

**Northeastern Ohio
Universities College
of Medicine**

*Single Audit Report
for the Year Ended
June 30, 2006*



Mary Taylor, CPA
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Accountants' Report* of the Northeastern Ohio Universities College of Medicine, Portage County, prepared by Hausser + Taylor LLC for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northeastern Ohio Universities 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

January 3, 2007

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NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northern Ohio Universities College of Medicine (the "College") as of and for the years ended June 30, 2006 and 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2006 and 2005, and their respective changes in net assets and their respective cash flows where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 - 10 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit conducted in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying supplemental schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hausser + Taylor LLC

Canton, Ohio
October 4, 2006

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Northeastern Ohio Universities College of Medicine ("NEOUCOM" or "College") annual financial report presents management's discussion and analysis of the financial performance of the College during the fiscal years ended June 30, 2006 and 2005. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of College management.

Introduction

The College was established in 1973 by action of the Ohio General Assembly under Chapter 3350 of the Ohio Revised Code as a public institution of higher education as a free standing, state-assisted, community-based medical school. The medical college was formed by three consortial partners: University of Akron, Kent State University, and Youngstown State University. The College does not have its own hospital – rather the College has established affiliation agreements with eight hospitals in Akron, Canton and Youngstown to serve as the primary clinical sites for medical education.

In November, 2005, the Ohio Board of Regents approved the establishment of a pharmacy program at NEOUCOM. The College's Board of Trustees then approved establishment of a College of Pharmacy within NEOUCOM in December, 2005. The first class of pharmacy students will matriculate in the fall semester, 2007.

Using the Annual Financial Report

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

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

Under the provision of GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, the NEOUCOM Foundation, Inc. ("the Foundation") has been determined to be a component unit of the College. Accordingly, the Foundation is discretely presented in the College's financial statements. The Foundation has been excluded from Management's Discussion and Analysis.

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

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

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

Noteworthy Financial Activity

During fiscal year 2006, the College completed a \$1.3 million renovation of its two largest lecture halls to provide learning environments incorporating state of the art technology-equipped classrooms.

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

Effective July 1, 2004, the College increased its capitalization threshold for capital assets from \$1,500 to \$2,500. Accordingly, approximately \$2.7 million in fixed assets were written down resulting in \$1.1 million recorded loss on disposal for the year ended June 30, 2005.

The College's financial position, as a whole, improved during the fiscal year ended June 30, 2006 as compared to the previous year as evidenced by:

- The College's total assets increased over the prior year by \$5.6 million. Current assets increased by \$5.8 million, while non-current assets decreased \$300,000. The increase to current assets reflects the changes made in budgetary practice to allow departments to carryover unspent operating funds for future academic program, research, or project needs.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

- Cash and cash equivalents increased by \$10.8 million as a result of the College's efforts to significantly shorten the duration of the College's investment portfolio.
- Prepaid expenses and deferred charges decreased by approximately \$245,000 due to a change in timing of invoice payments enabled by the change in internal budgetary practices.
- Other accrued liabilities decreased by \$884,000 primarily due to a reduction in year end spending by departments and divisions as a result of a change in College budgetary practices that began during FY2005.
- The College's net assets increased by \$6.8 million to \$60 million, of which \$45.7 million is invested in capital assets or restricted. Of the remaining \$14.3 million in unrestricted assets, all but \$5.4 million is designated for specific purposes.
- Operating revenues increased by \$455,000 compared to the prior year primarily attributable to an increase of \$2.8 million in student tuition and fees and a decrease in federal, state, and private grants of more than \$2.6 million.
- The College's operating expenses decreased by \$1.6 million due to decreases in salary and related benefit costs associated with a reduced work force size and continued spending restraint across the institution.
- Net non-operating revenue increased by \$1.9 million primarily due to an increase in state appropriations, investment income and a decrease in loss on the write-off of disposed assets.
- The loss on disposal of assets decreased \$938,000 primarily due to the write down of assets occurring in the prior year as a result of the increase in the College's capitalization threshold from \$1,500 to \$2,500.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

Northeastern Ohio Universities College of Medicine Condensed Statements of Net Assets as of June 30, 2006, 2005 and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Current assets	20,483,866	\$14,637,325	\$ 7,525,711
Noncurrent			
Capital	41,758,371	41,939,080	44,757,381
Other	<u>3,838,308</u>	<u>3,924,445</u>	<u>6,279,448</u>
Total assets	<u>66,080,545</u>	<u>60,500,850</u>	<u>58,562,540</u>
LIABILITIES			
Current liabilities	4,385,010	5,532,344	5,037,103
Noncurrent liabilities	<u>1,734,704</u>	<u>1,781,427</u>	<u>1,976,068</u>
Total liabilities	<u>6,119,714</u>	<u>7,313,771</u>	<u>7,013,171</u>
NET ASSETS			
Invested in capital assets, net of related debt	40,880,025	40,892,473	43,519,540
Restricted			
Nonexpendable	4,236,006	4,107,176	3,956,306
Expendable	592,089	548,391	1,275,022
Unrestricted	<u>14,252,711</u>	<u>7,639,039</u>	<u>2,798,501</u>
Total net assets	<u>\$59,960,831</u>	<u>\$53,187,079</u>	<u>\$51,549,369</u>

2006 versus 2005 During the year ended June 30, 2006:

In fiscal year 2006, the College's current assets of \$20.5 million were sufficient to cover current liabilities of \$4.4 million (current ratio of 4.7). In fiscal year 2005, current assets of \$14.6 million were sufficient to cover current liabilities of \$5.5 million (current ratio of 2.7).

In fiscal 2006, the College's capital assets decreased to \$41.8 million from \$41.9 million in fiscal 2005 while other non-current assets decreased to \$3.8 million from \$3.9 million.

