

**NORTHEASTERN OHIO UNIVERSITIES
COLLEGES OF MEDICINE AND PHARMACY**

**Financial Report
Including Supplemental Information
June 30, 2010**



Mary Taylor, CPA
Auditor of State

Board of Trustees
Northeastern Ohio Universities College of Medicine and Pharmacy
4209 State Route 44
P. O. Box 95
Rootstown, Ohio 44272-0095

We have reviewed the *Independent Auditor's Report* of the Northeastern Ohio Universities College of Medicine and Pharmacy, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2009 through June 30, 2010. 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 and Pharmacy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 7, 2010

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NORTHEASTERN OHIO UNIVERSITIES COLLEGES OF MEDICINE AND PHARMACY

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**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY**

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Northeastern Ohio Universities University of Medicine and Pharmacy’s (“NEOUCOM” or, the “University”) annual financial report presents management’s discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2010, 2009 and 2008. 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 University management.

Introduction

The University 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 partnered with The University of Akron, Kent State University, and Youngstown State University in its six-year Bachelor of Science/Doctor of Medicine (BS/MD) program. Undergraduate students are admitted into the BS/MD program and spend their first two years on the campuses of the consortium partner institutions. The students then matriculate to NEOUCOM and, after completion of the four-year medical program, are conferred with a BS/MD degree. In addition, the College of Medicine offers a Direct Entry program for students with pre-medicine degrees from institutions outside the consortium. The University does not have its own hospital – rather the University has established affiliation agreements with eight major 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 Doctor of Pharmacy (PharmD) program at NEOUCOM. The University’s Board of Trustees then approved establishment of a College of Pharmacy within NEOUCOM in December 2005. The first class of pharmacy students began their studies in the fall of 2007. The College of Pharmacy has been awarded candidate accreditation status by the Accreditation Council for Pharmacy Education (ACPE). Full accreditation status is expected upon graduation of the first class of pharmacy students, in the spring of 2011.

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 Statements of Net Assets, Statements of Revenue, Expenses and Changes in Net Assets, and the Statements 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 revenue 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 COLLEGES
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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 University. Accordingly, the Foundation is discretely presented in the University's financial statements. The Foundation has been excluded from Management's Discussion and Analysis.

The Statements of Net Assets include 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 University's financial health when considered with non-financial facts such as enrollment and the condition of facilities.

The Statements of Revenue, Expenses and Changes in Net Assets present the revenue 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 revenue. 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 Statements of Cash Flows present 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

Historically, state funding has been based on the prior two-year average of enrollment. The University was promised funding for the Pharmacy program based upon this revenue distribution formula.

In 2008 and 2009, due to declining revenue, the State elected to alter this format and distributed revenue as a percentage of existing revenue levels. Since this revised model failed to take into account our new Pharmacy program, no revenue was distributed. With no incremental state funding for the second consecutive year for the Pharmacy program, the ongoing operating expenses for this program resulted in an imbalance in the revenue and expenses. During fiscal year 2010, the University started receiving state funding for the students in the Pharmacy program.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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MANAGEMENT'S DISCUSSION AND ANALYSIS

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2010 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$9.7 million. Current assets increased by \$10.2 million, while non-current assets decreased \$.5 million. The increase to current assets reflects the ongoing budgetary practice to allow departments to carry over unspent operating funds for future academic program, research, or project needs; the increase in state funding for the Pharmacy program; a third class of Pharmacy tuition; and an upswing in the investment market.
- Cash, cash equivalents, and investments increased by \$9.6 million.
- The University's net assets increased by \$9.3 million to \$79.1 million, of which \$45.8 million is invested in capital assets or restricted. Of the remaining \$33.3 million in unrestricted assets, all but \$3.2 million is designated for specific purposes.
- Operating revenue increased by \$5.3 million compared to the prior year primarily due to an increase of \$2.6 million in student tuition and fees, which in part was attributable to incremental pharmacy program revenue and \$2.0 million of additional federal grants and contracts.
- The University's operating expenses increased by \$2.6 million primarily due to costs related to the PharmD program, which will continue to increase each year as the program grows. In addition, operating expenses increased due to the increased cost of group insurance benefits.
- Net non-operating revenue increased by a net \$6.5 million primarily due to a \$4.5 million increase in investment income from the prior year coupled with a decrease in state operating appropriations, but an increase of \$2.0 million in federal operating appropriations.
- Other revenue, expenses, gains or losses decreased by approximately \$0.2 million due to the timing of state appropriations for capital improvement projects.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**Northeastern Ohio Universities Colleges of Medicine and Pharmacy
Condensed Statements of Net Assets
as of June 30, 2010, 2009 and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS			
Current assets	\$40,721,421	\$30,485,767	\$29,338,637
Noncurrent			
Capital	40,678,410	42,010,431	43,530,365
Other	<u>6,081,072</u>	<u>5,253,724</u>	<u>4,445,286</u>
Total assets	<u>87,480,903</u>	<u>77,749,922</u>	<u>77,314,288</u>
LIABILITIES			
Current liabilities	5,328,320	5,141,820	4,546,142
Noncurrent liabilities	<u>3,051,718</u>	<u>2,827,984</u>	<u>3,303,573</u>
Total liabilities	<u>8,380,038</u>	<u>7,969,804</u>	<u>7,849,715</u>
NET ASSETS			
Invested in capital assets, net of related debt	38,976,598	39,993,014	41,209,710
Restricted			
Nonexpendable	6,553,548	5,262,003	4,665,536
Expendable	304,515	354,317	255,729
Unrestricted	<u>33,266,204</u>	<u>24,170,784</u>	<u>23,333,598</u>
Total net assets	<u>\$79,100,865</u>	<u>\$69,780,118</u>	<u>\$69,464,573</u>

2010 versus 2009 During the year ended June 30, 2010:

As of June 30, 2010, the University's current assets of \$40.7 million were sufficient to cover current liabilities of \$5.3 million (current ratio of 7.6:1). As of June 30, 2009, current assets of \$30.5 million were sufficient to cover current liabilities of \$5.1 million (current ratio of 5.9:1).

As of June 30, 2010, the University's capital assets decreased to \$40.7 million from \$42.0 million in fiscal 2009 while other non-current assets increased to \$6.1 million from \$5.2 million.

At June 30, 2010, total University assets were \$87.5 million, compared to \$77.7 million in fiscal 2009.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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MANAGEMENT'S DISCUSSION AND ANALYSIS

University liabilities total \$8.4 million at June 30, 2010 compared to \$8.0 million in fiscal 2009. Current liabilities total \$5.3 million and consist of accrued liabilities of \$2.0 million (\$799,000 owed to associated hospitals for clinical experiences and \$544,000 owed to consortium universities for the collaborative academic programs) and approximately \$1.2 million in accrued employee compensation and benefits.

Total net assets increased by \$9.3 million to \$79.1 million. Unrestricted net assets total \$33.3 million; 63.9 percent of which (\$21.3 million) is designated for specific purposes and 26.4 percent of which (\$8.8 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives.

2009 versus 2008 During the year ended June 30, 2009:

As of June 30, 2009, the University's current assets of \$30.5 million were sufficient to cover current liabilities of \$5.1 million (current ratio of 5.9:1). As of June 30, 2008, current assets of \$29.3 million were sufficient to cover current liabilities of \$4.5 million (current ratio of 6.5:1).

