

NORTHEAST OHIO MEDICAL UNIVERSITY
(A COMPONENT UNIT OF THE STATE OF OHIO)

Financial Report
Including Supplemental Information
June 30, 2014



Dave Yost • Auditor of State

Board of Directors
Northeast Ohio Medical University
4209 State Route 44
P.O. Box 95
Rootstown, Ohio 44272

We have reviewed the *Independent Auditor's Report* of the Northeast Ohio Medical University, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2013 through June 30, 2014. 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 Northeast Ohio Medical University is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 13, 2014

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NORTHEAST OHIO MEDICAL UNIVERSITY

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NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Northeast Ohio Medical University's ("NEOMED" or "University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2014, 2013 and 2012. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of University management.

Introduction

The Northeast Ohio Medical University is a community-based public institution of higher education focused on the inter-professional training of health professionals. Created pursuant to Ohio Revised Code Chapter 3350, the University is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools. The University consists of three colleges, including Medicine, Pharmacy and Graduate Studies and offers the following degrees:

Doctor of Medicine (M.D.)
Doctor of Pharmacy (Pharm.D.)
Master of Public Health (M.P.H.)
Master of Science in Integrated Pharmaceutical Medicine (M.S.)
Master of Science Degree/Residency in Health-system Pharmacy Administration (M.S.)
Doctorate in Integrated Pharmaceutical Medicine (Ph.D.)

The College of Medicine was founded in 1973. The College of Pharmacy was founded in 2005, and the College of Graduate Studies was founded in 2010.

The University's mission is to improve the health, economy, and quality of life in northeast Ohio through the medical, pharmacy and health sciences education of students and practitioners at all levels; to develop new knowledge through research in the biomedical, community health and behavioral sciences; and to provide community service and health education throughout the northeast Ohio region.

The University does not have its own hospital. Rather, the College of Medicine has established affiliation agreements with nine major hospitals in Akron, Canton and Youngstown to serve as the primary clinical sites for medical education. Likewise, the College of Pharmacy partners with various pharmaceutical locations to provide pharmacy opportunities and training to its students.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using the Annual Financial Report

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

Under the provision of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the NEOMED Research Corporation (the "Research Corp"), the NEOMED Foundation, Inc. (the "Foundation"), and ERS Strategic Properties, Inc. ("ERS") have been determined to be component units of the University. Accordingly, the Research Corp will be shown blended with the University's financial statements and the Foundation and ERS will be discretely presented in the University's financial statements. The discretely presented component units have been excluded from Management's Discussion and Analysis.

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Noteworthy Financial Activity

In 2012, ERS Strategic Properties, Inc. was created to establish related commercial business units for the benefit and support of Northeast Ohio Medical University. ERS Housing LLC and ERS HWMEC LLC were created under the umbrella of ERS Strategic Properties, Inc., a not-for-profit 501(c)(3). Specifically, ERS Housing LLC is operated for the purpose of developing, constructing and equipping housing for students, faculty, staff and guests of Northeast Ohio Medical University. ERS HWMEC LLC will provide for the development, construction and equipping of a health, wellness and medical education center to promote the educational, social and physical well-being of students, faculty, and staff of Northeast Ohio Medical University.

The Health and Wellness facility and many of its services will also be available to the external community. Each ERS entity issued debt for this construction, using the University as a guarantor of payment if there were a shortfall.

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2014 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$5.6 million. Current assets increased by \$600,000, while non-current assets increased \$5.0 million. The increase in current assets reflects the ongoing budgetary practice to allow departments to carryover unspent operating funds for future academic program, research, or project needs and the increase in investment income.
- Cash and cash equivalents decreased by \$12.7 million. This is due to the 2010 and 2011 bond issues being depleted for the construction of the Research and Education building. This building was completed in fiscal year 2014.
- The University's net position increased by \$6.9 million to \$114.8 million, of which \$54.6 million is invested in capital assets or is restricted. Of the remaining \$60.2 million in unrestricted assets, all but \$1.3 million is designated for specific purposes.
- Operating revenue increased by \$2.6 million compared to the prior year primarily due to an increase of \$1.3 million in federal grants and \$1.3 million in tuition and fees.
- The University's operating expenses increased by \$7.5 million primarily due to additional research, academic support and operation and maintenance of plant expenses.
- Net non-operating revenue increased by a net \$2.6 million primarily due to an increase in investment income.
- Other revenue, expenses, gains or losses increased by approximately \$348,000 due to the permanently restricted contributions.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Northeast Ohio Medical University
Condensed Statements of Net Position
as of June 30, 2014, 2013 and 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Current assets	\$68,124,417	\$ 67,524,034	\$ 59,958,626
Noncurrent			
Capital	92,182,689	82,401,770	45,420,941
Other	<u>9,274,267</u>	<u>14,087,549</u>	<u>45,449,684</u>
Total assets	<u>169,581,373</u>	<u>164,013,353</u>	<u>150,829,251</u>
LIABILITIES			
Current liabilities	11,589,128	12,518,548	7,756,488
Noncurrent liabilities	<u>43,167,213</u>	<u>43,520,228</u>	<u>43,992,237</u>
Total liabilities	<u>54,756,341</u>	<u>56,038,776</u>	<u>51,748,725</u>
NET POSITION			
Net Investment in Capital Assets	45,097,603	43,324,540	43,544,749
Restricted			
Nonexpendable	9,135,388	7,980,553	7,500,031
Expendable	343,750	304,272	285,979
Unrestricted	<u>60,248,291</u>	<u>56,365,212</u>	<u>47,749,767</u>
Total net position	<u>\$114,825,032</u>	<u>\$107,974,577</u>	<u>\$99,080,526</u>

2014 versus 2013 During the year ended June 30, 2014:

As of June 30, 2014, the University's current assets of \$68.1 million were sufficient to cover current liabilities of \$11.6 million (current ratio of 5.8:1). As of June 30, 2013, current assets of \$67.5 million were sufficient to cover current liabilities of \$12.5 million (current ratio of 5.4:1).

As of June 30, 2014, the University's capital assets increased to \$92.2 million from \$82.4 million in fiscal 2013 while other non-current assets decreased to \$9.3 million from \$14.1 million. This was due to using the cash in the bond funds to pay for new construction for the Research and Graduate Education building.

At June 30, 2014, total University assets were \$169.6 million, compared to \$164.0 million in fiscal 2013.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

University liabilities total \$54.8 million at June 30, 2014, compared to \$56.0 million in fiscal 2013. Current liabilities total \$11.6 million and consist primarily of accrued liabilities of \$4.1 million (\$1.2 million owed to associated hospitals and pharmacies for clinical experiences, and \$.6 million owed to consortium universities for the collaborative academic programs); approximately \$2.2 million in accrued employee compensation and benefits, \$2.4 million in unearned revenue, \$2.0 million in general accounts payable, and \$1.0 million in bonds payable.

Total net position increased by \$6.9 million to \$114.8 million. Unrestricted net assets total \$60.3 million; 73.6 percent of which (\$44.4 million) is designated for specific purposes, and 24.2 percent of which (\$14.6 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives. The remaining \$1.3 million consists of undesignated, unrestricted funds.

2013 versus 2012 During the year ended June 30, 2013:

As of June 30, 2013, the University's current assets of \$67.5 million were sufficient to cover current liabilities of \$12.5 million (current ratio of 5.4:1). As of June 30, 2012, current assets of \$60.0 million were sufficient to cover current liabilities of \$7.8 million (current ratio of 7.7:1).

As of June 30, 2013, the University's capital assets increased to \$82.4 million from \$45.4 million in fiscal 2012 while other non-current assets decreased to \$14.1 million from \$45.4 million. This was due to using the cash in the bond funds to pay for new construction for the Research and Graduate Education building.

At June 30, 2013, total University assets were \$164.0 million, compared to \$150.8 million in fiscal 2012.

University liabilities total \$56.0 million at June 30, 2013, compared to \$51.7 million in fiscal 2012. Current liabilities total \$12.5 million and consist primarily of accrued liabilities of \$7.3 million (\$1.7 million owed to associated hospitals and pharmacies for clinical experiences, and \$.6 million owed to consortium universities for the collaborative academic programs); approximately \$1.8 million in accrued employee compensation and benefits, \$1.2 million in deferred revenue, and \$1.4 million in general accounts payable.

Total net position increased by \$8.9 million to \$108.0 million. Unrestricted net assets total \$56.4 million; 69.4 percent of which (\$39.3 million) is designated for specific purposes, and 26.5 percent of which (\$15.0 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives. The remaining \$2.3 million consists of undesignated, unrestricted funds.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Ohio Medical University Condensed Statements of Revenue, Expenses and Changes in Net Position for the years ended June 30, 2014, 2013, and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue			
Tuition and fees	\$26,474,532	\$25,133,726	\$24,583,329
Federal and state appropriations	19,472,518	18,821,145	18,658,277
Federal, state, local and private grants and contracts	14,649,077	13,461,008	10,700,888
Auxiliary activities	849,989	871,702	833,260
Other	<u>11,335,143</u>	<u>7,081,129</u>	<u>3,281,344</u>
Total revenue	<u>72,781,259</u>	<u>65,368,710</u>	<u>58,057,098</u>
Expenses			
Instruction	16,967,523	17,263,543	16,252,583
Research	9,653,090	7,695,938	7,520,556
Academic support	8,710,783	6,294,411	4,938,291
Institutional support	11,278,807	10,314,635	9,253,742
Scholarships and fellowships	108,726	42,318	42,030
Other	<u>19,211,875</u>	<u>14,872,974</u>	<u>13,955,563</u>
Total expenses	<u>65,930,804</u>	<u>56,483,819</u>	<u>51,962,765</u>
Increase in net position	<u>\$ 6,850,455</u>	<u>\$ 8,884,891</u>	<u>\$ 6,094,333</u>

2014 versus 2013 During the year ended June 30, 2014:

The most significant sources of operating revenue for the University are tuition and fees, and grants and contracts. Tuition and fee revenue grew during fiscal year 2014 as compared to 2013 by 5.3 percent primarily due to increased tuition rates. Grant revenue increased by \$1.2 million, or 8.8 percent in 2014.