At June 30, 2006, total College assets were \$66.1 million, compared to \$60.5 million in fiscal 2005.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

College liabilities total \$6.1 million at June 30, 2006 compared to \$7.3 million in fiscal 2005. Current liabilities of \$4.4 million, consisting primarily of other accrued liabilities of \$800,000 owed to associated hospitals for clinical experiences, and \$550,000 owed to consortial universities for the collaborative academic programs, are the largest liabilities.

Total net assets increased by \$6.8 million to \$60 million. Unrestricted net assets total \$14.3 million, 46.2 percent of which (\$6.6 million) is allocated for ongoing academic and research programs, capital projects and other initiatives.

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

In fiscal 2005, the College's current assets of \$14.6 million were sufficient to cover current liabilities of \$5.5 million (current ratio of 2.7). In fiscal 2004, current assets of \$7.5 million were sufficient to cover current liabilities of \$5.0 million (current ratio of 1.5).

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

At June 30, 2005, total College assets were \$60.5 million, compared to \$58.6 million in fiscal 2004.

College liabilities total \$7.3 million at June 30, 2005 compared to \$7.0 million in fiscal 2004. Current liabilities of \$5.5 million, consisting primarily of \$1.4 million owed to associated hospitals for clinical experiences, and \$614,000 owed to consortial universities for the collaborative academic programs, are the largest liability.

Total net assets increased by \$1.6 million to \$53.2 million. Unrestricted net assets total \$7.6 million, 47.4 percent of which (\$3.6 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

**Northeastern Ohio Universities College of Medicine
Condensed Statements of Revenues, Expenses and Changes in Net Assets
as of June 30, 2006, 2005, and 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues			
Tuition and Fees	\$13,118,224	\$10,347,573	\$ 8,951,825
State appropriations	16,001,702	15,285,891	15,228,297
Federal, state, local and private grants and contracts	7,547,625	10,199,838	9,996,247
Auxiliary activities	726,324	642,245	661,012
Other	<u>3,139,205</u>	<u>1,520,057</u>	<u>1,601,359</u>
Total revenues	<u>40,533,080</u>	<u>37,995,604</u>	<u>36,438,740</u>
Expenses			
Instruction	10,823,747	11,657,515	12,397,425
Research	3,664,088	4,058,709	4,084,555
Institutional support	6,041,048	6,248,394	6,839,124
Scholarships and fellowships	111,368	82,677	87,705
Other	<u>13,119,077</u>	<u>14,310,599</u>	<u>14,631,817</u>
Total expenses	<u>33,759,328</u>	<u>36,357,894</u>	<u>38,040,626</u>
Increase/(Decrease) in net assets	<u>\$ 6,773,752</u>	<u>\$ 1,637,710</u>	<u>\$(1,601,886)</u>

2006 versus 2005 During the year ended June 30, 2006:

The most significant sources of operating revenues for the College are tuition and fees, auxiliary services, and grants and contracts. Tuition revenues grew during fiscal year 2006 as compared to 2005 by 26.8 percent. These increases were a result of a combination of increases in rates for tuition and other student charges as well as an overall increase in head count (approximately 7 percent).

Operating expenditures, including depreciation of \$3.2 million, totaled \$33.5 million, a decrease from the prior year of \$1.7 million, or 4.8 percent.

Non-capital state appropriations were the most significant non-operating revenue totaling \$16.0 million, an increase over 2005 of 4.7 percent.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

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

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

Operating expenditures, including depreciation of \$3.3 million, totaled \$35.2 million, a decrease over the prior year of \$1.7 million, or 4.4 percent.

State appropriations were the most significant non-operating revenue totaling \$15.3 million, an increase over 2004 of 0.4 percent.

Northeastern Ohio Universities College of Medicine Condensed Statements of Cash Flows as of June 30, 2006, 2005, and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash provided by/(used in):			
Operating activities	\$ (9,195,167)	\$ (9,841,858)	\$ (15,727,293)
Investing activities	5,472,044	865,813	(5,444,210)
Capital and related financing activities	(1,552,338)	(906,509)	(2,058,933)
Non-capital financing activities	<u>16,001,702</u>	<u>15,285,891</u>	<u>15,228,297</u>
Net increase/(decrease) in cash	10,726,241	5,403,337	(8,002,139)
Cash and cash equivalents, beginning of year	<u>7,699,831</u>	<u>2,296,494</u>	<u>10,298,633</u>
Cash and cash equivalents, end of year	<u>\$ 18,426,072</u>	<u>\$ 7,699,831</u>	<u>\$ 2,296,494</u>

2006 versus 2005 During the year ended June 30, 2006:

Major sources of cash included student tuition and fees (\$13.1 million), state appropriations (\$16.0 million), auxiliary activities (\$0.7 million) and grants and contracts (\$7.5 million). The largest payments were for suppliers (\$10.9 million) and employees (\$18.5 million).

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

Major sources of cash included student tuition and fees (\$10.3 million), state appropriations (\$15.3 million), auxiliary activities (\$0.7 million), and grants and contracts (\$10.4 million). The largest payments were for suppliers (\$11.5 million) and employees (\$19.4 million).

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At the end of 2006, the College had invested \$41.8 million (net of accumulated depreciation of \$36.9 million) in a broad range of capital assets, including equipment, buildings, building improvements and land. This amount represents a net decrease (including additions and deductions) of \$0.1 million, or 0.2 percent, over last year.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 298,200	\$ 298,200	\$ 298,200
Equipment, furnishing, and library materials	22,774,009	22,421,339	24,434,820
Buildings, infrastructure, improvements, and construction in progress	<u>55,633,372</u>	<u>54,488,854</u>	<u>53,849,111</u>
Total	<u>\$78,705,581</u>	<u>\$77,208,393</u>	<u>\$78,582,131</u>

More detailed information about the College's capital assets is presented in Note 4 to the financial statements.

