

**NORTHEASTERN OHIO
UNIVERSITIES COLLEGE
OF MEDICINE**

*Single Audit Report
for the Year Ended
June 30, 2002*



**Auditor of State
Betty Montgomery**

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Board of Trustees
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We have reviewed the Independent Auditor's Report of the Northeastern Ohio Universities College of Medicine, Portage County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northeastern Ohio Universities College of Medicine is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 3, 2003

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NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets of the Northeastern Ohio Universities College of Medicine (the "College") as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

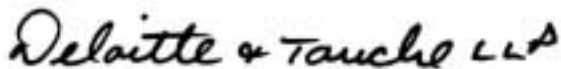
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College at June 30, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, effective July 1, 2001, the College has implemented a new financial reporting model as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34* and, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Management's Discussion and Analysis on pages 2 - 6 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the College taken as a whole. The accompanying supplemental schedule of expenditures of federal awards for the year ended June 30, 2002 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This supplemental schedule is the responsibility of the management of the College. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the year ended June 30, 2002 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2002 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



December 23, 2002

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2002**

This discussion and analysis of the Northeastern Ohio Universities College of Medicine (the "College") should be read in conjunction with the financial statements and the accompanying notes. Its purpose is to provide an overview of the College's financial activities and performance for the fiscal year ended June 30, 2002.

New Accounting Standards

This annual report includes the basic financial statements and accompanying notes prepared in accordance with the Governmental Accounting Standard's Board (the "GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which the College implemented for the year ended June 30, 2002. These financial statements differ significantly, in both the form and accounting principles utilized, from prior financial statements. The financial statements presented in prior years focused on the accountability of fund groups, while the new statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole, similar to a business-type activity.

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

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

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

Since this is a transitional year for the new format, only one year is presented in the audited financial statements. Beginning next year, the financial statements will display two years of comparative financial statements.

Introductory Comments

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

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

The College receives substantial state support. During fiscal 2002, state operating grants, instructional appropriations and capital support comprised 57% of all College revenues.

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

Statement of Net Assets Highlights

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

ASSETS		
Current assets	\$ 13,944,838	22%
Noncurrent		
Capital	45,647,036	72%
Other	<u>4,052,867</u>	6%
Total Assets	<u>63,644,741</u>	100%
LIABILITIES		
Current liabilities	7,284,103	75%
Noncurrent liabilities	<u>2,393,089</u>	25%
Total liabilities	<u>9,677,192</u>	100%
NET ASSETS		
Invested in capital assets, net of related debt	44,320,776	82%
Restricted		
Nonexpendable	3,746,760	7%
Expendable	1,243,502	2%
Unrestricted	<u>4,656,511</u>	9%
Total net assets	\$ <u>53,967,549</u>	100%

The College's financial position, as a whole, improved only slightly during fiscal 2002. Capital net assets increased by \$4.156 million, which represented a 10% increase over the prior year. However, the increased net investment in capital assets was offset by a decrease in unrestricted net assets of \$2.879 million, due primarily to cuts in state non-capital support, lower investment income from declining interest rates, and spending down of College designated funds.

The current assets of the College remained very strong, with cash and cash equivalents comprising 76% of all current assets. Although unrestricted cash and cash equivalents decreased \$3.867 million as indicated in the statement of cash flows, current assets totaling \$13.945 million exceeded current liabilities of \$7.284 million.

Capital assets increased \$4.939 million during 2002. In June 2002, construction of the new Medical Education Conference and Learning Center was completed. This capital addition of 26,000 square feet costing approximately \$6.6 million was financed by federal grant funds of \$2.6 million, state capital appropriations of \$2.0 million, and \$2.0 million expected to be raised from College and private sources. This increase was partially offset by current year depreciation expense.

Other notable changes in assets during 2002 are as follows:

- Accounts receivable increased during fiscal year 2002 by \$.670 million due primarily to unreimbursed construction expenses of the new conference center.
- Prepaid expenses during fiscal 2002 nearly doubled to \$.466 million due to the timing of payments for subscriptions to access electronic information databases by the Information Center and its associated hospitals.
- Notes receivable decreased by \$.175 million due to the volume of student loans maturing and loans consolidated during the year.

Total liabilities increased \$.794 million during fiscal 2002. The following items represent the majority of the change from the prior year:

- Deferred revenues increased by \$.187 million, which represents additional restricted grant and contract advances received during fiscal 2002.
- Accrued liabilities increased by \$.550 million due primarily to capital expenses of both the new conference center and a House Bill 7 energy conservation project, which were not paid as of the close of the fiscal year.