Other revenue has increased by \$4.3 million, or 60.1 percent as compared to 2013 due to the increase in investment income as a result to market conditions.

Operating expenditures, including depreciation of \$5.5 million, totaled \$64.0 million, an increase from the prior year of \$7.6 million, or 13.4 percent mostly due to grants, contracts and academic support.

Non-capital state appropriations were the most significant non-operating revenue totaling \$19.5 million, an increase from 2013 of 3.5 percent.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

2013 versus 2012 During the year ended June 30, 2013:

The most significant sources of operating revenue for the University are tuition and fees, and grants and contracts. Tuition and fee revenue grew during fiscal year 2013 as compared to 2012 by 2.0 percent primarily due to increased tuition rates. Grant revenue increased by \$2.8 million, or 26.2 percent due to four new grant awards received by the University in 2013.

Other revenue has increased by \$3.8 million, or 115 percent as compared to 2012 due to the increase in temporary investments as a result to market conditions.

Operating expenditures, including depreciation of \$4.6 million, totaled \$56.5 million, an increase from the prior year of \$6.4 million, or 12.7 percent mostly due to grants and contracts.

Non-capital state appropriations were the most significant non-operating revenue totaling \$18.8 million, an increase from 2012 of .9 percent.

Northeast Ohio Medical University Condensed Statements of Cash Flows for the years ended June 30, 2014, 2013, and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash provided by/(used in):			
Operating activities	\$(24,136,538)	\$(9,025,768)	\$(8,039,224)
Investing activities	8,783,468	(69,884)	(5,142,492)
Capital and related financing activities	(16,846,112)	(41,865,350)	17,918,120
Non-capital financing activities	<u>19,472,518</u>	<u>18,821,145</u>	<u>18,658,277</u>
Net (decrease) increase in cash	(12,726,664)	(32,139,857)	23,394,681
Cash and cash equivalents, beginning of year	<u>14,455,322</u>	<u>46,595,179</u>	<u>23,200,498</u>
Cash and cash equivalents, end of year	<u>\$1,728,658</u>	<u>\$14,455,322</u>	<u>\$46,595,179</u>

2014 versus 2013 During the year ended June 30, 2014:

Major sources of cash included student tuition and fees (\$26.0 million), federal and state appropriations (\$19.5 million), auxiliary activities (\$.8 million) and grants and contracts (\$12.7 million). The largest payments were for suppliers (\$28.3 million) and employees (\$35.9 million).

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

2013 versus 2012 During the year ended June 30, 2013:

Major sources of cash included student tuition and fees (\$24.9 million), federal and state appropriations (\$18.8 million), auxiliary activities (\$.9 million) and grants and contracts (\$11.8 million). The largest payments were for suppliers (\$12.7 million) and employees (\$33.1 million).

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the University had invested \$92.2 million in capital assets (net of accumulated depreciation of \$66.2 million); this amount represents an increase of \$9.8 million, or 11.9 percent, over last year, primarily due to construction of the Research and Graduate Education building.

At the end of 2013, the University had invested \$82.4 million in capital assets (net of accumulated depreciation of \$60.7 million); this amount represents an increase of \$37.0 million, or 81.5 percent, over last year, primarily due to construction of the Research and Graduate Education building.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 2,149,470	\$ 2,149,470	\$ 2,149,470
Equipment, furnishing, and library materials	38,245,603	34,773,622	34,485,592
Buildings, infrastructure, improvements, and construction in progress	<u>118,010,437</u>	<u>106,165,398</u>	<u>66,935,834</u>
Total	<u>\$158,405,510</u>	<u>\$143,088,490</u>	<u>\$103,570,896</u>

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

Long-term Debt

In November 2010, the University had its first bond issuance for \$15 million of tax exempt Build America Bonds, rated BAA1, to be used toward a new Research and Graduate Education building, of which there were bond issue costs of \$222,850. In November 2011, the University had its second bond issuance for \$27 million to be used toward this project, of which there were bond issue costs of \$59,921. There are more details regarding the University's bonds in Note 9 to the financial statements.

In addition, at June 30, 2011, the University had \$1,454,983 in outstanding capital lease obligations. This obligation was paid in full in April 2012.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Factors Affecting Future Periods

The most significant factor affecting future periods is the amount of funding appropriated for Northeast Ohio Medical University by the State of Ohio. Changes in state support are important both for its direct impact on University revenue and its indirect impact on the cost of tuition.

Historically, state funding in Ohio had been full-time equivalent enrollment-based and subsidy eligible enrollment for medical schools had been statutorily capped. Thus, in periods of flat or declining state funding, the University had been negatively impacted when enrollments at other state-assisted public schools were growing.

The current state share of instructional support funding formula incorporates several notable changes. First, all data for enrollments, completions and degrees utilized in the funding calculation transitioned to a three-year average. Previously, the data was based on the higher of the two- or five-year average.

Also, for Pharmacy and Graduate Studies, the funding formula has transitioned to an outcome based model with approximately half of the state funding allocated to main campuses on the basis of course completions with the remaining distribution based upon degree completions. With the University's high completion and graduation rates, the current funding model provides obvious benefits for NEOMED.

In regard to the medical state share of instruction formula, funding is entirely based upon headcount enrollments, with no enrollment caps in place. The current medical funding model provides the opportunity for the University's College of Medicine to receive additional funding in accordance with enrollment growth. Specifically, the 127th Ohio General Assembly House Bill 562 called for the addition of Cleveland State University to the list of institutions partnering in NEOMED's medical program. Any class size increases will be in accordance with accreditation requirements as specified by the Liaison Committee on Medical Education (LCME) of the American Association of Medical Universities (AAMC). Based on projected physician shortages by 2015, the AAMC recently issued a call for all American medical schools to consider increasing class size by up to 30 percent.

The University is cognizant to the fact that state support for higher education is certainly susceptible to declines during tough economic downturns. However, the revised state support funding model will minimize the negative impact to NEOMED.

Independent Auditor's Report

To the Board of Trustees
Northeast Ohio Medical University

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast Ohio Medical University and its discretely presented component units (the "University"), a component unit of the State of Ohio, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Northeast Ohio Medical University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 in accordance with 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Trustees
Northeast Ohio Medical University

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Ohio Medical University and its discretely presented component units as of June 30, 2014 and 2013 and the changes in its financial position and, where applicable, cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective July 1, 2013, the University adopted new accounting guidance under GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement establishes accounting and financial reporting standards that require expensing of bond issuance costs and reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Ohio Medical University's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

To the Board of Trustees
Northeast Ohio Medical University

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014 on our consideration of Northeast Ohio Medical University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. 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 performed in accordance with *Government Auditing Standards* in considering Northeast Ohio Medical University's internal control over financial reporting and compliance.

Plante & Morse, PLLC

October 13, 2014

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current assets						
Cash and cash equivalents (Note 2)	\$ 1,102,138	\$ 7,273,180	\$ 510,733	\$ 635,506	\$ 299,591	\$ -
Investments (Note 2)	52,318,549	53,511,402	-	-	-	-
Accounts receivable (Note 3)	12,565,056	5,748,535	-	-	631,699	-
Inventories	149,708	142,318	-	-	-	-
Prepaid expenses and deferred charges	1,623,873	571,849	3,273	1,400	-	-
Pledges receivable	-	-	446,411	306,057	-	-
Notes receivable (Note 3)	365,093	276,750	41,892	48,463	-	-
Total current assets	<u>68,124,417</u>	<u>67,524,034</u>	<u>1,002,309</u>	<u>991,426</u>	<u>931,290</u>	<u>-</u>
Noncurrent assets						
Cash-restricted (Note 2)	626,520	7,182,142	-	-	-	-
Long-term investments (Note 2)	4,389,508	2,931,225	14,300,756	11,910,230	-	-
Funds held in trust	-	-	489,179	699,407	23,201,024	83,109,235
Pledges receivable	-	-	1,554,652	754,973	-	-
Notes receivable (Note 3)	4,258,239	3,974,182	238,424	243,406	-	-
Unamortized bond issue costs, net	-	-	-	-	2,618,170	3,134,837
Capital assets, net (Note 4)	92,182,689	82,401,770	-	-	107,979,290	51,028,761
Total noncurrent assets	<u>101,456,956</u>	<u>96,489,319</u>	<u>16,583,011</u>	<u>13,608,016</u>	<u>133,798,484</u>	<u>137,272,833</u>
Total assets	<u>169,581,373</u>	<u>164,013,353</u>	<u>17,585,320</u>	<u>14,599,442</u>	<u>134,729,774</u>	<u>137,272,833</u>
LIABILITIES						
Current liabilities						
Accounts payable	2,036,469	1,378,263	-	-	23,522	-
Accrued compensation and benefits (Note 5)	2,159,897	1,840,479	-	-	-	-
Unearned revenue	2,426,417	1,151,433	-	-	59,338	-
Other accrued liabilities	4,116,345	7,313,373	862,735	134,412	16,920,700	17,287,102
Bonds payable (Note 9)	850,000	835,000	-	-	949,874	-
Total current liabilities	<u>11,589,128</u>	<u>12,518,548</u>	<u>862,735</u>	<u>134,412</u>	<u>17,953,434</u>	<u>17,287,102</u>
Noncurrent liabilities						
Compensated absences (Note 5)	2,114,623	1,756,477	-	-	-	-
Annuity obligations	-	-	105,053	119,153	-	-
Post-employment benefits (Notes 5 & 7)	1,253,423	1,120,771	-	-	-	-
Bonds payable (Note 9)	39,799,167	40,642,980	-	-	119,137,561	120,067,628
Total noncurrent liabilities	<u>43,167,213</u>	<u>43,520,228</u>	<u>105,053</u>	<u>119,153</u>	<u>119,137,561</u>	<u>120,067,628</u>
Total liabilities	<u>54,756,341</u>	<u>56,038,776</u>	<u>967,788</u>	<u>253,565</u>	<u>137,090,995</u>	<u>137,354,730</u>
NET POSITION						
Net investment in capital assets	45,097,603	43,324,540	-	-	-	-
Restricted						
Nonexpendable						
Student loans	5,148,652	5,140,517	860,620	825,563	-	-
Endowments	3,986,736	2,840,036	7,222,053	7,031,083	-	-
Annuity and life income	-	-	83,986	73,762	-	-
Expendable						
Current operations	343,750	304,272	7,548,989	5,517,176	-	-
Unrestricted	60,248,291	56,365,212	901,884	898,293	(2,361,221)	(81,897)
Total net position	<u>114,825,032</u>	<u>107,974,577</u>	<u>16,617,532</u>	<u>14,345,877</u>	<u>(2,361,221)</u>	<u>(81,897)</u>
Total liabilities and net position	<u>\$ 169,581,373</u>	<u>\$ 164,013,353</u>	<u>\$ 17,585,320</u>	<u>\$ 14,599,442</u>	<u>\$ 134,729,774</u>	<u>\$ 137,272,833</u>

