

***Northeastern Ohio  
Universities College  
of Medicine***

*Single Audit Report  
for the Year Ended  
June 30, 2003*





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Northeastern Ohio Universities College of Medicine

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, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

January 14, 2004

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# NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Northeastern Ohio Universities College of Medicine (the "College") as of June 30, 2003 and 2002 as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College at June 30, 2003 and 2002, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 - 6 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and 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, 2003 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, 2003 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 16, 2003 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.

*Deloitte & Touche LLP*

December 16, 2003

## **NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2003**

This discussion and analysis of the Northeastern Ohio Universities College of Medicine (the "College") should be read in conjunction with the financial statements and the accompanying notes. Its purpose is to provide an overview of the College's financial activities and performance for the fiscal year ended June 30, 2003.

#### ***Overview of the Financial Statements***

This annual report includes the basic financial statements and accompanying notes prepared in accordance with the Governmental Accounting Standards Board (the "GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, 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 other factors such as levels of state appropriation funding and the condition of facilities.

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

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

#### ***Introductory Comments***

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

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

The College receives substantial state support. During fiscal 2003, state share of instruction, operating grants and capital support comprised 59% of all College revenues.



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

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

***Statement of Net Assets Highlights***

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

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>ASSETS</b>		
Current assets	\$ 11,572,092	\$ 13,944,838
Noncurrent		
Capital	45,922,159	45,647,036
Other	<u>3,946,952</u>	<u>4,052,867</u>
Total assets	<u>61,441,203</u>	<u>63,644,741</u>
<b>LIABILITIES</b>		
Current liabilities	6,183,027	7,284,103
Noncurrent liabilities	<u>2,106,921</u>	<u>2,393,089</u>
Total liabilities	<u>8,289,948</u>	<u>9,677,192</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	44,524,969	44,320,776
Restricted		
Nonexpendable	3,898,721	3,746,760
Expendable	1,336,094	1,243,502
Unrestricted	<u>3,391,471</u>	<u>4,656,511</u>
Total net assets	<u>\$ 53,151,255</u>	<u>\$ 53,967,549</u>

The College experienced a decrease of \$0.817 million in net assets during fiscal 2003. Capital net assets increased by \$0.204 million, which represented a slight increase over the prior year. Unrestricted net assets decreased \$1.265 million due primarily to spending down of College designated funds, and also in part to cuts in state share of instruction, and lower investment income from declining cash balances and interest rates.

The current assets of the College remained very strong, with cash and cash equivalents comprising 80% of all current assets. Although unrestricted cash and cash equivalents decreased \$1.386 million as indicated in the statement of cash flows, current assets totaling \$11.572 million exceeded current liabilities of \$6.183 million.

Other notable changes in assets during 2003 are as follows:

- Accounts receivable decreased during fiscal 2003 by \$0.965 million due primarily to reimbursement amounts due for construction expenses of the new conference center completed in the prior year.
- Investment in capital assets totaled \$3.177 million in fiscal year 2003, exceeding the deduction for depreciation of \$2.911 million.

Total liabilities decreased \$1.387 million during fiscal 2003. The following items represent the majority of the change from the prior year:

- Accounts payable decreased by \$1.118 million due to the timing of associated hospital contract invoices, and invoices related to construction of the Conference Center completed in the prior year.

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

- Accrued liabilities decreased by \$0.269 million due to capital lease payments on principal, and the State of Ohio assuming the College's unfunded, actuarially determined liability for outstanding workers compensation claims.

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

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

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

Designated for:	<u>2003</u>	<u>2002</u>
Capital purposes	\$ 258,049	\$ 917,049
Operating purposes	2,563,864	3,217,379
Undesignated	<u>569,558</u>	<u>522,083</u>
Total	<u>\$ 3,391,471</u>	<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 years ended June 30, 2003 and 2002 is presented below:

	<u>2003</u>	<u>Percent of Total</u>	<u>2002</u>	<u>Percent of Total</u>
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ 7,824,161	43%	\$ 6,959,114	43%
Grants and contracts	9,133,845	51%	8,071,870	50%
Auxiliary enterprises and other	<u>1,115,125</u>	6%	<u>1,053,407</u>	7%
Total operating revenues	<u>18,073,131</u>	100%	16,084,391	100%
<b>OPERATING EXPENSES</b>				
Educational and general	31,729,470	89%	32,218,241	90%
Auxiliary enterprises	1,011,357	3%	649,307	2%
Depreciation	<u>2,910,948</u>	8%	<u>2,982,584</u>	8%
Total operating expenses	<u>35,651,775</u>	100%	35,850,132	100%
Operating loss	<u>(17,578,644)</u>		<u>(19,765,741)</u>	
<b>NONOPERATING REVENUES/(EXPENSES)</b>				
State appropriations	15,822,793		16,228,082	
Investment income	219,752		414,279	
Interest expense	<u>(220,496)</u>		<u>(267,452)</u>	
Net nonoperating revenues/(expenses)	<u>15,822,049</u>		16,374,909	
<b>LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<b>(1,756,595)</b>		<b>(3,390,832)</b>	
Capital grants and appropriations	940,301		4,810,297	
Gain on sale of assets and other	<u>0</u>		<u>19,640</u>	
<b>(DECREASE)/INCREASE IN NET ASSETS</b>	<b><u>\$ (816,294)</u></b>		<b><u>\$ 1,439,105</u></b>	

