003 from the prior year, and decreased further by \$1.277 million at the end of fiscal 2004. The following items represent the majority of the change from the prior years:

- Accounts payable decreased by \$1.118 million at June 30, 2003 due to the timing of significantly large invoices from the associated hospital contract, and invoices related to construction of the Conference Center completed in the prior year. At the end of fiscal 2004 accounts payable decreased an additional \$0.510 million again due to timing of significant associated hospital invoices. Also, during the most recent year the College began to directly remit premium payments to health insurance providers on an advance basis, which for many years had been billed by one of the consortium universities after each month end.
- Accrued liabilities decreased by \$0.269 million at the end of fiscal 2003 due to capital lease payments on principal, and the State of Ohio assuming the College's unfunded, actuarially determined liability for outstanding workers' compensation claims. At the end of fiscal 2004 accrued liabilities had decreased an additional \$0.731 due entirely to more current invoicing by the associated hospitals.

Restricted nonexpendable net assets consist of student loan programs and endowments. Restricted expendable net assets consist of unexpended state operating grants restricted to specific departments and programs.

Unrestricted net assets represent those balances from operating activities that are not restricted by external parties such as donors or granting agencies. This includes funds that have been designated by the College's Board of Trustees for specific purposes, and for amounts committed for goods and services not yet received as of the reporting date.

The following is a breakdown of the unrestricted net assets at June 30, 2004, 2003 and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Designated for:			
Capital purposes	\$ 452,447	\$ 258,049	\$ 917,049
Operating purposes	2,095,161	2,563,864	3,217,379
Undesignated	<u>250,893</u>	<u>569,558</u>	<u>522,083</u>
Total	<u>\$ 2,798,501</u>	<u>\$ 3,391,471</u>	<u>\$ 4,656,511</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

Statement of Revenues, Expenses, and Changes in Net Assets Highlights

A condensed Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2004, 2003, and 2002 is presented below:

	<u>2004</u>	Percent of Total	<u>2003</u>	Percent of Total	<u>2002</u>	Percent of Total
OPERATING REVENUES						
Student tuition and fees	\$ 8,951,825	45%	\$ 7,824,161	43%	\$ 6,959,114	43%
Grants and contracts	9,996,247	50%	9,133,845	51%	8,071,870	50%
Auxiliary enterprises and other	<u>1,133,924</u>	5%	<u>1,115,125</u>	6%	<u>1,053,407</u>	7%
Total operating revenues	<u>20,081,996</u>		<u>18,073,131</u>		<u>16,084,391</u>	
OPERATING EXPENSES						
Educational and general	33,326,018	89%	31,729,470	89%	32,218,241	90%
Auxiliary enterprises and other	822,358	2%	1,011,357	3%	649,307	2%
Depreciation	<u>3,401,250</u>	9%	<u>2,910,948</u>	8%	<u>2,982,584</u>	8%
Total operating expenses	<u>37,549,626</u>		<u>35,651,775</u>		<u>35,850,132</u>	
Operating loss	<u>(17,467,630)</u>		<u>(17,578,644)</u>		<u>(19,765,741)</u>	
NONOPERATING REVENUES/(EXPENSES)						
State appropriations	15,349,309		15,822,793		16,228,082	
Investment income	38,303		219,752		414,279	
Interest expense	<u>(198,269)</u>		<u>(220,496)</u>		<u>(267,452)</u>	
Net nonoperating revenues/(expenses)	15,189,343		15,822,049		16,374,909	
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES						
	<u>(2,278,287)</u>		<u>(1,756,595)</u>		<u>(3,390,832)</u>	
Capital grants and appropriations	676,401		940,301		4,810,297	
Gain on sale of assets and other	<u>0</u>		<u>0</u>		<u>19,640</u>	
(DECREASE)/INCREASE IN NET ASSETS	<u>\$ (1,601,886)</u>		<u>\$ (816,294)</u>		<u>\$ 1,439,105</u>	

Operating revenues - The two major sources of operating revenues for the College are grants and contracts, and student tuition and fees, which comprise 94% of total operating revenues in both fiscal year 2004 and 2003.

Operating revenues are summarized as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues			
Student tuition	\$ 8,951,825	\$ 7,824,161	\$ 6,959,114
Government grants and contracts	7,582,432	6,821,878	6,128,229
Private grants and contracts	2,413,815	2,311,967	1,943,641
Sales and services			
College departments	388,309	345,587	433,630
Auxiliary enterprises	661,012	721,599	468,118
Other operating revenues/expenses	<u>84,603</u>	<u>47,939</u>	<u>151,659</u>
Total operating revenues	<u>\$ 20,081,996</u>	<u>\$ 18,073,131</u>	<u>\$ 16,084,391</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

Due primarily to declining state share of instruction, the College has been forced to increase student tuition and fees 16% for fiscal year 2004 and 14% for the fiscal year 2003, which accounts for the increase in tuition revenues. During fiscal 2004, government grants and contracts increased 12%, due primarily to new research projects funded by the federal government to College faculty. The College had also realized an increase of 13% for grants and contracts in fiscal year 2003, due in part to grants to fund the new Read Distance Education Center which was completed in June, 2003. The increase in auxiliary enterprise revenues during fiscal 2003 was due to the new conference center which opened in June, 2002. Although its sales increased during fiscal 2004, most all the increase was due to internal charges to College departments which are required to be eliminated since those sales do not result in revenue from external sources.

Operating expenses – During fiscal year 2004, operating expenses increased due in large part to research grants and contracts which increased 43% from the prior year. Operating expenses during fiscal year 2003 had decreased slightly in comparison to the previous year. Instructional and related expenses accounted for 49% of total operating expenses in 2004, and 52% in 2003. Plant operation expenses decreased by \$0.5 million from the previous year due to construction-related expenses incurred during fiscal year 2003 in completing the new conference center. The new conference center operations accounted for the increased auxiliary enterprise expenses during fiscal 2004.