Long-term Debt

At June 30, 2006, the College had \$878,000 in outstanding capital lease obligations, a decrease of 16.1 percent over the prior year. At June 30, 2005, the College had \$1.0 million in outstanding capital lease obligations, a decrease of 15.4 percent over the prior year. More detailed information about the College's long-term liabilities is presented in Notes 5 & 6 to the financial statements.

Factors Affecting Future Periods

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

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

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

Opportunities for future enrollment growth, while modest, are anticipated. The College has sufficient capacity, on the Rootstown and clinical campuses, to increase class size by approximately 10 percent. Any class size increases will be in accordance with accreditation requirements as specified by the Liaison Committee on Medical Education (LCME) of the American Association of Medical Colleges (AAMC). Based on projected physician shortages by 2015, the AAMC recently issued a call for all American medical schools to consider increasing class size by up to thirty percent. Current clinical training site capacity limitations with existing associated hospital partners as well as lack of commensurate additions to state funding preclude the College from considering substantial class size increases. The College, in consultation with the Ohio Board of Regents, other Ohio medical schools, and existing and potential associated hospital partners, will more fully explore possible class size expansion over the next twelve to eighteen months.

With the creation of the new college of pharmacy, the College is seeking approval of pre-candidacy status from the Accreditation Council for Pharmacy Education (ACPE) which is expected to be considered in January 2007 following an October 2006 site visit. The College expects to admit up to 75 first year pharmacy students beginning in the fall of 2007 and apply for candidate status from ACPE shortly thereafter. An additional class of up to 75 students will be admitted for each successive year until the first admitted class completes their program and graduates in the spring of 2011. The College will be eligible to apply for full accreditation status following the graduation of the initial class. Upon full accreditation, the College will consult with ACPE to increase class size to a maximum of 100 students over a designated period of time.

In addition to flat or declining state support for operations, the College has experienced a decline in state capital appropriations of approximately 20 percent for the FY05-06 biennium. Flat funding is expected to continue for the FY07-08 and FY09-10 bienniums. As space needs continue to grow, the College will be exploring alternate sources of funding, including private gifts and special state and federal appropriations, to enable necessary renovation, reconfiguration and modest expansion of academic instructional space. There are no plans at this time to pursue outside financing for capital needs during the 2007 fiscal year. As the new pharmacy program begins, the College may need to revisit this decision in future fiscal years should state capital appropriations remain flat, or if other sources of capital funding do not materialize.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENTS OF NET ASSETS
JUNE 30, 2006 and 2005**

	NEOUCOM		Component Unit	
	June 30,		NEOUCOM Foundation	
	2006	2005	June 30,	2005
ASSETS				
Current assets				
Cash and cash equivalents	\$ 17,755,159	\$ 6,984,985	\$ 86,834	\$ 81,975
Investments	0	4,873,206		
Accounts receivable	1,865,683	1,890,869	4,440	435
Inventories	83,847	79,003		
Prepaid expenses and deferred charges	381,479	626,531		
Pledges receivable			152,655	54,919
Notes receivable	397,698	182,731		
Total current assets	<u>20,483,866</u>	<u>14,637,325</u>	<u>243,929</u>	<u>137,329</u>
Noncurrent assets				
Cash-restricted	670,913	714,846		
Long term investments	401,355	397,204	9,809,466	6,760,972
Funds held in trust			2,538,417	2,669,960
Pledges receivable			1,886,415	377,015
Notes receivable	2,766,040	2,812,395	536,986	486,622
Capital assets, net	41,758,371	41,939,080		
Total noncurrent assets	<u>45,596,679</u>	<u>45,863,525</u>	<u>14,771,284</u>	<u>10,294,569</u>
Total assets	<u>66,080,545</u>	<u>60,500,850</u>	<u>15,015,213</u>	<u>10,431,898</u>
LIABILITIES				
Current liabilities				
Accounts payable	490,738	545,658		
Accrued compensation and benefits	1,410,289	1,469,753		
Deferred revenue	764,295	922,572		
Other accrued liabilities	1,541,643	2,426,099	279,863	357,015
Capital lease obligations	178,045	168,262		
Total current liabilities	<u>4,385,010</u>	<u>5,532,344</u>	<u>279,863</u>	<u>357,015</u>
Noncurrent liabilities				
Compensated absences	1,034,404	903,082		
Annuity obligations			151,116	187,916
Capital lease obligations	700,300	878,345		
Total noncurrent liabilities	<u>1,734,704</u>	<u>1,781,427</u>	<u>151,116</u>	<u>187,916</u>
Total liabilities	<u>6,119,714</u>	<u>7,313,771</u>	<u>430,979</u>	<u>544,931</u>
NET ASSETS				
Invested in capital assets, net of related debt	40,880,025	40,892,473		
Restricted				
Nonexpendable				
Student loans	3,834,651	3,709,972	689,647	661,619
Endowments	401,355	397,204	7,220,098	5,017,189
Annuity and life income			106,807	91,564
Expendable				
Current operations	592,089	548,391	6,329,971	4,300,558
Unrestricted	14,252,711	7,639,039	237,711	(183,963)
Total net assets	<u>\$ 59,960,831</u>	<u>\$ 53,187,079</u>	<u>\$ 14,584,234</u>	<u>\$ 9,886,967</u>

