

**Northeastern Ohio
Universities College
of Medicine**

Single Audit Report
for the Year Ended
June 30, 2008



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Northeastern Ohio Universities College of Medicine, Portage County, prepared by Maloney + Novotny LLC, for the audit period July 1, 2007 through June 30, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

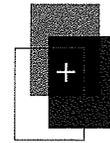
December 17, 2008

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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 financial statements of the business-type activities and the discretely presented component unit of Northeastern Ohio Universities College of Medicine (the "College") as of and for the years ended June 30, 2008 and 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2008 and 2007, and their respective changes in net assets and their respective cash flows where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit conducted in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying supplemental schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Maloney + Novotny LLC

Cleveland, Ohio
October 31, 2008

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Northeastern Ohio Universities College of Medicine ("NEOUCOM" or "College") annual financial report presents management's discussion and analysis of the financial performance of the College during the fiscal years ended June 30, 2008 and 2007. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of College management.

Introduction

The College was established in 1973 by action of the Ohio General Assembly under Chapter 3350 of the Ohio Revised Code as a public institution of higher education as a freestanding, state-assisted, community-based medical school. The medical college partners with The University of Akron, Kent State University, and Youngstown State University in its six-year Bachelor of Science/Doctor of Medicine (BS/MD) program. Undergraduate students are admitted into the BS/MD program and spend their first two years on the campuses of the consortium partner institutions. The students then matriculate to NEOUCOM and, after completion of the four-year medical program, are conferred with a BS/MD degree. In addition, the College of Medicine offers a Direct Entry program for students with pre-medicine degrees from institutions outside the consortium. The College does not have its own hospital – rather the College has established affiliation agreements with eight major hospitals in Akron, Canton and Youngstown to serve as the primary clinical sites for medical education.

In November, 2005, the Ohio Board of Regents approved the establishment of a Doctor of Pharmacy (PharmD) program at NEOUCOM. The College's Board of Trustees then approved establishment of a College of Pharmacy within NEOUCOM in December, 2005. The first class of pharmacy students began their studies in the fall of 2007. The College of Pharmacy has been awarded candidate accreditation status by the Accreditation Council for Pharmacy Education (ACPE). Full accreditation status is expected upon graduation of the first class of pharmacy students, in the spring of 2011.

Using the Annual Financial Report

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

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

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

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

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

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

Noteworthy Financial Activity

During fiscal year 2008, the College completed a \$3.3 million renovation of its multi-disciplinary labs. The project provides learning environments which incorporate state of the art technology for both the BS/MD and PharmD programs. In addition to the multi-disciplinary labs, the renovated space includes a pharmacy practice lab required for the PharmD program by the Accreditation Council for Pharmacy Education (ACPE), as well as student study carrels and common areas.

Also during fiscal year 2008, the college acquired a 49 acre parcel of land adjacent to the north side of the campus for \$1.775M. This land acquisition was financed through a master tax-exempt lease purchase agreement. This purchase enabled the college to have sufficient land available to expand facilities for future academic program opportunities.

The College's financial position, as a whole, improved during the fiscal year ended June 30, 2008 as compared to the previous year as evidenced by:

- The College's total assets increased over the prior year by \$5.2 million. Current assets increased by \$3.3 million, while non-current assets increased \$1.9 million. The increase

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Management's Discussion and Analysis

to current assets reflects the ongoing budgetary practice to allow departments to carryover unspent operating funds for future academic program, research, or project needs.

- Cash, cash equivalents, and investments increased by \$3.9 million. The College was able to invest an additional \$15.7 million in intermediate term investments from its cash reserves.
- The College's net assets increased by \$3.3 million to \$69.5 million, of which \$46.1 million is invested in capital assets or restricted. Of the remaining \$23.3 million in unrestricted assets, all but \$3.4 million is designated for specific purposes.
- Operating revenues increased by \$2.5 million compared to the prior year primarily due to an increase of \$2.3 million in student tuition and fees, more than half of which was attributable to incremental pharmacy program revenue.
- The College's operating expenses increased by \$4.0 million primarily due to costs related to the PharmD program, which will continue to increase each year as the program grows. In addition, operating expenses increased due to planned cost of living salary increases for faculty and staff, as well as the increased cost of group insurance benefits.
- Net non-operating revenue decreased by a net \$1.0 million primarily due to a decrease in investment income from the prior year coupled with a slight increase in state operating appropriations.
- Other revenues, expenses, gains or losses decreased by approximately \$.6 million due to the timing of state appropriations for capital improvement projects.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

**Northeastern Ohio Universities College of Medicine
Condensed Statements of Net Assets
as of June 30, 2008, 2007 and 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current assets	\$29,338,637	\$26,063,961	\$20,483,866
Noncurrent			
Capital	43,530,365	41,875,948	41,758,371
Other	<u>4,445,286</u>	<u>4,171,825</u>	<u>3,838,308</u>
Total assets	<u>77,314,288</u>	<u>72,111,734</u>	<u>66,080,545</u>
LIABILITIES			
Current liabilities	4,546,142	4,288,588	4,385,010
Noncurrent liabilities	<u>3,303,573</u>	<u>1,614,868</u>	<u>1,734,704</u>
Total liabilities	<u>7,849,715</u>	<u>5,903,456</u>	<u>6,119,714</u>
NET ASSETS			
Invested in capital assets, net of related debt	41,209,710	41,175,648	40,880,025
Restricted			
Nonexpendable	4,665,536	4,397,754	4,236,006
Expendable	255,729	369,354	592,089
Unrestricted	<u>23,333,598</u>	<u>20,265,522</u>	<u>14,252,711</u>
Total net assets	<u>\$69,464,573</u>	<u>\$66,208,278</u>	<u>\$59,960,831</u>

2008 versus 2007

As of June 30, 2008, the College's current assets of \$29.3 million were sufficient to cover current liabilities of \$4.5 million (current ratio of 6.5:1). As of June 30, 2007, current assets of \$26.1 million were sufficient to cover current liabilities of \$4.3 million (current ratio of 6.1:1).

As of June 30, 2008, the College's capital assets increased to \$43.5 million from \$41.9 million as of June 30, 2007 while other non-current assets increased to \$4.4 million from \$4.2 million.

At June 30, 2008, total College assets were \$77.3 million, compared to \$72.1 million at June 30, 2007.

College liabilities total \$7.8 million at June 30, 2008 compared to \$5.9 million at June 30, 2007. The increase was primarily due to the capital lease used to purchase the adjacent land parcel.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

Current liabilities total \$4.5 million and consist of accrued liabilities of \$2.1 million (\$1.3 million owed to associated hospitals for clinical experiences, and \$557,000 owed to consortium universities for the collaborative academic programs) and approximately \$1.1 million in accrued employee compensation and benefits.