The accompanying notes are an integral part of the financial statements

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2014 AND 2013

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2014	2013	2014	2013	2014	2013
OPERATING REVENUES						
Student tuition and fees (net of scholarship allowances of \$917,844 and \$273,250, respectively)	\$ 26,474,532	\$ 25,133,726	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	9,045,829	7,187,703	-	-	-	-
State grants and contracts	2,660,523	2,195,047	-	-	-	-
Local grants and contracts	49,575	60,601	-	-	-	-
Private grants and contracts	2,893,150	4,017,657	-	-	-	-
Contributions and bequests	-	-	2,447,391	733,337	-	-
In-kind contributions from NEOMED	-	-	1,054,907	1,098,581	332,188	-
Sales and services of departments	401,148	412,395	-	-	-	-
Sales and services of auxiliary enterprises	849,989	871,702	-	-	1,913,598	-
Other	465,188	383,976	115,133	26,255	-	-
Total operating revenues	<u>42,839,934</u>	<u>40,262,807</u>	<u>3,617,431</u>	<u>1,858,173</u>	<u>2,245,786</u>	<u>-</u>
OPERATING EXPENSES						
Educational and general						
Instruction and departmental research	16,967,523	17,263,543	200,076	117,701	-	-
Separately budgeted research	9,653,090	7,695,938	636,153	81,078	-	-
Public service	2,758,994	2,397,388	159,782	201,048	-	-
Academic support	8,710,783	6,294,411	792,862	157,810	-	-
Student services	1,854,787	1,687,630	-	-	-	-
Institutional support	11,278,807	10,314,635	1,217,956	1,552,002	-	-
Operation and maintenance of plant	5,921,216	4,911,329	250,001	-	-	-
Scholarships and fellowships	108,726	42,318	373,568	332,945	-	-
Auxiliary enterprises	1,199,559	1,225,371	-	-	2,451,766	81,897
Depreciation	5,539,095	4,619,046	-	-	461,081	-
Total operating expenses	<u>63,992,580</u>	<u>56,451,609</u>	<u>3,630,398</u>	<u>2,442,584</u>	<u>2,912,847</u>	<u>81,897</u>
Operating loss	(21,152,646)	(16,188,802)	(12,967)	(584,411)	(667,061)	(81,897)
NONOPERATING REVENUES (EXPENSES)						
State appropriations	19,472,518	18,821,145	-	-	-	-
Investment income	9,048,894	5,212,610	1,803,076	1,189,673	-	-
Interest expense	(1,938,224)	-	-	-	(1,612,263)	-
Loss on disposal of assets	-	(32,210)	-	-	-	-
Net nonoperating revenues/(expenses)	<u>26,583,188</u>	<u>24,001,545</u>	<u>1,803,076</u>	<u>1,189,673</u>	<u>(1,612,263)</u>	<u>-</u>
GAIN (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	5,430,542	7,812,743	1,790,109	605,262	(2,279,324)	(81,897)
OTHER REVENUES, EXPENSES, GAINS OR LOSSES						
Capital appropriations and grants	839,913	1,072,148	-	-	-	-
Contributions permanently restricted	580,000	-	481,546	456,198	-	-
Total other revenues, expenses, gains or losses	<u>1,419,913</u>	<u>1,072,148</u>	<u>481,546</u>	<u>456,198</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN NET POSITION	6,850,455	8,884,891	2,271,655	1,061,460	(2,279,324)	(81,897)
NET POSITION AT BEGINNING OF YEAR- AS PREVIOUSLY STATED						
	-	108,227,222	-	-	-	-
RESTATEMENT (NOTE 1)	-	(252,645)	-	-	-	-
NET POSITION AT BEGINNING OF YEAR- AS RESTATED	<u>107,974,577</u>	<u>99,089,686</u>	<u>14,345,877</u>	<u>13,284,417</u>	<u>(81,897)</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 114,825,032</u>	<u>\$ 107,974,577</u>	<u>\$ 16,617,532</u>	<u>\$ 14,345,877</u>	<u>\$ (2,361,221)</u>	<u>\$ (81,897)</u>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 26,017,193	\$ 24,869,817
Grants and contracts	12,723,460	11,841,791
Employee compensation	(35,941,701)	(33,100,159)
Payments to suppliers	(28,287,958)	(12,654,735)
Payments for utilities	(1,788,541)	(1,274,522)
Student loan advances	(1,121,288)	(652,189)
Student loan repayments	635,462	524,656
Sales and services of auxiliary enterprises	857,695	872,836
Sales and services of departments	458,653	286,060
Other operating receipts	2,310,487	260,677
Net cash and cash equivalents used in operating activities	(24,136,538)	(9,025,768)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	19,472,518	18,821,145
Federal loan receipts	25,591,156	23,787,687
Federal loan disbursements	(25,591,156)	(23,787,687)
Net cash and cash equivalents provided by financing activities	19,472,518	18,821,145
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	589,912	100,560
Capital gifts and grants	830,000	-
Purchases of capital assets	(15,320,013)	(39,528,612)
Principal paid on debt	(835,000)	(340,000)
Interest paid on debt	(2,111,011)	(2,097,298)
Net cash and cash equivalents used in capital financing activities	(16,846,112)	(41,865,350)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	8,750,275	5,017,220
Sale of investments	45,977,681	49,837,547
Purchase of investments	(45,944,488)	(54,924,651)
Net cash and cash equivalents provided by (used in) investing activities	8,783,468	(69,884)
NET DECREASE IN CASH AND EQUIVALENTS	(12,726,664)	(32,139,857)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	14,455,322	46,595,179
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 1,728,658	\$ 14,455,322

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

**RECONCILIATION OF OPERATING LOSS TO NET CASH AND
CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES**

	<u>2014</u>	<u>2013</u>
Operating loss	\$ (21,152,646)	\$ (16,188,802)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	5,539,095	4,619,046
Changes in assets and liabilities		
Receivables	(6,612,179)	(1,882,814)
Inventories	(7,390)	(12,977)
Prepaid expenses and deferred charges	(1,052,024)	(8,042)
Notes receivable	(372,399)	(185,214)
Accounts payable	(2,548,087)	4,005,834
Accrued compensation	810,216	717,624
Deferred revenue	1,274,984	(125,516)
Other accrued liabilities	(16,108)	35,093
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	<u>\$ (24,136,538)</u>	<u>\$ (9,025,768)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ 1,102,138	\$ 7,273,180
Cash-Restricted	626,520	7,182,142
Total cash and equivalents at end of the year	<u>\$ 1,728,658</u>	<u>\$ 14,455,322</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Northeast Ohio Medical University (hereinafter referred to as NEOMED or the “University”) was created as a public institution of higher learning by the General Assembly of the State of Ohio on November 23, 1973, by statutory act under Chapter 3350 of the Ohio Revised Code (the “ORC”). As such, the University is a component unit of the State. The University’s initial mission, as stated in the ORC, was to graduate qualified physicians oriented to the practice of medicine at the community level, with an emphasis on primary care.

Today NEOMED has transformed into freestanding, state University operating community-based colleges in medicine, pharmacy and graduate studies. The medical college offers a combined Bachelor of Science and Medical Degree program in an educational consortium with four other state-funded universities, namely, The University of Akron, Kent State University, Youngstown State University and Cleveland State University.

Faculties at the consortium universities provide the first two years of undergraduate arts and sciences curriculum, and the NEOMED faculty provides the medical curriculum on the Rootstown campus and in the associated clinical hospitals and health departments. Associated community hospitals serve as a base for clinical education with more than 1,700 practicing physicians providing the instruction during the clinical years.