The accompanying notes are an integral part of the financial statements

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	NEOUCOM		Component Unit	
	2006	2005	NEOUCOM Foundation	
	2006	2005	2006	2005
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$228,652, and \$110,383, respectively)	\$ 13,118,224	\$ 10,347,573	\$	\$
Federal grants and contracts	3,957,050	5,020,565		
State grants and contracts	1,865,906	2,949,997		
Local grants and contracts	22,393	23,311		
Private grants and contracts	1,702,276	2,205,965		
Contributions and bequests			3,066,603	703,325
In-kind contributions from NEOUCOM			356,144	338,232
Sales and services of departments	542,088	382,563		
Sales and services of auxiliary enterprises	726,324	642,245		
Other	94,026		58,412	33,820
Total operating revenues	<u>22,028,287</u>	<u>21,572,219</u>	<u>3,481,159</u>	<u>1,075,377</u>
OPERATING EXPENSES				
Educational and general				
Instruction and departmental research	10,823,747	11,657,515	189,006	165,638
Separately budgeted research	3,664,088	4,058,709	13,001	73,747
Public service	244,309	363,710	575	
Academic support	4,365,684	4,424,047	265,056	366,385
Student services	1,289,712	1,382,970		
Institutional support	6,041,048	6,248,394	660,996	635,772
Operation and maintenance of plant	2,843,879	2,819,287		
Scholarships and fellowships	111,368	82,677	346,968	218,254
Allowance for uncollectible pledges			9,537	54,655
Other expenses	0	6,666		
Auxiliary enterprises	949,372	854,079		
Depreciation	3,192,971	3,278,581		
Total operating expenses	<u>33,526,178</u>	<u>35,176,635</u>	<u>1,485,139</u>	<u>1,514,451</u>
Operating income/(loss)	(11,497,891)	(13,604,416)	1,996,020	(439,074)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	16,001,702	15,285,891		
Investment income	602,989	406,662	543,707	541,610
Interest expense	(55,156)	(66,038)		
Loss on disposal of assets	(177,994)	(1,115,221)		
Annuity obligations & other expenses			(48,044)	(14,774)
Net nonoperating revenues/(expenses)	<u>16,371,541</u>	<u>14,511,294</u>	<u>495,663</u>	<u>526,836</u>
GAIN BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	4,873,650	906,878	2,491,683	87,762
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Capital appropriations and grants	1,900,102	730,832		
Contributions permanently restricted			2,205,584	264,013
Total other revenues, expenses, gains or losses	<u>1,900,102</u>	<u>730,832</u>	<u>2,205,584</u>	<u>264,013</u>
INCREASE IN NET ASSETS	6,773,752	1,637,710	4,697,267	351,775
NET ASSETS AT BEGINNING OF YEAR	53,187,079	51,549,369	9,886,967	9,535,192
NET ASSETS AT END OF YEAR	<u>\$ 59,960,831</u>	<u>\$ 53,187,079</u>	<u>\$ 14,584,234</u>	<u>\$ 9,886,967</u>

The accompanying notes are an integral part of the financial statements

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 13,113,544	\$ 10,338,575
Grants and contracts	7,490,521	10,438,836
Employee compensation	(18,492,613)	(19,430,492)
Payments to suppliers	(10,931,656)	(11,456,761)
Payments for utilities	(1,284,302)	(1,209,714)
Payments for student financial aid	(111,368)	(82,677)
Student loan advances	(559,737)	(475,875)
Student loan repayments	391,832	589,407
Sales and services of auxiliary enterprises	707,894	664,976
Sales and services of departments	529,241	707,865
Other operating receipts/(disbursements)	(48,523)	74,002
Net cash and cash equivalents used in operating activities	(9,195,167)	(9,841,858)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	16,001,702	15,285,891
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	1,824,446	696,280
Capital gifts and grants	20,317	5,514
Purchases of capital assets, net	(3,173,683)	(1,351,031)
Principal paid on capital leases	(168,262)	(191,234)
Interest paid on capital leases	(55,156)	(66,038)
Net cash and cash equivalents used in capital financing activities	(1,552,338)	(906,509)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	624,514	383,442
Sale of investments, net	4,847,530	482,371
Net cash and cash equivalents provided by investing activities	5,472,044	865,813
NET INCREASE IN CASH AND EQUIVALENTS	10,726,241	5,403,337
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	7,699,831	2,296,494
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 18,426,072	\$ 7,699,831
RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES		
Operating loss	\$ (11,497,891)	\$ (13,604,416)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	3,192,971	3,278,581
Changes in assets and liabilities		
Receivables	65,929	523,864
Inventories	(4,844)	57,132
Prepaid expenses and deferred charges	234,059	(96,897)
Notes receivable	(168,612)	120,028
Accounts payable	(48,247)	43,702
Accrued compensation	71,858	14,252
Deferred revenue	(158,277)	58,798
Other accrued liabilities	(882,113)	(236,922)
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	\$ (9,195,167)	\$ (9,841,858)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:		
	2006	2005
Cash and Cash Equivalents	\$ 17,755,159	\$ 6,984,985
Cash-Restricted	670,913	714,846
Total cash and equivalents at end of the year	\$ 18,426,072	\$ 7,699,831

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, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

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

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

The associated community hospitals and health department are:

Major Teaching Hospitals and Health Department:

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

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 State of Ohio has determined that the College is not a component unit because the governor does not directly appoint its board of trustees.

The College is classified as a state institution under Internal Revenue Code Section 115, and is therefore exempt from Federal income taxes. Certain activities of the College may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The accompanying financial statements consist of the accounts of the College and the accounts of the NEOUCOM Foundation ("Foundation"). The Foundation, which is a discretely presented component unit of the College as determined in accordance with the provisions of the Governmental Accounting Standards Board ("GASB") Statement 39, is described more fully in Note 11. The Foundation is exempt from Federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

Furthermore, in accordance with GASB Statement No. 39, the Foundation is reported in a separate column on the College's financial statements to emphasize that it is legally separate from the College. The Foundation is a not-for-profit organization supporting the College. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, it is considered a component unit of the College. Financial statements for the Foundation may be obtained by writing to NEOUCOM Foundation, Rootstown, Ohio 44272.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles 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 and collectively include the following:

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 short term, highly liquid unrestricted investments readily convertible to cash with an original 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.

During March 2003, the GASB issued Statement No.40, *Deposit and Investment Risk Disclosures*. This statement amends 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 and investment maturity information; interest rate sensitivity; and foreign exchange exposures.