As of June 30, 2009, the University's capital assets decreased to \$42.0 million from \$43.5 million as of June 30, 2008 while other non-current assets increased to \$5.2 million from \$4.4 million.

At June 30, 2009, total University assets were \$77.7 million, compared to \$77.3 million in fiscal 2008.

University liabilities total \$8.0 million at June 30, 2009 compared to \$7.8 million at June 30, 2008. Current liabilities total \$5.1 million and consist of accrued liabilities of \$1.9 million (\$829,000 owed to associated hospitals for clinical experiences and \$494,000 owed to consortium universities for the collaborative academic programs) and approximately \$1.2 million in accrued employee compensation and benefits.

Total net assets increased by approximately \$316,000 to \$69.8 million. Unrestricted net assets total \$24.2 million; 55.8 percent of which (\$13.5 million) is designated for specific purposes and 28.9 percent of which (\$7.0 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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MANAGEMENT'S DISCUSSION AND ANALYSIS

**Northeastern Ohio Universities Colleges of Medicine and Pharmacy
Condensed Statements of Revenue, Expenses and Changes in Net Assets
for the years ended June 30, 2010, 2009, and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenue			
Tuition and Fees	\$21,003,047	\$18,370,782	\$15,877,051
Federal and state appropriations	18,538,878	16,546,813	15,885,475
Federal, state, local and private grants and contracts	9,300,772	6,560,868	7,062,521
Auxiliary activities	795,508	870,781	820,005
Other	<u>4,459,933</u>	<u>139,762</u>	<u>2,880,985</u>
Total revenue	<u>54,098,138</u>	<u>42,489,006</u>	<u>42,526,037</u>
Expenses			
Instruction	15,192,519	14,951,162	14,000,333
Research	6,099,504	4,639,976	4,165,500
Academic Support	5,606,620	4,753,247	4,890,372
Institutional support	7,245,045	6,917,988	5,946,938
Scholarships and fellowships	41,568	110,363	130,799
Other	<u>10,592,135</u>	<u>10,800,725</u>	<u>10,135,800</u>
Total expenses	<u>44,777,391</u>	<u>42,173,461</u>	<u>39,269,742</u>
Increase in net assets	<u>\$ 9,320,747</u>	<u>\$ 315,545</u>	<u>\$ 3,256,295</u>

2010 versus 2009 During the year ended June 30, 2010:

The most significant sources of operating revenue for the University are tuition and fees, auxiliary services, and grants and contracts. Tuition and fee revenue grew during fiscal year 2010 as compared to 2009 by 14.3 percent. These increases were a result of a combination of increases in rates for tuition and student fees, and the addition of a third pharmacy class.

Operating expenditures, including depreciation of \$3.9 million, totaled \$44.7 million, an increase from the prior year of \$2.6 million, or 6.3 percent, mostly due to the additional pharmacy class.

Non-capital state appropriations were the most significant non-operating revenue totaling \$16.5 million, a slight decrease from 2009 of .1 percent. In addition, we received federal appropriations of \$2.0 million from federal stimulus dollars to offset the decrease in state appropriations.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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MANAGEMENT'S DISCUSSION AND ANALYSIS

2009 versus 2008 During the year ended June 30, 2009:

The most significant sources of operating revenue for the University are tuition and fees, auxiliary services, and grants and contracts. Tuition and fee revenue grew during fiscal year 2009 as compared to 2008 by 15.7 percent. These increases were a result of a combination of increases in rates for tuition and student fees, and the addition of a second pharmacy class.

Operating expenditures, including depreciation of \$3.9 million, totaled \$42.0 million, an increase from the prior year of \$2.9 million, or 7.3 percent.

Non-capital state appropriations were the most significant non-operating revenue totaling \$16.5 million, an increase over 2008 of 4.2 percent.

**Northeastern Ohio Universities Colleges of Medicine and Pharmacy
Condensed Statements of Cash Flows
for the years ended June 30, 2010, 2009, and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash provided by/(used in):			
Operating activities	\$(9,485,938)	\$(12,133,417)	\$(10,879,896)
Investing activities	(6,196,220)	(2,627,226)	(15,182,087)
Capital and related financing activities	(2,338,271)	(1,568,336)	(1,568,785)
Non-capital financing activities	<u>18,538,878</u>	<u>16,546,813</u>	<u>15,885,475</u>
Net increase/(decrease) in cash	518,449	217,834	(11,745,293)
Cash and cash equivalents, beginning of year	<u>6,377,165</u>	<u>6,159,331</u>	<u>17,904,624</u>
Cash and cash equivalents, end of year	<u>\$ 6,895,614</u>	<u>\$ 6,377,165</u>	<u>\$ 6,159,331</u>

2010 versus 2009 During the year ended June 30, 2010:

Major sources of cash included student tuition and fees (\$21.6 million), federal and state appropriations (\$18.5 million), auxiliary activities (\$0.8 million) and grants and contracts (\$9.0 million). The largest payments were for suppliers (\$13.4 million) and employees (\$26.0 million).

2009 versus 2008 During the year ended June 30, 2009:

Major sources of cash included student tuition and fees (\$18.1 million), state appropriations (\$16.5 million), auxiliary activities (\$0.8 million) and grants and contracts (\$6.5 million). The largest payments were for suppliers (\$ 12.5 million) and employees (\$24.1 million).

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

At the end of 2010, the University had invested \$40.7 million in capital assets (net of accumulated depreciation of \$49.9 million); this amount represents a decrease of \$1.33 million, or 3.2 percent, less than last year, primarily due to depreciation.

At the end of 2009, the University had invested \$42.0 million in capital assets (net of accumulated depreciation of \$46.3 million); this amount represents an increase of \$1.5 million, or 3.5 percent, over last year, primarily due to the purchase of land.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 2,108,971	\$ 2,108,971	\$ 2,108,971
Equipment, furnishing, and library materials	28,495,915	26,992,121	26,584,279
Buildings, infrastructure, improvements, and construction in progress	<u>60,011,906</u>	<u>59,258,741</u>	<u>58,305,583</u>
Total	<u>\$90,616,792</u>	<u>\$88,359,833</u>	<u>\$86,998,833</u>

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

Long-term Debt

At June 30, 2010, the University had \$1,676,808 in outstanding capital lease obligations, a decrease of 15.8 percent over the prior year due to annual payments. At June 30, 2009, the University had \$1,992,413 in outstanding capital lease obligations, a decrease of 13.1 percent over the prior year. More detailed information about the University's long-term liabilities is presented in Notes 5 and 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 Colleges of Medicine and Pharmacy by the State of Ohio. Changes in state support are important both for its direct impact on University revenue and its indirect impact on the cost of tuition.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Historically, state funding in Ohio has been full-time equivalent-based and subsidy eligible enrollment for medical schools has been statutorily capped. Thus, in periods of flat or declining state funding, the University had been negatively impacted when enrollments at other state-assisted public schools were growing. A departure from that methodology occurred in fiscal year 2008 and also occurred in fiscal year 2009, as appropriation increases were applied equally across the board to institutions based on fiscal year 2007 amounts, as opposed to adjusting for enrollment shifts.