Total net assets increased by \$3.3 million to \$69.5 million. Unrestricted net assets total \$23.3 million; 40.8 percent of which (\$9.5 million) is designated for specific purposes, and 41.6 percent of which (\$9.7 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives.

2007 versus 2006

As of June 30, 2007, the College's current assets of \$26.1 million were sufficient to cover current liabilities of \$4.3 million (current ratio of 6.1:1). As of June 30, 2006, current assets of \$20.5 million were sufficient to cover current liabilities of \$4.4 million (current ratio of 4.7:1).

As of June 30, 2007, the College's capital assets increased to \$41.9 million from \$41.8 million as of June 30, 2006 while other non-current assets increased to \$4.2 million from \$3.8 million.

At June 30, 2007, total College assets were \$72.1 million, compared to \$66.1 million at June 30, 2006.

College liabilities total \$5.9 million at June 30, 2007 compared to \$6.1 million at June 30, 2006. Current liabilities of \$4.3 million, consisting primarily of other accrued liabilities of \$980,000 owed to associated hospitals for clinical experiences, and \$464,000 owed to consortial universities for the collaborative academic programs, are the largest liabilities.

Total net assets increased by \$6.2 million to \$66.2 million. Unrestricted net assets total \$20.3 million, 40.4 percent of which (\$8.2 million) is allocated for ongoing academic and research programs, capital projects and other initiatives.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

Northeastern Ohio Universities College of Medicine Condensed Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2008, 2007, and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues			
Tuition and Fees	\$15,877,051	\$13,541,657	\$13,118,224
State appropriations	15,885,475	15,642,878	16,001,702
Federal, state, local and private grants and contracts	7,062,521	7,120,211	7,547,625
Auxiliary activities	820,005	692,548	726,324
Other	<u>2,880,985</u>	<u>4,517,727</u>	<u>3,139,205</u>
Total revenues	<u>42,526,037</u>	<u>41,515,021</u>	<u>40,533,080</u>
Expenses			
Instruction	14,000,333	11,675,053	10,823,747
Research	4,165,500	3,767,498	3,664,088
Academic Support	4,890,372	4,412,793	4,365,684
Institutional support	5,946,938	6,334,992	6,041,048
Scholarships and fellowships	130,799	98,146	111,368
Other	<u>10,135,800</u>	<u>8,979,092</u>	<u>8,753,393</u>
Total expenses	<u>39,269,742</u>	<u>35,267,574</u>	<u>33,759,328</u>
Increase in net assets	<u>\$ 3,256,295</u>	<u>\$ 6,247,447</u>	<u>\$ 6,773,752</u>

2008 versus 2007

The most significant sources of operating revenues for the College are tuition and fees, auxiliary services, and grants and contracts. Tuition revenues grew during the year ended June 30, 2008 as compared to the year ended June 30, 2007 by 17.2 percent. These increases were a result of a combination of increases in rates for tuition and student fees, and the addition of pharmacy students.

Operating expenditures, including depreciation of \$3.7 million, totaled \$39.2 million, an increase from the prior year of \$4.0 million, or 11.3 percent.

Non-capital state appropriations were the most significant non-operating revenue totaling \$15.9 million, an increase over the year ended June 30, 2007 of 1.6 percent.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

2007 versus 2006

The most significant sources of operating revenues for the College are tuition and fees, auxiliary services, and grants and contracts. Tuition revenues grew during the year ended June 30, 2007 as compared to the year ended June 30, 2006 by 3.2 percent. These increases were a result of a combination of increases in rates for tuition and other student charges.

Operating expenditures, including depreciation of \$3.4 million, totaled \$35.2 million, an increase from the prior year of \$1.7 million, or 5 percent.

Noncapital state appropriations were the most significant non-operating revenue totaling \$15.6 million, a decrease from the year ended June 30, 2006 of 2.3 percent.

Northeastern Ohio Universities College of Medicine Condensed Statements of Cash Flows for the years ended June 30, 2008, 2007, and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash provided by/(used in):			
Operating activities	\$(10,879,896)	\$(10,121,293)	\$ (9,195,167)
Investing activities	(15,182,087)	(4,193,835)	5,472,044
Capital and related financing activities	(1,568,785)	(1,849,198)	(1,552,338)
Noncapital financing activities	<u>15,885,475</u>	<u>15,642,878</u>	<u>16,001,702</u>
Net increase/(decrease) in cash and cash equivalents	(11,745,293)	(521,448)	10,726,241
Cash and cash equivalents, beginning of year	<u>17,904,624</u>	<u>18,426,072</u>	<u>7,699,831</u>
Cash and cash equivalents, end of year	<u>\$ 6,159,331</u>	<u>\$ 17,904,624</u>	<u>\$ 18,426,072</u>

2008 versus 2007

Major sources of cash included student tuition and fees (\$15.9 million), state appropriations (\$15.9 million), auxiliary activities (\$.8 million) and grants and contracts (\$6.8 million). The largest payments were for suppliers (\$10.8 million) and employees (\$22.3 million).

2007 versus 2006

Major sources of cash included student tuition and fees (\$13.7 million), state appropriations (\$15.6 million), auxiliary activities (\$.7 million) and grants and contracts (\$7.2 million). The largest payments were for suppliers (\$10.2 million) and employees (\$20.7 million).

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At the end of 2008, the College had invested \$43.5 million in capital assets (net of accumulated depreciation of \$43.5 million); this amount represents an increase of \$1.6 million, or 4 percent, over last year, primarily due to the purchase of land.

At the end of 2007, the College had invested \$41.9 million (net of accumulated depreciation of \$40.1 million) in a broad range of capital assets, including equipment, buildings, building improvements and land. This amount represents a net increase (including additions and deductions) of \$.1 million, or .2 percent, over 2006.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 2,108,971	\$ 298,200	\$ 298,200
Equipment, furnishing, and library materials	26,584,279	24,233,261	22,774,009
Buildings, infrastructure, improvements, and construction in progress	<u>58,305,583</u>	<u>57,471,398</u>	<u>55,633,372</u>
Total	<u>\$86,998,833</u>	<u>\$82,002,859</u>	<u>\$78,705,581</u>

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

Long-term Debt

At June 30, 2008, the College had \$2,291,713 in outstanding capital lease obligations, an increase of 227.3 percent over the prior year due to a capital lease to purchase land. At June 30, 2007, the College had \$700,300 in outstanding capital lease obligations, a decrease of 20.2 percent over the prior year. More detailed information about the College's long-term liabilities is presented in Notes 5 and 6 to the financial statements.