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

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

The following is a breakdown of the unrestricted net assets:

Designated for:	
Capital purposes	\$ 917,049
Operating purposes	3,217,379
Undesignated	<u>522,083</u>
Total	\$ <u>4,656,511</u>

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

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

OPERATING REVENUES		
Student tuition and fees	\$ 6,959,114	43%
Grants and contracts	8,071,870	50%
Other	<u>1,053,407</u>	7%
Total operating revenues	<u>16,084,391</u>	100%
OPERATING EXPENSES		
Educational and general	32,218,241	90%
Auxiliary enterprises	649,307	2%
Depreciation	<u>2,982,584</u>	8%
Total operating expenses	<u>35,850,132</u>	100%
Operating loss	<u>(19,765,741)</u>	

NONOPERATING REVENUES (EXPENSES)	
State appropriations	16,228,082
Investment income	414,279
Interest expense	<u>(267,452)</u>
Net nonoperating revenues	<u>16,374,909</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(3,390,832)
Capital grants and appropriations	4,810,297
Gain on sale of assets and other	<u>19,640</u>
Total increase in net assets	\$ <u>1,439,105</u>

The two major sources of operating revenues for the College are \$8.072 million in grants and contracts, and \$6.959 million in student tuition and fees, which comprise 93% of \$16.084 million in operating revenues for fiscal 2002.

Operating expenses totaled \$35.850 million: \$18.584 million (52%) was expended for instructional and related support, \$ 3.026 (8%) for research projects, \$10.286 (29%) for general administrative and maintenance functions, and \$3.954 (11%) for depreciation and other activities.

Operating expense components are summarized as follows:

Employee compensation	\$19,703,220	55%
Contractual services	6,848,448	19%
Other operating expenses	5,191,483	15%
Purchased utilities	1,154,397	3%
Depreciation	<u>2,952,584</u>	<u>8%</u>
Total	<u>\$35,850,132</u>	<u>100%</u>

Nonoperating revenues consist primarily of state appropriations of \$16.228 million, and investment income of \$.414 million. Nonoperating expenses represent interest assessed by the Ohio Board of Regents on certain College facilities, and interest expense related to capital leases.

Other revenues received by the College during fiscal 2002 were for capital purposes and included a federal grant in the amount of \$2.391 million, \$1.868 million in state capital appropriations, and \$.551 from private grants. The majority of these funds were expended to construct the new conference center.

Statement of Cash Flows

Major sources of operating cash flows included \$8.375 million from grants and contracts and \$6.946 million from student tuition and fees.

Operating cash was used primarily for employee compensation (\$19.695 million) and payments to suppliers for goods and services (\$12.140 million).

State operating appropriations of \$16.228 million represented 99% of noncapital financing cash flows.

Cash outflows for the purchase of capital assets totaled \$7.293 million, and were partially offset by capital grants and appropriations of \$4.169 million.

In summary, the College's cash position decreased significantly by \$3.867 (25%) during fiscal year 2002 due to the net cash investment of \$2.784 million in capital financing activities, state operating cuts of \$.919 million, and \$.412 in lower investment revenues due to unfavorable interest rates.

Factors Impacting Future Periods

The ability of the College to continue to fulfill its mission and execute its strategic plan is directly affected by State noncapital and capital support, which comprised 57% of all revenues during fiscal year 2002. In addition, health care and utilities cost increases, and the necessity of continued student tuition increases continue to impact the College's operating results.

Capital requirements are addressed through the College's six-year capital plan and the technology replacement plan. Funding is derived from state, federal and private sources, as well as special-purpose designated funds. Since the state capital funding is formula driven, the College is at a relative disadvantage in comparison to larger schools. The College has reacted to this restraint by leveraging the state's \$1.5 million appropriation to an amount approximating \$9.0 million in support of capital projects during the past biennium.

The College will continue to face challenges of funding deferred maintenance on capital assets, and staying current in terms of technological assets. Based on its most recent study, deferred maintenance costs were estimated to be \$12.829 million through the year 2025.

Critical to the College's continuing success is re-accreditation during fiscal 2003 from both the Liaison Committee on Medical Education and the North Central Association of College's and Schools. The College has assembled an accreditation administrative support team, along with a steering committee, and fourteen subcommittees to research and evaluate various components relevant to the self-study of the College.

Associated teaching hospitals and voluntary clinical faculty remain strongly committed to education. Monetary and non-monetary incentives have been identified to encourage clinical faculty teaching. The associated hospitals collectively receive approximately \$55 million in Medicare education-related payments for graduate medical education and \$3.5 million in payments from the College for undergraduate medical education.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS

Current assets	
Cash and cash equivalents (Note 3)	\$ 10,653,288
Accounts receivable (Note 4)	2,397,002
Inventories	209,802
Prepaid expenses	466,321
Notes receivable (Note 4)	218,425
Total current assets	<u>13,944,838</u>
Noncurrent assets	
Escrow funds held by trustee (Notes 3 and 6)	524,532
Cash and cash equivalents restricted for long term investment	615,689
Notes receivable (Note 4)	2,912,646
Capital assets, net (Note 5)	45,647,036
Total noncurrent assets	<u>49,699,903</u>
Total assets	<u>63,644,741</u>