In fiscal year 2010, medical funding was still based upon full-time equivalent enrollments and limited by the statutorily based caps. However, a medical funding consultation group is currently developing a revised medical funding model. The proposed model incorporates clinical teaching funding into the state share of instruction and bases funding upon actual enrollments, rather than capped enrollments. The model will also incorporate outcome or quality measures. The proposed funding model will be submitted to the Ohio Board of Regents Chancellor for input and approval. If the proposed model is approved, it will have a positive impact for NEOUCOM as it will provide the University with a greater share of the medical education State Share of Instruction.

Opportunities for future enrollment growth for the College of Medicine hinge on the availability of increased state funding. The 127th Ohio General Assembly House Bill 562 called for the addition of Cleveland State University to the list of institutions partnering in NEOUCOM's medical program. In order to accommodate the addition of Cleveland State students, the removal of the statutorily based enrollment caps will need to be lifted, which is part of the proposed medical funding model. Enrollment funding based upon actual enrollments rather than capped enrollments will be required to ensure sufficient resources in accordance with accreditation requirements, as well as to ensure the financial health of the University. 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 Universities (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 30 percent.

In relation to the Pharmacy program, the University received state funding for the first time for Pharmacy in fiscal year 2010. Pharmacy funding is based upon outcome measures such as course completions and degree attainment. The Pharmacy subsidy will continue to increase as the Pharmacy program progresses.

The University is cognizant to the fact that state support for higher education is certainly susceptible to declines during these tough economic downturns. Furthermore, in fiscal year 2010, approximately \$2.0 million of NEOUCOM's state share of instruction was comprised of Federal stimulus dollars and will be at risk for the State's next biennium budget, 2012-13. However, the potential for a revised medical education funding model and the continual progression of the Pharmacy program will minimize the negative impact to NEOUCOM.

Independent Auditor's Report

To the Board of Trustees
Northeastern Ohio Universities Colleges
of Medicine and Pharmacy

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of Northeastern Ohio Universities Colleges of Medicine and Pharmacy (the "University") as of and for the year then ended June 30, 2010. These financial statements are the responsibility of the University's management. Our responsibility is to an express opinion on these financial statements based on our audit. The financial statements of Northeastern Ohio Universities Colleges of Medicine and Pharmacy and its component unit as of June 30, 2009 were audited by other auditors, whose report dated November 12, 2009 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2010 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2010 on our consideration of Northeastern Ohio Universities Colleges of Medicine and Pharmacy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended June 30, 2010. 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Northeastern Ohio Universities Colleges
of Medicine and Pharmacy

The management's discussion and analysis presented on pages 1 through 9 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for the purpose 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.

Plante & Moran, PLLC

Toledo, Ohio
October 27, 2010

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

	NEOUCOM		Component Unit NEOUCOM Foundation	
	2010	2009	2010	2009
ASSETS				
Current assets				
Cash and cash equivalents (Note 2)	\$ 6,081,858	\$ 5,849,435	\$ 221,340	\$ 171,202
Investments (Note 2)	30,737,655	21,648,730		
Accounts receivable (Note 3)	2,573,291	2,273,421	16,000	
Inventories	157,064	156,812		
Prepaid expenses and deferred charges	919,149	470,128		
Pledges receivable			205,125	348,875
Notes receivable (Note 3)	252,404	87,241		
Total current assets	<u>40,721,421</u>	<u>30,485,767</u>	<u>442,465</u>	<u>520,077</u>
Noncurrent assets				
Cash-restricted (Note 2)	813,756	527,730		
Long term investments (Note 2)	1,298,809	1,281,115	10,175,975	8,828,706
Funds held in trust			1,258,377	1,421,501
Pledges receivable			1,022,207	1,181,617
Notes receivable (Note 3)	3,968,507	3,444,879	362,520	393,135
Capital assets, net (Note 4)	40,678,410	42,010,431		
Total noncurrent assets	<u>46,759,482</u>	<u>47,264,155</u>	<u>12,819,079</u>	<u>11,824,959</u>
Total assets	<u>87,480,903</u>	<u>77,749,922</u>	<u>13,261,544</u>	<u>12,345,036</u>
LIABILITIES				
Current liabilities				
Accounts payable	641,972	925,289		
Accrued compensation and benefits (Note 6)	1,206,493	1,248,573		
Deferred revenue	1,274,643	752,754		
Other accrued liabilities	1,983,387	1,899,599	235,251	272,934
Capital lease obligations (Note 5 & 6)	221,825	315,605		
Total current liabilities	<u>5,328,320</u>	<u>5,141,820</u>	<u>235,251</u>	<u>272,934</u>
Noncurrent liabilities				
Compensated absences (Note 6)	1,393,519	1,087,241		
Annuity obligations			153,382	156,953
Post employment benefits (Note 6 & 8)	203,216	63,935		
Capital lease obligations (Note 5 & 6)	1,454,983	1,676,808		
Total noncurrent liabilities	<u>3,051,718</u>	<u>2,827,984</u>	<u>153,382</u>	<u>156,953</u>
Total liabilities	<u>8,380,038</u>	<u>7,969,804</u>	<u>388,633</u>	<u>429,887</u>
NET ASSETS				
Invested in capital assets, net of related debt	38,976,598	39,993,014		
Restricted				
Nonexpendable				
Student loans	5,034,667	4,059,850	750,285	719,251
Endowments	1,518,881	1,202,153	7,604,340	7,534,494
Annuity and life income			56,318	45,686
Expendable				
Current operations	304,515	354,317	4,559,744	4,959,139
Unrestricted	33,266,204	24,170,784	(97,776)	(1,343,421)
Total net assets	<u>\$ 79,100,865</u>	<u>\$ 69,780,118</u>	<u>\$ 12,872,911</u>	<u>\$ 11,915,149</u>

The accompanying notes are an integral part of the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2010 AND 2009**

	NEOUCOM		Component Unit NEOUCOM Foundation	
	2010	2009	2010	2009
OPERATING REVENUE				
Student tuition and fees (net of scholarship allowances of \$166,990 and \$223,617, respectively)	\$ 21,003,047	\$ 18,370,782	\$ -	\$ -
Federal grants and contracts	5,436,292	3,390,404		
State grants and contracts	2,134,762	1,957,074		
Private grants and contracts	1,729,718	1,213,390		
Contributions and bequests			502,240	519,369
In-kind contributions from NEOUCOM			444,443	457,157
Sales and services of departments	529,408	561,783		
Sales and services of auxiliary enterprises	795,508	870,781		
Other	110,046	105,425	157,425	125,270
Total operating revenue	<u>31,738,781</u>	<u>26,469,639</u>	<u>1,104,108</u>	<u>1,101,796</u>
OPERATING EXPENSES				
Educational and general				
Instruction and departmental research	15,192,519	14,951,162	25,351	80,620
Separately budgeted research	6,099,504	4,639,976	50,348	48,620
Public service	405,112	372,368	92,522	343,513
Academic support	5,606,620	4,753,247	549,062	578,840
Student services	1,668,727	1,639,487		
Institutional support	7,245,045	6,917,988	680,625	777,937
Operation and maintenance of plant	3,516,458	3,591,135	7,500	47,288
Scholarships and fellowships	41,568	110,363	273,307	290,019
Auxiliary enterprises	1,015,580	1,122,872		
Depreciation	3,902,160	3,945,208		
Total operating expenses	<u>44,693,293</u>	<u>42,043,806</u>	<u>1,678,715</u>	<u>2,166,837</u>
Operating loss	(12,954,512)	(15,574,167)	(574,607)	(1,065,041)
NONOPERATING REVENUE (EXPENSES)				
State appropriations	16,535,635	16,546,813		
Federal appropriations	2,003,243	-		
Investment income/ (loss)	2,910,399	(1,593,416)	1,467,950	(2,600,260)
Interest expense	(86,627)	(132,956)		
Gain on disposal of assets	2,529	3,301		
Net nonoperating revenue/(expenses)	<u>21,365,179</u>	<u>14,823,742</u>	<u>1,467,950</u>	<u>(2,600,260)</u>
GAIN (LOSS) BEFORE OTHER REVENUE, EXPENSES, GAINS OR LOSSES	8,410,667	(750,425)	893,343	(3,665,301)
OTHER REVENUE, EXPENSES, GAINS OR LOSSES				
Capital appropriations and grants	620,080	789,279		
Contributions permanently restricted	290,000	276,691	64,419	59,954
Total other revenue, expenses, gains or losses	<u>910,080</u>	<u>1,065,970</u>	<u>64,419</u>	<u>59,954</u>
INCREASE (DECREASE) IN NET ASSETS	9,320,747	315,545	957,762	(3,605,347)
NET ASSETS AT BEGINNING OF YEAR	69,780,118	69,464,573	11,915,149	15,520,496
NET ASSETS AT END OF YEAR	<u>\$ 79,100,865</u>	<u>\$ 69,780,118</u>	<u>\$ 12,872,911</u>	<u>\$ 11,915,149</u>