Operating expenses are summarized as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating expenses			
Instructional and related			
Instruction	\$ 12,397,425	\$ 12,244,022	\$ 11,890,437
Academic support	4,541,793	4,377,980	4,351,024
Student services	1,697,686	1,838,731	1,791,107
Student financial aid	<u>87,705</u>	<u>107,033</u>	<u>60,118</u>
Subtotal instructional and related	18,724,609	18,567,766	18,092,686
Research	4,084,555	3,267,584	3,517,182
Public service	356,073	324,589	322,401
General administration and other	6,861,847	6,584,862	6,794,732
Plant operation and maintenance	3,298,934	2,984,669	3,491,240
Auxiliary enterprises	822,358	1,011,357	649,307
Depreciation	<u>3,401,250</u>	<u>2,910,948</u>	<u>2,982,584</u>
Total operating expenses	<u>\$ 37,549,626</u>	<u>\$ 35,651,775</u>	<u>\$ 35,850,132</u>

Operating expense components are summarized as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Employee compensation	\$ 20,547,518	\$ 20,147,216	\$ 19,703,220
Contractual services	7,296,452	6,915,047	6,848,448
Other operating expenses	5,016,717	4,540,501	5,191,483
Purchased utilities	1,287,689	1,138,063	1,154,397
Depreciation	<u>3,401,250</u>	<u>2,910,948</u>	<u>2,952,584</u>
Total operating expenses	<u>\$ 37,549,626</u>	<u>\$ 35,651,775</u>	<u>\$ 35,850,132</u>

Nonoperating revenues - State share of instruction for fiscal year 2004 was \$15.349 million, down from \$15.823 million the previous year; the 2003 amount was also down from \$16.226 million in the previous year. Investment income decreased in fiscal year 2004 by \$0.181 million, and 2003 decreased by \$0.220 million compared to the previous years, due to lower cash balances and low interest rates. Nonoperating expenses represent interest assessed by the Ohio Board of Regents on certain College facilities, and interest expense related to capital leases for cost-saving energy conversation improvements, and duplicating equipment.

Capital revenues received by the College during fiscal 2004 totaled \$1.089 million, which were slightly higher than the previous year. During fiscal year 2003, capital revenues totaled \$0.937, which was a significant decrease over the previous year due to the construction of the new conference center which was completed in 2003.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

Statement of Cash Flows

Major sources of operating cash flows in fiscal years 2004 and 2003 included \$9.948 and \$8.851 million, respectively, from grants and contracts, and \$8.955 and \$7.836 million, respectively, from student tuition and fees.

Operating cash was used primarily for employee compensation of \$20.378 and \$20.360 million, respectively for years 2004 and 2003, and payments to suppliers for goods and services of \$14.834 and \$12.627 million, respectively.

State share of instruction of \$15.349 and \$15.823 million, respectively, for years 2004 and 2003, represented nearly all of the noncapital financing cash flows.

Cash outflows for the purchase of capital assets totaled \$2.841 and \$4.036 million for years 2004 and 2003, respectively, and were partially offset by capital grants and appropriations of \$1.037 and \$1.697 million, respectively, in years 2004 and 2003.

In summary, the College's cash position decreased significantly in fiscal year 2004 due to the College's decision to move cash into longer term investments, as now permitted by its new investment policy and revisions to the Ohio Revised Code. The remaining decrease in cash during fiscal 2004 was due to continuing cuts in state appropriations, spending down of designated funds, and declines in investment income. During fiscal year 2003, the College's cash position had also decreased significantly by \$1.495 million (13%) due to the net cash investment of \$2.746 million in capital financing activities, state share of instruction cuts of \$0.405 million, and \$0.195 million in lower investment revenues due to decreased cash in the current and prior fiscal year, coupled with continuing declines in interest rates.

Factors Impacting Future Periods

The College receives substantial state support. The ability of the College to continue to fulfill its mission and execute its strategic plan is directly affected by state operating and capital support, which comprised 53% and 59% of all revenues during fiscal years 2004 and 2003, respectively. In addition, health care and utilities cost increases, and the necessity of continued student tuition increases continue to impact the College's operating results. If the College does not realize sufficient alternate revenues to offset the decreases in state support and current investment market, it will have to explore options to decreasing its expenses.

During fiscal 2004, in response to the recommendation of its accrediting organization, the American Association of Medical Colleges, the College embarked on a comprehensive plan to completely transform its curriculum. The academic plan of the College will strive to attain 1) recognition as a national leader in medical education, 2) excellence in focused areas of research and scholarship, and 3) a reputation as an outstanding place to learn and work. An appropriate amount of financial resources has been committed for this undertaking.

Capital requirements are addressed through the College's six-year capital plan and the technology replacement plan. Funding is derived primarily from state capital appropriations, supplemented with existing College designated funds. Since the state capital funding is formula driven, the College is at a relative disadvantage in comparison to larger schools.

The State of Ohio funds nearly all the costs of building construction and capital improvements of College facilities on the Rootstown campus, and holds title to all College real property. Thus, the state and the College will continue to face challenges of funding future maintenance on capital assets, and staying current in terms of technological assets. Based on its most recent study completed in March 2004, future maintenance costs were estimated to be \$31.102 million through the year 2027.

Critical to the College's continuing success was the re-accreditation during fiscal 2004 from both the Liaison Committee on Medical Education of the American Association of Medical Colleges, and the North Central Association of Colleges and Schools. The College had assembled an accreditation administrative support team, along with a steering committee, and 14 subcommittees who researched and evaluated various components relevant to the self-study of the College.