Factors Affecting Future Periods

The most significant factor affecting future periods is the amount of funding appropriated for Northeastern Ohio Universities College of Medicine by the State of Ohio. Changes in state support are important both for its direct impact on College revenues and its indirect impact on the cost of tuition.

Historically, state funding in Ohio has been full-time equivalent based, and subsidy eligible enrollment for medical schools has been statutorily capped. Thus in periods of flat or declining state funding, the College had been negatively impacted when enrollments at other state-assisted public schools were growing. A departure from that methodology occurred in FY 08 and will also occur in FY 09, as appropriation increases were applied equally across the board to

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

Management's Discussion and Analysis

institutions based on FY 07 amounts, as opposed to adjusting for enrollment shifts. In addition, the methodology for allocating state appropriations to public institutions in Ohio is currently under review and is expected to change again for FY 10. During calendar year 2008, Ohio Board of Regents Chancellor Eric Fingerhut commissioned a subsidy consultation group to study ways to align state support of higher education more with the outcome measures detailed in his strategic plan for higher education in the state. The recommendations of the consultation group centered on a movement away from distributions based on inputs such as full-time equivalent (FTE) student enrollment, and toward outcome measures such as course completions and degrees conferred.

At this point it is expected that the new formula allocation methodology, if accepted and endorsed by the Chancellor, will have very little impact on a per FTE basis to NEOUCOM's subsidy revenues for both the College of Medicine and the College of Pharmacy. What we can expect is a larger allocation from the state as the Pharmacy program becomes eligible for subsidy payments. That allocation will continue to grow as the Pharmacy enrollment increases. In addition, further review of the statutory caps on medical eligible enrollments is expected. Should those statutory caps be adjusted, NEOUCOM's subsidy for medical education could be positively impacted as well.

Opportunities for future enrollment growth for the College of Medicine hinge on the availability of increased state funding. The 127th Ohio General Assembly House Bill 562 called for the addition of Cleveland State University to the list of institutions partnering in NEOUCOM's medical program. In order for the medical class size to increase to accommodate the addition of Cleveland State students, incremental subsidy revenues will be required to ensure sufficient resources in accordance with accreditation requirements, as well as to ensure the financial health of the College. Any class size increases will be in accordance with accreditation requirements as specified by the Liaison Committee on Medical Education (LCME) of the American Association of Medical Colleges (AAMC). Based on projected physician shortages by 2015, the AAMC recently issued a call for all American medical schools to consider increasing class size by up to thirty percent. However, without incremental state subsidy, the current class size of the medical program will not be increased to accommodate Cleveland State students.

With the introduction of the Pharmacy program students and faculty onto the Rootstown campus, facility and space needs continue to grow. NEOUCOM is currently in the process of a ten year Campus Master Plan and will be exploring sources of funding to include issuance of debt, private gifts, and special state and federal appropriations, to enable necessary renovation, reconfiguration and expansion of academic instructional and research space. The full campus master plan is expected to be completed by the end of calendar year 2008.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENTS OF NET ASSETS
JUNE 30, 2008 and 2007

	NEOUCOM		Component Unit	
	June 30,		NEOUCOM Foundation	
	2008	2007	June 30, 2008	2007
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,371,654	\$ 17,155,837	\$ 424,276	\$ 330,074
Investments	21,475,000	5,800,000		
Accounts receivable	1,633,380	2,354,865	5,607	-
Inventories	127,222	103,073		
Prepaid expenses and deferred charges	511,131	424,257		
Pledges receivable			371,480	695,281
Notes receivable	220,250	225,929		
Total current assets	<u>29,338,637</u>	<u>26,063,961</u>	<u>801,363</u>	<u>1,025,355</u>
Noncurrent assets				
Cash-restricted	787,677	748,787		
Long term investments	414,344	455,823	10,930,585	11,869,349
Funds held in trust			2,142,439	2,526,088
Pledges receivable			1,476,581	1,711,139
Notes receivable	3,243,265	2,967,215	415,787	466,224
Capital assets, net	43,530,365	41,875,948		
Total noncurrent assets	<u>47,975,651</u>	<u>46,047,773</u>	<u>14,965,392</u>	<u>16,572,800</u>
Total assets	<u>77,314,288</u>	<u>72,111,734</u>	<u>15,766,755</u>	<u>17,598,155</u>
LIABILITIES				
Current liabilities				
Accounts payable	539,232	649,207		
Accrued compensation and benefits	1,082,658	1,138,628		
Deferred revenue	506,755	768,076		
Other accrued liabilities	2,118,197	1,544,278	85,777	86,861
Capital lease obligations	299,300	188,399		
Total current liabilities	<u>4,546,142</u>	<u>4,288,588</u>	<u>85,777</u>	<u>86,861</u>
Noncurrent liabilities				
Compensated absences	1,311,160	1,102,967		
Annuity obligations			160,482	158,060
Capital lease obligations	1,992,413	511,901		
Total noncurrent liabilities	<u>3,303,573</u>	<u>1,614,868</u>	<u>160,482</u>	<u>158,060</u>
Total liabilities	<u>7,849,715</u>	<u>5,903,456</u>	<u>246,259</u>	<u>244,921</u>
NET ASSETS				
Invested in capital assets, net of related debt	41,209,710	41,175,648		
Restricted				
Nonexpendable				
Student loans	4,251,192	3,941,931	730,642	725,594
Endowments	414,344	455,823	7,480,491	7,426,528
Annuity and life income			111,710	161,644
Expendable				
Current operations	255,729	369,354	6,897,566	8,516,352
Unrestricted	23,333,598	20,265,522	300,087	523,116
Total net assets	<u>\$ 69,464,573</u>	<u>\$ 66,208,278</u>	<u>\$ 15,520,496</u>	<u>\$ 17,353,234</u>