The accompanying notes are an integral part of the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
STATEMENTS OF CASH FLOWS
JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 21,592,270	\$ 18,114,549
Grants and contracts	8,950,636	6,460,084
Employee compensation	(26,056,205)	(24,079,904)
Payments to suppliers	(13,572,505)	(12,262,412)
Payments for utilities	(1,412,754)	(1,476,067)
Payments for student financial aid	(13,873)	(77,869)
Student loan advances	(1,061,917)	(359,780)
Student loan repayments	345,431	258,681
Sales and services of auxiliary enterprises	802,066	840,527
Sales and services of departments	595,104	559,332
Other operating receipts	156,624	116,059
Net cash and cash equivalents used in operating activities	(9,675,123)	(11,906,800)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	16,535,635	16,546,813
Federal appropriations	2,003,243	-
Net cash and cash equivalents provided by financing activities	18,538,878	16,546,813
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	482,029	733,636
Capital gifts and grants	338,730	321,252
Purchases of capital assets	(2,571,660)	(2,443,920)
Principal paid on capital leases	(315,605)	(299,300)
Interest paid on capital leases	(86,627)	(132,956)
Proceeds on sale of capital assets	4,047	26,335
Net cash and cash equivalents used in capital financing activities	(2,149,086)	(1,794,953)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income (loss)	2,939,411	(1,564,505)
Sale of investments	1,732,029	39,206,235
Purchase of investments	(10,867,660)	(40,268,956)
Net cash and cash equivalents used in investing activities	(6,196,220)	(2,627,226)
NET INCREASE IN CASH AND EQUIVALENTS	518,449	217,834
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	6,377,165	6,159,331
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 6,895,614	\$ 6,377,165

The accompanying notes are an integral part of the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
STATEMENTS OF CASH FLOWS
JUNE 30, 2010 AND 2009**

RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	2010	2009
Operating loss	\$ (12,954,512)	\$ (15,574,167)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	3,902,160	3,945,208
Changes in assets and liabilities		
Receivables	(210,546)	(640,041)
Inventories	(252)	(29,590)
Prepaid expenses and deferred charges	(449,021)	41,003
Notes receivable	(688,791)	(68,605)
Accounts payable	(463,806)	386,060
Accrued compensation	403,479	5,931
Deferred revenue	521,889	245,999
Other accrued liabilities	264,277	(218,598)
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	\$ (9,675,123)	\$ (11,906,800)

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO
THE STATEMENTS OF NET ASSETS:**

	2010	2009
Cash and Cash Equivalents	\$ 6,081,858	\$ 5,849,435
Cash-Restricted	813,756	527,730
Total cash and equivalents at end of the year	\$ 6,895,614	\$ 6,377,165

The accompanying notes are an integral part of the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Northeastern Ohio Universities Colleges of Medicine and Pharmacy (hereinafter referred to as NEOUCOM or the "University") 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 University's initial mission, as stated in the ORC, was to graduate qualified physicians oriented to the practice of medicine at the community level, with an emphasis on primary care.

Today NEOUCOM has transformed into a freestanding, state University operating community-based colleges in medicine and pharmacy. The medical college offers a combined Bachelor of Science and Medical Degree program in an educational consortium with three other state-funded universities, namely, The University of Akron, Kent State University, and Youngstown State University. A fourth institution, Cleveland State University, has recently been added as a future "feeder school."

Faculties at the consortium universities provide the first two years of undergraduate arts and sciences curriculum, and the NEOUCOM faculty provides the medical curriculum on the Rootstown campus and in the associated clinical hospitals and health departments. 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 University is governed by an 11-member board of trustees appointed by the Governor, two of which are students of the University.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

The University is classified as a state institution under Internal Revenue Code Section 115, and is therefore exempt from Federal income taxes. Certain activities of the University 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 University and the accounts of the NEOUCOM Foundation ("Foundation"). The Foundation, which is a discretely presented component unit of the University as determined in accordance with the provisions of the Governmental Accounting Standards Board ("GASB") Statement 39, is described more fully in Note 13. 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 University's financial statements to emphasize that it is legally separate from the University. The Foundation is a not-for-profit organization supporting the University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, it is considered a component unit of the University. Financial statements for the Foundation may be obtained by writing to NEOUCOM Foundation, PO Box 95, Rootstown, Ohio 44272.

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 University 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 University-wide basis and collectively include the following:

Management's Discussion and Analysis

Basic financial statements:

Statements of Net Assets

Statements of Revenue, Expenses, and Changes in Net Assets

Statements of Cash Flows

Notes to the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

Basis of Accounting

The accompanying financial statements of the University have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is 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 University 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 University 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 University'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 COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

Depreciation of University 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

Compensated Absences

The University 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 University.

Accumulated sick leave is also accrued by the University. 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 University.

Operating Revenue

Operating revenue of the University principally consists of tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprises. Revenue related to noncapital financing activities (including State appropriations), capital and related financing activities, and investing activities is reported as nonoperating revenue.

Deferred Revenue

Deferred revenue represents unspent (and therefore unearned) revenue from various restricted grants and contracts. Additionally, revenue billed for tuition and fees that span past the current fiscal year is also recorded in deferred revenue.

Net Asset Classifications

In accordance with GASB Statement No. 35 guidelines, the University'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 University.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

Restricted – Expendable – net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the University 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 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.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

- Securities issued by the United States Government or its agencies
- Certificates of deposit
- 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

U.S. Government and Agency securities are invested through trust agreements with banks who internally designate the securities as owned by or pledged to the University. 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 University.