Inventories

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

Capital Assets

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

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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 and improvements	20 – 40 Years
Infrastructure	20 Years
Furnishings and movable equipment	3 – 7 Years
Library materials	10 Years

Change in Accounting Estimate

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

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

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 four 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.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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. Substantially all unrestricted net assets are designated for academic and research programs, capital projects and other initiatives.

Use of Estimates

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

In June, 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting and reporting guidance for termination benefits. This statement is effective for periods beginning after June 15, 2005. The College has determined there is no impact to the College's financial statements or disclosures.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The College's investment policy authorizes the College to invest non-endowment funds in the following investments:

- Securities issued by the United States Government or its agencies
- Certificates of deposits
- Mutual funds and mutual fund pools
- Treasurer of the State's pooled investment program
- Obligations of the State of Ohio
- Repurchase agreements with any eligible Ohio financial institution that is a member of the Federal Reserve system or Federal Home Loan Bank
- Money markets

US Government and Agency securities are invested through trust agreements with banks who internally designate the securities as owned by or pledged to the College. Common stocks, corporate bonds, money market instruments, mutual funds and other investments are invested through trust agreements with banks who keep the investments in safekeeping accounts at the PNC Bank, NA or Wachovia Bank, NA in "book entry" form. The banks internally designate the securities as owned by or pledged to the College.

The College's bank deposits and cash on hand for all fund groups at June 30, 2006 and 2005 are summarized as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
College's book value (overdraft)	\$ (160,643)	\$ (137,528)
Cash on hand	8,145	10,993
Bank balances	651,627	64,362

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

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

Custodial credit risk – deposits. Custodial risk is the risk that in the event of a bank failure, the College's deposits would not be returned. Of the bank balances at June 30, 2006 and 2005, \$100,000 and \$64,362 were covered by federal depository insurance and \$551,627 and \$0, respectively, were uncollateralized as defined by the GASB.

The College's investments, at fair value, at June 30, 2006 and 2005 are summarized as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Money market funds	\$ 218,644	\$ 7,891,547
U.S. government obligations	19,628	2,635,169
U.S. government agency obligations	15,520	871,411
Corporate bonds and notes	46,680	566,463
Fixed income mutual funds	0	464,869
Equities	264,600	655,541
State Treasury Asset Reserve of Ohio	10,465	11,776
Short term fund *	<u>18,404,388</u>	<u>0</u>
Total Investments	<u>\$ 18,979,925</u>	<u>\$ 13,096,776</u>

* "Short Term Fund" is a bank common trust established and maintained by Wachovia Bank, NA as Trustee Bank. Investments in the Short Term Fund do not constitute FDIC-insured deposits. Participation is restricted to members of the Commonfund.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

The maturities of the College's interest-bearing investments at June 30, 2006 are as follows:

	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. government obligations	\$ 19,628	\$ 2,263		\$ 11,392	\$ 5,973
U.S. government agency obligations	15,520	6,184		9,336	
Corporate bonds and notes	<u>46,680</u>	<u>6,632</u>	<u>15,824</u>	<u>22,143</u>	<u>2,081</u>
Total	<u>\$ 81,828</u>	<u>\$ 15,079</u>	<u>\$ 15,824</u>	<u>\$ 42,871</u>	<u>\$ 8,054</u>

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality information – as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating organizations such as Moody's Investors Service, Standard & Poor's or Fitch Ratings – provides a current depiction of potential variable cash flows and credit risk.

The credit ratings for the College's interest bearing investments, as rated by Standard & Poor's, at June 30, 2006 were as follows:

Credit Rating (S & P)	<u>Total</u>	<u>U.S. Government Obligations</u>	<u>U.S. Agency Obligations</u>	<u>Corporate Bonds and Notes</u>
AAA	\$ 41,124	\$ 19,628	\$ 15,520	\$ 5,976
AA	2,998			2,998
A	22,857			22,857
BBB	<u>14,849</u>	<u>0</u>	<u>0</u>	<u>14,849</u>
Total	<u>\$ 81,828</u>	<u>\$ 19,628</u>	<u>\$ 15,520</u>	<u>\$ 46,680</u>

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The College's investment policy limits investments, at cost, to no more than ten percent in any single issue, except the investments of U.S. Government securities.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

Foreign currency risk. Foreign currency risk is that risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2006, the College had no exposure to foreign currency risk.

3. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2006 and 2005:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Student notes	\$ 3,163,738	\$ 2,995,126
Grants and contracts	1,438,834	1,788,204
Sales and services	368,997	96,864
Tuition and fees	<u>57,852</u>	<u>5,801</u>
Total	<u>\$ 5,029,421</u>	<u>\$ 4,885,995</u>

Federal Family Education Loans processed for students by the College during the year ended June 30, 2006 totaled \$12,276,603 and the year ended June 30, 2005 totaled \$10,199,955. 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.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>July 1, 2005 Beginning Balance</u>	<u>Additions</u>	<u>Net Retirements</u>	<u>June 30, 2006 Ending Balance</u>
Land	\$ 298,200			\$ 298,200
Infrastructure	1,605,051			1,605,051
Buildings	52,692,238	751,501		53,443,739
Furnishings and moveable equipment	12,106,110	1,366,769	1,695,949	11,776,930
Library materials	10,315,229	713,110	31,260	10,997,079
Construction in progress	<u>191,565</u>	<u>584,582</u>	<u>191,565</u>	<u>584,582</u>
Total historical cost	77,208,393	3,415,962	1,918,774	78,705,581
Less: Total accumulated depreciation	<u>35,269,313</u>	<u>3,192,970</u>	<u>1,515,073</u>	<u>36,947,210</u>
Total capital assets, net of depreciation	<u>\$ 41,939,080</u>	<u>\$ 222,992</u>	<u>\$ 403,701</u>	<u>\$ 41,758,371</u>