The accompanying notes are an integral part of these financial statements.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	NEOUCOM		Component Unit	
	2008	2007	NEOUCOM Foundation	
			2008	2007
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$176,859 and \$168,962, respectively)	\$ 15,877,051	\$ 13,541,657	\$ -	\$ -
Federal grants and contracts	3,060,413	3,897,268		
State grants and contracts	2,291,444	1,933,900		
Local grants and contracts	10,000	12,728		
Private grants and contracts	1,700,664	1,276,315		
Contributions and bequests			1,002,885	2,009,044
In-kind contributions from NEOUCOM			423,475	339,625
Sales and services of departments	553,751	448,589		
Sales and services of auxiliary enterprises	820,005	692,548		
Other	74,320	50,204	52,938	63,932
Total operating revenues	<u>24,387,648</u>	<u>21,853,209</u>	<u>1,479,298</u>	<u>2,412,601</u>
OPERATING EXPENSES				
Educational and general				
Instruction and departmental research	14,000,333	11,675,053	101,402	131,640
Separately budgeted research	4,165,500	3,767,498	37,171	23,251
Public service	269,648	217,352	67,466	1,997
Academic support	4,890,372	4,412,793	810,651	313,442
Student services	1,541,281	1,476,134		
Institutional support	5,946,938	6,334,992	757,828	602,343
Operation and maintenance of plant	3,579,301	2,833,246	98,810	114,335
Scholarships and fellowships	130,799	98,146	312,761	347,070
Auxiliary enterprises	977,142	951,378		
Depreciation	3,667,381	3,415,575		
Total operating expenses	<u>39,168,695</u>	<u>35,182,167</u>	<u>2,186,089</u>	<u>1,534,078</u>
Operating income/(loss)	(14,781,047)	(13,328,958)	(706,791)	878,523
NONOPERATING REVENUES (EXPENSES)				
State appropriations	15,885,475	15,642,878		
Investment income (loss)	451,434	1,660,632	(1,175,318)	1,668,459
Interest expense	(41,699)	(45,373)		
Loss on disposal of assets	(59,348)	(40,034)		
Annuity obligations & other expenses			-	(34,902)
Net nonoperating revenues/(expenses)	<u>16,235,862</u>	<u>17,218,103</u>	<u>(1,175,318)</u>	<u>1,633,557</u>
GAIN/(LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	1,454,815	3,889,145	(1,882,109)	2,512,080
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Capital appropriations and grants	1,801,480	2,358,302		
Contributions permanently restricted			49,371	256,920
Total other revenues, expenses, gains or losses	<u>1,801,480</u>	<u>2,358,302</u>	<u>49,371</u>	<u>256,920</u>
INCREASE/(DECREASE) IN NET ASSETS	3,256,295	6,247,447	(1,832,738)	2,769,000
NET ASSETS AT BEGINNING OF YEAR	66,208,278	59,960,831	17,353,234	14,584,234
NET ASSETS AT END OF YEAR	<u>\$ 69,464,573</u>	<u>\$ 66,208,278</u>	<u>\$ 15,520,496</u>	<u>\$ 17,353,234</u>

The accompanying notes are an integral part of these financial statements.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 15,918,909	\$ 13,660,737
Grants and contracts	6,759,051	7,206,218
Employee compensation	(22,332,744)	(20,721,076)
Payments to suppliers	(10,795,222)	(10,192,263)
Payments for utilities	(1,429,176)	(1,144,827)
Payments for student financial aid	(130,799)	(98,146)
Student loan advances	(550,134)	(421,059)
Student loan repayments	279,763	391,652
Sales and services of auxiliary enterprises	823,681	681,466
Sales and services of departments	510,297	485,233
Other operating receipts	66,478	30,772
Net cash and cash equivalents used in operating activities	(10,879,896)	(10,121,293)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	15,885,475	15,642,878
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	2,251,090	1,069,099
Capital gifts and grants	311,944	573,153
Purchases of capital assets	(3,912,478)	(3,268,032)
Principal paid on capital leases	(184,471)	(178,045)
Interest paid on capital leases	(34,870)	(45,373)
Net cash and cash equivalents used in capital financing activities	(1,568,785)	(1,849,198)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	494,719	1,624,028
Purchase of investments, net	(15,676,806)	(5,817,863)
Net cash and cash equivalents used in investing activities	(15,182,087)	(4,193,835)
NET DECREASE IN CASH AND EQUIVALENTS	(11,745,293)	(521,448)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	17,904,624	18,426,072
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 6,159,331	\$ 17,904,624
RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES		
Operating loss	\$ (14,781,047)	\$ (13,328,958)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	3,667,381	3,415,575
Changes in assets and liabilities		
Receivables	(40,069)	226,868
Inventories	(24,149)	(19,226)
Prepaid expenses and deferred charges	(89,559)	(34,722)
Notes receivable	(270,371)	(29,406)
Accounts payable	145,966	(97,470)
Accrued compensation	152,223	(203,098)
Deferred revenue	(261,321)	3,781
Other accrued liabilities	621,050	(54,637)
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	\$ (10,879,896)	\$ (10,121,293)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS:		
	2008	2007
Cash and cash equivalents	\$ 5,371,654	\$ 17,155,837
Cash-restricted	787,677	748,787
Total cash and equivalents at end of the year	\$ 6,159,331	\$ 17,904,624

The accompanying notes are an integral part of these financial statements.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

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

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

The associated community hospitals and health department are:

Major Teaching Hospitals and Health Department:

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

In 2005, the Ohio Board of Regents and the College's Board of Trustees approved the establishment of a College of Pharmacy within NEOUCOM. The first pharmacy class started in the fall of 2007. The College of Pharmacy has been awarded candidate accreditation status by the Accreditation Council for Pharmacy Education (ACPE). Full accreditation status is expected upon graduation of the first class of pharmacy students in the spring of 2011.

As of June 30, 2008, 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.

Beginning 90 days after the effective date of the 127th Ohio General Assembly Substitute HB 562, dated September 22, 2008, NEOUCOM's board of trustees structure will change to 11 members, appointed by the Governor of the State of Ohio, with the advice and consent of the Ohio Senate. Two members of the board will be nonvoting student members, with staggered terms of office of two years. The remaining nine appointees will have staggered terms, with one term expiring annually for the first nine years. All appointments thereafter will be nine year terms. Board members must serve without compensation, except for reasonable expenses incurred in discharging official duties.

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

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

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

Furthermore, in accordance with GASB Statement No. 39, the Foundation is reported in a separate column on the College's financial statements to emphasize that it is legally separate from the College. The Foundation is a not-for-profit organization supporting the College. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, it is considered a component unit of the College. Financial statements for the Foundation may be obtained by writing to NEOUCOM Foundation, PO Box 95, Rootstown, Ohio 44272.

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The College follows the "business-type activities" reporting requirements of GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public College and Universities*. In accordance with GASB Statement No. 35, the accompanying basic financial statements are reported on a College-wide basis and collectively include the following:

Management's Discussion and Analysis

Basic financial statements:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to the financial statements

Basis of Accounting

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

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

Cash Equivalents

Cash equivalents are defined as short term, highly liquid unrestricted investments readily convertible to cash with an original maturity of three months or less when purchased.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the College's investments are reported at fair value based on market quotations.