The University's bank deposits and cash on hand for all fund groups at June 30, 2010 and 2009 are summarized as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
University's book value (overdraft)	\$6,813,091	\$(254,813)
Cash on hand	9,373	7,333
Bank balances	7,464,233	538,814

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

Custodial credit risk – deposits. Custodial risk is the risk that in the event of a bank failure, the University's deposits would not be returned. Of the bank balances at June 30, 2010 and 2009, \$250,000 was covered by federal depository insurance and \$7,214,233 and \$288,814, respectively, were uncollateralized as defined by GASB.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

The University's investments, at fair value, at June 30, 2010 and 2009 are summarized as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Money market funds	\$49,427	\$ 263,074
U.S. government obligations	90,156	15,104
U.S. government agency obligations	4,528	60,223
Corporate bonds and notes	147,397	40,800
Fixed income mutual funds	20,494,297	13,956,181
Equities	11,240,517	4,708,527
State Treasury Asset Reserve of Ohio	10,142	2,646,028
Short term fund *	-	1,239,908
Total Investments	<u>\$32,036,464</u>	<u>\$22,929,845</u>

* "Short Term Fund" is a bank common trust established and maintained by Law Debenture as Trustee Bank. Investments in the Short Term Fund do not constitute FDIC-insured deposits. Participation is restricted to members of the Commonfund. Law Debenture liquidated the Short Term Fund during fiscal year 2010.

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 because of future changes in interest rates.

The maturities of the University's interest-bearing investments at June 30, 2010 are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</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	\$90,156	\$ -	\$ 47,780	\$ 15,785	\$ 26,591
U.S. government agency obligations	4,528	-	-	4,528	-
Corporate bonds and notes	<u>147,397</u>	<u>6,351</u>	<u>53,434</u>	<u>60,268</u>	<u>27,344</u>
Total	<u>\$242,081</u>	<u>\$6,351</u>	<u>\$101,214</u>	<u>\$80,581</u>	<u>\$53,935</u>

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

The maturities of the University's interest-bearing investments at June 30, 2009 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	\$15,104	\$ -	\$ 5,930	\$ 8,025	\$ 1,149
U.S. government agency obligations	60,223	-	-	1,085	59,138
Corporate bonds and notes	<u>40,800</u>	<u>-</u>	<u>15,450</u>	<u>16,043</u>	<u>9,307</u>
Total	<u>\$116,127</u>	<u>\$ -</u>	<u>\$21,380</u>	<u>\$25,153</u>	<u>\$69,594</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 University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2010 were as follows:

Credit Rating (S&P)	<u>Total</u>	U.S. Government <u>Obligations</u>	U.S. Agency <u>Obligations</u>	Corporate Bonds and <u>Notes</u>
AAA	\$94,684	\$90,156	\$4,528	\$ 0
AA	14,819	-	-	14,819
A	62,851	-	-	62,851
BBB	<u>69,727</u>	<u>-</u>	<u>-</u>	<u>69,727</u>
Total	<u>\$242,081</u>	<u>\$90,156</u>	<u>\$4,528</u>	<u>\$147,397</u>

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

The credit ratings for the University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2009 were as follows:

Credit Rating (S&P)	<u>Total</u>	U.S. Government <u>Obligations</u>	U.S. Agency <u>Obligations</u>	Corporate Bonds and <u>Notes</u>
AAA	\$75,327	\$15,104	\$60,223	\$ -
AA	2,920	-	-	2,920
A	19,057	-	-	19,057
BBB	<u>18,823</u>	<u>-</u>	<u>-</u>	<u>18,823</u>
Total	<u>\$116,127</u>	<u>\$15,104</u>	<u>\$60,223</u>	<u>\$40,800</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 University's investment policy limits investments, at cost, to no more than 10 percent in any single issue, except the investments of U.S. Government securities.

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, 2010 and 2009, the University 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, 2010 and 2009:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Student notes	\$4,220,911	\$3,532,120
Grants and contracts	1,920,645	1,803,369
Sales and services	615,680	453,037
Tuition and fees	<u>36,966</u>	<u>17,015</u>
Total	<u>\$6,794,202</u>	<u>\$5,805,541</u>

Federal Family Education Loans processed for students by the University during the year ended June 30, 2010 totaled \$21,999,751 and the year ended June 30, 2009 totaled \$19,722,072. The University 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 University's financial statements.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	July 1, 2009 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2010 Ending Balance
Land-non-depreciable	\$ 2,108,971	\$ -	\$ -	\$ 2,108,971
Infrastructure	1,637,836	-	-	1,637,836
Buildings	57,368,095	673,529	116,232	58,157,856
Furnishings and movable equipment	14,386,053	1,090,522	(184,272)	15,292,303
Library materials	12,606,068	597,544	-	13,203,612
Construction in progress-non-depreciable	252,810	210,065	(246,661)	216,214
Total historical cost	<u>88,359,833</u>	<u>2,571,660</u>	<u>(314,701)</u>	<u>90,616,792</u>
Less: Total accumulated depreciation	46,349,402	3,902,160	(313,180)	49,938,382
Total capital assets, net of depreciation	<u>\$ 42,010,431</u>	<u>\$ (1,330,500)</u>	<u>\$ (1,521)</u>	<u>\$ 40,678,410</u>

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

Capital asset activity for the year ended June 30, 2009 was as follows:

	July 1, 2008 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2009 Ending Balance
Land-non-depreciable	\$ 2,108,971	\$ -	\$ -	\$ 2,108,971
Infrastructure	1,605,051	32,785	-	1,637,836
Buildings	56,622,934	672,594	72,567	57,368,095
Furnishings and movable equipment	14,553,901	910,341	(1,078,189)	14,386,053
Library materials	12,030,378	575,690		12,606,068
Construction in progress-non-depreciable	77,598	252,810	(77,598)	252,810
Total historical cost	<u>86,998,833</u>	<u>2,444,220</u>	<u>(1,083,220)</u>	<u>88,359,833</u>
Less: Total accumulated depreciation	43,468,468	3,945,208	(1,064,274)	46,349,402
Total capital assets, net of depreciation	<u>\$ 43,530,365</u>	<u>\$ (1,500,988)</u>	<u>\$ (18,946)</u>	<u>\$ 42,010,431</u>

5. CAPITAL LEASE OBLIGATIONS

The University has entered into various non-cancelable equipment and land lease agreements. These leases are accounted for as capital leases (total net book value at June 30, 2010 and 2009 of \$2,639,947 and \$2,710,161, respectively) and principal payments of \$315,605 were made under the agreements during the year ended June 30, 2010.