The major associated community hospitals and health department are:

Major Teaching Hospitals and Health Department:

Akron Children’s Hospital
Akron General Medical Center
Aultman Hospital, Canton
Mercy Medical Center, Canton
Northside Medical Center, Youngstown
St. Elizabeth Health Center, Youngstown
St. Vincent Charity Medical Center, Cleveland
Summa Health System Hospital, Akron
Summa Barberton Hospital
Akron Health Department

The University is governed by an 11-member board of trustees appointed by the governor, two of which are students of the University.

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

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013

The accompanying financial statements consist of the accounts of the University, and the accounts of the NEOMED Research Corporation (“Research Corp”), NEOMED Foundation (“Foundation”) and ERS Strategic Properties, Inc (“ERS”). The Research Corp is a component unit which is presented blended with the University accounts. The Foundation and ERS, which are discretely presented component units of the University as determined in accordance with the provisions of Governmental Accounting Standards Board (“GASB”) Statement 61, are described more fully in Notes 12 and 13. The Research Corp, Foundation and ERS are exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

Furthermore, in accordance with GASB Statement No. 61, the Foundation and ERS are reported in separate columns on the University’s financial statements to emphasize that they are legally separate from the University. The Foundation and ERS are not-for-profit organizations supporting the University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, it is considered a component unit of the University. Financial statements for the Foundation may be obtained by writing to NEOMED Foundation, PO Box 95, Rootstown, Ohio 44272.

In 2012, ERS Strategic Properties, Inc. was created to establish related commercial business units for the benefit and support of Northeast Ohio Medical University. ERS Housing LLC and ERS HWMEC LLC were created under the umbrella of ERS Strategic Properties, Inc., a not-for-profit 501(c)(3). Specifically, ERS Housing LLC is operated for the purpose of developing, constructing and equipping housing for students, faculty, staff and guests of Northeast Ohio Medical University. ERS HWMEC LLC will provide for the development, construction and equipping of a health, wellness and medical education center to promote the educational, social and physical well-being of students, faculty, and staff of Northeast Ohio Medical University. The Health and Wellness facility and many of its services will also be available to the external community. Because these restricted resources held by ERS are for the benefit of the University, it is considered a component unit of the University. Financial statements for ERS may be obtained by writing to ERS Strategic Properties, Inc., PO Box 95, Rootstown, Ohio 44272.

Basis of Presentation

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

Management’s Discussion and Analysis

Basic financial statements:

Statements of Net Position

Statements of Revenue, Expenses, and Changes in Net Position

Statements of Cash Flows

Notes to the financial statements

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013

Basis of Accounting

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

Cash and 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.

Restricted Cash and Cash Equivalents

As of June 30, 2014, restricted cash and cash equivalents consists of \$626,520 of cash restricted for loan purposes. As of June 30, 2013, restricted cash consisted of \$6,192,093 of unspent proceeds of the General Receipt Bonds issued in 2011 and \$990,049 for loan purposes.

Investments

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

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

Accounts Receivable

Accounts receivable consists of amounts due for tuition and fees, grants and contracts, and auxiliary enterprise services. Grants and contracts receivables include amounts due from the federal government, state and local governments, or private sources, as reimbursement for certain expenditures made in accordance with agreements. Uncollectible amounts have been reserved.

Inventories

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

Bond Issuance Costs

Bond issuance costs are expensed as incurred.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013**

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. Capital assets include capitalized interest of \$176,761 and \$2,114,952 as of June 30, 2014 and 2013, respectively.

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

<u>Asset</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 - 40 Years
Leasehold Improvements	Life of Lease
Infrastructure	20 Years
Furnishings and movable equipment	3 - 7 Years
Library materials	10 Years

Compensated Absences

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

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

Operating Revenue

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

Unearned Revenue

Unearned revenue represents unspent (and therefore unearned) revenue from various restricted grants and contracts.

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Net Position Classifications

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

Net Investment in Capital Assets - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted - Nonexpendable - Component of net position whose use is subject to externally imposed stipulations that they be maintained permanently by the University.

Restricted - Expendable - Component of net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

Unrestricted - Component of net position that is not subject to externally imposed restrictions. Unrestricted net position 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 accounting principles generally accepted 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.

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013

Change in Accounting Principle

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. In accordance with the Statement, effective with fiscal year ended June 30, 2014, the University adopted GASB Statement No. 65 and has retroactively expensed unamortized bond issuance costs of \$252,645. The change in accounting principle resulted in a prior period adjustment to net position at July 1, 2012 of \$252,645.

Upcoming Accounting Standards

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The total pension liability will be computed on a different basis than the current actuarial accrued liability and the method of allocating this liability to each participating employer has not yet been determined, so the precise impact is not known. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013

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 University. Common stocks, corporate bonds, money market instruments, mutual funds and other investments are invested through trust agreements with banks that keep the investments in safekeeping accounts at State Street Bank & Trust Company in “book entry” form. The banks internally designate the securities as owned by or pledged to the University.

The University’s bank deposits and cash on hand for all fund groups at June 30, 2014 and 2013 are summarized as follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
University’s book value	\$1,728,658	\$14,455,322
Cash on hand	2,575	6,674
Bank balances	3,500,260	15,423,671

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

Custodial credit risk - deposits. Custodial risk is the risk that in the event of a bank failure, the University’s deposits would not be returned. Of the bank balances at June 30, 2014 and 2013, \$454,381 and \$2,803,067, respectively, was covered by federal depository insurance and \$3,045,879 and \$12,620,604, respectively, was uncollateralized as defined by GASB.

The University’s investments, at fair value, at June 30, 2014 and 2013 are summarized as follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Money market funds	\$ 2,071,646	\$ 1,512,080
U.S. government obligations	199,681	174,889
U.S. government agency obligations	3,081,046	4,139,027
Corporate bonds and notes	21,566,891	22,133,311
Fixed income mutual funds	617,329	467,068
Equities	28,850,994	25,704,625
Other	300,000	-
State Treasury Asset Reserve of Ohio Plus	14,445	2,303,067
State Treasury Asset Reserve of Ohio	<u>6,025</u>	<u>8,560</u>
Total Investments	<u>\$ 56,708,057</u>	<u>\$56,442,627</u>

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

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013

The maturities of the University's interest-bearing investments at June 30, 2014 are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. government obligations	\$199,681	\$26,061	\$ 84,164	\$ 44,970	\$ 44,486
U.S. government agency obligations	3,081,046	11,670	-	-	3,069,376
Corporate bonds and notes	<u>21,566,891</u>	<u>522,717</u>	<u>5,243,043</u>	<u>105,935</u>	<u>15,695,196</u>
Total	<u>\$24,847,618</u>	<u>\$560,448</u>	<u>\$5,327,207</u>	<u>\$150,905</u>	<u>\$18,809,058</u>

The maturities of the University's interest-bearing investments at June 30, 2013 are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. government obligations	\$174,889	\$ 8,150	\$72,583	\$ 54,231	\$ 39,925
U.S. government agency obligations	4,139,027	-	8,791	-	4,130,236
Corporate bonds and notes	<u>22,133,311</u>	<u>12,080,422</u>	<u>7,058,849</u>	<u>38,058</u>	<u>2,955,982</u>
Total	<u>\$26,447,227</u>	<u>\$12,088,572</u>	<u>\$7,140,223</u>	<u>\$92,289</u>	<u>\$7,126,143</u>

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

The credit ratings for the University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2014 were as follows:

<u>Credit Rating (S&P)</u>	<u>Total</u>	<u>U.S. Government Obligations</u>	<u>U.S. Agency Obligations</u>	<u>Corporate Bonds and Notes</u>
AAA	\$ 3,237,814	\$ 199,681	\$3,038,133	\$ -
AA	1,134,942	-	42,913	1,092,029
A	3,722,244	-	-	3,722,244
BBB	<u>16,752,618</u>	<u>-</u>	<u>-</u>	<u>16,752,618</u>
Total	<u>\$ 24,847,618</u>	<u>\$ 199,681</u>	<u>\$3,081,046</u>	<u>\$ 21,566,891</u>

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The credit ratings for the University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2013 were as follows:

Credit Rating (S&P)	<u>Total</u>	U.S. Government <u>Obligations</u>	U.S. Agency <u>Obligations</u>	Corporate Bonds and <u>Notes</u>
AAA	\$ 4,313,916	\$174,889	\$4,139,027	\$ -
AA	1,691,873	-	-	1,691,873
A	3,845,321	-	-	3,845,321
BBB	<u>16,596,117</u>	<u>-</u>	<u>-</u>	<u>16,596,117</u>
Total	<u>\$ 26,447,227</u>	<u>\$174,889</u>	<u>\$4,139,027</u>	<u>\$22,133,311</u>

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's investment policy limits investments, at cost, to no more than 10 percent in any single issue, except the investments of U.S. government securities.

Foreign currency risk. Foreign currency risk is that risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2014 and 2013, the University had no exposure to foreign currency risk.

3. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2014 and 2013:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Student notes	\$ 4,523,334	\$4,150,932
Grants and contracts	4,520,490	4,072,257
Sales and services	1,497,829	628,297
ERS Strategic Properties, Inc.	6,550,876	971,586
Tuition and fees	<u>95,859</u>	<u>176,395</u>
Total accounts and notes receivable	17,188,388	9,999,467
Less current portion	<u>(12,930,149)</u>	<u>(6,025,285)</u>
Accounts and notes receivable, Non-current portion	<u>\$ 4,258,239</u>	<u>\$ 3,974,182</u>

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Federal Direct Loans Program processed for students by the University during the years ended June 30, 2014 and 2013 totaled \$24,723,935 and \$23,787,687, respectively. The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loans Program and, accordingly, these loans are not included in the University's financial statements.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	July 1, 2013 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2014 Ending Balance
Land - Non-depreciable	\$ 2,149,470	\$ -	\$ -	\$ 2,149,470
Infrastructure	1,957,193	92,763	-	2,049,956
Buildings	62,052,235	7,101,145	41,536,930	110,690,310
Leasehold improvements	400,000	-	-	400,000
Furnishings and movable equipment	19,867,966	2,649,683	194,846	22,712,495
Library materials	14,905,656	627,453	-	15,533,109
Construction in progress - Non-depreciable	41,755,970	4,848,970	(41,734,770)	4,870,170
Total historical cost	143,088,490	15,320,014	(2,994)	158,405,510
Less: accumulated depreciation				
Infrastructure	1,281,228	109,171	-	1,390,399
Buildings	32,312,899	2,561,763	-	34,874,662
Leasehold Improvements	66,667	133,333	-	200,000
Furnishings and movable equipment	14,845,493	2,131,602	(2,994)	16,974,101
Library materials	12,180,433	603,226	-	12,783,659
Total accumulated depreciation	60,686,720	5,539,095	(2,994)	66,222,821
Total capital assets, net of depreciation	<u>\$ 82,401,770</u>	<u>\$ 9,780,919</u>	<u>\$ -</u>	<u>\$ 92,182,689</u>

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Capital asset activity for the year ended June 30, 2013 was as follows:

	July 1, 2012 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2013 Ending Balance
Land - Non-depreciable	\$ 2,149,470	\$ -	\$ -	\$ 2,149,470
Infrastructure	1,637,836	319,357	-	1,957,193
Buildings	61,553,808	420,318	78,109	62,052,235
Leasehold improvements	-	400,000	-	400,000
Furnishings and movable equipment	20,142,960	1,839,497	(2,114,491)	19,867,966
Library materials	14,342,632	563,024	-	14,905,656
Construction in progress - Non-depreciable	3,744,190	38,089,889	(78,109)	41,755,970
Total historical cost	103,570,896	41,632,085	(2,114,491)	143,088,490
Less: accumulated depreciation				
Infrastructure	1,198,211	83,017	-	1,281,228
Buildings	30,393,638	1,919,261	-	32,312,899
Leasehold Improvements	-	66,667	-	66,667
Furnishings and movable equipment	15,031,906	1,895,868	(2,082,281)	14,845,493
Library materials	11,526,200	654,233	-	12,180,433
Total accumulated depreciation	58,149,955	4,619,046	(2,082,281)	60,686,720
Total capital assets, net of depreciation	<u>\$ 45,420,941</u>	<u>\$ 37,013,039</u>	<u>\$ (32,210)</u>	<u>\$ 82,401,770</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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5. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2014 and 2013 are as follows:

	Balance July 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2014</u>	Current <u>Portion</u>	Non-current <u>Portion</u>
Compensated absences	\$2,225,688	\$685,048	\$ 392,067	\$2,518,669	\$404,046	\$2,114,623
Post-employment	1,120,771	132,652	-	1,253,423	-	1,253,423
Total long-term	<u>\$3,346,459</u>	<u>\$817,700</u>	<u>\$ 392,067</u>	<u>\$3,772,092</u>	<u>\$404,046</u>	<u>\$3,368,046</u>

	Balance July 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2013</u>	Current <u>Portion</u>	Non-current <u>Portion</u>
Compensated absences	\$2,011,348	\$462,425	\$ 248,085	\$2,225,688	\$469,211	\$1,756,477
Post-employment	910,627	210,144	-	1,120,771	-	1,120,771
Total long-term	<u>\$2,921,975</u>	<u>\$672,569</u>	<u>\$ 248,085</u>	<u>\$3,346,459</u>	<u>\$469,211</u>	<u>\$2,877,248</u>

The current portion of compensated absence liabilities is included in accrued compensation and benefits on the Statements of Net Position.

NORTHEAST OHIO MEDICAL UNIVERSITY
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6. COMMITMENTS AND CONTINGENCIES

The University has entered into various contractual service agreements with its consortium universities, associated hospitals and health departments primarily for clinical instruction, research and other services. For fiscal years ended June 30, 2014 and 2013, these instructional expenses relating to contracts totaled \$3,969,515 and \$3,478,640, respectively. At June 30, 2014 and 2013, the University had recorded accrued liabilities of \$1,855,395 and \$1,770,925, respectively, which represented unbilled services rendered by the related organizations under these contracts.

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

7. OTHER POST-EMPLOYMENT BENEFITS

Background

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

Plan Description

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

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

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

Funding Policy

In 2011, NEOMED started charging the retirees a minimum monthly contribution to help offset the rising costs of the retiree spouses' and dependents' healthcare coverage and pays 100 percent of the retirees' life insurance. The University has chosen to fund the post-employment benefits on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

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

	June 30, 2014	June 30, 2013
Annual required contribution	\$ 229,359	\$ 288,623
Interest on net OPEB obligation	67,246	54,638
Adjustment to annual required contribution	(76,814)	(62,412)
Annual OPEB cost (expense)	219,791	280,849
Employer contribution (pay-as-you-go)	87,139	70,705
Net cash contribution	-	-
Increase in net OPEB obligation	132,652	210,144
Net OPEB obligation, beginning of year	1,120,771	910,627
Net OPEB obligation, end of year	\$ 1,253,423	\$ 1,120,771
Actuarial contribution rate	39.65%	25.18%

For the year ended June 30, 2014, the University estimated the cost of \$1,253,423 based on actuarial valuation as of June 30, 2014.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Actuarial Methods and Assumptions

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

The valuation of the liability as of June 30, 2014 is based only on the spouses and legal dependents of employees and retirees hired prior to January 1, 1992, with at least 10 years of service at NEOMED for healthcare benefits and all retirees and active employees for life insurance. Using the actuarial assumptions, the number of retired participants is projected each year in the future. Costs are projected for each year at each age using the trend and aging assumptions. Retiree post-employment benefit expenses are determined under the Projected Unit Credit actuarial cost method. Under this method, benefits are projected for life and their present value is determined.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
6/30/2014	\$0	\$2,685,931	\$2,685,931	0.00%	\$2,241,522	119.83%
6/30/2013	\$0	\$3,326,854	\$3,326,854	0.00%	\$2,670,810	124.56%
6/30/2012	\$0	\$4,453,852	\$4,453,852	0.00%	\$2,676,674	166.40%
6/30/2011	\$0	\$5,372,684	\$5,372,684	0.00%	\$3,108,647	172.83%
6/30/2010	\$0	\$4,593,702	\$4,593,702	0.00%	\$3,524,376	130.34%
6/30/2009	\$0	\$4,419,638	\$4,419,638	0.00%	\$3,791,167	116.58%

This annual valuation has been calculated using the Projected Unit Credit actuarial cost method, an investment rate of return of 6.0 percent, and the initial unfunded actuarial liability is amortized over 30 years based on a level percent of payroll method on covered payroll, with 25 years remaining. Under this method, benefits are projected for life and their present value is determined and divided into equal parts, which are earned over the period from hire date to the full eligibility date. The annual healthcare costs are assumed to increase as follows:

2014-15	6.00%
2015+	5.00

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8. EMPLOYEE BENEFIT PLANS

Retirement Plans

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

OPERS and STRS are statewide, cost-sharing, multiple-employer defined benefit pension plans. OPERS and STRS provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefits are established by state statute. Both OPERS and STRS issue separate, publicly available financial reports that include financial statements and required supplemental 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 its Web site at www.OPERS.org. The STRS financial report may be obtained by writing to State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (888) 227-7877 or visiting their Web site at www.strsoh.org.

The Ohio Revised Code provides statutory authority for employee and employer contributions to OPERS and STRS. For OPERS, the required, actuarially determined contribution rates for plan members and the University are 10% and 14% of covered payroll, respectively. The required, actuarially determined contribution rates for STRS plan members and the University are 11% and 14% of covered payroll, respectively. These OPERS and STRS contribution rates incorporate the required contributions to fund post-retirement benefits other than pensions.

University employees may choose an Alternative Retirement Plan ("ARP") in lieu of OPERS or STRS. For employees electing an ARP in lieu of STRS, the University is required to make employer contributions of 0.77% and 3.5% of earned compensation to OPERS and STRS, respectively. In addition, the University contributes 13.23% 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 administrative and professional staff in lieu of OPERS and available to faculty in lieu of STRS. For the employees who elected participation in ARP, prior employee contributions to OPERS and STRS were transferred from those plans and invested in individual accounts established with selected external investment managers. The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement healthcare benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

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The University's contributions, including employer contributions for pensions and other postretirement benefits, for the year ended June 30, 2014 and for each of the two preceding years are:

Year Ended June 30	OPERS Contributions	STRS Contributions	ARP Contributions
2014	\$ 1,877,123	\$ 945,099	\$ 759,117
2013	\$ 1,665,303	\$ 907,729	\$ 648,822
2012	\$ 1,443,648	\$ 743,719	\$ 605,170

Post-Retirement Health Care Benefits (in whole numbers)

OPERS provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying State service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS. The employer contribution rate allocated for health care for members in the Traditional Plan was 1.0% of covered payroll for 2013. For employees in the Combined Plan, the employer contribution rate allocated to health care was 1.0% for 2013.

OPERS benefits are advance-funded on an actuarially determined basis. As of December 31, 2012, OPERS reported the actuarially accrued liability and the unfunded actuarial accrued liability for Other Post Employment Benefits (OPEB) at \$19.2 billion and \$7.0 billion, respectively. Significant actuarial assumptions include a 5% investment return, a 3.75% individual pay increase, and healthcare costs are assumed to increase initially at 8% before leveling off at 3.75% in 2023. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. As of December 31, 2012, the actuarial value of the retirement system's net assets available for other post-employment benefits was \$12.2 billion. The number of active contributing participants in the traditional and combined plans was 347,727 as of December 31, 2012.