LIABILITIES

Current liabilities	
Accounts payable	2,128,379
Accrued salaries and benefits	772,944
Payroll withholdings payable	102,130
Compensated absences	187,598
Deferred revenue	884,989
Other accrued liabilities (Note 7)	2,798,328
Deposits held in custody for others (Note 11)	223,640
Capital lease obligations (Note 6)	186,095
Total current liabilities	<u>7,284,103</u>
Noncurrent liabilities	
Other accrued liabilities	142,003
Compensated absences	853,895
Capital lease obligations (Note 6)	1,397,191
Total noncurrent liabilities	<u>2,393,089</u>
Total liabilities	<u>9,677,192</u>

NET ASSETS

Invested in capital assets, net of related debt	44,320,776
Restricted	
Nonexpendable	
Endowments	381,579
Student loans	3,365,181
Expendable	
Current operations	1,243,502
Unrestricted	4,656,511
Total net assets	<u>\$ 53,967,549</u>

The accompanying notes are an integral part of the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002**

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$ 233,085)	\$ 6,959,114
Federal grants and contracts	2,613,343
State grants and contracts	3,430,523
Local grants and contracts	84,363
Private grants and contracts	1,943,641
Sales and services of departments	433,630
Sales and services of auxiliary enterprises	468,118
Other operating revenues	151,659
Total operating revenues	<u>16,084,391</u>

OPERATING EXPENSES

Educational and general	
Instruction and departmental research	11,890,437
Separately budgeted research	3,026,279
Public service	322,401
Academic support	4,841,927
Student services	1,791,107
Institutional support	6,756,537
Operation and maintenance of plant	3,491,240
Scholarships and fellowships	60,118
Other expenses	38,195
Auxiliary enterprises	649,307
Depreciation	2,982,584
Total operating expenses	<u>35,850,132</u>

Operating loss (19,765,741)

NONOPERATING REVENUES/(EXPENSES)

State appropriations	16,228,082
Investment income	414,279
Interest expense	(267,452)
Net nonoperating revenues/(expenses)	<u>16,374,909</u>

**LOSS BEFORE OTHER REVENUES, EXPENSES,
GAINS OR LOSSES**

Other revenues	(3,390,832)
Federal capital grant	2,390,914
State capital appropriations	1,867,951
Private capital gifts and grants	551,432
Gain from sale of capital assets	16,640
Additions to permanent endowments	3,000
Total other revenues	<u>4,829,937</u>

INCREASE IN NET ASSETS 1,439,105

NET ASSETS AT BEGINNING OF YEAR, AS RESTATED (NOTE 1) 52,528,444

NET ASSETS AT END OF YEAR \$ 53,967,549

The accompanying notes are an integral part of the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	\$ 6,946,437
Grants and contracts	8,374,899
Employee compensation	(19,695,016)
Payments to suppliers	(12,139,980)
Payments for utilities	(1,154,397)
Payments for student financial aid	(60,118)
Student loan advances	(562,234)
Student loan repayments	385,965
Sales and services of auxiliary enterprises	461,354
Sales and services of departments	270,087
Other operating revenues	151,659
Other receipts	58,575
Net cash and cash equivalents used in operating activities	<u>(16,962,769)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	16,228,082
Gifts for noncapital purposes	
Additions to endowment	3,000
Net cash and cash equivalents provided by noncapital financing activities	<u>16,231,082</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State capital appropriations	1,835,216
Capital gifts and grants	2,333,823
Purchases of capital assets	(7,292,865)
Proceeds from sale of capital assets	16,640
Principal paid on capital leases	(174,683)
Interest paid on capital leases	(267,452)
Net cash and cash equivalents used in capital financing activities	<u>(3,549,321)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	414,279
Net cash and cash equivalents provided by investing activities	<u>414,279</u>
NET DECREASE IN CASH	(3,866,729)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	15,660,238
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 11,793,509</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	
Operating loss	\$ (19,765,741)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities	
Depreciation	2,982,584
Changes in assets and liabilities	
Receivables	149,715
Unbilled charges	(216,863)
Inventories	(1,442)
Prepaid expenses	(96,724)
Accounts payable	(248,975)
Accrued salaries and benefits	(54,375)
Deferred revenue	187,193
Compensated absences	63,509
Other accrued liabilities	157,840
Deposits held for others	55,343
Loans to students	(174,833)
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	<u>\$ (16,962,769)</u>

The accompanying notes are an integral part of the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

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

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

The associated community hospitals and health department are:

Major Teaching Hospitals and Health Department:

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

Other Associated Hospitals:

Edwin Shaw Hospital for Rehabilitation, Akron
Forum Health Organization
Hillside Rehabilitation Hospital, Warren
Trumbull Memorial Hospital, Warren
Heartland Behavioral Healthcare
Lodi Community Hospital
Massillon Psychiatric Center
Medina General Hospital
Robinson Memorial Hospital, Ravenna
Salem Community Hospital
Wadsworth-Rittman Hospital, Wadsworth

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

The State of Ohio has determined that the College is not a component unit because the Governor does not directly appoint its Board of Trustees and the State is not financially accountable for the College. As defined by Governmental Accounting Standards Board (the "GASB") Statement No. 14, *The Financial Reporting Entity*, the financial statements of the College do not include any component units. Accordingly, the financial activities of organizations associated or affiliated with, but not controlled by, the College, such as its associated hospitals and health department, the NEOUCOM Foundation (see Note 10), and the NEOUCOM Research Corporation are not included in the accompanying financial statements.

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

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

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

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002**

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Effective July 1, 2001, the College implemented GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - For Public College and Universities*, issued in November, 1999; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and 34*, issued in June 2001; and Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in June 2001. Prior to the year ended June 30, 2002, the College prepared its financial statements in accordance with the *College Guide Model* prescribed by the American Institute of Certified Public Accountants. Under this reporting model, the College's financial activities were classified and reported in its financial statements in the form of certain fund groups. The College now follows the "business-type activities" reporting requirements of GASB Statement No. 35. In accordance with GASB Statement No. 35, the accompanying basic financial statements are reported on a College-wide basis.

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

Management's Discussion and Analysis

Basic financial statements:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to the financial statements

In connection with the implementation of the GASB statements described above, during the year ended June 30, 2002, the following adjustments have been made to reflect the cumulative effect of this accounting change as of the beginning of the year:

Fund balances previously reported at June 30, 2001	\$ 80,785,004
Accumulated depreciation not previously recognized under the <i>College Guide Model</i>	(27,465,476)
Other	<u>(791,084)</u>
Net assets at June 30, 2001, as restated	<u>\$ 52,528,444</u>

Basis of Accounting

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

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

Cash Equivalents

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

Investments

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

Inventories

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

Capital Assets

Capital assets include land and infrastructure assets such as roads and sidewalks, buildings and improvements, equipment with an original cost of \$1,500 or more, and all library materials and personal computers. Such assets are recorded at cost at the date of acquisition, or if acquired by gift, at an estimated fair value at the date of donation. Interest expense relating to construction is capitalized net of interest income on resources set aside for that purpose.

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

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

Compensated Absences

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

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

Operating Revenues

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

Deferred Revenues

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

Net Asset Classifications

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

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

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

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

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

Gifts and Pledges

The College does not report pledges in the financial statements until the gifts are collected. The College's gift records indicate that no material pledges were outstanding on June 30, 2002. Since the pledges are often payable either at the discretion of the donors or through their estates, neither the realizable value nor the period of collection can be determined.

Income Taxes

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

Use of Estimates

The preparation of financial statement in conformity with GAAP 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 COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002**

Recently Issued Accounting Pronouncement

During May 2002 the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)*. This statement amends Statement No. 14 to provide additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units of the primary institution based on the nature and significance of their relationship with the primary institution. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2003. The College has not determined the impact, if any, that this statement will have on its financial statements.

2. STATE SUPPORT

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

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

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

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

3. CASH AND CASH EQUIVALENTS

Cash

The College's bank deposits and cash on hand for all fund groups at June 30, 2002 are summarized as follows:

	<u>June 30, 2002</u>
College's book value (overdraft)	\$ (553,962)
Cash on hand	6,163
Bank balances	29,596

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

Investments

In accordance with the policies of the Board of Trustees of the College, the types of investments that may be purchased by the College are restricted to United States government securities, Federal agency securities, certificates of deposit and bank repurchase agreements. The practice of the College's management has been to invest in the short-term.

Statement No. 3 of the GASB, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*, requires government entities to categorize investments to give an indication of the level of custodial credit risk assumed by the entity at year end. Category 1 includes investments that are insured or registered for which securities are held by the College or its agent in the name of the College. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the College. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the College's name.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002**

The College's investments, at fair value, at June 30, 2002, are summarized as follows:

	<u>June 30, 2002</u>
Money market funds- Risk Category 1	\$ 0
Risk Category 2	524,532
Risk Category 3	715,907
State Treasury Asset Reserve of Ohio	<u>11,100,869</u>
Total Investments	<u>\$ 12,341,308</u>

The College's investment in the State Treasury Asset Reserve of Ohio ("STAROhio") is not classified by custodial credit risk category because it represents an investment pool managed by the Treasurer of the State of Ohio and is not evidenced by securities that exist in physical or book entry form. STAROhio allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2002.

4. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2002:

Student notes	\$ 3,131,071
Grants and contracts	1,883,530
Sales and services	301,195
State capital appropriations	175,421
Tuition and fees	<u>36,856</u>
Total	<u>\$ 5,528,073</u>

Federal Family Education Loans processed for students by the College during the year ended June 30, 2002, totaled \$7,157,934. The College is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan programs and, accordingly, these loans are not included in the College's financial statements.

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

	July 1, 2001 <u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reclassifications</u> <u>and</u> <u>Deductions</u>	June 30, 2002 <u>Ending</u> <u>Balance</u>
Land	\$ 298,200	\$ 0	\$ 0	\$ 298,200
Infrastructure	865,113	513,503	0	1,378,616
Buildings, improvements and fixed equipment	44,846,289	6,046,685	(103,879)	50,996,853
Furnishings and moveable equipment	13,461,440	1,119,955	1,317,260	13,264,135
Library materials	8,381,975	561,936	76,540	8,867,371
Construction in process	<u>320,082</u>	<u>(320,082)</u>	<u>0</u>	<u>0</u>
Total	68,173,099	7,921,997	1,289,921	74,805,175
Less accumulated depreciation:				
Infrastructure	407,764	40,219		447,983
Buildings, improvements and fixed equipment	13,153,634	1,376,396	(103,879)	14,633,909
Furnishings and moveable equipment	8,571,723	1,054,299	1,317,260	8,308,762
Library materials	<u>5,332,355</u>	<u>511,670</u>	<u>76,540</u>	<u>5,767,485</u>
Total	<u>27,465,476</u>	<u>2,982,584</u>	<u>1,289,921</u>	<u>29,158,139</u>
Total capital assets, net	<u>\$ 40,707,623</u>	<u>\$ 4,939,413</u>	<u>\$ 0</u>	<u>\$ 45,647,036</u>

During June 2002, construction of the new Medical Education Conference Center (the "Center") was completed. Total construction costs for the 26,000 square foot Center were approximately \$6.6 million, including federal grant funds of \$2.6 million, state capital appropriations of \$2.0 million, and \$2.0 million expected to be raised from College and private sources.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002**

The Center will provide needed space to accommodate meetings for all six classes totaling 630 students in the BS/MD program, nearly half of the College's 1,700 basic and clinical sciences faculty, and numerous continuing education programs in medicine, nursing, and allied health.

6. CAPITAL LEASE AGREEMENTS

The College has entered into various noncancelable lease agreements to finance the purchase of energy conservation improvements (under the provisions of Ohio House Bill 7), and duplicating equipment. These leases are accounted for as capital leases (total net book value at June 30, 2002 of \$1,411,172) and payments of \$274,527 were made under the agreements during the year ended June 30, 2002.

Future minimum lease payments subsequent to June 30, 2002 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 186,095	\$ 88,432	\$ 274,527
2004	176,262	76,933	253,195
2005	187,709	65,486	253,195
2006	164,608	54,733	219,341
2007	174,257	45,084	219,341
2008	184,471	34,870	219,341
2009	195,285	24,056	219,341
2010	206,732	12,609	219,341
2011	<u>107,867</u>	<u>1,804</u>	<u>109,671</u>
Total	<u>\$ 1,583,286</u>	<u>\$ 404,007</u>	<u>\$ 1,987,293</u>

The unspent funds received under the House Bill 7 lease are held in escrow at a financial institution. The balance of the escrow accounts (approximately \$525 thousand at June 30, 2002) will be utilized to satisfy a portion of the commitments described in Note 7. The improvements financed by the leases through June 30, 2002 totaled \$1,411,172 and are included in capital assets in the accompanying statement of net assets.

7. COMMITMENTS AND CONTINGENCIES

The College has entered into various contractual service agreements with its associated hospitals and health departments primarily for clinical instruction, and for research and other services. For fiscal year ended June 30, 2002, these contracts totaled \$3,741,730. At June 30, 2002, the College had recorded accrued liabilities of \$1,630,848, which represented unbilled services rendered by the associated hospitals under these contracts.

Not included in these financial statements are unexpended capital appropriations due from the State for various construction and improvement projects as described in Note 2. During the year ended June 30, 2002, approximately \$1.9 million was expended from state capital appropriations and capitalized in the College's financial statements. On June 30, 2002, capital appropriations of approximately \$2.3 million remained unexpended: \$1.3 million for campus network infrastructure, and \$1.0 million for various capital improvements.

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

	<u>Amount</u>
To be funded by College	\$ 597,321
To be funded by State of Ohio capital appropriations	<u>807,665</u>
Total	<u>\$ 1,404,986</u>

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

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002**

8. EMPLOYEE BENEFIT PLANS

Retirement Plans

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

PERS and STRS are statewide, cost-sharing, multiple-employer defined benefit pension plans. PERS 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 PERS and STRS issue separate, publicly available financial reports that include financial statements and required supplementary information. The PERS financial report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085, or 1-800-222 PERS (7377) or visiting their website at www.opers.org. The STRS financial report may be obtained by writing to State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090 or visiting their website at www.strsoh.org.