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

The two major sources of operating revenues for the College are grants and contracts, and student tuition and fees, which compromise 94% and 93% of total operating revenues in fiscal year 2003 and 2002, respectively.

Operating revenues are summarized as follows:

	<u>2003</u>	<u>2002</u>
Operating revenues		
Student tuition	\$ 7,824,161	\$ 6,959,114
Government grants and contracts	6,821,878	6,128,229
Private grants and contracts	2,311,967	1,943,641
Sales and services		
College departments	345,587	433,630
Auxiliary enterprises	721,599	468,118
Other income	47,939	151,659
Total operating revenues	<u>\$18,073,131</u>	<u>\$16,084,391</u>

Due primarily to declining state share of instruction, the College has been forced to increase student tuition and fees 14% for fiscal year 2003 and 8% for the previous year, which accounts for the increase in tuition revenues. The College did realize an increase of 13% in externally-funded grants and contracts over the previous year, due in part to the establishment of the new Read Distance Education Center completed in June, 2003. The increase in auxiliary enterprise revenues is due to the new conference center which opened in June, 2002.

Operating expenses decreased slightly during fiscal 2003 in comparison to the previous year. Instructional and related expenses account for 53% of total operating expenses in 2003, and 52% in 2002. Plant operation expenses decreased by \$0.5 million from the previous year due to construction-related expenses incurred during fiscal year 2002 in completing the new conference center. The new conference center operations accounted for the increased auxiliary enterprise expenses during fiscal 2003.

Operating expenses are summarized as follows:

	<u>2003</u>	<u>2002</u>
Operating expenses		
Instructional and related		
Instruction	\$12,244,022	\$11,890,437
Academic support	4,851,566	4,841,927
Student services	1,838,731	1,791,107
Student financial aid	107,033	60,118
Subtotal instructional and related	<u>19,041,352</u>	<u>18,583,589</u>
Research	2,793,998	3,026,279
Public service	324,589	322,401
General administration and other	6,584,862	6,794,732
Plant operation and maintenance	2,984,669	3,491,240
Auxiliary enterprises	1,011,357	649,307
Depreciation	2,910,948	2,982,584
Total operating expenses	<u>\$35,651,775</u>	<u>\$35,850,132</u>

Operating expense components are summarized as follows:

	<u>2003</u>	<u>2002</u>
Employee compensation	\$ 20,147,216	\$ 19,703,220
Contractual services	6,915,047	6,848,448
Other operating expenses	4,540,501	5,191,483
Purchased utilities	1,138,063	1,154,397
Depreciation	2,910,948	2,952,584
Total operating expenses	<u>\$ 35,651,775</u>	<u>\$ 35,850,132</u>

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

Nonoperating revenues consist primarily of state appropriations of \$15.823 million, and investment income of \$0.220 million. State share of instruction decreased \$0.405 million (2.5%) due to state budget cuts, while investment income decreased \$0.195 million (47%) due to lower cash balances and low interest rates. Nonoperating expenses represent interest assessed by the Ohio Board of Regents on certain College facilities, and interest expense related to capital leases for cost-saving energy conversation improvements, copiers, and other equipment.

Capital revenues received by the College during fiscal 2003 totaled \$0.937, which decreased significantly over the previous year due to the construction of the new conference center completed in 2002.

***Statement of Cash Flows***

Major sources of operating cash flows included \$8.851 million from grants and contracts and \$7.836 million from student tuition and fees.

Operating cash was used primarily for employee compensation of \$20.360 million and payments to suppliers for goods and services of \$12.627 million.

State share of instruction of \$15.823 million represented nearly all of the noncapital financing cash flows.

Cash outflows for the purchase of capital assets totaled \$4.036 million, and were partially offset by capital grants and appropriations of \$1.697 million.

In summary, the College's cash position decreased significantly by \$1.495 million (13%) during fiscal year 2003 due to the net cash investment of \$2.746 million in capital financing activities, state share of instruction cuts of \$0.405 million, and \$0.195 million in lower investment revenues due to decreased cash in the current and prior fiscal year, coupled with continuing declines in interest rates.

***Factors Impacting Future Periods***

The College receives substantial state support. The ability of the College to continue to fulfill its mission and execute its strategic plan is directly affected by state operating and capital support, which comprised 59% and 57% of all revenues during fiscal years 2003 and 2002, respectively. In addition, health care and utilities cost increases, and the necessity of continued student tuition increases continue to impact the College's operating results.