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 the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium.

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The Ohio Revised Code grants authority to STRS Ohio to provide healthcare coverage to eligible benefit recipients, spouses, and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The State Teachers Retirement Board currently allocates employer contributions, which equals 1% of covered payroll, to a health care stabilization fund from which health care benefits are paid. The balance in the healthcare reserve fund was \$3.26 billion at June 30, 2013.

For the year ended June 30, 2013 (latest information available), net healthcare costs paid by STRS were \$600 million. There were 149,221 eligible benefit recipients on June 30, 2013.

9. BONDS PAYABLE

In FY 2011, the University was approved to issue an amount not to exceed \$42,000,000 in General Receipt Bonds. On November 10, 2010, the University issued General Receipts Bonds Series 2010 in the amount of \$15,000,000. On November 9, 2011, the remaining \$27,000,000 of General Receipts Bonds Series 2011 was issued. The proceeds are being used for the construction, improvement, reconstruction, remodeling, renovation and equipping of the University facilities primarily for construction of a new research and graduate education complex consisting of medical research, laboratory, graduate education and related purposes. The Bonds are in various denominations, with fixed interest rates of 4.0 to 4.5 percent and a maturity of 30 years. The balance outstanding as of June 30, 2014 and 2013 was \$40,649,167 and \$41,477,980, respectively.

The bond discount on the November 2011 bonds totaled \$194,911 with an accumulated amortized balance of \$19,078 and \$12,891 as of June 30, 2014 and 2013, respectively. The discount is being amortized to interest expense over the life of the bonds on the interest method. There is no discount or premium on the 2010 bonds.

The University's bonds and notes payable as of June 30, 2014 are summarized as follows:

	<u>July 1, 2013</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2014</u>	<u>Current</u>
General receipts bond Series 2010	\$ 14,660,000	\$ -	\$ 345,000	\$14,315,000	\$ 350,000
General receipts bond Series 2011	27,000,000	-	490,000	26,510,000	500,000
General receipts bond Series 2011-Discout	<u>(182,020)</u>	<u>-</u>	<u>(6,187)</u>	<u>(175,833)</u>	<u>-</u>
Total bonds and notes payable	<u>\$ 41,477,980</u>	<u>\$ -</u>	<u>\$ 828,813</u>	<u>\$40,649,167</u>	<u>\$ 850,000</u>

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The University's bonds and notes payable as of June 30, 2013 are summarized as follows:

	July 1, 2012	Borrowed	Retired	June 30, 2013	Current
General receipts bond					
Series 2010	\$ 15,000,000	\$ -	\$ 340,000	\$14,660,000	\$ 345,000
General receipts bond					
Series 2011	27,000,000	-	-	27,000,000	490,000
General receipts bond					
Series 2011-Discount	(188,724)	-	(6,704)	(182,020)	-
Total bonds and notes payable	<u>\$ 41,811,276</u>	<u>\$ -</u>	<u>\$ 333,296</u>	<u>\$41,477,980</u>	<u>\$ 835,000</u>

In accordance with the Build America Bonds program, the University should receive semi-annual federal credit payments equal to 45 percent of actual interest expense incurred on the outstanding principal balance of the Series 2010 bonds.

These obligations are secured by a gross pledge of and first lien on the General Receipts of the University. The General Receipts include the full amount of every type and character of campus receipts, except for State appropriations and receipts previously pledged or otherwise restricted. The University has complied with all covenants of the Prior Indenture and its supplements.

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2014 are summarized as follows:

Year Ending June 30	Principal	Interest	Interest Subsidy *	Net Interest	Total
2015	\$ 850,000	\$ 2,088,431	\$ (402,246)	\$ 1,686,185	\$ 2,536,185
2016	870,000	2,062,520	(397,438)	1,665,082	2,535,082
2017	890,000	2,034,632	(391,942)	1,642,690	2,532,690
2018	915,000	2,004,627	(385,696)	1,618,931	2,533,931
2019	940,000	1,966,208	(378,442)	1,587,766	2,527,766
2020-2024	5,210,000	9,192,251	(1,753,207)	7,439,044	12,649,044
2025-2029	4,610,000	7,919,795	(1,456,394)	6,463,401	11,073,401
2030-2034	7,260,000	6,382,755	(1,054,331)	5,328,424	12,588,424
2035-2039	3,520,000	4,750,470	(546,399)	4,204,071	7,724,071
2040-2043	15,760,000	2,590,956	(52,011)	2,538,945	18,298,945
	<u>\$ 40,825,000</u>	<u>\$ 40,992,645</u>	<u>\$ (6,818,106)</u>	<u>\$ 34,174,539</u>	<u>\$ 74,999,539</u>

* The direct payment subsidy is received from federal government on the 2010 Build America Bonds.

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10. RISK MANAGEMENT

The University is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. Commercial insurance has been obtained to cover damage or destruction to the University's property and for public liability, personal injury, and third-party damage claims. The University is insured through the State of Ohio for workers' compensation benefits. To provide employee health care and other benefits (including dental, life insurance and long-term disability benefits), the University implemented a self-insurance program for its medical benefits and has utilized the IUC contracts for its dental, life and disability benefits. The University's health care plan is a self-funded benefit plan with a specific stop loss of \$100,000. The plan offers three levels of coverage to employees: the Basic Plan, the Premier Plan, and the Platinum Plan. All full-time NEOMED employees who work 40 hours or more per week are eligible for coverage, and employee contributions vary depending upon the level of coverage elected.

The University has retained the services of a professional claims administrator to perform the day-to-day claims administration of the Plan. Settled claims have not exceeded the University's commercial insurance coverage for any of the past three years.

Self-Insurance - During 2011, the University began providing medical coverage for its employees on a self-insurance basis. Expenses for claims are recorded on an accrual basis based on the date claims are incurred. The University applies GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

Changes in the self-insurance claims liability for the years ended June 30, 2014, 2013 and 2012 are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Accrued claims liability - Beginning of year	\$ 409,438	\$ 374,472	\$ 391,362
Incurred claims - Net of favorable settlements	3,096,092	2,691,608	1,629,942
Claims paid	<u>(2,904,471)</u>	<u>(2,656,642)</u>	<u>(1,646,832)</u>
Accrued claims liability - End of year	<u>\$ 601,059</u>	<u>\$ 409,438</u>	<u>\$ 374,472</u>

NORTHEAST OHIO MEDICAL UNIVERSITY
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11. RELATED PARTY TRANSACTIONS

NEOMED Foundation - For the years ended June 30, 2014 and 2013, the University has received distributions from the Foundation in the amount of \$2,574,517 and \$1,247,247, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted student loans of \$67,480 and \$76,066, respectively, for the years ended June 30, 2014 and 2013.

The University received reimbursements of \$224,231 and \$125,174, respectively, from the Foundation for management, fundraising, services, and office space during the years ended June 30, 2014 and 2013. Amounts for such services provided by the University which are not reimbursed by the Foundation are reported as in-kind contributions in the Statements of Revenues, Expenses, and Changes in Net Position. The University's in-kind support for these services was valued at \$1,054,907 and \$1,098,581, respectively, for the years ended June 30, 2014 and 2013.

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

ERS Strategic Properties - ERS Housing LLC is operated for the purpose of developing, constructing and equipping housing for students, faculty, staff and guests of Northeast Ohio Medical University. ERS HWMEC LLC will provide for the development, construction and equipping of a health, wellness and medical education center to promote the educational, social and physical well-being of students, faculty, and staff of Northeast Ohio Medical University

For the years ended June 30, 2014 and 2013, the University made payments on behalf of ERS in the amount of \$5,488,580 and \$971,586, respectively, for expenses related to the company start-up and some bond issue costs. Amounts for such services provided by the University which are not reimbursed by ERS are reported as in-kind contributions in the Statements of Revenues, Expenses, and Changes in Net Position. The University's in-kind support for these services was valued at \$332,188 and \$0, respectively, for the years ended June 30, 2014 and 2013

At June 30, 2014, ERS had accounts payable to NEOMED totaling \$6,550,875 for construction, equipment, consulting, and legal fees which was paid by NEOMED on behalf of ERS.

ERS Board Members are employees from the University's management team.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013**

12. COMPONENT UNIT - THE NEOMED FOUNDATION

The NEOMED Foundation (hereinafter referred to as the “Foundation”) was incorporated on April 14, 1978 as a nonprofit tax-exempt corporation. The Foundation is a legally separate nonprofit entity organized for the purpose to serve as the gift-receiving arm of the Northeast Ohio Medical University (hereinafter referred to as the “University”), and to assist in developing and increasing its resources to provide broader educational opportunities and services for charitable, educational and scientific purposes. The Foundation is governed by a volunteer Board of Directors consisting of a maximum 42 members. The Foundation had no unrelated business income in fiscal 2014 or 2013.

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.

The Foundation is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under GASB. No modifications have been made to the Foundation’s financial information included in the University’s financial report to account for these differences. Complete financial statements for the Foundation may be obtained by writing to NEOMED Foundation, PO Box 95, Rootstown, Ohio 44272.