Associated teaching hospitals and voluntary clinical faculty remain strongly committed to education. Monetary and non-monetary incentives have been identified to encourage clinical faculty teaching. The associated hospitals collectively receive approximately \$55 million in Medicare education-related payments for graduate medical education, and \$2.951 and \$3.090 million during fiscal years 2004 and 2003, respectively, in support from the College for undergraduate clinical education.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENT OF NET ASSETS
JUNE 30, 2004 and 2003

	NEOUCOM		Component Unit	
	June 30,		NEOUCOM Foundation	
	2004	2003	June 30,	2003
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,801,669	\$ 9,267,107	\$ 358,776	\$ 180,235
Investments	2,882,788			
Accounts receivable	1,794,782	1,432,239	786	
Inventories	136,135	203,482		
Prepaid expenses and deferred charges	733,033	490,076		800
Pledges receivable			86,061	50,137
Notes receivable	177,304	179,188	960	1,111
Total current assets	<u>7,525,711</u>	<u>11,572,092</u>	<u>446,583</u>	<u>232,283</u>
Noncurrent assets				
Cash and cash equivalents restricted for long term investment	494,825	804,107		
Investments	2,846,773		6,387,291	5,270,307
Funds held in trust		227,419	2,806,855	
Pledges receivable			285,856	344,422
Notes receivable	2,937,850	2,915,426	492,683	499,432
Capital assets, net	44,757,381	45,922,159		
Total noncurrent assets	<u>51,036,829</u>	<u>49,869,111</u>	<u>9,972,685</u>	<u>6,114,161</u>
Total assets	<u>58,562,540</u>	<u>61,441,203</u>	<u>10,419,268</u>	<u>6,346,444</u>
LIABILITIES				
Current liabilities				
Accounts payable	500,479	1,010,233		
Accrued salaries and benefits	826,701	766,253		
Payroll withholdings payable	136,612	157,183		
Compensated absences	282,121	216,806		
Deferred revenue	863,774	832,730		
Other accrued liabilities	2,021,147	2,752,113	686,244	278,337
Deposits held in custody for others	215,035	271,447	49,223	51,419
Capital lease obligations	191,234	176,262		
Total current liabilities	<u>5,037,103</u>	<u>6,183,027</u>	<u>735,467</u>	<u>329,756</u>
Noncurrent liabilities				
Compensated absences	929,461	885,993		
Annuity obligations			148,609	77,549
Capital lease obligations	1,046,607	1,220,928		
Total noncurrent liabilities	<u>1,976,068</u>	<u>2,106,921</u>	<u>148,609</u>	<u>77,549</u>
Total liabilities	<u>7,013,171</u>	<u>8,289,948</u>	<u>884,076</u>	<u>407,305</u>
NET ASSETS				
Invested in capital assets, net of related debt	43,519,540	44,524,969		
Restricted				
Nonexpendable				
Student loans	3,570,847	3,514,142	628,712	588,735
Endowments	385,459	384,579	4,799,161	4,611,926
Annuity and life income			42,772	32,795
Expendable				
Current operations	1,275,022	1,336,094	4,298,592	1,163,105
Unrestricted	2,798,501	3,391,471	(234,045)	(457,422)
Total net assets	<u>\$ 51,549,369</u>	<u>\$ 53,151,255</u>	<u>\$ 9,535,192</u>	<u>\$ 5,939,139</u>

The accompanying notes are an integral part of the financial statements

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 and 2003

	NEOUCOM		Component Unit	
	2004	2003	NEOUCOM Foundation	
			2004	2003
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$202,622, and \$276,383, respectively)	\$ 8,951,825	\$ 7,824,161	\$	\$
Federal grants and contracts	4,342,847	2,980,373		
State grants and contracts	3,212,067	3,756,133		
Local grants and contracts	27,518	85,372		
Private grants and contracts	2,413,815	2,311,967		
Contributions and bequests			3,508,476	817,917
In-kind contributions from NEOUCOM			363,406	342,697
Sales and services of departments	388,309	345,587		
Sales and services of auxiliary enterprises	661,012	721,599		
Other operating revenues/(expenses)	84,603	47,939	51,196	27,468
Total operating revenues	20,081,996	18,073,131	3,923,078	1,188,082
OPERATING EXPENSES				
Educational and general				
Instruction and departmental research	12,397,425	12,244,022	143,035	141,352
Separately budgeted research	4,084,555	3,267,584	84,940	168,080
Public service	356,073	324,589	16,545	19,262
Academic support	4,541,793	4,377,980	345,282	117,404
Student services	1,697,686	1,838,731		
Institutional support	6,839,124	6,396,281	655,455	577,493
Operation and maintenance of plant	3,298,934	2,984,669	24,215	10,652
Scholarships and fellowships	87,705	107,033	266,845	293,393
Allowance for uncollectible pledges			(2,962)	21,000
Other expenses	22,723	188,581		
Auxiliary enterprises	822,358	1,011,357		
Depreciation	3,401,250	2,910,948		
Total operating expenses	37,549,626	35,651,775	1,533,355	1,348,636
Operating income/(loss)	(17,467,630)	(17,578,644)	2,389,723	(160,554)
NONOPERATING REVENUES/(EXPENSES)				
State share of instruction	15,349,309	15,822,793		
Investment income	38,303	219,752	1,022,529	260,113
Interest expense	(198,269)	(220,496)		
Annuity obligations & other expenses			(3,001)	(13,814)
Net nonoperating revenues/(expenses)	15,189,343	15,822,049	1,019,528	246,299
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(2,278,287)	(1,756,595)	3,409,251	85,745
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Federal capital grant	5,516	43,833		
State capital appropriations	984,000	1,030,854		
Private capital gifts and grants	99,748	(172,700)		
Gain/(loss) on disposal of assets	(413,743)	35,314		
Contributions permanently restricted	880	3,000	186,802	255,995
Total other revenues, expenses, gains or losses	676,401	940,301	186,802	255,995
(DECREASE)/INCREASE IN NET ASSETS	(1,601,886)	(816,294)	3,596,053	341,740
NET ASSETS AT BEGINNING OF YEAR	53,151,255	53,967,549	5,939,139	5,597,399
NET ASSETS AT END OF YEAR	\$ 51,549,369	\$ 53,151,255	\$ 9,535,192	\$ 5,939,139