Future minimum lease payments subsequent to June 30, 2010 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 221,825	\$ 72,942	\$ 294,767
2012	119,280	65,816	185,096
2013	124,851	60,245	185,096
2014	130,682	54,414	185,096
2015	136,785	48,311	185,096
2016-2020	<u>943,385</u>	<u>139,551</u>	<u>1,082,936</u>
Total	<u>\$ 1,676,808</u>	<u>\$ 441,279</u>	<u>\$ 2,118,087</u>

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

6. LONG-TERM LIABILITIES

Long-term Liabilities as of June 30, 2010 and June 30, 2009 are as follows:

	Balance July 1, <u>2009</u>	<u>Additions</u>	<u>Reduction</u>	Balance June 30, <u>2010</u>	Current <u>Portion</u>	Non-current <u>Portion</u>
Compensated absences	\$1,582,606	\$556,656	\$218,379	\$1,920,883	\$527,364	\$1,393,519
Post-employment	63,935	139,281	-	203,216	-	203,216
Capital lease obligations	1,992,413	-	315,605	1,676,808	221,825	1,454,983
Total long-term	<u>\$3,638,954</u>	<u>\$695,937</u>	<u>\$533,984</u>	<u>\$3,800,907</u>	<u>\$749,189</u>	<u>\$3,051,718</u>

	Balance July 1, <u>2008</u>	<u>Additions</u>	<u>Reduction</u>	Balance June 30, <u>2009</u>	Current <u>Portion</u>	Non-current <u>Portion</u>
Compensated absences	\$1,749,377	\$374,396	\$541,167	\$1,582,606	\$495,365	\$1,087,241
Post-employment	-	63,935	-	63,935	-	63,935
Capital lease obligations	2,291,713	-	299,300	1,992,413	315,605	1,676,808
Total long-term	<u>\$4,041,090</u>	<u>\$438,331</u>	<u>\$840,467</u>	<u>\$3,638,954</u>	<u>\$810,970</u>	<u>\$2,827,984</u>

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
OF MEDICINE AND PHARMACY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

7. COMMITMENTS AND CONTINGENCIES

The University 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, 2010 and 2009, these instructional expenses relating to contracts totaled \$3,959,844 and \$3,779,894, respectively. At June 30, 2010 and 2009, the University had recorded accrued liabilities of \$826,174 and \$779,390, respectively, which represented unbilled services rendered by the related organizations under these contracts.

The University 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 University's management that any potential disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

8. OTHER POST-EMPLOYMENT BENEFITS

Background

Beginning in fiscal year 2009, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits (OPEB) offered to retirees. This standard addresses how local governments and universities should account for and report their costs related to post-employment healthcare and other non-pension benefits. Historically, the University costs were funded on a pay-as-you-go basis but GASB 45 requires that the University accrue the cost of retiree healthcare costs and other post-employment benefits during the period of the employee's active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the University. This funding methodology mirrors the funding approach used in pension benefits.

Plan Description

Northeastern Ohio Universities Colleges of Medicine and Pharmacy's (NEOUCOM) plan provides healthcare insurance for the spouses and legal dependents of retirees hired prior to January 1, 1992 and who retired from NEOUCOM after working there for at least 10 years. Any spouses or legal dependents of retirees hired after January 1, 1992 are not eligible for healthcare benefits after retirement.

This plan only covers the spouses and legal dependents of the retiree. The retirees are eligible for healthcare insurance coverage through the Ohio Public Employees Retirement System (OPERS) or the State Teachers Retirement System (STRS) unless they chose an alternative retirement plan.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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In addition, life insurance is paid for by NEOUCOM for all retired employees regardless of hire date. Retirees with 10 plus years of service receive \$4,000 life insurance coverage and those with less than 10 years of service receive \$1,000 of life insurance coverage.

Funding Policy

NEOUCOM pays 100% of the retiree spouses' and dependents' healthcare coverage and retirees' life insurance. The University has chosen to fund the post-employment benefits on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The annual cost of other post employment benefits (OPEB) under GASB 45 is called the annual required contribution (ARC). The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of NEOUCOM's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in NEOUCOM's net OPEB obligation for the life and healthcare benefits based on an interest rate of 6% and amortizing the unfunded actuarial liability over 30 years:

Annual required contribution	\$409,881
Interest on net OPEB obligation	3,836
Adjustment to annual required contribution	<u>(4,382)</u>
Annual OPEB cost (expense)	409,335
Employer contribution (pay-as-you-go)	270,054
Net cash contribution	<u>-</u>
Increase (decrease) in net OPEB obligation	139,281
Net OPEB obligation, beginning of year	<u>63,935</u>
Net OPEB obligation, end of year	<u>\$203,216</u>
Actuarial Contribution rate	<u>65.97%</u>

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of the benefit costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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The valuation of the liability as of June 30, 2010 is based only on the spouses and legal dependents of employees and retirees hired prior to January 1, 1992, with at least 10 years of service at NEOUCOM for healthcare benefits and all retirees and active employees for life insurance. Using the actuarial assumptions, the number of retired participants is projected each year in the future. Costs are projected for each year at each age using the trend and aging assumptions. Retiree post employment benefit expenses are determined under the Projected Unit Credit actuarial cost method. Under this method, benefits are projected for life and their present value is determined.

NEOUCOM
Schedule of Funding Progress for the Retiree Health and Life Insurance Plans

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
6/30/2010	\$0	\$5,372,684	\$5,372,684	0.00%	\$3,524,376	130.34%
6/30/2009	\$0	\$4,593,702	\$4,593,702	0.00%	\$3,791,167	121.17%

NEOUCOM implemented GASB 45 in fiscal year 2009, therefore six years of data is not available, but will be accumulated over time. This valuation has been calculated using the Projected Unit Credit actuarial cost method, discount rates of 6.0%, and the initial unfunded actuarial liability is amortized over 30 years based on a level percent of payroll method on covered payroll. Under this method, benefits are projected for life and their present value is determined, the present value is divided into equal parts, which are earned over the period from hire date to the full eligibility date.

9. EMPLOYEE BENEFIT PLANS

Retirement Plans

Retirement benefits are available to substantially all University employees by participation in the Ohio Public Employees 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.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

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 its 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 (888) 227-7877 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 University are 10% and 14% of covered payroll, respectively. The required, actuarially determined contribution rates for STRS plan members and the University are 10% and 14% of covered payroll, respectively. These OPERS and STRS contribution rates incorporate the required contributions to fund post-retirement benefits other than pensions.

Eligible University employees may choose an Alternative Retirement Plan (“ARP”) in lieu of OPERS or STRS. For employees electing an ARP in lieu of STRS, the University is required to make employer contributions of 3.5% of earned compensation to STRS. In addition, the University contributes 13.77% 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 healthcare 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 University’s contributions, including employer contributions for pensions and other postretirement benefits, for the year ended June 30, 2010 and for each of the two preceding years are:

Year Ended June 30	OPERS Contributions	STRS Contributions	ARP Contributions
2010	\$ 1,403,651	\$ 626,888	\$ 529,838
2009	1,384,253	556,629	512,699
2008	1,349,649	498,058	438,776

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

Post-Retirement Health Care Benefits (in whole numbers)

OPERS provide post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying State service credit. Healthcare 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 healthcare through their contributions to OPERS. The 2009 employer contribution rate for health care was 7.00% of covered payroll from January 1 through March 31, 2009 and 5.50% of covered payroll from April 1 through December 31, 2009.

OPERS benefits are advance-funded on an actuarially determined basis. As of December 31, 2008, OPERS reported the actuarially accrued liability and the unfunded actuarial accrued liability for Other Post Employment Benefits (OPEB) at \$29.6 billion and \$18.9 billion, respectively. Significant actuarial assumptions include a 6.5% investment return, a 4% individual pay increase, and a .5 to 3% increase in healthcare costs. All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. As of December 31, 2008, the actuarial value of the retirement system's net assets available for other post employment benefits was \$10.7 billion. The number of active contributing participants in the traditional and combined plans was 357,584 as of December 31, 2009.

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 healthcare cost in the form of a monthly premium.

The Ohio Revised Code grants authority to STRS Ohio to provide healthcare 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 healthcare reserve fund was \$2.68 billion at June 30, 2009.