The Ohio Revised Code provides statutory authority for employee and employer contributions to PERS and STRS. For PERS, the required, actuarially determined, contribution rates for plan members and the College are 8.50% and 13.31% of covered payroll, respectively. The required, actuarially determined contribution rates for STRS plan members and the College are 9.30% and 14.00% of covered payroll, respectively. These PERS and STRS contribution rates incorporate the required contributions to fund post-retirement benefits other than pensions.

Eligible College employees may choose an Alternative Retirement Plan ("ARP") in lieu of PERS or STRS. For employees electing an ARP, the College is required to make employer contributions of 6% of earned compensation to PERS or STRS. In addition, the College contributes 8% or 7.31% of earned compensation for PERS 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 PERS or STRS. For the employees who elected participation in ARP, prior employee contributions to PERS and STRS were transferred from those plans and invested in individual accounts established with selected external investment managers.

The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

The College's contributions, including employer contributions for pensions and other postretirement benefits, for the year ended June 30, 2002 and for each of the two preceding years are:

Year Ended	PERS	STRS	ARP
<u>June 30</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributions</u>
2002	\$1,241,443	\$525,147	\$259,374
2001	939,061	562,907	220,700
2000	1,075,747	555,978	193,163

Postretirement Benefits Other Than Pensions ("OPEB")

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

PERS provides postretirement health care coverage to eligible retirants and their dependents with ten or more years of qualifying Ohio service. Employer contributions equal to 4.3% of member-covered payroll were allocated to fund health care expenses.

The OPEB is advanced-funded on an actuarially determined basis through employer contributions and investment earnings thereon. The principal assumptions used for the 2000 actuarial computations (latest available) were as follows:

Funding Method

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

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002**

Assets Valuation Method

For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Investment Return

The investment return assumption rate for 2000 was 7.75%

Active Employee Total Payroll

An annual increase of 4.75%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from .54% to 5.1%.

Health Care

Health care costs were assumed to increase 4.75% annually.

At December 31, 2000 (latest information available), there were 411,076 active participants contributing to the plan. The College's actuarially required OPEB contribution for 2000 equaled the actual amount contributed to PERS by the College. In addition, at December 31, 2000, the actuarial value of the plan's net assets available for OPEB approximated \$11.7 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were \$14.4 billion and \$2.7 billion, respectively.

The PERS contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

STRS provides comprehensive healthcare benefits to retired teachers and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for healthcare coverage. Pursuant to the ORC, STRS has discretionary authority over how much, if any, of the healthcare costs will be absorbed by STRS. Monthly premiums were paid during the year by most benefit recipients.

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

For the fiscal year ended June 30, 2002, STRS allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund from which healthcare benefits are paid. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001 (latest information available).

For the year ended June 30, 2001 (latest information available), net healthcare costs paid by STRS were \$301 million. There were 102,132 eligible benefit recipients on June 30, 2001.

9. RISK MANAGEMENT

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

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

10. RELATED ORGANIZATION

Not included in the accompanying financial statements is the NEOUCOM Foundation ("Foundation"), a legally separate, not-for-profit organization incorporated in 1978 and operated exclusively for the benefit of the College. The primary purpose of the Foundation is to provide developmental support to increase resources benefiting all groups of the College including students, faculty, and employees.

Management of the College has determined that the Foundation is not a component unit of the College as defined by GASB Statement No. 14, *The Financial Reporting Entity*.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002**

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

The College provides accounting and various other services for the Foundation at no charge.

Unaudited summary financial information of the Foundation as of and for the year ended June 30, 2002 is as follows:

Net Assets (Deficiency), June 30, 2002:	
Unrestricted	\$ (279,376)
Temporarily Restricted	902,472
Permanently Restricted	<u>4,974,303</u>
Total Net Assets	<u>\$ 5,597,399</u>

Change in net assets, for the year ended June 30, 2002:	
Contributions, gains, and other support*	\$ 883,906
Expenditures*	(1,407,967)
Change in Net Assets	(524,061)
Net assets-Beginning	<u>6,121,460</u>
Net assets-Ending	<u>\$ 5,597,399</u>

*Includes \$380,235 of in-kind support from the College for year ended June 30, 2002.

Also not included in the accompanying financial statements is the NEOUCOM Research Corporation, which is a tax-exempt, non-profit IRS section 501 (C) 3 organization incorporated on December 10, 1999.

The NEOUCOM Research Corporation is operated exclusively for scientific purposes. Its mission is to promote and encourage scientific and medical research and development of intellectual property consistent with the mission, goals, and programs of the College.

11. FUNDS HELD IN CUSTODY FOR OTHERS

The College provides banking services for various student activities, clubs and groups.