The following is a summary of Foundation investments at June 30:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 147,730	\$ 147,730	\$ 102,719	\$ 102,719
Cash surrender value of life insurance	239,230	239,230	239,413	239,413
Equities	5,430,217	7,606,180	4,907,787	6,511,364
Alternative	108,682	339,211	98,296	280,907
Fixed income	<u>4,576,345</u>	<u>5,968,405</u>	<u>3,913,052</u>	<u>4,775,827</u>
Total long-term investments	<u>\$10,502,204</u>	<u>\$14,300,756</u>	<u>\$ 9,261,267</u>	<u>\$11,910,230</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.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013**

Details of the Foundation's restricted net assets at June 30, 2014 and 2013 are as follows:

Temporarily restricted net assets as of June 30:

	<u>2014</u>	<u>2013</u>
Instruction and departmental research	\$ 1,375,516	\$ 810,971
Separately budgeted research	727,404	264,719
Public service	768,616	753,248
Academic support	1,412,727	1,776,235
Institutional support	959,007	83,111
Plant operation and maintenance	8,785	258,674
Student scholarships and other student aid	2,085,970	1,339,496
Deferred gift annuity	239,230	239,413
Allowance for uncollectible pledges	<u>(28,266)</u>	<u>(8,691)</u>
Total temporarily restricted net assets, June 30	<u>\$7,548,989</u>	<u>\$5,517,176</u>

Permanently restricted net assets as of June 30:

	<u>2014</u>	<u>2013</u>
Student loans	\$ 860,620	\$ 825,563
Endowments requiring earnings only be made available for:		
Student scholarships and awards	3,462,221	3,280,125
Student loans	100,236	100,236
Community health science professorship	-	-
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	664,452	658,825
Deferred gift annuity	83,986	73,762
Allowance for uncollectible pledges	<u>(7,327)</u>	<u>(10,574)</u>
Total permanently restricted net assets, June 30	<u>\$8,166,659</u>	<u>\$ 7,930,408</u>

13. COMPONENT UNIT – ERS STRATEGIC PROPERTIES, INC.

ERS Strategic Properties, Inc. (hereinafter referred to as "ERS") was incorporated on March 23, 2012 as a nonprofit tax-exempt corporation. ERS is governed by a volunteer Board of Directors consisting of seven members of NEOMED staff.

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013

ERS has adopted the accrual method of accounting in accordance with not-for-profit accounting principles generally accepted in the United States of America. ERS is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under GASB. No modifications have been made to ERS' financial information included in the University's financial report to account for these differences. Complete financial statements for ERS may be obtained by writing to ERS Strategic Properties, Inc., PO Box 95, Rootstown, Ohio 44272.

ERS Capital Assets

ERS took out bonds to construct apartments for members of the University community and to construct a health, wellness and medical education building that will be available to the University and outside community.

Capital asset activity for the year ended June 30, 2014 was as follows:

	July 1, 2013 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2014 Ending Balance
Land - Non-depreciable	\$ -	\$ 78,469	\$ -	\$ 78,469
Buildings	-	6,676,809	29,155,141	35,831,950
Furnishings and movable equipment	-	106,174	10,376	116,550
Construction in progress - Non-depreciable	51,028,761	50,550,158	(29,165,517)	72,413,402
Total historical cost	51,028,761	57,411,610	-	108,440,371
Less: accumulated depreciation				
Buildings	-	448,610	-	448,610
Furnishings and movable equipment	-	12,471	-	12,471
Total accumulated depreciation	-	461,081	-	461,081
Total capital assets, net of depreciation	<u>\$ 51,028,761</u>	<u>\$ 56,950,529</u>	<u>\$ -</u>	<u>\$ 107,979,290</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013**

Capital asset activity for the year ended June 30, 2013 was as follows:

	July 1, 2012 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2013 Ending Balance
Construction in progress - Non-depreciable	\$ -	\$ 51,028,761	\$ -	\$ 51,028,761
Total historical cost	-	51,028,761	-	51,028,761
Less: accumulated depreciation				
Buildings	-	-	-	-
Furnishings and movable equipment	-	-	-	-
Total accumulated depreciation	-	-	-	-
Total capital assets, net of depreciation	<u>\$ -</u>	<u>\$ 51,028,761</u>	<u>\$ -</u>	<u>\$ 51,028,761</u>

FUNDS HELD BY TRUSTEE

Funds held by trustee represent cash and cash equivalents that, under the terms of the bond agreement, are restricted for various purposes. These assets are being held with a large financial institution (the "Trustee"). In accordance with the terms of the related agreements, the proceeds from the bonds not used to construct the student wellness center and certain equipment and improvements were deposited with the Trustee. The Trustee is then authorized, through direction from ERS, to transfer funds out of the revenue funds to other funds. Funds held by the Trustee consist of interest-bearing cash accounts.

At June 30, 2014, fund balances held by the Trustee were as follows:

	<u>2014</u>
ERS HWMEC LLC	
Bond proceeds fund	\$ 22,913,144
Capitalized interest fund	<u>124,600</u>
	23,037,744
ERS Housing LLC	
Sinking fund	\$ 161,590
Surplus fund	<u>1,690</u>
	163,280
Total	<u>\$ 23,201,024</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013**

BONDS PAYABLE

In 2012, ERS Housing LLC worked with the Portage County Port Authority to issue tax-exempt bonds in the amount of \$36,680,000. As of June 2012, when the bonds were issued, ERS did not yet have tax-exempt status, ERS partnered with Portage County Port Authority to issue tax-exempt bonds. The proceeds from this issuance were used for the construction of NEOMED apartments. The bonds were assumed from the Portage County Port Authority by ERS in November 2012 when ERS received its tax-exempt status. The bonds are in the various denominations, with fixed interest rates of 2.0 to 5.0 percent and a maturity date of June 1, 2044. The balance outstanding as of June 30, 2014 was \$36,680,000.

In November 2012, ERS HWMEC LLC issued a senior secured note in the amount of \$84,000,000. The proceeds from this issuance are being used for the construction of a health, wellness and medical education building. The bonds are in various denominations, with a fixed interest rate of 4.89 percent (and an additional .042 percent if NEOMED's credit rating were downgraded) and a maturity date of November 8, 2044. The balance outstanding as of June 30, 2014 was \$84,000,000.

The original bond discount for the ERS Housing bonds totaled \$633,830, with an unamortized balance of \$592,565 as of June 30, 2014. The discount is being amortized straight-line over the life of the bonds and is included in interest expense in the accompanying Statement of Activities and Changes in Net Assets. There is no discount or premium on the ERS HWMEC bonds.

ERS Bonds payable as of June 30 2014 are summarized as follows:

	July 1, 2013	Borrowed	Retired	June 30, 2014	Current
ERS Housing LLC	\$ 36,680,000	\$ -	\$ -	\$ 36,680,000	\$ 220,000
ERS Housing LLC Discount	(612,372)		(19,807)	(592,565)	
ERS HWMEC LLC	<u>84,000,000</u>	<u>-</u>	<u>-</u>	<u>84,000,000</u>	<u>729,874</u>
Total bonds and notes payable	<u>\$ 120,067,628</u>	<u>\$ -</u>	<u>\$ (19,807)</u>	<u>\$ 120,087,435</u>	<u>\$ 949,874</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013**

ERS Bonds payable as of June 30, 2013 are summarized as follows:

	July 1, 2012	Borrowed	Retired	June 30, 2013	Current
ERS Housing LLC	\$ -	\$ 36,680,000	\$ -	\$ 36,680,000	\$ -
ERS Housing LLC Discount	(633,830)		(21,458)	(612,372)	
ERS HWMEC LLC	-	84,000,000	-	84,000,000	-
Total bonds and notes payable	<u>\$ (633,830)</u>	<u>\$ 120,680,000</u>	<u>\$ (21,458)</u>	<u>\$ 120,067,628</u>	<u>\$ -</u>

These obligations are secured by a gross pledge of and first lien on the General Receipts of NEOMED. The General Receipts include the full amount of every type and character of campus receipts, except for State appropriations and receipts previously pledged or otherwise restricted. NEOMED has complied with all covenants as of June 30, 2014 and 2013.

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2014 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 949,874	\$ 6,035,551	\$ 6,985,425
2016	1,585,584	6,035,442	7,621,025
2017	1,725,627	6,035,148	7,760,775
2018	1,863,923	6,028,452	7,892,375
2019	2,010,635	6,020,752	8,031,388
2020-2024	12,535,849	29,852,915	42,388,764
2025-2029	16,424,986	27,877,552	44,302,539
2030-2034	20,846,267	24,794,047	45,640,314
2035-2039	26,584,055	20,867,321	47,451,376
2040-2044	33,953,662	15,840,214	49,793,876
2045	2,199,538	26,962	2,226,500
Total	<u>\$ 120,680,000</u>	<u>\$ 149,414,357</u>	<u>\$ 270,094,357</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED June 30, 2014 and 2013**

Supplemental Information

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

Independent Auditor's Report

To Management and the Board of Trustees
Northeast Ohio Medical University

We have audited, 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, the basic financial statements of the Northeast Ohio Medical University and its discretely presented component units (the "University") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered Northeast Ohio Medical University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management and the Board of Trustees
Northeast Ohio Medical University

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

Toledo, Ohio
October 13, 2014

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Board of Trustees
Northeast Ohio Medical University

Report on Compliance for Each Major Federal Program

We have audited Northeast Ohio Medical University's (the "University") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. Northeast Ohio Medical University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Northeast Ohio Medical University's major federal programs based on our audit of the types of compliance requirements referred to above.

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 Northeast Ohio Medical University'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Northeast Ohio Medical University's compliance.

To the Board of Trustees
Northeast Ohio Medical University

Opinion on Each Major Federal Program

In our opinion, Northeast Ohio Medical University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Northeast Ohio Medical University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northeast Ohio Medical University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2014-001, that we consider to be a significant deficiency.