For the year ended June 30, 2009 (latest information available), net healthcare costs paid by STRS were \$558 million. There were 129,659 eligible benefit recipients on June 30, 2009.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

10. RISK MANAGEMENT

The University 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 University's property and for public liability, personal injury, and third-party damage claims. The University 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 University participates in the University of Akron health care program. Premiums paid to the University of Akron by the University are for providing employee benefit coverage.

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

11. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2010 and 2009, the University has received distributions from the Foundation in the amount of \$1,144,167 and \$1,510,371, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted loans of \$67,213 and \$76,733, respectively, for the years ended June 30, 2010 and 2009.

The University received reimbursements of \$56,186 and \$198,861, respectively, from the Foundation for management, fundraising, services, and office space during the years ended June 30, 2010 and 2009. 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 \$444,443 and \$457,157, respectively, for the years ended June 30, 2010 and 2009.

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

12. SUBSEQUENT EVENTS

Subsequent to year end, the University has been approved to issue an amount not to exceed \$42,000,000 in General Receipts Bonds. The Bonds are in the various denominations, with an interest rate of 4.0 to 4.5 percent and a maturity of 30 years. The bond proceeds will be used for the construction, improvement, reconstruction, remodeling, renovation and equipping of the University facilities primarily for construction of a new research and graduate education complex consisting of medical research, laboratory, graduate education and related purposes.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGES
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 and 2009**

13. COMPONENT UNIT – THE NEOUCOM FOUNDATION

The NEOUCOM Foundation (hereinafter referred to as the “Foundation”) was incorporated on April 14, 1978 as a nonprofit tax-exempt corporation. The Foundation is a legally separate nonprofit entity organized for the purpose to serve as the gift receiving arm of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy (hereinafter referred to as the “University”), 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 42 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 2010 or 2009.

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

Complete financial statements for the Foundation may be obtained by writing to NEOUCOM Foundation, PO Box 95, Rootstown, Ohio 44272.

Supplemental Information

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*

To the Board of Trustees
Northeastern Ohio Universities Colleges
of Medicine and Pharmacy

We have audited the basic financial statements of Northeastern Ohio Universities Colleges of Medicine and Pharmacy (the "University") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 27, 2010. 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 Northeastern Ohio Universities Colleges of Medicine and Pharmacy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeastern Ohio Universities Colleges of Medicine and Pharmacy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness Northeastern Ohio Universities Colleges of Medicine and Pharmacy's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees
Northeastern Ohio Universities Colleges
of Medicine and Pharmacy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeastern Ohio Universities Colleges of Medicine and Pharmacy'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of trustees, and others within the University and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Morse, PLLC

Toledo, Ohio
October 27, 2010

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

To the Board of Trustees
Northeastern Ohio Universities Colleges
of Medicine and Pharmacy

Compliance

We have audited the compliance of Northeastern Ohio Universities Colleges of Medicine and Pharmacy (the "University") 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, 2010. The major federal programs of Northeastern Ohio Universities Colleges of Medicine and Pharmacy are 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 Northeastern Ohio Universities Colleges of Medicine and Pharmacy's management. Our responsibility is to express an opinion on Northeastern Ohio Universities Colleges of Medicine and Pharmacy'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 Northeastern Ohio Universities Colleges of Medicine and Pharmacy'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 Northeastern Ohio Universities Colleges of Medicine and Pharmacy's compliance with those requirements.

In our opinion, Northeastern Ohio Universities Colleges of Medicine and Pharmacy 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, 2010.

To the Board of Trustees
Northeastern Ohio Universities Colleges
of Medicine and Pharmacy

Internal Control Over Compliance

The management of Northeastern Ohio Universities Colleges of Medicine and Pharmacy 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 Northeastern Ohio Universities Colleges of Medicine and Pharmacy'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of trustees, others within the University, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 27, 2010

Northeastern Ohio Universities Colleges of Medicine and Pharmacy

Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
STUDENT FINANCIAL AID CLUSTER			
Scholarships:			
Department of Health and Human Services:			
<i>Health Resources and Services Administration:</i>			
Scholarships for Disadvantaged Students	93.925	T08HP18830	\$ 80,680
ARRA-Scholarships for Disadvantaged Students	93.407	T0AHP15943	<u>36,215</u>
<i>Total Health Resources and Services Administration:</i>			<u>116,895</u>
Total Department of Health and Human Services:			116,895
Loans:			
Department of Education:			
<i>Office of Student Financial Assistance Programs:</i>			
Federal Family Education Loans*	84.032	N/A	21,999,751
Federal Perkins Loan Program*	84.038	N/A	<u>2,005,530</u>
<i>Total Office of Student Financial Assistance Programs:</i>			<u>24,005,281</u>
Total Department of Education:			24,005,281
Department of Health and Human Services:			
<i>Health Resources and Services Administration:</i>			
Health Professions Student Loans - Disadvantaged Students*	93.342	N/A	2,646,747
Health Professions Student Loans - Primary Care Loans*	93.342	N/A	<u>1,254,848</u>
Total CFDA #93.342			3,901,595
<i>Total Health Resources and Services Administration:</i>			<u>3,901,595</u>
Total Department of Health and Human Services:			3,901,595
TOTAL STUDENT FINANCIAL AID CLUSTER			<u>28,023,771</u>
RESEARCH AND DEVELOPMENT CLUSTER			
Department of Health and Human Services:			
<i>National Institutes of Health:</i>			
Auditory Information Processing in Midbrain	93.173	R01DC000937	320,527
Functional Anatomy of the Auditory Pathways	93.173	R01DC004391	225,028
G-protein-coupled Receptors in Hearing Physiology	93.173	R01DC008984	371,870
Regulation of Excitability in a Sensory System	93.173	R01DC008120	147,422
Anatomical Analysis - Cortical Projections to the Auditory Midbrain	93.173	F32DC010958	20,275
Cholinergic Circuitry in Auditory Brainstem	93.173	F31DC008463	<u>14,801</u>
Total CFDA #93.173			1,099,923
ARRA - Auditory Information Processing in the Midbrain	93.701	3R01DC000937	12,254
ARRA - Auditory Information Processing in the Midbrain	93.701	3R01DC000937	100,000
ARRA - Hepatocyte Nuclear Factor 4alpha and Lipid Homeostasis	93.701	1R15DK088733	18,223
ARRA - Myocardial Injury-Mitochondria-derived Oxygen Free Radicals	93.701	3R01HL083237	16,536
ARRA - Real time imaging of the aqueous outflow pathway by two-photon endoscopy	93.701	3R21EY018318	59,639

See Notes to Schedule of Expenditures
of Federal Awards.