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

	<u>July 1, 2004 Beginning Balance</u>	<u>Additions</u>	<u>Net Retirements</u>	<u>June 30, 2005 Ending Balance</u>
Land	\$ 298,200			\$ 298,200
Infrastructure	1,605,051			1,605,051
Buildings	52,244,059	448,179		52,692,238
Furnishings and movable equipment	14,706,639	281,684	2,882,213	12,106,110
Library materials	9,728,181	655,225	68,177	10,315,229
Construction in progress	<u>0</u>	<u>191,565</u>	<u>0</u>	<u>191,565</u>
Total historical cost	78,582,130	1,576,653	2,950,390	77,208,393
Less: Total accumulated depreciation	<u>33,824,749</u>	<u>3,278,583</u>	<u>1,834,019</u>	<u>35,269,313</u>
Total capital assets, net of depreciation	<u>\$ 44,757,381</u>	<u>\$(1,701,930)</u>	<u>\$ 1,116,371</u>	<u>\$ 41,939,080</u>

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

5. Capital Lease Obligations

The College has entered into various noncancelable equipment lease agreements. These leases are accounted for as capital leases (total net book value at June 30, 2006 of \$1,122,214) and payments of \$223,418 were made under the agreements during the year ended June 30, 2006.

Future minimum lease payments subsequent to June 30, 2006 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	178,045	45,374	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>107,869</u>	<u>1,802</u>	<u>109,671</u>
Total	<u>\$ 878,345</u>	<u>\$ 118,882</u>	<u>\$ 997,227</u>

The improvements financed by the leases through June 30, 2006 totaled \$1,827,181 and are included in capital assets in the accompanying statement of net assets.

6. Long-Term Liabilities

Long-term Liabilities as of June 30, 2006 and June 30, 2005, are as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
Compensated absences	\$ 1,289,656	\$249,798	\$ 173,311	\$ 1,366,143	\$ 331,739	\$ 1,034,404
Capital lease obligations	<u>1,046,607</u>	<u>0</u>	<u>168,262</u>	<u>878,345</u>	<u>178,045</u>	<u>700,300</u>
Total long-term liabilities	<u>\$ 2,336,263</u>	<u>\$249,798</u>	<u>\$ 341,573</u>	<u>\$ 2,244,488</u>	<u>\$ 509,784</u>	<u>\$1,734,704</u>

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
Compensated absences	\$ 1,211,582	\$308,331	\$230,257	\$1,289,656	\$ 386,574	\$ 903,082
Capital lease obligations	<u>1,237,841</u>	<u>0</u>	<u>191,234</u>	<u>1,046,607</u>	<u>168,262</u>	<u>878,345</u>
Total long-term liabilities	<u>\$ 2,449,423</u>	<u>\$ 308,331</u>	<u>\$ 421,491</u>	<u>\$ 2,336,263</u>	<u>\$ 554,836</u>	<u>\$ 1,781,427</u>

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, 2006 and 2005, these instructional expenses relating to contracts totaled \$2,603,259, and \$3,496,936, respectively. At June 30, 2006 and 2005, the College had recorded accrued liabilities of \$735,512 and \$1,381,974, respectively, which represented unbilled services rendered by the related organizations under these contracts.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

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

8. EMPLOYEE BENEFIT PLANS

Retirement Plans

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

OPERS and STRS are statewide, cost-sharing, multiple-employer defined benefit pension plans. OPERS and STRS provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefits are established by state statute. Both OPERS and STRS issue separate, publicly available financial reports that include financial statements and required supplementary information.

The OPERS financial report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6702, or 1-800-222-OPERS (7377) or visiting their Web site at www.OPERS.org. The STRS financial report may be obtained by writing to State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090 or visiting their Web site at www.strsoh.org.

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 9% and 13.54% 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 in lieu of STRS, the College is required to make employer contributions of 3.5% of earned compensation to STRS. In addition, the College contributes 13.54% 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 and available to faculty in lieu of 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, 2006 and for each of the two preceding years are:

Year Ended	OPERS	STRS	ARP
<u>June 30</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributions</u>
2006	\$ 1,159,714	\$ 454,398	\$ 338,554
2005	1,163,733	501,920	316,643
2004	1,336,825	482,591	308,692

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

Post-Retirement Health Care Benefits (in whole numbers)

OPERS provide post-retirement health care coverage to age and service retirees with 10 or more years of qualifying State service credit. Health care coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. The 2005 employer contribution rate for health care was 4% of covered payroll.

OPERS benefits are advance-funded on an actuarially determined basis. OPERS actuarially accrued liability and the unfunded actuarial accrued liability, based on an entry age normal actuarial cost method of valuation, were \$29.5 billion and \$18.7 billion, respectively. Significant actuarial assumptions include an 8% investment return, a 4% individual pay increases, and a 1 to 6% increase in health care costs. All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. As of December 31, 2004, the actuarial value of the retirement system's net assets available for other post employment benefits was \$10.8 billion. The number of active contributing participants in the traditional and combined plans was 355,287.

STRS Ohio provides access to health care coverage to retirees who participated in the defined benefit or combined plans. Coverage includes hospitalization, physician's fees, prescription drugs and State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The State Teachers Retirement Board currently allocates employer contributions, which equals 1% of covered payroll, to a health care stabilization fund from which health care benefits are paid. The balance in the health care reserve fund was \$3.3 billion at June 30, 2005.

For the year ended June 30, 2005 (latest information available), net healthcare costs paid by STRS were \$444 million. There were 115,395 eligible benefit recipients on June 30, 2005.

9. RISK MANAGEMENT

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

Settled claims have not exceeded the College's commercial insurance coverage for any of the past three years.

10. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2006 and 2005, the College has received distributions from the Foundation in the amount of \$921,455 and \$870,369, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition, the Foundation granted loans of \$175,150 and \$100,740, respectively, for the years ended June 30, 2006 and 2005.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

The College received reimbursements of \$174,056 and \$106,053, respectively, from the Foundation for management, fund raising, services, and office space during the years ended June 30, 2006 and 2005. Amounts for such services provided by the College which are not reimbursed by the Foundation are reported as in-kind contributions in the Statement of Activities. The College's in-kind support for these services was valued at \$356,144 and \$338,232, respectively, for the years ended June 30, 2006 and 2005.