The accompanying notes are an integral part of the financial statements

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 8,955,478	\$ 7,836,431
Grants and contracts	9,947,939	8,851,207
Employee compensation	(20,378,287)	(20,359,543)
Payments to suppliers	(13,546,230)	(11,488,658)
Payments for utilities	(1,287,689)	(1,138,063)
Payments for student financial aid	(87,705)	(107,033)
Student loan advances	(575,441)	(583,797)
Student loan repayments	554,901	620,254
Sales and services of auxiliary enterprises	636,074	740,871
Sales and services of departments	78,003	717,906
Other operating revenues/(expenses)	<u>(24,336)</u>	<u>115,683</u>
Net cash and cash equivalents used in operating activities	(15,727,293)	(14,794,742)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State share of instruction	15,349,309	15,822,793
Gifts for noncapital purposes:		
Additions to endowment	-	3,000
Net cash and cash equivalents provided by noncapital financing activities	<u>15,349,309</u>	<u>15,825,793</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	989,929	1,172,699
Capital gifts and grants	47,283	524,273
Purchases of capital assets	(2,840,911)	(4,036,060)
Principal paid on capital leases	(177,977)	(186,095)
Interest paid on capital leases	<u>(198,269)</u>	<u>(220,496)</u>
Net cash and cash equivalents used in capital financing activities	(2,179,945)	(2,745,679)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	122,004	219,752
Purchase of investments, net	<u>(5,566,214)</u>	<u>219,752</u>
Net cash and cash equivalents provided by investing activities	(5,444,210)	219,752
NET DECREASE IN CASH AND EQUIVALENTS	(8,002,139)	(1,494,876)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	10,298,633	11,793,509
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 2,296,494</u>	<u>\$ 10,298,633</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES		
Operating loss	\$ (17,467,630)	\$ (17,578,644)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	3,401,250	2,910,948
Changes in assets and liabilities		
Receivables	(37,592)	48,714
Unbilled charges	(373,511)	119,564
Inventories	67,347	6,320
Prepaid expenses	(200,441)	(63,570)
Accounts payable	(433,981)	(734,239)
Accrued salaries and benefits	60,448	(6,691)
Deferred revenue	31,044	(52,259)
Compensated absences	108,783	61,306
Other accrued liabilities	(726,143)	378,641
Deposits held for others	(136,326)	78,711
Student loans	(20,541)	36,457
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	<u>\$ (15,727,293)</u>	<u>\$ (14,794,742)</u>

The accompanying notes are an integral part of the financial statements

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 and 2003

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
Akron Health Department
Aultman Hospital, Canton
Barberton Citizens Hospital
Forum Health
 Northside Medical Center, Youngstown
 Tod Children's Hospital, 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

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
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.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

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's financials are discretely 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 10. The College's 2003 basic financial statements have been presented in this manner as well to conform to the current year presentation.

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.

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 \$1,500 or more, and all library materials and personal computers. Such assets are

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

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:

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

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, 2004 and 2003. 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.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

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 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. The College has not determined the impact, if any, that this statement will have on its financial statement disclosures.

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.

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

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

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, 2004 and 2003 are summarized as follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
College's book value (overdraft)	\$ (1,251,306)	\$ (345,486)
Cash on hand	9,485	6,163
Bank balances	319,920	121,309

The difference in the College's book values and bank balances is caused by items in transit, consisting primarily of outstanding checks. Of the bank balances at June 30, 2004 and 2003, \$100,000 and \$100,000 was covered by federal depository insurance and \$219,920 and \$21,309, respectively, was uncollateralized as defined by the GASB.

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. During fiscal 2004, an investment manager was selected and resulted in the College diversifying its investment holdings.

Statement No. 3 of the GASB, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*, requires government entities to categorize investments to give an indication of the level of custodial credit risk assumed by the entity at year end. Category 1 includes investments that are insured or registered for which securities are held by the College or its agent in the name of the College. Category 2 includes 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. Category 3 includes 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 College's investments, at fair value, at June 30, 2004 and 2003, are summarized as follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Money market funds	\$ 2,091,303	\$ 227,419
Government securities	3,587,675	0
Corporate bonds	1,116,663	0
Fixed income mutual funds	428,500	0
Bank repurchase agreements	0	482,318
Equities	596,723	0
State Treasury Asset Reserve of Ohio	<u>1,447,012</u>	<u>9,928,219</u>
Total Investments	<u>\$ 9,267,876</u>	<u>\$ 10,637,956</u>

At June 30, 2004, the investments included in Risk Category 2 totaled \$5,301,045 and consisted of government securities, corporate bonds and equities. Risk Category 2 investments at June 30, 2003 were \$227,419 and consisted of government securities. Investments in Risk Category 3 at June 30, 2004 were money market totaling \$2,091,303; the comparable amount at June 30, 2003 was \$482,318 which consisted of bank repurchase agreements. There were no Risk Category 1 investments at June 30, 2004 and 2003. The College's investment in fixed income 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

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004 and 2003.

4. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2004 and 2003:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Student notes	\$ 3,115,154	\$ 3,094,614
Grants and contracts	1,629,067	1,255,973
Sales and services	163,487	161,969
State capital appropriations	0	5,929
Tuition and fees	<u>2,222</u>	<u>8,368</u>
Total	<u>\$ 4,909,930</u>	<u>\$ 4,526,853</u>

Federal Family Education Loans processed for students by the College during the year ended June 30, 2004 totaled \$9,046,532 and the year ended June 30, 2003 totaled \$8,287,031. 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, 2004 was as follows:

	<u>July 1, 2003</u>			<u>June 30, 2004</u>
	<u>Beginning</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending</u>
	<u>Balance</u>		<u>and Deductions</u>	<u>Balance</u>
Land	\$ 298,200	\$ 0	\$ 0	\$ 298,200
Infrastructure	1,593,853	11,198	0	1,605,051
Buildings, improvements and fixed equipment	52,063,397	180,662	0	52,244,059
Furnishings and movable equipment	13,550,559	1,802,434	646,354	14,706,639
Library materials	<u>9,142,735</u>	<u>638,172</u>	<u>52,726</u>	<u>9,728,181</u>
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	<u>6,047,652</u>	<u>572,542</u>	<u>52,726</u>	<u>6,567,468</u>
Total accumulated depreciation	<u>30,726,585</u>	<u>3,401,250</u>	<u>303,086</u>	<u>33,824,749</u>
Total capital assets, net of depreciation	<u>\$ 45,922,159</u>	<u>\$ (768,784)</u>	<u>\$ 395,994</u>	<u>\$ 44,757,381</u>