During March 2003, the GASB issued Statement No.40, *Deposit and Investment Risk Disclosures*. This statement amends GASB Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that entities communicate key information about such risks in four principal areas: investment credit risks, including credit quality information issued by rating agencies; interest rate and investment maturity information; interest rate sensitivity; and foreign exchange exposures.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

Inventories

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

Capital Assets

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

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

<u>Asset</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 – 40 Years
Infrastructure	20 Years
Furnishings and movable equipment	3 – 7 Years
Library materials	10 Years

Compensated Absences

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

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

Operating Revenues

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

Deferred Revenues

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

Net Asset Classifications

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

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

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

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

Unrestricted – net assets that are not subject to externally imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Trustees. Substantially all unrestricted net assets are designated for academic and research programs, capital projects and other initiatives.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosure in the notes to financial statements. Actual results could differ from those estimates.

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007**

Recently Issued Accounting Pronouncements

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

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

The College's bank deposits and cash on hand for all fund groups at June 30, 2008 and 2007 are summarized as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
College's book value (overdraft)	\$(159,804)	\$(773,534)
Cash on hand	6,013	6,975
Bank balances	286,840	80,605

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

Custodial credit risk – deposits. Custodial risk is the risk that in the event of a bank failure, the College's deposits would not be returned. Of the bank balances at June 30, 2008 and 2007, \$100,000 and \$80,605 were covered by federal depository insurance and \$186,840 and \$0, respectively, were uncollateralized as defined by the GASB.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

The College's investments, at fair value, at June 30, 2008 and 2007 are summarized as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Money market funds	\$ 25,365	\$ 28,561
U.S. government obligations	12,541	19,400
U.S. government agency obligations	94,379	88,099
Corporate bonds and notes	34,257	24,349
Fixed income mutual funds	14,970,707	2,455,023
Equities	7,245,340	4,313,207
State Treasury Asset Reserve of Ohio	14,247	11,557
Short term fund *	<u>5,811,583</u>	<u>18,062,198</u>
Total Investments	<u>\$28,208,419</u>	<u>\$25,002,394</u>

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

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

The maturities of the College's interest-bearing investments at June 30, 2008 are as follows:

	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. government obligations	\$ 12,541	\$3,062	\$ -	\$ -	\$ 9,479
U.S. government agency obligations	94,379	-	4,350	10,092	79,937
Corporate bonds and notes	<u>34,257</u>	<u>-</u>	<u>7,078</u>	<u>21,630</u>	<u>5,549</u>
Total	<u>\$141,177</u>	<u>\$3,062</u>	<u>\$11,428</u>	<u>\$31,722</u>	<u>\$94,965</u>

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

The credit ratings for the College's interest bearing investments, as rated by Standard & Poor's, at June 30, 2008 were as follows:

Credit Rating (S & P)	<u>Total</u>	<u>U.S. Government Obligations</u>	<u>U.S. Agency Obligations</u>	<u>Corporate Bonds and Notes</u>
AAA	\$106,920	\$12,541	\$94,379	\$ -
AA	3,976	-	-	3,976
A	15,043	-	-	15,043
BBB	<u>15,238</u>	<u>-</u>	<u>-</u>	<u>15,238</u>
Total	<u>\$141,177</u>	<u>\$12,541</u>	<u>\$94,379</u>	<u>\$34,257</u>

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

Foreign currency risk. Foreign currency risk is that risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2008, the College had no exposure to foreign currency risk.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

3. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2008 and 2007:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Student notes	\$3,463,515	\$3,193,144
Grants and contracts	1,422,858	2,161,971
Sales and services	183,822	185,471
Tuition and fees	<u>26,700</u>	<u>7,423</u>
Total	<u>\$5,096,895</u>	<u>\$5,548,009</u>

Federal Family Education Loans processed for students by the College during the year ended June 30, 2008 totaled \$16,857,210 and the year ended June 30, 2007 totaled \$14,040,466. The College is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan programs and, accordingly, these loans are not included in the College's financial statements.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	July 1, 2007 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2008 Ending Balance
Land	\$ 298,200	\$1,810,771	\$ -	\$ 2,108,971
Infrastructure	1,605,051	-	-	1,605,051
Buildings	53,796,359	1,251,770	1,574,805	56,622,934
Furnishings and movable equipment	12,740,620	1,681,077	132,204	14,553,901
Library materials	11,492,641	580,484	(42,747)	12,030,378
Construction in progress	<u>2,069,988</u>	<u>74,360</u>	<u>(2,066,750)</u>	<u>77,598</u>
Total historical cost	82,002,859	5,398,462	(402,488)	86,998,833
Less: Total accumulated depreciation	<u>40,126,911</u>	<u>3,667,381</u>	<u>(325,824)</u>	<u>43,468,468</u>
Total capital assets net of depreciation	<u>\$41,875,948</u>	<u>\$1,731,081</u>	<u>(\$ 76,664)</u>	<u>\$43,530,365</u>

Capital asset activity for the year ended June 30, 2007 was as follows:

	July 1, 2006 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2007 Ending Balance
Land	\$ 298,200	\$ -	\$ -	\$ 298,200
Infrastructure	1,605,051	-	-	1,605,051
Buildings	53,443,739	352,620	-	53,796,359
Furnishings and movable equipment	11,776,930	1,222,536	(258,846)	12,740,620
Library materials	10,997,079	518,335	(22,773)	11,492,641
Construction in progress	<u>584,582</u>	<u>1,992,217</u>	<u>(506,811)</u>	<u>2,069,988</u>
Total historical cost	78,705,581	4,085,708	(788,430)	82,002,859
Less: Total accumulated depreciation	<u>36,947,210</u>	<u>3,415,575</u>	<u>(235,874)</u>	<u>40,126,911</u>
Total capital assets, net of depreciation	<u>\$41,758,371</u>	<u>\$ 670,133</u>	<u>(\$552,556)</u>	<u>\$41,875,948</u>

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

5. CAPITAL LEASE OBLIGATIONS

The College has entered into various noncancelable equipment and land lease agreements. These leases are accounted for as capital leases (total net book value at June 30, 2008 of \$2,780,376) and payments of \$219,341 were made under the agreements during the year ended June 30, 2008.