In addition, the College serves as the fiscal agent for the Canton Area Regional Health Education Network ("CARHEN") and the Summit-Portage Area Regional Health Education Network ("SPAHEN"). Both CARHEN and SPAHEN are separately incorporated not-for-profit organizations.

Net assets held in custody by the College on June 30, 2002 were as follows:

CARHEN	\$ 86,067
SPAHEN	85,913
Student activities & clubs	45,896
Other organizations	<u>5,764</u>
Total agency net assets	<u>\$ 223,640</u>

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
STUDENT FINANCIAL AID CLUSTER (SFA)			
U.S. Department of Education (Direct Programs):			
Federal Work Study (FWS)	84.033	PO33A75236	\$ 26,932
U.S. Department of Health and Human Services (Direct Programs):			
Health Professions Student Loans - Health Professions Student Loans (HPSL)	93.342	5979109-01	155
Scholarships to Disadvantaged Students (SDS)	93.925	5979109-01	<u>62,855</u>
Total U.S. Department of Health and Human Services			<u>63,010</u>
TOTAL STUDENT FINANCIAL AID			<u>89,942</u>
RESEARCH AND DEVELOPMENT CLUSTER			
U.S. Department of Health and Human Services:			
National Institutes of Health (Direct Programs):			
Natural Immunity and Bone Resorption	93.121	RO1DE06065	46,830
Downstream Effectors of Growth Hormone on Alveolar Bone	93.121	RO3DE12054	<u>4,568</u>
Total CFDA #93.121			<u>51,398</u>
Analyses of Communication Sounds in Auditory Midbrain (\$15,625 passed through to subrecipients)	93.173	RO1DCO4733	53,065
Auditory Information Processing in Midbrain	93.173	RO1DCOO937	<u>221,690</u>
Total CFDA #93.173			<u>274,755</u>
LTP and Spatial Learning	93.242	RO1MH57892	104,872
Mineral-Matrix Relations in Calcifying Tissues	93.846	RO1AR41452	93,550
The Role of BCL-2 Proteins in Chondrocyte Biology	93.846	RO1AR46459	130,188
Mouse Model for Cartilage Degeneration and Repair	93.846	R21AR47086	<u>56,490</u>
Total CFDA#93.846			<u>280,228</u>
Molecular Biology of Bile Acid Synthesis	93.848	RO1DK44442	133,467
Regulation of Bile Acid Synthesis by Nuclear Receptor	93.848	RO1DK58379	<u>68,372</u>
Total CFDA#93.848			201,839

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
U.S. Department of Health and Human Services:			
A Post Discharge Intervention to Improve Stroke Outcomes	93.853	RO1NS41333	2,962
Female Reproductive Organs and Their Innervation	93.854	RO1NS22526	198,981
Neurochemical Spinal Circuitry and Uterine Innervation	93.854	RO1NS33081	139,052
Intrafusal Fiber Expression of Cardiac Sarcomeric Genes	93.854	R15NS36378	34,381
Microglia in Retrovirus-Induced Neurodegeneration	93.854	R29NS37614	64,875
Function and Role of HSV-1 ICP 34.5 in Encephalitis	93.854	R15NS40324	61,025
Mechanisms of Synaptic Modulation in Sympathetic Neurons	93.854	RO1NS25999	<u>72,529</u>
Total CFDA#93.854			<u>570,843</u>
Regulation of Bile Acid Synthesis	93.859	RO1GM31548	3,019
Thermal Hyperalgesia in Aged Rats	93.866	RO3AG17379	17,482
Heteroconjugate Vaccines Against Herpes Simplex Virus	93.856	R44AI43107	136,403
Planning a Conference to Convene a Panel to Evaluate Findings on Research Exploring the Value Added By Educational Activities to Clinical Care	*	98-BHPR-A262737	<u>2,609</u>
Total National Institutes of Health			<u>1,646,410</u>
Passed through Akron Health Department:			
Evaluation of a Lead Hazard Program	14.900	OHL0098-98	15,964
Passed through Summa Health System:			
A Primary Care Intervention for Obesity	93.226	R01HS08803	33,182
Passed through Case Western Reserve University:			
PBRN Characterization and Automated NAMCS by Patient Report: Electronic Data Collection Pilot Study	93.226	U01HS11176	16,866
Passed through Virginia Commonwealth University:			
Characterizing Medical Error: A Primary Care Study	93.226	U18HS11117	<u>25,131</u>
Total CFDA#93.226			<u>91,143</u>
Total U.S. Department of Health and Human Services			<u>1,737,553</u>
National Science Foundation (Direct Programs):			
Paleobiology of the First Whales: Radiation of Pakicetid Cetaceans in Eocene Pakistan	47.050	EAR99O2830	<u>60,422</u>
The Ecomorphology of Mammalian Frugivores: A Test of Congruence Between Cranial Morphology and Feeding Behavior	47.074	IBN99O5404	<u>5,553</u>
Total National Science Foundation			<u>65,975</u>
National Aeronautics and Space Administration (Direct Program):			
The Effect of Hypergravity on Bone Cell Cultures	*	NAG5-7789	<u>70,111</u>
TOTAL RESEARCH AND DEVELOPMENT			<u>1,873,639</u>