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>July 1, 2002</u> <u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reclassifications</u> <u>and Deductions</u>	<u>June 30, 2003</u> <u>Ending</u> <u>Balance</u>
Land	\$ 298,200	\$ 0	\$ 0	\$ 298,200
Infrastructure	1,378,616	175,688	(39,549)	1,593,853
Buildings, improvements and fixed equipment	50,996,853	1,338,826	272,282	52,063,397
Furnishings and movable equipment	13,264,135	1,091,452	805,028	13,550,559
Library materials	<u>8,867,371</u>	<u>571,322</u>	<u>295,958</u>	<u>9,142,735</u>
Total historical cost	74,805,175	3,177,288	1,333,719	76,648,744
Less accumulated depreciation:				
Infrastructure	447,983	67,874	0	515,857
Buildings, improvements and fixed equipment	14,633,909	1,068,616	321,377	15,381,148
Furnishings and movable equipment	8,308,762	1,251,239	778,255	8,781,928
Library materials	<u>5,767,485</u>	<u>523,037</u>	<u>242,870</u>	<u>6,047,652</u>
Total accumulated depreciation	<u>29,158,139</u>	<u>2,910,948</u>	<u>1,342,502</u>	<u>30,726,585</u>
Total capital assets, net of depreciation	<u>\$ 45,647,036</u>	<u>\$ 266,340</u>	<u>\$ (8,783)</u>	<u>\$ 45,922,159</u>

6. CAPITAL LEASE AGREEMENTS

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, 2004 of \$1,250,458) and payments of \$255,234 were made under the agreements during the year ended June 30, 2004.

Future minimum lease payments subsequent to June 30, 2004 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 191,234	\$ 66,039	\$ 257,273
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	<u>107,868</u>	<u>1,803</u>	<u>109,671</u>
Total	<u>\$ 1,237,841</u>	<u>\$ 240,077</u>	<u>\$ 1,477,918</u>

The unspent funds received under the House Bill 7 lease were held in escrow at a financial institution. The balance of the escrow account \$227,419 at June 30, 2003 was utilized during fiscal 2004 to satisfy the commitments described in Note 7. The improvements financed by the leases through June 30, 2004 totaled \$1,827,181 and are included in capital assets in the accompanying statement of net assets.

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, 2004 and 2003, these contracts totaled \$4,073,963, and \$3,969,624, respectively. At June 30, 2004 and 2003, the College had recorded accrued liabilities of \$1,622,317 and \$2,375,747, respectively, which represented unbilled services rendered by the related organizations under these contracts.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
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FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

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, 2004 and 2003, approximately \$0.9 million and \$1.0 million, respectively, were expended from state capital appropriations and capitalized in the College's financial statements. On June 30, 2004, capital appropriations of approximately \$2.1 million remained unexpended: \$1.3 million for Olson and Meshel Lecture Hall renovations, \$0.5 million for expansion of the Cooperative Library Depository, and \$0.3 million for various 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:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
To be funded by College	\$ 962,984	\$ 1,186,273
To be funded by State of Ohio capital appropriations	1,000,683	449,256
Total	<u>\$ 1,963,667</u>	<u>\$ 1,635,529</u>

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 Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705, 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.

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, 2004 and for each of the two preceding years are:

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

Year Ended	OPERS	STRS	ARP
<u>June 30</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributions</u>
2004	\$1,336,825	\$482,591	\$308,692
2003	1,287,596	450,605	305,369
2002	1,241,443	525,147	259,374

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 retirees and their dependents with ten or more years of qualifying Ohio service. Employer contributions equal to 5% 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, 2002 (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

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 2002 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 4.0% annually.

At December 31, 2002 (latest information available), there were 364,881 active participants contributing to the plan. The College's actuarially required OPEB contribution for 2002 equaled \$515,613, the actual amount contributed to OPERS by the College. In addition, at December 31, 2002, the actuarial value of the plan's net assets available for OPEB approximated \$10.0 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were \$18.7 billion and \$8.7 billion, respectively.

The OPERS contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. In December, 2001 the OPERS Board adopted the health care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The plan is offered to all newly hired persons in OPERS covered positions after January 1, 2003 with no prior service credit accumulated toward health care credit. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan. Benefit recipients will fund the health care costs in excess of their monthly health care benefit. Also, in response to the adverse investment returns experienced by OPERS from 2000 to 2002 and the continued staggering rate of health care inflations, the OPERS Board, during 2003, considered extending the "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan.

STRS provides comprehensive healthcare benefits to retired teachers and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. All

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
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FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

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. Monthly premiums were paid during the year by most benefit recipients.

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.

For the year ended June 30, 2003 (latest information available), net healthcare costs paid by STRS were \$352.3 million. There were 108,294 eligible benefit recipients on June 30, 2003. The balance in the Health Care Reserve Fund decreased from \$3.01 billion on June 30, 2002 to \$2.8 billion on June 30, 2003. Several changes to STRS health care program have been made for 2004, which included increased premiums charged to benefit recipients effective January 1, 2003.

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. COMPONENT UNIT – THE NEOUCOM FOUNDATION

A. SIGNIFICANT ACCOUNTING POLICIES

The Organization

The NEOUCOM Foundation was incorporated on April 14, 1978, as a nonprofit tax-exempt corporation. The purpose of the Foundation is to raise funds for and make distributions to the Northeastern Ohio Universities College of Medicine 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 Trustees consisting of a maximum forty-two members.