Future minimum lease payments subsequent to June 30, 2008 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 299,300	\$105,137	\$ 404,437
2010	315,605	88,832	404,437
2011	221,825	72,942	294,767
2012	119,280	65,816	185,096
thereafter	<u>1,335,703</u>	<u>302,521</u>	<u>1,638,224</u>
Total	<u>\$2,291,713</u>	<u>\$635,248</u>	<u>\$2,926,961</u>

6. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2008 and June 30, 2007, are as follows:

	Balance July 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2008</u>	Current <u>Portion</u>	Non-current <u>Portion</u>
Compensated absences	\$1,435,941	\$ 475,627	\$162,191	\$1,749,377	\$438,217	\$1,311,160
Capital lease obligations	<u>700,300</u>	<u>1,775,884</u>	<u>184,471</u>	<u>2,291,713</u>	<u>299,300</u>	<u>1,992,413</u>
Total long-term liabilities	<u>\$2,136,241</u>	<u>\$2,251,511</u>	<u>\$346,662</u>	<u>\$4,041,090</u>	<u>\$737,517</u>	<u>\$3,303,573</u>

	Balance July 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2007</u>	Current <u>Portion</u>	Non-current <u>Portion</u>
Compensated absences	\$1,366,143	\$191,945	\$122,147	\$1,435,941	\$332,974	\$1,102,967
Capital lease obligations	<u>878,345</u>	<u>-</u>	<u>178,045</u>	<u>700,300</u>	<u>188,399</u>	<u>511,901</u>
Total long-term liabilities	<u>\$2,244,488</u>	<u>\$191,945</u>	<u>\$300,192</u>	<u>\$2,136,241</u>	<u>\$521,373</u>	<u>\$1,614,868</u>

7. COMMITMENTS AND CONTINGENCIES

The College has entered into various contractual service agreements with its consortium universities, associated hospitals and health department primarily for clinical instruction, and for research and other services. For fiscal years ended June 30, 2008 and 2007, these instructional expenses relating to contracts totaled \$3,110,075 and \$2,571,196, respectively. At June 30, 2008 and 2007, the College had recorded accrued liabilities of \$1,298,738 and \$925,689, respectively, which represented unbilled services rendered by the related organizations under these contracts.

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
FOR THE YEARS ENDED JUNE 30, 2008 and 2007**

8. EMPLOYEE BENEFIT PLANS

Retirement Plans

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

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

The OPERS financial report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6702, or 1-800-222 OPERS (7377) or visiting their Web site at www.OPERS.org. The STRS financial report may be obtained by writing to State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (888) 227-7877 or visiting their Web site at www.strsoh.org.

The Ohio Revised Code provides statutory authority for employee and employer contributions to OPERS and STRS. For OPERS, the required, actuarially determined contribution rates for plan members and the College are 10% and 14% of covered payroll, respectively. The required, actuarially determined contribution rates for STRS plan members and the College are 10% and 14% of covered payroll, respectively. These OPERS and STRS contribution rates incorporate the required contributions to fund post-retirement benefits other than pensions.

Eligible College employees may choose an Alternative Retirement Plan ("ARP") in lieu of OPERS or STRS. For employees electing an ARP in lieu of STRS, the College is required to make employer contributions of 3.5% of earned compensation to STRS. In addition, the College contributes 13.77% or 10.5% of earned compensation for OPERS or STRS-eligible employees, respectively, to the employee's account with the ARP provider.

The ARP is a defined contribution pension plan available to full-time administrative and professional staff in lieu of OPERS and available to faculty in lieu of STRS. For the employees who elected participation in ARP, prior employee contributions to OPERS and STRS were transferred from those plans and invested in individual accounts established with selected external investment managers. The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement 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, 2008 and for each of the two preceding years are:

Year Ended <u>June 30</u>	OPERS <u>Contributions</u>	STRS <u>Contributions</u>	ARP <u>Contributions</u>
2008	\$ 1,349,649	\$ 498,058	\$ 438,776
2007	1,280,150	426,155	382,875
2006	1,159,714	454,398	338,554

Post-Retirement Health Care Benefits (in whole numbers)

OPERS provide post-retirement health care coverage to age and service retirees with 10 or more years of qualifying State service credit. Health care coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. The January 1 through June 30, 2007 employer contribution rate for health care was 5.00% and 6.00% from July 1 through December 31, 2007 of covered payroll.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

OPERS benefits are advance-funded on an actuarially determined basis. As of December 31, 2006 OPERS reported the actuarially accrued liability and the unfunded actuarial accrued liability for other post-employment benefits (OPEB) at \$30.7 billion and \$18.7 billion, respectively. Significant actuarial assumptions include a 6.5% investment return, a 4% individual pay increase, and a .5 to 5% increase in health care costs. All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. As of December 31, 2006, the actuarial value of the retirement system's net assets available for other post employment benefits was \$12.0 billion. The number of active contributing participants in the traditional and combined plans was 374,979 as of December 31, 2007.

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

The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The State Teachers Retirement Board currently allocates employer contributions, which equals 1% of covered payroll, to a health care stabilization fund from which health care benefits are paid. The balance in the health care reserve fund was \$4.06 billion at June 30, 2007.

For the year ended June 30, 2007 (latest information available), net healthcare costs paid by STRS were \$503 million. There were 122,934 eligible benefit recipients on June 30, 2007.

9. RISK MANAGEMENT

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

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

10. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2008 and 2007, the College has received distributions from the Foundation in the amount of \$1,622,372 and \$1,046,254, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition, the Foundation granted loans of \$57,800 and \$77,900, respectively, for the years ended June 30, 2008 and 2007.

The College received reimbursements of \$205,791 and \$111,027, respectively, from the Foundation for management, fund raising, services, and office space during the years ended June 30, 2008 and 2007. Amounts for such services provided by the College which are not reimbursed by the Foundation are reported as in-kind contributions in the Statements of Revenues, Expenses and Changes in Net Assets. The College's in-kind support for these services was valued at \$423,475 and \$339,625, respectively, for the years ended June 30, 2008 and 2007.

11. COMPONENT UNIT – THE NEOUCOM FOUNDATION

A. Organization and Significant Accounting Policies

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

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008 and 2007

The Foundation is governed by a volunteer Board of Directors consisting of a maximum forty-two members.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, with the exception of taxable unrelated business income. The Foundation had no unrelated business income in fiscal 2008 or 2007.

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

B. Pledges Receivable

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

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 376,000	\$ 737,665
More than one year	<u>1,780,000</u>	<u>2,154,500</u>
Total outstanding pledges	2,156,000	2,892,165
Less net present value discount	(287,386)	(455,074)
Less allowance for uncollectible pledges	<u>(20,553)</u>	<u>(30,671)</u>
 Net outstanding pledges	 <u>\$1,848,061</u>	 <u>\$2,406,420</u>

For fiscal year 2007, the Foundation has classified \$2,500 as permanently restricted pledges which are expected to be received in one year or less as non-current assets on the Statements of Net Assets as they are not available for current use.