Capital requirements are addressed through the College's six-year capital plan and the technology replacement plan. Funding is derived primarily from state capital appropriations, supplemented with existing College designated funds. Since the state capital funding is formula driven, the College is at a relative disadvantage in comparison to larger schools. The College has reacted to this restraint by leveraging the state's \$1.5 million appropriation to an amount approximating \$9 million in support of capital projects during the past biennium.

The State of Ohio funds nearly all the costs of building construction and capital improvements of College facilities on the Rootstown campus, and holds title to all College real property. Thus the state and the College will continue to face challenges of funding future maintenance on capital assets, and staying current in terms of technological assets. Based on its most recent study completed in March 2003, future maintenance costs were estimated to be \$31.102 million through the year 2027.

Critical to the College's continuing success was the re-accreditation during fiscal 2003 from both the Liaison Committee on Medical Education and the North Central Association of College's and Schools. The College had assembled an accreditation administrative support team, along with a steering committee, and 14 subcommittees who researched and evaluated various components relevant to the self-study of the College.

Associated teaching hospitals and voluntary clinical faculty remain strongly committed to education. Monetary and non-monetary incentives have been identified to encourage clinical faculty teaching. The associated hospitals collectively receive approximately \$55 million in Medicare education-related payments for graduate medical education and \$4.5 million in support from the College for undergraduate clinical education.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2003 and 2002**

	June 30, 2003	June 30, 2002
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 3)	\$ 9,267,107	\$ 10,653,288
Accounts receivable (Note 4)	1,432,239	2,397,002
Inventories	203,482	209,802
Prepaid expenses	490,076	466,321
Notes receivable (Note 4)	179,188	218,425
Total current assets	11,572,092	13,944,838
Noncurrent assets		
Escrow funds held by trustee (Notes 3 and 6)	227,419	524,532
Cash and cash equivalents restricted for long term investment	804,107	615,689
Notes receivable (Note 4)	2,915,426	2,912,646
Capital assets, net (Note 5)	45,922,159	45,647,036
Total noncurrent assets	49,869,111	49,699,903
Total assets	61,441,203	63,644,741
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	1,010,233	2,128,379
Accrued salaries and benefits	766,253	772,944
Payroll withholdings payable	157,183	102,130
Compensated absences	216,806	187,598
Deferred revenue	832,730	884,989
Other accrued liabilities (Note 7)	2,752,113	2,798,328
Deposits held in custody for others (Note 11)	271,447	223,640
Capital lease obligations (Note 6)	176,262	186,095
Total current liabilities	6,183,027	7,284,103
Noncurrent liabilities		
Other accrued liabilities	0	142,003
Compensated absences	885,993	853,895
Capital lease obligations (Note 6)	1,220,928	1,397,191
Total noncurrent liabilities	2,106,921	2,393,089
Total liabilities	8,289,948	9,677,192
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	44,524,969	44,320,776
Restricted		
Nonexpendable		
Endowments	384,579	381,579
Student loans	3,514,142	3,365,181
Expendable		
Current operations	1,336,094	1,243,502
Unrestricted	3,391,471	4,656,511
Total net assets	\$ 53,151,255	\$ 53,967,549

The accompanying notes are an integral part of the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2003 and 2002**

	2003	2002
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$ 276,383, and \$233,085, respectively)	\$ 7,824,161	\$ 6,959,114
Federal grants and contracts	2,980,373	2,613,343
State grants and contracts	3,756,133	3,430,523
Local grants and contracts	85,372	84,363
Private grants and contracts	2,311,967	1,943,641
Sales and services of departments	345,587	433,630
Sales and services of auxiliary enterprises	721,599	468,118
Other operating revenues	47,939	151,659
Total operating revenues	18,073,131	16,084,391
<b>OPERATING EXPENSES</b>		
Educational and general		
Instruction and departmental research	12,244,022	11,890,437
Separately budgeted research	2,793,998	3,026,279
Public service	324,589	322,401
Academic support	4,851,566	4,841,927
Student services	1,838,731	1,791,107
Institutional support	6,396,281	6,756,537
Operation and maintenance of plant	2,984,669	3,491,240
Scholarships and fellowships	107,033	60,118
Other expenses	188,581	38,195
Auxiliary enterprises	1,011,357	649,307
Depreciation	2,910,948	2,982,584
Total operating expenses	35,651,775	35,850,132
Operating loss	(17,578,644)	(19,765,741)
<b>NONOPERATING REVENUES/(EXPENSES)</b>		
State share of instruction	15,822,793	16,228,082
Investment income	219,752	414,279
Interest expense	(220,496)	(267,452)
Net nonoperating revenues/(expenses)	15,822,049	16,374,909
<b>LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	(1,756,595)	(3,390,832)
<b>OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>		
Federal capital grant	43,833	2,390,914
State capital appropriations	1,030,854	1,867,951
Other	(134,386)	571,072
Total other revenues	940,301	4,829,937
<b>(DECREASE)/INCREASE IN NET ASSETS</b>	(816,294)	1,439,105
<b>NET ASSETS AT BEGINNING OF YEAR</b>	53,967,549	52,528,444
<b>NET ASSETS AT END OF YEAR</b>	\$ 53,151,255	\$ 53,967,549