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
OTHER PROGRAMS			
U.S. Department of Health and Human Services:			
Direct Programs:			
Grants for Predoctoral Development in Family Medicine	93.896	D16HP00106	90,559
Grants for Establishment of Departments in Family Medicine	93.984	D32PE10213	33,207
Construction of and Movable Equipment for a Medical Education Conference and Learning Center	93.887	1C76-HF-00066	2,385,104
Passed through from the Medical College of Ohio - Toledo:			
Model State Supported AHEC Program (\$Open passed through to subrecipients)	93.107	HP03029	269,544
Passed through from the Ohio Department of Mental Health:			
Women's Health Month - CY 2000	93.991	WPOBOZ	7,851
Women's Health Month - CY 2001	93.991	WPO7SI	<u>9,784</u>
Total CFDA#93.991			<u>17,635</u>
Passed through Case Western Reserve University:			
Grants for Geriatric Education Centers	93.969	HP70113	52,000
Center of Excellence Program - Jail Diversion	*	45-MHCJCCOE-BG-01-01	<u>146,648</u>
Total CFDA#93.969			<u>198,648</u>
TOTAL OTHER PROGRAMS			
(ALL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES)			<u>2,994,697</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 4,958,278</u></u>

* - CFDA number not available.

See notes to Supplemental Schedule of Expenditures of Federal Awards.

(Concluded)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

NOTES TO THE SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

1. BASIS OF PRESENTATION

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of Northeastern Ohio Universities College of Medicine (the "College") under programs financed by the U.S. government for the year ended June 30, 2002. The Schedule has been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

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

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

2. FEDERAL FAMILY EDUCATION LOANS

Federal Family Education Loans (Federal CFDA Number 84.032) processed for students by the College during the year ended June 30, 2002, totaled \$7,157,934. The College is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan programs and, accordingly, these loans are not included in the College's financial statements or the Schedule.

3. OTHER FEDERAL LOAN PROGRAMS

The College administers the following additional federal loan programs:

	CFDA Number	Outstanding Balance at June 30, 2002
Federal Perkins Loan Program	84.038	\$1,535,657
Health Professions Student Loan Program - Loans to Disadvantaged Students	93.342	198,895
Health Professions Student Loan Program - Primary Care Loans	93.342	1,319,998

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, 2002 are identified below:

	CFDA Number	Disbursements
Federal Perkins Loan Program	84.038	\$ 246,564
Health Professions Student Loan Program - Loans to Disadvantaged Students	93.342	44,880
Health Professions Student Loan Program - Primary Care Loans	93.342	249,218

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

* * * * *

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Northeastern Ohio Universities College of Medicine (the "College") as of and for the year ended June 30, 2002, and have issued our report thereon dated December 23, 2002, which includes an explanatory paragraph regarding the adoption of certain new accounting standards as described in Note 1 to the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the College in a separate letter dated December 23, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the College in a separate letter dated December 23, 2002.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, pass-through entities, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 23, 2002

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

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

Compliance

We have audited the compliance of the Northeastern Ohio Universities College of Medicine (the "College") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The College's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

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

Our consideration of the College's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, pass-through entities, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 23, 2002

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2002

Summary of Auditors' Results

- Type of Report Issued on the Financial Statements as of and for the Year Ended June 30, 2002 - Unqualified.
- Reportable Conditions in Internal Control Disclosed by the Audit of the Financial Statements - N/A (none reported).
- Noncompliance Noted that is Material to the Financial Statements of the College - None.
- Reportable Conditions in Internal Control Over Major Federal Award Programs Disclosed by the Audit of the Financial Statements - N/A (none reported).
- Type of Report Issued on Compliance for Major Federal Award Programs - Unqualified.
- The audit did not disclose any audit findings that are required to be reported under section .510(a) of OMB Circular A-133.
- Major Federal Award Program Identified for the Year Ended June 30, 2002:
 - Student Financial Aid Cluster
 - Research and Development Cluster
 - Construction of and Movable Equipment for a Medical Education Conference and Learning Center (CFDA #93.887)
- Dollar Threshold Used to Distinguish Between Type A and Type B Programs - \$300,000.
- The College is not considered to be a Low Risk Auditee as defined under OMB Circular A-133.

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

None

Findings and Questioned Costs Relating to Federal Awards

None

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

STATUS OF PRIOR YEAR FINDINGS

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



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Betty Montgomery**

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NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 18, 2003**