C. Investments

Following is a summary of investments at June 30:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 81,067	\$ 81,067	\$ 71,691	\$ 71,691
Cash surrender value of life insurance	226,873	226,873	198,593	198,593
Real estate	200,229	200,229	200,229	200,229
Equities	7,648,305	6,807,564	7,208,281	7,646,278
Fixed income	<u>4,088,948</u>	<u>3,614,852</u>	<u>3,654,191</u>	<u>3,752,558</u>
 Total long-term investments	 <u>\$12,245,422</u>	 <u>\$10,930,585</u>	 <u>\$11,332,985</u>	 <u>\$11,869,349</u>

The Foundation's Board of Directors has adopted an investment policy which is reviewed and updated on an annual basis and is used to determine asset allocation. Investments in real estate are recorded at cost. The Foundation intends to donate the real estate to the College during the year ended June 30, 2009.

D. Beneficial Interest in Trusts

During fiscal year 2005, the Foundation was informed it was the beneficiary of a Charitable Remainder Trust. Upon the death of the donors, the Foundation will receive its share of the trust funds. The Foundation has recorded an investment in this trust equal to the expected future distribution discounted at a rate of 5%. The value of the Foundation's interest in the trust at June 30, 2008 and 2007 totaled \$53,025 and \$59,025, respectively.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 and 2007

During fiscal year 2004, the Foundation was informed that it was the sole beneficiary of an irrevocable grantor trust. According to the trust, the Foundation is to receive annually the sum of \$300,000 for its unrestricted use; until such time that the trust is fully liquidated. The value of the Foundation's interest in the trust has been recorded at its fair market value and at June 30, 2008 and 2007 the value totaled \$2,089,414 and \$2,467,063, respectively.

E. Temporarily Restricted Net Assets

Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. This category includes true endowment earnings, a property annuity and property assets. All temporarily restricted net assets are available for charitable purposes benefiting the College's faculty, staff, and students in educational and general functional categories including academic support, student scholarship and other student aid, instructional and departmental research. Temporarily restricted net assets total \$6,897,566 and \$8,516,352 as of June 30, 2008 and 2007, respectively, and are shown as Restricted Expendable Net Assets in the accompanying Statements of Net Assets.

F. Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations that will be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. This category includes annuity funds and true endowment principal and are restricted to student scholarships and awards, community health science professorship, anatomy endowed chair, student loans and other. Permanently restricted net assets total \$8,322,843 and \$8,273,472 as of June 30, 2008 and 2007, respectively, and are shown as Restricted Nonexpendable Net Assets in the accompanying Statements of Net Assets.

The Foundation's distribution policy is to distribute up to 5% of the average of the June 30 market values of the endowment fund of the previous three years. Distributions, based on this budgeted amount, will be made in the following fiscal year. All unspent funds distributed to temporarily restricted accounts will be reinvested.

12. SUBSEQUENT EVENT

The College holds investment securities which are exposed to various risks including interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the College's investment account balances and the amounts reported in the Statements of Net Assets.

Subsequent to year end, the investment and credit markets in the United States and around the world have experienced significant challenges related to liquidity, extension of credit and valuation. The results of these challenges have significantly increased volatility in the trading prices of marketable securities. As of October 31, 2008, the major securities indices have declined more than 24% from their values at June 30, 2008.

In addition, as of September 29, 2008, the College held approximately \$11.2 million in the Commonfund Short Term Fund which was being liquidated by its trustee. These funds will be available as the investments mature. It is anticipated that the balance of the fund will be redeemed within 12 months. The College believes that the closing of the Fund will not disrupt current operations. As of October 31, 2008, \$6.1 million (54%) has been redeemed.

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
 SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

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 Health and Human Services:			
<i>Health Resources and Services Administration:</i>			
Scholarships for Disadvantaged Students (SDS)	93.925	T08HP07141	<u>108,280</u>
TOTAL STUDENT FINANCIAL AID CLUSTER			<u>108,280</u>
 RESEARCH AND DEVELOPMENT CLUSTER			
U.S. Department of Defense/U.S. Army:			
Prevalence and Outcomes of Restless Legs Syndrome Among Veterans**	12.420	DAMD17-03-1-0082	1,905
 U.S. Department of Health and Human Services:			
<i>Health Resources and Services Administration:</i>			
Passed through The University of Findley:			
Northeast Central Ohio Region Hospitals Training & Education	93.889	U3RHS05592	9,509
 <i>National Institutes of Health:</i>			
Auditory Information Processing in Midbrain	93.173	R01DC000937	272,120
Functional Anatomy of the Auditory Pathways	93.173	R01DC004391	209,397
Temporal Dynamics of Central Auditory Processing	93.173	R01DC005377	144,737
Regulation of Excitability in a Sensory System	93.173	R01DC008120	215,740
G-protein-coupled Receptors in Hearing Physiology	93.173	R01DC008984	<u>3,206</u>
Total CFDA #93.173			845,200
 Passed through Summa Health System Hospitals:			
After Discharge Management of Low Income Frail Elderly	93.226	R01HS014539	17,526

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
 SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

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 (Continued):			
<i>National Institutes of Health (Continued):</i>			
Type VI Collagen and Integrins in Cardiac Remodeling	93.837	R15HL079969	38,611
Microcirculatory Dynamics in the Coronary Circulation	93.837	R01HL032788	<u>278,828</u>
Total CFDA #93.837			317,439
Mineral-Matrix Relations in Calcifying Tissues	93.846	R01AR41452	92,185
Molecular Biology of Bile Acid Synthesis	93.848	R01DK44442	243,184
Regulation of Bile Acid Synthesis by Nuclear Receptor	93.848	R01DK58379	<u>316,160</u>
Total CFDA #93.848			559,344
Female Reproductive Organs and Their Innervation	93.853	R01NS22526	101,161
Microglia in Retrovirus-Induced Neurodegeneration	93.853	R29NS37614	<u>248,453</u>
Total CFDA #93.853			349,614
DerG (a new Immunomodulator) Treatment of Viral Encephalitis	93.856	U01AI054747	4,235
Passed through Medical University of South Carolina: AGS1 and Signal Processing by G-Proteins	93.859	R01GM074247	54,876
Role of Bag-1 Proteins in Chondrocyte Aging and Disease	93.866	R15AG029659	<u>42,672</u>
<i>Total National Institutes of Health:</i>			2,283,091
<i>Substance Abuse and Mental Health Services Admin:</i>			
Passed through Ohio Department of Mental Health: TSIG Investigation of Ohio MHCs	93.243	TA-08-22-03-01	<u>3,491</u>
Total U.S. Department of Health and Human Services:			2,296,091
U.S. Department of Housing and Urban Development:			
Passed through Akron Health Department: Evaluation of a Lead Hazard Program	14.900	OHLHB0219-02	11,309

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
 SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