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

11. COMPONENT UNIT – THE NEOUCOM FOUNDATION

A. Organization and Significant Accounting Policies

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

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, with the exception of taxable unrelated business income. The Foundation had no unrelated business income in fiscal 2006 and 2005.

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

B. Pledges Receivable

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

	<u>2006</u>	<u>2005</u>
Less than one year	\$ 169,000	\$ 58,966
One to five years	<u>2,177,000</u>	<u>450,000</u>
Total outstanding pledges	2,346,000	508,966
Less net present value discount	(274,518)	(54,299)
Less allowance for uncollectible pledges	<u>(32,412)</u>	<u>(22,733)</u>
Net outstanding pledges	<u>\$ 2,039,070</u>	<u>\$ 431,934</u>

The Foundation has classified \$678,453 as permanently restricted pledges which are expected to be received in one year or less as non-current assets on the statement of financial position as they are not available for current use.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005**

C. Investments

Following is a summary of investments at June 30:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 409,562	\$ 409,562	\$ 247,788	\$ 247,788
Cash surrender value of life insurance	144,891	144,891	145,041	145,041
Real estate	200,229	200,229	0	0
Equities	5,305,119	5,745,095	3,773,866	4,039,709
Fixed income	<u>3,381,974</u>	<u>3,309,689</u>	<u>2,267,563</u>	<u>2,328,434</u>
Total long-term investments	<u>\$9,441,775</u>	<u>\$9,809,466</u>	<u>\$6,434,258</u>	<u>\$6,760,972</u>

The Foundation's Board of Directors has adopted an investment policy which is reviewed and updated on an annual basis and is used to determine asset allocation. Investments in real estate are recorded at cost.

D. Beneficial Interest in Trusts

During fiscal year 2005, the Foundation was informed it was the beneficiary of a Charitable Remainder Trust. Upon the death of the donors, the Foundation will receive its share of the trust funds. The Foundation has recorded an investment in this trust equal to the expected future distribution discounted at a rate of five percent. The value of the Foundation's interest in the trust at June 30, 2006 and 2005 respectively totaled \$53,842 and \$54,993.

During fiscal year 2004, the Foundation was informed that it was the sole beneficiary of an irrevocable grantor trust. According to the trust, the Foundation is to receive annually the sum of \$300,000 for its unrestricted use; until such time that the trust is fully liquidated. The value of the Foundation's interest in the trust has been recorded at its fair market value and at June 30, 2006 and 2005, respectively, the value totaled \$2,434,575 and \$2,564,967.

E. Temporarily Restricted Net Assets

Temporarily restricted net assets represents net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. This category includes true endowment earnings, a property annuity and property assets. All temporarily restricted net assets are available for charitable purposes benefiting the College's faculty, staff, and students in educational and general functional categories including academic support, student scholarship and other student aid, instructional and departmental research. Temporarily restricted net assets total \$6,329,971 and \$4,300,558 as of June 30, 2006 and 2005, respectively, and are shown as Restricted Expendable Net Assets in the accompanying Statement of Net Assets.

F. Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations that will be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. This category includes annuity funds and true endowment principal and are restricted to student scholarships and awards, community health science professorship, anatomy endowed chair, student loans and other. Permanently restricted net assets total \$8,016,552 and \$5,770,372 as of June 30, 2006 and 2005, respectively, and are shown as Restricted Nonexpendable Net Assets in the accompanying Statements of Net Assets.

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

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2006

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	\$ <u>17,461</u>
TOTAL STUDENT FINANCIAL AID CLUSTER			<u>17,461</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	R01DC000937	207,565
Functional Anatomy of the Auditory Pathways	93.173	R01DC004391	206,606
Temporal Dynamics of Central Auditory Processing	93.173	R01DC005377	<u>183,645</u>
Total CFDA#93.173			597,816
Gender, Estrogen/Tomoxifen Modulation of Amphetamine	93.279	R15DA13381	62,881
Type VI Collagen and Integrins in Cardiac Remodeling	93.837	R15HL079969	25,726
Mineral-Matrix Relations in Calcifying Tissues	93.846	R01AR41452	281,433
The Role of BCL-2 Proteins in Chondrocyte Biology	93.846	R01AR46459	<u>132,663</u>
Total CFDA#93.846			414,096
Molecular Biology of Bile Acid Synthesis	93.848	R01DK44442	248,779
Regulation of Bile Acid Synthesis by Nuclear Receptor	93.848	R01DK58379	<u>217,676</u>
Total CFDA#93.848			466,455
Female Reproductive Organs and Their Innervation	93.853	R01NS22526	302,360
Microglia in Retrovirus-Induced Neurodegeneration	93.853	R29NS37614	<u>265,593</u>
Total CFDA#93.853			567,953

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

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 Passed through Washington State University:	93.856	U01AI054747	\$ 301,464
Analyses of Communication Sounds in Auditory Midbrain Passed through Summa Health System Hospitals:	93.173	R01DC04733	16,396
A Post Discharge Management of Low Income Frail Elderly Passed through Louisiana State University:	93.853	R01NS41333	12,434
AGS1 and Signal Processing by G-Proteins	93.226	R03HS13267	<u>26,333</u>
Total National Institutes of Health			<u>2,491,554</u>
Department of Defense/US Army (Direct Program):			
Prevalence and Outcomes of Restless Legs Syndrome Among Veterans	12.420	DAMD17-03-1-0082	138,524
Department of Defense/TSWG (Direct Program):			
Rapid Detection of Fluid Borne Pathogens Using Liquid Crystals	12.XXX*	W91CRB-04-C-0016	36,760
National Aeronautics Space Administration			
The Effect of Hypergravity on Bone Cell Cultures	00.000	NNA06CA73G	19,088
U.S. Department of Housing and Urban Development:			
Passed through Akron Health Department Evaluation of a Lead Hazard Program	14.900	OHLHB0219-02	<u>8,263</u>
National Science Foundation (Direct Programs):			
Evolution of the Cetacean Body Plan:			
Eocene Whales from India Total CFDA#47.050	47.050	EAR0207370	\$ 39,763
The Mechanics of Anterior Tooth Use in Primates	47.075	BCS0412153	8,991
Jaw Muscle Biomechanics in Primates	47.075	BCS0552285	5,471
US-India Cooperative Research—Eocene Whales from India Total CFDA#47.075	47.075	INT0216710	<u>5,346</u>
Total National Science Foundation			<u>19,808</u> <u>59,571</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>2,753,760</u>