The accompanying notes are an integral part of the financial statements

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2003 and 2002**

	<b>2003</b>	<b>2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 7,836,431	\$ 6,946,437
Grants and contracts	8,851,207	8,374,899
Employee compensation	(20,359,543)	(19,695,016)
Payments to suppliers	(11,488,658)	(12,139,980)
Payments for utilities	(1,138,063)	(1,154,397)
Payments for student financial aid	(107,033)	(60,118)
Student loan advances	(583,797)	(562,234)
Student loan repayments	620,254	385,965
Sales and services of auxiliary enterprises	740,871	461,354
Sales and services of departments	717,906	270,087
Other operating revenues	47,939	151,659
Other receipts	67,744	58,575
Net cash and cash equivalents used in operating activities	(14,794,742)	(16,962,769)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State share of instruction	15,822,793	16,228,082
Gifts for noncapital purposes		
Additions to endowment	3,000	3,000
Net cash and cash equivalents provided by noncapital financing activities	15,825,793	16,231,082
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State capital appropriations	1,172,699	1,835,216
Capital gifts and grants	524,273	2,333,823
Purchases of capital assets	(4,036,060)	(7,292,865)
Proceeds from sale of capital assets	0	16,640
Principal paid on capital leases	(186,095)	(174,683)
Interest paid on capital leases	(220,496)	(267,452)
Net cash and cash equivalents used in capital financing activities	(2,745,679)	(3,549,321)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	219,752	414,279
Net cash and cash equivalents provided by investing activities	219,752	414,279
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,494,876)	(3,866,729)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</b>	11,793,509	15,660,238
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	\$ 10,298,633	\$ 11,793,509
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (17,578,644)	\$ (19,765,741)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	2,910,948	2,982,584
Changes in assets and liabilities		
Receivables	48,714	149,715
Unbilled charges	119,564	(216,863)
Inventories	6,320	(1,442)
Prepaid expenses	(63,570)	(96,724)
Accounts payable	(734,239)	(248,975)
Accrued salaries and benefits	(6,691)	(54,375)
Deferred revenue	(52,259)	187,193
Compensated absences	61,306	63,509
Other accrued liabilities	378,641	157,840
Deposits held for others	78,711	55,343
Loans to students	36,457	(174,833)
<b>NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES</b>	\$ (14,794,742)	\$ (16,962,769)

The accompanying notes are an integral part of the financial statements

# NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2003 AND 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 approximately 1,700 practicing physicians providing the instruction during the clinical years.

The associated community hospitals and health department are:

#### ***Major Teaching Hospitals and Health Department:***

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

#### ***Other Associated Hospitals:***

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

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

The 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 master's and doctoral degrees. In addition, the Northeastern Ohio Universities Master of Public Health program is a partnership with The University of Akron, Cleveland State University, Kent State University, Youngstown State University, and the College. This program is a non-traditional course of study geared toward working professionals who seek to broaden their role in improving community health, 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.



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2003 AND 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 were 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 College Guide Model	(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. State operating grants are recognized as revenue in the year received.

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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

### **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>
Infrastructure	20 Years
Buildings	40 Years
Building improvements and fixed equipment	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 to be retained 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, 2003 and 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

### **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.

### **Reclassifications**

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

### **Recently Issued Accounting Pronouncements**

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.

During March 2003, the GASB issued Statement No.40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* This statement amend GASB Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that entities communicate key information about such risks in four principal areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that include investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment's denomination. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2004. The College has not determined the impact, if any, that this statement will have on its financial statement disclosures.

During November 2003, the GASB issued Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires entities to report the effects of capital asset impairment in their financial statements when it occurs. The statement requires entities to evaluate major events affecting capital assets to determine whether they are impaired. Those events include physical damage, changes in legal or environment factors, technological changes or obsolescence, changes in manner or duration of use and construction stoppage. Impairment will be measured using methods that are designed to isolate the cost of the capital asset's service capacity that has been rendered unusable by impairment. The statement also enhances comparability of financial statements by requiring all governmental entities to account for insurance recoveries in the same manner. Statement No. 42 is effective for fiscal years beginning after December 15, 2004. The College has not determined the impact, if any, that this statement will have on its financial statements.

## **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 subsidy is determined annually based upon a formula developed by the Ohio Board of Regents.