The Foundation has adopted the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation

The financial statements of the Foundation are presented in the following classifications:

Unrestricted Net Assets are the results of contributions, gains, and other support, the use of which is at the sole discretion of the Foundation's Board of Trustees. *Temporarily Restricted Net Assets* are the results of contributions, gains, and other support which are temporarily restricted to specific purposes by the donor or grantor. *Permanently Restricted Net Assets* are the results of contributions which are permanently restricted by the donor, the principal of which must remain unexpended in perpetuity.

Cash and cash equivalents

For financial statement purposes, cash, certificates of deposit and investments with maturities of less than twelve months at date of purchase are combined. The Foundation has cash equivalents at financial institutions, which may, at times, exceed federally insured amounts.

Investments

Investments are carried at fair market value. Realized and unrealized gains and losses are reflected in the Statement of Activities.

Annuity and life income accounts

The amount of the contribution recorded by the Foundation from annuity trust agreements is the fair value of the

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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trust assets received less the present value of the estimated annuity payments. The liability is determined based on actuarial assumptions and is included in the liabilities section of the Statement of Revenues, Expenses and Changes in Net Assets.

Revenue recognition

Unrestricted contributions of cash and other assets are recognized as revenue when they are received. All other material restricted contributions are recognized when pledged.

The Foundation receives donated services which are specialized skills that would need to be purchased if not provided by donation. Such in-kind donations are reported as contributions in the Statement of Revenues, Expenses and Changes in Net Assets.

Federal income taxes

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 2004 and 2003.

Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

B. PLEDGES

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 two and one-half percent (2.5%) as of June 30, 2004 and 2003 are due as follows:

	<u>2004</u>	<u>2003</u>
Less than one year	\$ 89,752	\$ 53,283
One to five years	318,000	393,716
Total outstanding pledges	<u>407,752</u>	<u>446,999</u>
Less net present value discount	(18,261)	(31,440)
Less allowance for uncollectible pledges	(17,574)	(21,000)
Net outstanding pledges	<u>\$ 371,917</u>	<u>\$ 394,559</u>

C. INVESTMENTS

Following is a summary of investments at June 30, 2004 and 2003:

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 517,048	\$ 517,048	\$ 524,720	\$ 524,720
Cash surrender value of life insurance Mutual	119,371	119,371	94,170	94,170
Fund equities	3,647,130	3,709,904	4,710,128	3,261,957
Mutual fund fixed income	<u>2,008,926</u>	<u>2,040,968</u>	<u>1,292,288</u>	<u>1,389,460</u>
Total long-term investments	<u>\$ 6,292,475</u>	<u>\$ 6,387,291</u>	<u>\$ 6,621,306</u>	<u>\$ 5,270,307</u>

D. FUNDS HELD IN TRUST

During fiscal year 2004, the Foundation received the largest gift in its history. On March 5, 2004, the family of the late Chatrchai Watanakunakorn, M.D. presented the College and Foundation with a gift of equity securities valued at \$2.852 million in the form of an irrevocable grantor trust. The securities are held in trust by Sky Bank (formerly Second National Bank), which according to the trust, is to distribute annually the sum of \$300,000 to the Foundation for its unrestricted use, until such time that the trust is fully liquidated. The gift will be used to advance medical education in northeast Ohio, create an endowed chair in the department of microbiology and immunology in Watanakunakorn's name and provide a lectureship series for healthcare professions throughout the region. The value of the Foundation's interest in the trust has been recorded at its fair market value at June 30, 2004 which totaled \$2,806,855.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

E. STUDENT NOTES RECEIVABLE

The Foundation has established a revolving loan fund that disburses funds at a rate of 5%. The Foundation has experienced a zero default rate and, therefore, management has not recorded an allowance for doubtful loans.

F. GIFT ANNUITY OBLIGATIONS

The Foundation is obligated under various annuity contracts, whereby donors have contributed cash to the Foundation with agreement that the donor shall be sole recipient of annual annuity payments. These annual payments, currently totaling \$4,930 per year, shall terminate on the last payment date preceding the death of the donor. The discount rates used to estimate the net present value of the obligations on June 30, 2004 and 2003 ranged from 3.6 to 6.0%.

G. UNRESTRICTED BOARD DESIGNATED FUNDS

The Foundation's Board of Trustees has designated the following net assets to be available primarily for charitable purposes benefiting the College's faculty, staff and students in the following functional categories:

Charitable Purposes:	<u>2004</u>	<u>2003</u>
Instruction and departmental research	\$ 1,757	\$ 3,000
Separately budgeted research	60,358	132,436
Public service	0	3,190
Academic support	9,303	10,803
Institutional support	67,601	39,920
Plant operation and maintenance	7,280	10,325
Student scholarships and other student aid	241,144	220,172
Student loan funds	16,600	16,306
Management and General	17,590	19,250
Fund Raising	<u>19,125</u>	<u>21,825</u>
Total board designated net assets, June 30	<u>\$ 440,758</u>	<u>\$ 477,227</u>

The balance of undesignated unrestricted net assets was \$(674,803) and \$(934,649), respectively, at June 30, 2004 and 2003.

H. TEMPORARILY RESTRICTED NET ASSETS

All temporarily restricted net assets are available for charitable purposes benefiting the College's faculty, staff and students in the following educational and general functional categories:

	<u>2004</u>	<u>2003</u>
Instruction and departmental research	\$ 279,277	\$ 155,856
Separately budgeted research	247,588	302,203
Public service	54	2,679
Academic support	3,179,232	400,917
Institutional support	(3,061)	(17,238)
Plant operation and maintenance	233,784	230,879
Student scholarships and other student aid	371,785	105,309
Deferred gift annuity	4,471	0
Allowance for uncollectible pledges	<u>(14,538)</u>	<u>(17,500)</u>
Total temporarily restricted net assets, June 30	<u>\$ 4,298,592</u>	<u>\$ 1,163,105</u>

I. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to:

	<u>2004</u>	<u>2003</u>
Student Loans	\$ 628,712	\$ 588,735
Endowments requiring earnings only be made available for:		
Student scholarships and awards	1,975,999	1,742,029
Community health science professorship	1,500,000	1,500,000
Anatomy endowed chair	1,002,471	1,002,471
Student loans	99,186	99,186
General & other	221,505	268,240
Deferred gift annuity	<u>42,772</u>	<u>32,795</u>
Total permanently restricted net assets, June 30	<u>\$ 5,470,645</u>	<u>\$ 5,233,456</u>

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 and 2003**

The Foundation's distribution policy is to distribute all endowment income including interest, dividends, and realized capital gains in the range of 2.5 to 5.0 percent of the June 30 market value of the total endowment fund of the previous fiscal yearend. 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.

J. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2004 and 2003, the Foundation made disbursements of \$947,448 and \$780,880, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition, the Foundation granted loans of \$102,762 and \$146,700 to college students for the years ended June 30, 2004 and 2003, respectively.

The Foundation provided reimbursements of \$118,324 and \$70,903, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2004 and 2003. 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 Changes in Net Assets. The College's in-kind support for these services was valued at \$411,715 and \$342,697, respectively, for the years ended June 30, 2004 and 2003.

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

Foundation funds available for student scholarships and loans are disbursed directly to the recipients by the Foundation. Amounts received by the College directly from the Foundation are included in private grants and contracts in the accompanying financial statements.

11. FUNDS HELD IN CUSTODY FOR OTHERS

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

Net assets held in custody by the College on June 30, 2004 and 2003 were as follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
CRAHEC	\$ 91,563	\$ 127,793
SPAHEC	70,767	80,757
Student activities & clubs	45,831	56,992
Other organizations	<u>6,874</u>	<u>5,904</u>
Total agency net assets	<u>\$ 215,035</u>	<u>\$ 271,446</u>

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

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	\$ 35,600
U.S. Department of Health and Human Services (Direct Program):			
Health Professions Student Loans (HPSL)	93.342	5979101-02	155
Scholarships to Disadvantaged Students (SDS)	93.925	5979109-03	<u>54,075</u>
TOTAL STUDENT FINANCIAL AID CLUSTER			<u>89,830</u>
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	R01DC00937	361,263
Temporal Dynamics of Central Auditory Processing	93.173	R01DC05377	<u>162,292</u>
Total CFDA#93.173			<u>523,555</u>
Gender, Estrogen/Tomoxifen Modulation of Amphetamine	93.279	R15DA13381	14,118
Mineral-Matrix Relations in Calcifying Tissues	93.846	R01AR41452	359,986
The Role of BCL-2 Proteins in Chondrocyte Biology	93.846	R01AR46459	167,913
Mouse Model for Cartilage Degeneration and Repair	93.846	R21AR47086	<u>24,396</u>
Total CFDA#93.846			<u>552,295</u>
Molecular Biology of Bile Acid Synthesis	93.848	R01DK44442	76,141
Regulation of Bile Acid Synthesis by Nuclear Receptor	93.848	R01DK58379	<u>300,436</u>
Total CFDA#93.848			<u>376,577</u>
Regulation of APP Processing by Par-4	93.853	R01NS043296	1,663
Female Reproductive Organs and Their Innervation	93.853	R01NS22526	252,621
Microglia in Retrovirus-Induced Neurodegeneration	93.853	R29NS37614	<u>215,873</u>
Total CFDA#93.853			<u>470,157</u>
Intrafusal Fiber Expression of Cardiac Sarcomeric Genes	93.854	R15NS36378	18,034
Function and Role of HSV-1 ICP 34.5 in Encephalitis	93.854	R15NS40324	<u>3,575</u>
Total CFDA#93.854			<u>21,609</u>

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

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 Immunomodulator) Treatment of Viral Encephalitis	93.856	U01A1054747	\$ 320,022
Passed through Washington State University:			
Analyses of Communication Sounds in Auditory Midbrain	93.173	R01DC04733	22,120
Passed through University of Idaho:			
LTP and Spatial Learning	93.242	R01MH57892	4,145
Passed through Summa Health System Hospitals:			
A Post Discharge Intervention to Improve Stroke Outcomes	93.853	R01NS41333	37,034
Passed through CEL-SCI Corp.:			
Heteroconjugate Vaccines Against Herpes Simplex Virus	93.856	R44A143107	13,404
DerG Immunostimulant Prevention/Treatment of HSV Disease	93.856	R43A1055069	<u>46,302</u>
Total CFDA#93.856			<u>59,706</u>
Total National Institutes of Health			<u>2,401,338</u>
Passed through Summa Health System:			
Collaborative Management of Indigent Diabetic Patients	93.226	R03HS13267	<u>14,783</u>
Total U.S. Department of Health and Human Services			<u>2,416,121</u>
Department of Defense/US Army (Direct Program):			
Prevalence and Outcomes of Restless Legs Syndrome Among Veterans	12.420	DAMD17-03-1-0082	196,238
Department of Defense/TSWG (Direct Program):			
Rapid Detection of Fluid Borne Pathogens Using Liquid Crystals	12.XXX *	W91CRB-04-C-0016	225,490
U.S. Department of Housing and Urban Development:			
Passed through Akron Health Department:			
Evaluation of a Lead Hazard Program	14.900	OHLHBO219-02	14,648
Department of Justice:			
Passed through Ohio Office of Criminal Justice Services and Kent State University:			
The Consequences of Mental Health Court - 2002	16.579	2002-DG-F01-7068	9,484
The Consequences of Mental Health Court - 2003	16.579	2003-DG-C01-7068	<u>2,264</u>
			<u>11,748</u>