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
OTHER PROGRAMS			
U.S. Department of Health and Human Services:			
Direct Programs:			
Environmental Protection Agency	66.609	CH832654010	30,270
OAT Special Projects	93.211	1D1BTM00061	38,733
Center for Leadership in Public Health & Community Medicine	93.249	1D20HP30000	244,816
Faculty Development in Primary Care	93.884	D55HP03352	159,108
Academic Administrative Units in Primary Care	93.884	D54HP03397	<u>57,271</u>
Total CFDA#93.884			<u>216,379</u>
Health Care and Other Facilities	93.887	C76HF03251	306,388
Passed through Youngstown Warren Regional Chamber Mahoning Valley Educ. Initiative: STEMM Career Academy	84.215	U215K050295	1,563
Passed through the Medical University of Ohio--Toledo Model State Supported AHEC Program (\$211,181 passed through to subrecipients)	93.107	HP03029	244,861
National Institutes of Health: Eighth Conference – Chemistry and Biology Mineralized Tissue	93.121	R13DE015631	10,315
Auditory Information Processing in the Midbrain	93.173	F31DC007298	25,079
Amygdalar Influences on Cells in the Inferior Colliculus	93.173	F32DC007786	<u>34,138</u>
Total CFDA#93.173			<u>59,217</u>
Passed through Ohio Board of Regents Online Clinical Simulation Project	93.211	D1BTH037450100	24,909
Passed through Ohio Department of Health and Mahoning County District Board of Health: Support for Medical Director	93.283	50-1-001-2-BI	29,906
Passed through Ohio Department of Mental Health and Summit County ADM Board: Center of Excellence Program—Jail Diversion—FY06	93.958	CJ-06-CCOE	143,822
Passed through Case Western Reserve University: Grants for Geriatric Education Centers Developing a Comprehensive Assessment of Education and	93.969	HP70113	86,400
Passed through Congressional Glaucoma Caucus Fdn Student Sight Saver Program	93.988	E11/CCE220462	2,191

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
OTHER PROGRAMS (CONTINUED)			
Passed through the Ohio Department of Mental Health:			
Women's Health Month—CY 2004	93.991	WP0NRD/WP0T2N	810
Woman's Health Month—CY 2005	93.991	WP0VJ1	3,828
Woman's Health Month—CY 2006	93.991	WP10Z5	<u>3,701</u>
Total CFDA#93.991			<u>8,339</u>
Passed through Ohio State University Research Foundation:			
The Ohio Center of Excellence in Education for Bioterrorism Preparedness and Response	93.996	T01HP01416	<u>2,577</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,450,686</u>
U.S. Department of Justice:			
Passed through OCJS and NAMI			
NAMI Ohio Crisis Intervention Team Program—CY04	16.579	2004-DG-B01-7440	4,896
Passed through OCJS and NAMI			
NAMI Ohio Crisis Intervention Team Program—CY05	16.579	2005-DG-B01-6317	<u>4,896</u>
Total CFDA#16.579			<u>9,792</u>
Federal Emergency Management Agency:			
Passed through Ohio Emergency Management Agency	97.036	FEMA1519-DR-133- 02386	112
TOTAL OTHER PROGRAMS			<u>1,460,590</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,231,811</u>

* - CFDA number not available

See notes to Supplemental Schedule of Expenditures of Federal Awards.

(Concluded)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

**NOTES TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

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 the programs financed by the U.S. government for the year ended June 30, 2006. 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, 2006, totaled \$12,276,603. 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, 2006
Federal Perkins Loan Program	84.038	\$ 1,672,291
Health Professions Student Loan Program – Loans to Disadvantaged Students	93.342	419,686
Health Professions Student Loan Program – Primary Care Loans	93.342	989,045

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, 2006 are identified below:

	CFDA Number	Disbursements
Federal Perkins Loan Program	84.038	\$ 349,216
Health Professions Student Loan Program – Loans to Disadvantaged Students	93.342	148,600
Health Professions Student Loan Program – Primary Care Loans	93.342	48,027

The above expenditures include disbursements and expenditures such as loans to students and administrative expenditures.

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

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

We have audited the financial statements of Northern Ohio Universities College of Medicine as of and for the year ended June 30, 2006, and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northern Ohio Universities College of Medicine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Hausser + Taylor LLC

Canton, Ohio
October 4, 2006



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

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

Compliance

We have audited the compliance of Northern Ohio Universities College of Medicine (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Northern Ohio Universities College of Medicine's major program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northern Ohio Universities College of Medicine's management. Our responsibility is to express an opinion on Northern Ohio Universities College of Medicine's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

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

Hausser + Taylor LLC

Canton, Ohio
October 4, 2006

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

Various 93.342, 84.038, 84.268 93.887 Dollar threshold used to distinguish between Type A and Type B programs:	Research and Development Cluster Student Financial Aid Cluster Health Care and Other Facilities \$300,000
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Auditee qualified as a low risk auditee?	_____	X yes	_____	no
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**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2006**

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

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

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2006**

**Finding
Number**

There were no prior year findings.



Mary Taylor, CPA
Auditor of State

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
PORTAGE COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 18, 2007**