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

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

Plant facilities on the College's campus are reflected as buildings or construction in progress in the accompanying balance sheet. The state appropriations for these facilities are recognized as nonoperating revenue 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 to certain buildings by the Ohio Board of Regents to the College are included in the accompanying financial statements.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

**3. CASH AND CASH EQUIVALENTS**

***Cash***

The College's bank deposits and cash on hand for all fund groups at June 30, 2003 and 2002 are summarized as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
College's book value (overdraft)	\$ (345,486)	\$ (553,962)
Cash on hand	6,163	6,163
Bank balances	121,309	29,596

The difference in the College's book values and bank balances is caused by items in transit, consisting primarily of outstanding checks. Of the bank balances at June 30, 2003 and 2002, \$100,000 and \$29,596, respectively, was covered by federal depository insurance and \$21,309 and \$0-, respectively, was uncollateralized as defined by the GASB.

***Investments***

In accordance with the ORC and College policy, investments historically were restricted to United States government securities, federal agency securities, certificates of deposit and bank repurchase agreements. Based on changes to the ORC Section 3345.05 in March 2002, the Board of Trustees adopted a new investment policy during fiscal 2003. The new policy permits investments, within conservative limits, in equity and other securities for both non-endowed and endowed funds.

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

The College's investments, at fair value, at June 30, 2003 and 2002, are summarized as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Money market funds – Risk Category 1	\$ 0	\$ 0
Risk Category 2	227,419	524,532
Risk Category 3	482,318	715,907
State Treasury Asset Reserve of Ohio	<u>9,928,219</u>	<u>11,100,869</u>
Total Investments	<u>\$ 10,637,956</u>	<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, 2003 and 2002.

**4. ACCOUNTS AND NOTES RECEIVABLE**

The following is a summary of accounts and student notes receivable at June 30, 2003 and 2002:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Student notes	\$ 3,094,614	\$ 3,131,071
Grants and contracts	1,255,973	2,113,441
Sales and services	161,969	71,284
State capital appropriations	5,929	175,421
Tuition and fees	<u>8,368</u>	<u>36,856</u>
Total	<u>\$ 4,526,853</u>	<u>\$ 5,528,073</u>

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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

	July 1, 2002	Additions	Reclassifications and Deductions	June 30, 2003
Land	\$ 298,200	\$ 0	\$ 0	\$ 298,200
Infrastructure	1,378,616	175,688	39,549	1,593,853
Buildings, improvements and fixed equipment	50,996,853	1,338,826	(272,282)	52,063,397
Furnishings and movable equipment	13,264,135	1,091,452	(805,028)	13,550,559
Library materials	<u>8,867,371</u>	<u>571,322</u>	<u>(295,958)</u>	<u>9,142,735</u>
Total	74,805,175	3,177,288	(1,333,719)	76,648,744
Less accumulated depreciation:				
Infrastructure	447,983	67,874	0	515,857
Buildings, improvements and fixed equipment	14,633,909	1,068,616	(321,377)	15,381,148
Furnishings and movable equipment	8,308,762	1,251,421	(778,255)	8,781,928
Library materials	<u>5,767,485</u>	<u>523,037</u>	<u>(242,870)</u>	<u>6,047,652</u>
Total	<u>29,158,139</u>	<u>2,910,948</u>	<u>(1,342,502)</u>	<u>30,726,585</u>
Total capital assets, net of depreciation	<u>\$ 45,647,036</u>	<u>\$ 266,340</u>	<u>\$ 8,783</u>	<u>\$ 45,922,159</u>

In June 2002, construction of the new Medical Education Conference Center (the "Center") was completed. Total construction costs for the 26,000 square foot facility were \$6.4 million, including federal grant funds of \$2.4 million, state capital appropriations of \$2.0 million, and \$2.0 million anticipated to be raised from College and private sources. 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.

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

	July 1, 2001	Additions	Reclassifications and Deductions	June 30, 2002
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 movable 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 movable 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 of depreciation	<u>\$ 40,707,623</u>	<u>\$ 4,939,413</u>	<u>\$ 0</u>	<u>\$ 45,647,036</u>

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

**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 copiers and other equipment. These leases are accounted for as capital leases (total net book value at June 30, 2003 of \$1,687,605) and payments of \$274,527 were made under the agreements during the year ended June 30, 2003.