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

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):			
Paleobiology of the First Whales:			
Radiation of Pakicetid Ceraceans in Eocene Pakistan	47.050	EAR9902830	\$ 3,718
Evolution of the Cetacean Body Plan:			
Eocene Whales from India	47.050	EAR0207370	<u>89,587</u>
Total CFDA#47.050			<u>93,305</u>
The Mechanics of Anterior tooth Use in Primates	47.075	BCS0412153	251
US-India Cooperative Research—Eocene Whales from India	47.075	INT0216710	<u>5,485</u>
Total CFDA#47.075			<u>5,736</u>
Total National Science Foundation			<u>99,041</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>2,963,286</u>
OTHER PROGRAMS			
U.S. Department of Health and Human Services:			
Direct Programs:			
Grants for Predoctoral Development in Family Medicine	93.896	D16HP00106	55,648
OAT Special Projects	93.211	1D1B TM00061	311,829
Center for Leadership in Public Health & Community Medicine	93.249	1D20HP30000	230,726
Construction of and Movable Equipment for a Medical Education Conference and Learning Center	93.887	1C76-HF-00066	5,516
Passed through from the Medical College of Ohio—Toledo:			
Model State Supported AHEC Program (\$236,324 passed through to subrecipients)	93.107	HP03029	352,287
National Institute of Health:			
Eighth Conference - Chemistry and Biology Mineralized Tissue	93.121	R13DE015631	2,474
Passed through Ohio Department of Mental Health and Summit County ADM Board:			
Center of Excellence Program—Jail Diversion—FY01 & FY03	93.958	45-MHCJCCOE-BG-01-03	6,539
Center of Excellence Program—Jail Diversion—FY04	93.958	45-MHCJCCOE-BG-01-04	<u>174,532</u>
Total CFDA#93.958			<u>181,071</u>
Passed through from the Ohio Department of Mental Health:			
Women's Health Month—CY 2003	93.991	WP07SI/WP0MR5	6,500
Women's Health Month—CY 2004	93.991	WP0NRD	<u>6,449</u>
Total CFDA#93.991			<u>12,949</u>

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

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-04	17,781
Passed through Association of American Medical Colleges: Regional Public Health Medical Education Center	93.283	U36/CCU319276	<u>15,443</u>
Total CFDA#93.283			<u>33,224</u>
Passed through Case Western Reserve University: Grants for Geriatric Education Centers	93.969	HP70113	119,381
Passed through Ohio State University Research Foundation: The Ohio Center of Excellence in Education for Bioterrorism Preparedness and Response	93.996	T01HP01416	<u>9,880</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,314,985</u>
U.S. Department of Justice:			
Passed through OCJS and NAMI	16.579	2003-DG-B01-7440	4,896
Passed through OCJS and NAMI	16.579	2001-DG-B01-7440	<u>3,264</u>
Total CFDA#16.579			<u>8,160</u>
TOTAL OTHER PROGRAMS			<u>1,323,145</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,376,261</u>

* - 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, 2004

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, 2004. 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, 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 or the Schedule.

3. OTHER FEDERAL LOAN PROGRAMS

The College administers the following additional federal loan programs:

	CFDA Number	Outstanding Balance at June 30, 2004
Federal Perkins Loan Program	84.038	\$ 1,592,361
Health Professions Student Loan Program—Loans to Disadvantaged Students	93.342	225,480
Health Professions Student Loan Program—Primary Care Loans	93.342	1,215,619

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, 2004 are identified below:

	CFDA Number	Disbursements
Federal Perkins Loan Program	84.038	\$ 418,250
Health Professions Student Loan Program—Loans to Disadvantaged Students	93.342	56,601
Health Professions Student Loan Program—Primary Care Loans	93.342	40,740

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	\$ 523,555
Passed through Washington State University	<u>22,120</u>
Total	<u>\$ 545,675</u>
CFDA No. 93.853	
Direct program	\$ 470,157
Passed through Summa Health System Hospitals	<u>37,034</u>
Total	<u>\$ 507,191</u>
CFDA No. 93.856	
Direct program	\$ 320,022
Passed through CEL-SCI Corp.	<u>59,706</u>
Total	<u>\$ 379,728</u>

* * * * *

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Northeastern Ohio Universities College of Medicine (the "College") as of and for the year ended June 30, 2004, and have issued our report thereon dated November 19, 2004, which includes an explanatory paragraph regarding the adoption of a new accounting standard as described in Note 1 to the financial statements. We did not audit the financial statements of the discretely presented component unit, NEOUCOM Foundation. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, NEOUCOM Foundation, is based solely on the report of the other auditors. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the College in a separate letter dated November 19, 2004.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, pass-through entities, 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.

Deloitte & Touche LLP

November 19, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO THE MAJOR FEDERAL AWARD PROGRAM

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

Compliance

We have audited the compliance of the Northeastern 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 its major federal program for the year ended June 30, 2004. The College's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College'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 the College'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 the College'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 its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the College 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 the College'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 College's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants 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 operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, pass-through entities, 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.

Deloitte & Touche LLP

November 19, 2004

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2004

Summary of Auditors' Results

- Type of Report Issued on the Financial Statements as of and for the Year Ended June 30, 2004—Unqualified.
- Reportable Conditions in Internal Control Disclosed by the Audit of the Financial Statements—N/A (none reported).
- Noncompliance Noted that is Material to the Financial Statements of the College—None.
- Reportable Conditions in Internal Control Over Major Federal Award Programs Disclosed by the Audit of the Financial Statements—N/A (none reported).
- Type of Report Issued on Compliance for Major Federal Award Programs—Unqualified.
- The audit did not disclose any audit findings that are required to be reported under section .510(a) of OMB Circular A-133.
- Major Federal Award Program Identified for the Year Ended June 30, 2004:
 - Student Financial Aid Cluster
 - Research and Development Cluster
- Dollar Threshold Used to Distinguish Between Type A and Type B Programs—\$300,000.
- The College was not considered to be a Low Risk Auditee as defined under OMB Circular A-133.

Findings Related to the Financial Statements that are Required to be Reported Under *Government Auditing Standards*

None

Findings and Questioned Costs Relating to Federal Awards

None

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

STATUS OF PRIOR YEAR FINDINGS

There were no significant material comments on internal control and legal compliance included in the prior year report.



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Betty Montgomery**

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**NORTHEASTERN OHIO UNIVERSITY 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
JANUARY 11, 2005**