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 Justice:			
Passed through Ohio Office of Criminal Justice Services: Enhancing Local Courts	16.738	2007-JG-E0R-6583	27,903
National Aeronautics Space Administration:			
The Effect of Hypergravity on Bone Cell Cultures	00.000*	NNA06CA73G	4,201
National Science Foundation:			
Diet in Early Whales	47.050	EAR0745543	15,644
Jaw Muscle Biomechanics in Primates	47.075	BCS0552285	52,598
US-India Coop Research—Eocene Whales from India	47.075	INT0216710	448
Ecological and functional morphology of feeding in free- ranging mantled howling monkeys	47.075	BCS0720028	2,717
Doctoral Dissertation Improvement: Dental Develop in Pigs	47.075	BCS0725951	<u>3,929</u>
Total CFDA #47.075			<u>59,692</u>
Total National Science Foundation:			<u>75,336</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>2,416,745</u>
OTHER PROGRAMS			
U.S. Department of Education:			
Passed through Youngstown Warren Regional Chamber Mahoning Valley Educ. Initiative: STEM Career Academy	84.215	U215K050295	2,250
Environmental Protection Agency:			
The KSOHIA Collaboration	66.609	CH832654010	60,127

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
 SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Expenditures
OTHER PROGRAMS (Continued)			
U.S. Department of Health and Human Services:			
<i>Center for Disease Control:</i>			
Passed through Congressional Glaucoma Caucus Fdn Student Sight Saver Program	93.988	E11/CCE220462	867
Passed through the Ohio Department of Mental Health:			
Woman's Health Month—CY 2006	93.991	WP10Z5	487
Woman's Health Month—CY 2007	93.991	WP17Z7	<u>4,273</u>
Total CFDA #93.991			<u>4,760</u>
<i>Total Center for Disease Control:</i>			5,627
<i>Health Resources and Services Administration:</i>			
Passed through the Medical University of Ohio--Toledo			
Model State Supported AHEC Program (\$181,002 passed through to sub-recipients)	93.107	HP03029	267,891
Amygdalar Influences on Cells in the Inferior Colliculus	93.173	F32DC007786	48,714
Cholinergic Circuitry in Auditory Brainstem	93.173	F32DC008463	<u>24,260</u>
Total CFDA #93.173			72,974
Ctr for Leadership in Public Health & Community Medicine**	93.249	1D20HP30000	-160
Faculty Development in Primary Care	93.884	D55HP03352	22,908
Academic Administrative Units in Primary Care	93.884	D54HP03397	<u>55,256</u>
Total CFDA #93.884			78,164
Health Care and Other Facilities	93.887	C76HF03251	100,635
Health Care and Other Facilities	93.887	C76HF06202	<u>111,309</u>
Total CFDA #93.887			211,944

(Continued)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

OTHER PROGRAMS (Continued)

U.S. Department of Health and Human Services (Continued):

Health Resources and Services Admin (Continued):

Passed through Case Western Reserve University:

Western Reserve Geriatric Education Center	93.969	D31HP08844101	68,751
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Women's Health Week 2008	93.994	B04MC0780001	<u>8,000</u>
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<i>Total Health Resources and Services Administration:</i>			707,564
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Substance Abuse and Mental Health Services Admin:

Passed through Ohio Department of Mental Health and Summit County ADM Board:

Center of Excellence Program—Jail Diversion—FY07	93.958	CJ-07-CCOE	257
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Center of Excellence Program—Jail Diversion—FY08	93.958	CJ-08-CCOE	<u>147,687</u>
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Total CFDA #93.958			<u>147,944</u>
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Total U.S. Department of Health and Human Services:			861,135
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U.S. Department of Justice:

Passed through OCJS and NAMI

NAMI Ohio Crisis Intervention Team Program—CY04	16.738	2005-DG-B01-6317	4,896
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Passed through OCJS and NAMI

NAMI Ohio Crisis Intervention Team Program—CY05	16.579	2006-JG-C01-6556	<u>4,896</u>
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Total U.S. Department of Justice:			<u>9,792</u>
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TOTAL OTHER PROGRAMS			<u>933,304</u>
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TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,458,329</u>
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* - CFDA numbers do not apply to NASA awards; see Section A §1260.15 (c)(7) of the NASA Grant and Cooperative Agreement Handbook.

** - Expenditures adjusted from trial balance figures to account for refunds to grantors.

See the Notes to the Supplemental Schedule of Expenditures of Federal Awards.

(Concluded)

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

1. BASIS OF PRESENTATION

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") reflects the expenditures of Northeastern Ohio Universities College of Medicine (the "College") under the programs financed by the U.S. government for the year ended June 30, 2008. 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, 2008, totaled \$16,857,210. 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, 2008
Federal Perkins Loan Program	84.038	\$ 1,651,843
Health Professions Student Loan Program – Loan to Disadvantaged Students	93.342	734,018
Health Professions Student Loan Program – Primary Care Loans	93.342	1,012,029

Total loan expenditures and disbursement 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, 2008 are identified below:

	CFDA Number	Disbursement
Federal Perkins Loan Program	84.038	\$173,750
Health Professions Student Loan Program – Loan to Disadvantaged Students	93.342	314,770
Health Professions Student Loan Program – Primary Care Loans	93.342	61,653

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

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

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

We have audited the financial statements of Northeastern Ohio Universities College of Medicine as of and for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeastern Ohio Universities College of Medicine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Northeastern Ohio Universities College of Medicine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeastern Ohio Universities College of Medicine's internal control over financial reporting.

A control deficiency in an entity's internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

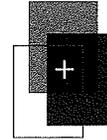
Compliance and Other Matters

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

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

Maloney + Novotny LLC

Cleveland, Ohio
October 31, 2008



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

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

Compliance

We have audited the compliance of Northeastern Ohio Universities College of Medicine with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Northeastern Ohio Universities College of Medicine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northeastern Ohio Universities College of Medicine's management. Our responsibility is to express an opinion on Northeastern Ohio Universities College of Medicine's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Northeastern Ohio Universities College of Medicine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northeastern Ohio Universities College of Medicine's internal control over compliance

with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeastern Ohio Universities College of Medicine's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Maloney + Novotny LLC

Cleveland, Ohio
October 31, 2008

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Section I – Summary of Auditor’s Result

Financial Statements

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

Federal Awards

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

CFDA Numbers

Name of Federal Program or Cluster

Various 93.342, 84.038, 93.925 93.887	Research and Development Cluster Student Financial Aid Cluster Health Care and Other Facilities
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as a low risk auditee?	___X___ yes _____ no

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008**

Section II – Financial Statement Findings – No findings were noted.

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

NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2008

Prior Year Findings:

No findings of questioned costs for Federal awards including audit findings as defined by OMB Circular A-133 Section 510(a) were reported in the prior audit period.



Mary Taylor, CPA
Auditor of State

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

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 31, 2008**