Future minimum lease payments subsequent to June 30, 2003 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 1,397,191</u>	<u>\$ 315,575</u>	<u>\$ 1,712,766</u>

The unspent funds received under the House Bill 7 lease are held in escrow at a financial institution. The \$227,419 balance of the escrow accounts at June 30, 2003 will be utilized to satisfy a portion of the commitments described in Note 7. The improvements financed by the leases through June 30, 2003 totaled \$1,687,605 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 associate hospitals and health departments primarily for clinical instruction, and for research and other services. For fiscal years ended June 30, 2003 and 2002, these contracts totaled \$3,969,624 and \$3,741,730, respectively. At June 30, 2003 and 2002, the College had recorded accrued liabilities of \$2,375,747 and \$1,630,848, respectively, which represented unbilled services rendered by the associate 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 years ended June 30, 2003 and 2002, approximately \$1 million and \$1.9 million, respectively, were expended from state capital appropriations and capitalized in the College's financial statements. On June 30, 2003, capital appropriations of approximately \$4 million remained unexpended: \$1.3 million for campus network infrastructure, \$1.3 million for lecture hall renovation, and \$1.4 million for various capital improvements.

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

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
To be funded by College	\$ 1,186,273	\$ 597,321
To be funded by State of Ohio capital appropriations	<u>449,256</u>	<u>807,665</u>
Total contractual commitments	<u>\$ 1,635,529</u>	<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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

**8. EMPLOYEE BENEFIT PLANS**

**Retirement Plans**

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

OPERS and STRS are statewide, cost-sharing, multiple-employer defined benefit pension plans. OPERS and STRS provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefits are established by state statute. Both OPERS and STRS issue separate, publicly available financial reports that include financial statements and required supplementary information. The OPERS financial report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705, or 1-800-222-OPERS (7377) or visiting their Web site at www.OPERS.org. The STRS financial report may be obtained by writing to State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090 or visiting their Web site at www.strsoh.org.

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

Eligible College employees may choose an Alternative Retirement Plan ("ARP") in lieu of OPERS or STRS. For employees electing an ARP, the College is required to make employer contributions of 3.5% of earned compensation to STRS. In addition, the College contributes 13.31% or 11.0% of earned compensation for OPERS or STRS-eligible employees, respectively, to the employee's account with the ARP provider.

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

The College's contributions, including employer contributions for pensions and other postretirement benefits, for the year ended June 30, 2003 and for each of the two preceding years are:

Year Ended <u>June 30</u>	<u>OPERS</u> <u>Contributions</u>	<u>STRS</u> <u>Contributions</u>	<u>ARP</u> <u>Contributions</u>
2003	\$1,287,596	\$450,605	\$305,369
2002	1,241,443	525,147	259,374
2001	939,061	562,907	220,700

**Postretirement Benefits Other Than Pensions ("OPEB")**

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

OPERS provides postretirement health care coverage to eligible retirants and their dependents with ten or more years of qualifying Ohio service. Employer contributions equal to 5% of member-covered payroll were allocated to fund health care expenses.

The OPEB is advanced-funded on an actuarially determined basis through employer contributions and investment earnings thereon. The principal assumptions used for the 2001 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.

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2003 AND 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 2001 was 8%.

### *Active Employee Total Payroll*

An annual increase of 4%, 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% base increase, were assumed to range from .5% to 6.3%.

### *Health Care*

Health care costs were assumed to increase 4% annually.

At December 31, 2001 (latest information available), there were 402,041 active participants contributing to the plan. The College's actuarially required OPEB contribution for 2001 equaled the actual amount contributed to OPERS by the College. In addition, at December 31, 2001, the actuarial value of the plan's net assets available for OPEB approximated \$11.6 billion and the actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial method used, were \$16.4 billion and \$4.8 billion, respectively.

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

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, 2003, STRS allocated employer contributions equal to 1.0% of covered payroll to the health care reserve fund from which healthcare benefits are paid. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002 (latest information available).

For the year ended June 30, 2002 (latest information available), net healthcare costs paid by STRS were \$354.7 million. There were 105,300 eligible benefit recipients on June 30, 2002.

## **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 obtains group rates in association with The University of Akron. 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 ORGANIZATIONS**

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.



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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*.

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.

Condensed financial information of the Foundation as of and for the years ended June 30, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>
Net assets (deficiency), June 30:		
Unrestricted	\$ (457,422)	\$ (279,376)
Temporarily Restricted	1,163,105	902,472
Permanently Restricted	<u>5,233,456</u>	<u>4,974,303</u>
Total Net Assets	<u>\$ 5,939,139</u>	<u>\$ 5,597,399</u>
Change in net assets, for the year ended June 30:		
Contributions, gains, and other support*	\$ 1,700,072	\$ 883,906
Expenditures*	<u>(1,358,332)</u>	<u>(1,407,967)</u>
Change in Net Assets	341,740	(524,061)
Net assets-Beginning	<u>5,597,399</u>	<u>6,121,460</u>
Net assets-Ending	<u>\$ 5,939,139</u>	<u>\$ 5,597,399</u>

\*Includes \$342,697 and \$380,235 of in-kind support from the College for year ended June 30, 2003 and 2002, respectively.

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 Regional Area Health Education Center ("CRAHEC") and the Summit-Portage Area Health Education Center ("SPAHEC"). Both CRAHEC and SPAHEC are separately incorporated not-for-profit organizations.