Northeastern Ohio Universities Colleges of Medicine and Pharmacy

Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
ARRA - Regulation of Excitability in a Sensory System by Cellular and Network Components	93.701	3R01DC008120	\$ 90,348
ARRA - Stem Cell Induction of Coronary Arteriogenesis	93.701	IRC1HL100828	304,230
Total CFDA #93.701			<u>601,230</u>
Synthetic Triterpenoid in Breast Cancer Chemoprevention	93.392	R03CA136014	48,540
Passed through the University of California, San Diego:			
Molecular Biology of the Cardiac Interstitium	93.837	R01HL043617	117,038
Myocardial Injury - Mitochondria-derived Oxygen Free Radicals	93.837	R01HL083237	25,868
Reactive oxygen species in coronary collateral growth	93.837	R01HL083366	415,299
Microcirculatory Dynamics in the Coronary Circulation	93.837	R01HL032788	335,544
Total CFDA #93.837			<u>893,749</u>
Molecular Biology of Bile Acid Synthesis	93.847	2R56DK044442	351,575
Regulation of Bile Acid Synthesis by Nuclear Receptor	93.848	R01DK58379	260,406
Microglia in Retrovirus-Induced Neurodegeneration	93.853	R01NS037614	137,665
Role of Bag - 1 Proteins in Chondrocyte Aging and Disease	93.866	R15AG029659	51,469
Real Time Imaging of the Aqueous Outflow Pathway by Two-Photon Endoscopy	93.867	R21EY018318	153,091
<i>Total National Institutes of Health:</i>			<u>3,597,648</u>
<i>Substance Abuse and Mental Health Services Admin:</i>			
Passed through Ohio Department of Mental Health:			
TSIG: Campus Safety in a Mental Health Context	93.243	TSG1-10-033-08001	31,552
TSIG: Campus Safety and Trauma	93.243	TA-09-11-03-01	36,003
TSIG: Investigation of Ohio Mental Health Courts	93.243	TA-09-10-03-01	1,738
Total CFDA #93.243			<u>69,293</u>
<i>Total Substance Abuse and Mental Health Services Admin:</i>			<u>69,293</u>
<i>Office of the Secretary:</i>			
Passed through The University of Findlay:			
NECO Region Hosp Training & Education	93.889	U3RHS05592	569
<i>Total Office of the Secretary:</i>			<u>569</u>
Total Department of Health and Human Services:			3,667,510
Department of Justice:			
Passed through Ohio Office of Criminal Justice Services:			
Enhancing Local Courts	16.738	2007-JG-E0R-6583	4
Multi-Site Comparison of CIT Effect	16.738	2009-JG-E0R-6697	5,834
Total CFDA #16.738			<u>5,838</u>
ARRA - Mental Health Courts: For whom does it work and why?	16.803	2009-RA-E0R-2227	71,171
Total Department of Justice:			77,009
National Science Foundation:			
Diet in Early Whales	47.050	EAR0745543	98,599
Jaw Muscle Biomechanics in Primates	47.075	BCS0552285	34,583

See Notes to Schedule of Expenditures
of Federal Awards.

Northeastern Ohio Universities Colleges of Medicine and Pharmacy

Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
Morphology of feeding in free-ranging mantled howling monkeys	47.075	BCS0720028	\$ 30,171
Doctoral Dissertation Improvement: Dental Develop in Pigs	47.075	BCS0725951	3,296
Total CFDA #47.075			68,050
ARRA - Core Facility for the Hierarchical Analysis of Bone	47.082	BCS-0959438	97,463
Total National Science Foundation:			264,112
TOTAL RESEARCH AND DEVELOPMENT CLUSTER:			4,008,631
STATE FISCAL STABILIZATION FUND (SFSF) CLUSTER			
Department of Education:			
Passed through the State of Ohio & the Ohio Board of Regents			
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	S394A090036	2,003,243
Total Department of Education:			2,003,243
TOTAL STATE FISCAL STABILIZATION FUND (SFSF) CLUSTER:			2,003,243
TOTAL CLUSTERS			34,035,645
Department of Health and Human Services:			
<i>Health Resources and Services Administration:</i>			
Passed through The University of Toledo:			
Area Health Education Program	93.107	F2010-30	190,407
Area Health Education Program	93.107	F2009-292	33,525
Total CFDA #93.107			223,932
Passed through Case Western Reserve University:			
Western Reserve Geriatric Education Center	93.969	D31HP08841-01-00	78,322
Western Reserve Geriatric Education Center	93.969	D31HP08841-02-00	71
Total CFDA #93.969			78,393
<i>Total Health Resources and Services Administration:</i>			<i>302,325</i>
<i>Center for Disease Control:</i>			
Passed through the Friends of the Congressional Glaucoma Caucus Foundation:			
Student Sight Savers Program	93.988	Grant #29	67
<i>Total Center for Disease Control:</i>			<i>67</i>
<i>Admin for Children and Families:</i>			
Passed through the Cleveland Clinic Foundation:			
Hard Wired for Health	93.630	4059937	16,966
<i>Total Admin for Children and Families:</i>			<i>16,966</i>
<i>Office of the Secretary:</i>			
Passed through The University of Findlay:			
NECO Region Hosp Training & Education	93.889	N/A	276
NECO Region Hosp Training & Education	93.889	N/A	825
Total CFDA #93.889			1,101
<i>Total Office of the Secretary:</i>			<i>1,101</i>

See Notes to Schedule of Expenditures
of Federal Awards.

Northeastern Ohio Universities Colleges of Medicine and Pharmacy

Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
<i>Substance Abuse and Mental Health Services Admin:</i>			
Passed through Ohio Department of Mental Health and Summit County ADM Board:			
Criminal Justice - CCoE	93.958	BG-10-424-14-001	\$ 165,649
<i>Total Substance Abuse and Mental Health Services Admin:</i>			<u>165,649</u>
Total Department of Health and Human Services:			486,108
Department of Justice:			
Passed through the Ohio Office of Criminal Justice Services and the National Alliance on Mental Illness of Ohio:			
Ohio Crisis Intervention Training	16.738	2007-DG-B01-6317A	4,896
Total Department of Justice:			4,896
Environmental Protection Agency:			
The KSOHIA Collaboration	66.609	CH-83265401-0	6,972
Total Environmental Protection Agency:			6,972
TOTAL OTHER PROGRAMS CLUSTER:			497,976
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 34,533,621

* Expenditure amounts shown for Financial Aid loans include both FY10 disbursements and year end fund balances.

Northeastern Ohio Universities Colleges of Medicine and Pharmacy

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northeastern Ohio Universities Colleges of Medicine and Pharmacy (the "University") and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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 University 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.

Note 2 - Federal Family Education Loans

Federal Family Education Loans (Federal CFDA Number 84.032) processed for students by the University during the year ended June 30, 2010, totaled \$21,999,751. The University 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 University's financial statements.

Northeastern Ohio Universities Colleges of Medicine and Pharmacy

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Note 3 - Other Federal Loan Programs

The University administers the following additional federal loan programs. 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, 2010 are identified below:

	CFDA Number	Outstanding Balance at June 30, 2010	Disbursements
Federal Perkins Loan Program	84.038	\$ 1,915,730	\$ 89,800
Health Professions Student Loan Program - Loans to Disadvantaged Students	93.342	1,774,241	872,506
Health Professions Student Loan Program - Primary Care Loans	93.342	1,193,622	61,226

Northeastern Ohio Universities Colleges of Medicine and Pharmacy

Schedule of Findings and Questioned Costs Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
93.925, 84.032, 84.038, 93.342, 93.407	Student Financial Aid
84.394	State Fiscal Stabilization Fund
Various	Research and Development

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Northeastern Ohio Universities Colleges of Medicine and Pharmacy

Schedule of Findings and Questioned Costs Year Ended June 30, 2010

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

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Mary Taylor, CPA
Auditor of State

NORTHEASTERN OHIO UNIVERSITY COLLEGE OF MEDICINE AND PHARMACY

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 21, 2010**