Net assets held in custody by the College on June 30, 2003 and 2002 were as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
CRAHEC	\$ 127,793	\$ 86,067
SPAHEC	80,757	85,913
Student activities & clubs	56,992	45,896
Other organizations	<u>5,904</u>	<u>5,764</u>
Total agency net assets	<u>\$ 271,446</u>	<u>\$ 223,640</u>

# NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
<b>STUDENT FINANCIAL AID CLUSTER (SFA)</b>			
<b>U.S. Department of Education (Direct Programs):</b>			
Federal Work Study (FWS)	84.033	P033A75236	\$ 19,515
Federal Perkins Loans (FPL)	84.038	P038A75236	14,688
<b>U.S. Department of Health and Human Services (Direct Program):</b>			
Scholarships to Disadvantaged Students (SDS)	93.925	5979109-02	<u>109,901</u>
<b>TOTAL STUDENT FINANCIAL AID CLUSTER</b>			<u>144,104</u>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>			
<b>U.S. Department of Health and Human Services:</b>			
<b>National Institutes of Health:</b>			
Direct Programs:			
Auditory Information Processing in Midbrain	93.173	R01DC00937	187,090
LTP and Spatial Learning	93.242	R01MH57892	108
Gender, Estrogen/Tamoxifen Modulation of Amphetamine	93.279	R15DA13381	4,896
Mineral-Matrix Relations in Calcifying Tissues	93.846	R01AR41452	375,291
The Role of BCL-2 Proteins in Chondrocyte Biology	93.846	R01AR46459	112,520
Mouse Model for Cartilage Degeneration and Repair	93.846	R21AR47086	<u>34,494</u>
Total CFDA#93.846			<u>522,305</u>
Molecular Biology of Bile Acid Synthesis	93.848	R01DK44442	45,611
Regulation of Bile Acid Synthesis by Nuclear Receptor	93.848	R01DK58379	<u>218,957</u>
Total CFDA#93.848			<u>264,568</u>
Regulation of APP Processing by Par-4	93.853	R01NS043296	12,340
Female Reproductive Organs and Their Innervation	93.854	R01NS22526	169,414
Neurochemical Spinal Circuitry and Uterine Innervation	93.854	R01NS33081	993
Intrafusal Fiber Expression of Cardiac Sarcomeric Genes	93.854	R15NS36378	17,751
Microglia in Retrovirus-Induced Neurodegeneration	93.854	R29NS37614	86,341
Function and Role of HSV-1 ICP 34.5 in Encephalitis	93.854	R15NS40324	38,141
Mechanisms of Synaptic Modulation in Sympathetic Neurons	93.854	R01NS25999	<u>10,205</u>
Total CFDA#93.854			<u>322,845</u>

(Continued)

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE**

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2003**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
<b>RESEARCH AND DEVELOPMENT CLUSTER (Continued)</b>			
<b>U.S. Department of Health and Human Services:</b>			
<b>National Institutes of Health:</b>			
Direct Programs:			
Thermal Hyperalgesia in Aged Rats	93.866	R03AG17379	\$ 1,489
DerG (a new Immunomodulator) Treatment of Viral Encephalitis	93.856	U01AI054747	41,120
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	98
Passed through Washington State University:			
Analyses of Communication Sounds in Auditory Midbrain	93.173	R01DC04733	20,078
Passed through University of Idaho:			
LTP and Spatial Learning	93.242	R01MH57892	4,189
Passed through Summa Health System Hospitals:			
A Post Discharge Intervention to Improve Stroke Outcomes	93.853	R01NS41333	35,709
Passed through CEL-SCI Corp.:			
Heteroconjugate Vaccines Against Herpes Simplex Virus	93.856	R44AI43107	63,078
DerG Immunostimulant Prevention/Treatment of HSV Disease	93.856	R43 A1055069	<u>2,929</u>
Total National Institutes of Health			<u>1,482,842</u>
Passed through Summa Health System:			
Collaborative Management of Indigent Diabetic Patients	93.226	R03HS13267	10,661
Passed through Case Western Reserve University:			
PBRN Characterization and Automated NAMCS by Patient Report: Electronic Data Collection Pilot Study	93.226	U01HS11176	<u>22,177</u>
Total CFDA#93.226			<u>32,838</u>
Total U.S. Department of Health and Human Services			<u>1,515,680</u>
<b>Department of Defense/US Army (Direct Program):</b>			
Prevalence and Outcomes of Restless Legs Syndrome Among Veterans	12.420	DAMD17-03-1-0082	72,461
<b>U.S. Department of Housing and Urban Development:</b>			
Passed through Akron Health Department:			
Evaluation of a Lead Hazard Program	14.900	OHLC0098-98	18,998

(Continued)

# NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
<b>RESEARCH AND DEVELOPMENT CLUSTER (Continued)</b>			
<b>National Science Foundation (Direct Programs):</b>			
Paleobiology of the First Whales:			
Radiation of Pakicetid Ceraceans in Eocene Pakistan	47.050	EAR9902830	\$ 46,383
Evolution of the Cetacean Body Plan:			
Eocene Whales from India	47.050	EAR0207370	<u>46,976</u>
Total CFDA#47.050			<u>93,359</u>
US-India Cooperative Research—Eocene Whales from India	47.075	INT0216710	<u>7,002</u>
Total National Science Foundation			<u>100,361</u>
<b>National Aeronautics and Space Administration (Direct Program):</b>			
The Effect of Hypergravity on Bone Cell Cultures	*	NAG5-7789	<u>472</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>1,707,972</u>
<b>OTHER PROGRAMS</b>			
<b>U.S. Department of Health and Human Services:</b>			
Direct Programs:			
Grants for Predoctoral Development in Family Medicine	93.896	D16HP00106	61,456
Grants for Establishment of Departments in Family Medicine	93.984	D32PE10213	9,962
OAT Special Projects	93.211	1D1B TM00061	319,786
Construction of and Movable Equipment for a Medical Education Conference and Learning Center	93.887	1C76-HF-00066	43,833
Passed through from the Medical College of Ohio—Toledo:			
Model State Supported AHEC Program (\$230,276 passed through to subrecipients)	93.107	HP03029	337,984
Passed through Ohio Department of Mental Health and Summit County ADM Board:			
Center of Excellence Program—Jail Diversion—FY01 & FY02	93.958	45-MHCJCCOE-BG-01-01	2,259
Center of Excellence Program—Jail Diversion—FY03	93.958	45-MHCJCCOE-BG-01-03	<u>155,677</u>
Total CFDA#93.958			<u>157,936</u>
Passed through from the Ohio Department of Mental Health:			
Women's Health Month—CY 2002	93.991	WP0EFE	7,399
Women's Health Month—CY 2003	93.991	WP07SI	<u>8,950</u>
Total CFDA#93.991			<u>16,349</u>

(Continued)

# NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2003

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Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
<b>OTHER PROGRAMS (CONTINUED)</b>			
Passed through Case Western Reserve University: Grants for Geriatric Education Centers	93.969	HP70113	\$ <u>56,000</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,003,306</u>
<b>U.S. Department of Justice:</b> Passed through OCJS and NAMI	16.580	2001-DG-B01-7440	<u>6,528</u>
TOTAL OTHER PROGRAMS			<u>1,009,834</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,861,910</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, 2003

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### 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, 2003. 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, 2003, totaled \$8,159,166. 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:

	<b>CFDA Number</b>	<b>Outstanding Balance at June 30, 2003</b>
Federal Perkins Loan Program	84.038	\$ 1,522,254
Health Professions Student Loan Program—Loans to Disadvantaged Students	93.342	188,164
Health Professions Student Loan Program—Primary Care Loans	93.342	1,305,628

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, 2003 are identified below:

	<b>CFDA Number</b>	<b>Disbursements</b>
Federal Perkins Loan Program	84.038	\$ 357,466
Health Professions Student Loan Program—Loans to Disadvantaged Students	93.342	44,575
Health Professions Student Loan Program—Primary Care Loans	93.342	123,356

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

**4. VARIOUS CFDA TOTALS**

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

	<b>Amount Expended</b>
CFDA No. 93.173	
Direct program	\$ 187,090
Passed through Washington State University	<u>20,078</u>
Total	<u>\$ 207,168</u>
CFDA No. 93.242	
Direct program	\$ 108
Passed through University of Idaho	<u>4,189</u>
Total	<u>\$ 4,297</u>
CFDA No. 93.853	
Direct program	\$ 12,340
Passed through Summa Health System Hospitals	<u>35,709</u>
Total	<u>\$ 48,049</u>
CFDA No. 93.856	
Direct program	\$ 41,120
Passed through CEI-SCI Corp.	<u>66,007</u>
Total	<u>\$ 107,127</u>

\* \* \* \* \*

## **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, 2003, and have issued our report thereon dated December 16, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

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

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the College in a separate letter dated December 16, 2003.

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 16, 2003



## **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, 2003. The College's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

### **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 16, 2003

# NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2003

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### Summary of Auditors' Results

- Type of Report Issued on the Financial Statements as of and for the Year Ended June 30, 2003—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, 2003:
  - Student Financial Aid Cluster
  - Model State Supported AHEC Program (CFDA #93.107)
  - OAT Special Projects—Rural Telemedicine Grant (CFDA #93.211)
- Dollar Threshold Used to Distinguish Between Type A and Type B Programs—\$300,000.
- The College was 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**

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



**Auditor of State  
Betty Montgomery**

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**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE**

**PORTAGE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 27, 2004**