Northeast Ohio Medical University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Northeast Ohio Medical University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

To the Board of Trustees
Northeast Ohio Medical University

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

Toledo, Ohio
October 13, 2014

NORTHEAST OHIO MEDICAL UNIVERSITY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
STUDENT FINANCIAL AID CLUSTER			
Department of Education			
<i>Office of Student Financial Assistance Program</i>			
William D Ford Federal Direct Loan Program	84.268		\$ 24,723,935
Federal Perkins Loan Program	84.038		<u>2,446,580</u>
<i>Total Office of Student Financial Assistance Program</i>			<u>27,170,515</u>
Total Department of Education			27,170,515
Department of Health & Human Services			
<i>Health Resources and Services Administration</i>			
Health Prof Student Loan Prgm--Loans to Disadvantaged Students	93.342		2,085,086
Health Prof Student Loan Prgm--Primary Care Loans	93.342		<u>1,449,869</u>
<i>Total Health Resources and Services Administration</i>			<u>3,534,955</u>
Total Department of Health & Human Services			<u>3,534,955</u>
TOTAL STUDENT FINANCIAL AID CLUSTER			<u>\$ 30,705,470</u>
MEDICAID CLUSTER			
Department of Health and Human Services			
<i>Centers for Medicare and Medicaid Services</i>			
<i>Passed through the Ohio Department of Job and Family Services</i>			
DHHS- OSU- FY14 MEDTAPP Healthcare Access Grant Continuation and Expansion	93.778	60042622	\$ 750,701
MEDTAPP- Toledo= BeST Practice Collaboration Initiative	93.778	C-122988-02	<u>76,030</u>
<i>Total Centers for Medicare and Medicaid Services</i>			<u>826,731</u>
Total Department of Health and Human Services			<u>826,731</u>
TOTAL MEDICAID CLUSTER			<u>\$ 826,731</u>

NORTHEAST OHIO MEDICAL UNIVERSITY
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
RESEARCH AND DEVELOPMENT CLUSTER			
Department of Health and Human Services			
<i>National Institutes of Health</i>			
NIH- Regulation of Excitability in a Sensory System by Cellular and Network Components	93.173	5R01DC008120-06	\$ 9,161
NIH- Binaural and Top-Down Mechanisms in Auditory Scene Analysis	93.173	1R03DC012871-01A1	103,373
NIH- Neural Mechanism Underlying Sound-Evoked Suppression of Tinnitus: Residual Inhibition	93.173	5R01DC011330-03	352,481
NIH- Auditory Information Processing in the Amygdala	93.173	5R01DC000937-23	433,946
NIH- Dysphagia and Recovery After Vagal or Laryngeal Nerve Injury	93.173	7R01DC009980-06	213,742
NRSA- Differential Pathologies Resulting from Sound Tinnitus vs. Hearing Loss	93.173	1F31DC13498-01A1	21,082
NIH- Functional Anatomy of the Auditory System	93.173	5R01DC004391-14	351,285
NIH-G- Protein-Coupled Receptors in Hearing Physiology	93.173	5R01DC008984-05	230,136
NIH-Cholinergic Inputs to Excitatory and Inhibitory Midbrain Circuits	93.173	5F32DC012450-02	60,444
NIH- Development of a Drug Therapy to Ameliorate Permanent Hearing Loss	93.173	7R33DC010489-06	63,546
NIH- Amelioration of Presbycusis by Blocking T-type Calcium Channels with Antiepileptic	93.173	7R01DC0011793-03	48,255
NIH- Auditory Processing Deficits in Early-Onset Conductive	93.173	1R01DC013314-01A1	39,333
Total CFDA #93.173			1,926,784
NIH- Suppression of SHH Expression in Arthritis by Butea monosperma	93.213	1R01AT007373-01A1	314,122
NIH- Suppression of MMP-13 Expression in Arthritis by Pomegranate	93.213	7R01AT005520-6	416,692
NIH- Mechanisms of Chondroprotection by Pomegranate Fruit Extract	93.213	7R01AT003627-07	100,897
Total CFDA #93.213			831,711
NIH- Ethanol Regulation of Adiponectin and its Signaling	93.273	7R01AA015951-09	34,435
<i>Passed through Cleveland State University</i>			
NIH-CSU- Dissemination of Evidence-Based Health Disparity Interventions	93.307	0513-1003347386-01	11,798
ARRA NIH- Hepatocyte Nuclear Factor 4alpha and Lipid Homeostasis	93.701	1R15DK088733-01	3,474
NIH- Mechanisms of Coronary Vasomotor Control	93.837	1R01HL115114-01A1	349,395
NIH- Myocardial Injury Associated with Mitochondria-derived Oxygen Free Radicals	93.837	5R01HL083237-07	282,520
NIH- Regulation of Lipid and Lipoprotein Metabolism by Nuclear Receptors	93.837	5R01HL103227-04	425,744
NIH-Reactive Oxygen Species in Coronary Collateral Growth	93.837	5R01HL083366-05	333,282
NIH-M- Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1	71,550
NIH-C- Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1	57,494
NIH- Induction of Coronary Arteriogenesis by Reprogrammed Cells	93.837	1R15HL115540-01	137,082
Total CFDA #93.837			1,657,067

NORTHEAST OHIO MEDICAL UNIVERSITY
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
Department of Health and Human Services (Continued)			
<i>National Institutes of Health (Continued)</i>			
NIH- The Role of Osteoactivin Development and Function	93.846	5R01AR048892-11	\$ 225,285
NIH-Hepatic Lipid Mobilization by Nuclear Hormone	93.847	5R01DK093774-02	232,286
NIH- Regulation of Bile Acid Synthesis by Nuclear Receptors	93.847	5R37DK058379-27	303,373
NIH - Molecular Biology of Bile Acid Synthesis	93.847	5R01DK04442-17	391,104
NIH-NRSA -Effects of Sleep Deprivation and High Fat Diet on Human CYP7A1 Circadian Rhythm	93.847	5F32DK096784-01	54,154
NIH-Identification of Novel Genes/Pathways That Regulate Lipid and Glucose Metabolism	93.847	5R01DK095895-03	245,390
Passed through Summa Health System Hospitals			
NIH- SUMMA- Comparative Effectiveness of Two Community Based Diabetes Management Approaches	93.847	89511-C	14,409
Total CFDA #93.847			1,240,716
<i>Passed through University of Wisconsin</i>			
NIH-The Genetics and Extreme Body Size in Mice From Gough Island	93.859	427K372	27,753
<i>Passed through Summa Health System Hospitals</i>			
Summa-NIH- Suppression of Ocular Scarring- Controlled Delivery of an ALK-5 Inhibitor	93.867	1R01EY020916-01A1	5,080
NIH-Axonopathy in Glaucoma	93.867	5R01EY022358-03	323,342
Total CFDA #93.867			328,422
<i>Total National Institutes of Health</i>			6,287,445
Total Department of Health and Human Services			6,287,445
National Science Foundation			
NSF- Collaborative Research: ABI Innovation: A Novel Database and Ontology for Interdisciplinary Analyses of Mammalian Feeding	47.074	DBI- 1343588	649
NSF- A Novel Database and Ontology for Evolutionary Analyses of Mammalian Feeding Physiology	47.074	DBI-1062332	11,674
NSF- Natural Selection on Growth and Locomotor Performance in Eastern Cottontail Rabbits (<i>Sylvilagus Floridanus</i>)	47.074	IOS- 1146916	69,690
Total CFDA #47.074			82,013
National Science Foundation (Continued)			
NSF- The Biomechanics of Arboreal Stability: An Integrated Analysis	47.075	1126790	75,361
NSF- REU Supplement to The Biomechanics of Arboreal Stability: an Integrated Analysis	47.075	1126790	3,476
Total CFDA #47.075			78,837
Total National Science Foundation			160,850

NORTHEAST OHIO MEDICAL UNIVERSITY
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
Environmental Protection Agency			
<i>Office of Water</i>			
EPA-Selective Multiplexed Realtime Detection of Bacteria	66.469	GL-00E00563-0	\$ 96,893
Total Environmental Protection Agency			96,893
Department of Defense			
<i>U.S. Army Medical Command</i>			
<i>Passed Through Wake Forest University - Passed Through The Cleveland Clinic Foundation</i>			
DOD-CC-Wake-Re-Establishing Homing to Regenerate an Inquired Anal Sphincter to Aid Continence	12.42	428-SUB	2,098
Total Department of Defense			2,098
Department of the Interior			
<i>Fish and Wildlife Service</i>			
<i>Passed Through North Slope Borough Wildlife Management Department</i>			
NSB-USFWS-Determining the Age and Hearing Ability in Bowhead and Beluga Whales	15.668	3605.6355.G051303	18,983
Total Department of the Interior			18,983
Office of Personnel Management			
Louis Stokes VA Medical Center IPA - Matthew Kiedrowski	27.011		15,317
Total Office of Personnel Management			15,317
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			\$ 6,581,586
JAG CLUSTER			
Department of Justice			
<i>Bureau of Justice Assistance</i>			
<i>Passed through Ohio Office of Criminal Justice Services</i>			
USDJ- OCJS- Ohio Cross-Systems Mapping Initiative	16.738	2012-JG-C01-6963	\$ 26,091
DOJ-OCJS-Ohio Cross Systems Mapping Initiative CY14	16.738	2013-JG-E01-6963	14,799
<i>Passed Through National Alliance for the Mentally Ill</i>			
NAMI- Ohio Crisis Intervention Team CY 2013	16.738	2012-JG-B01-6317	4,896
Total CFDA #16.738			45,786
Total Department of Justice			45,786
TOTAL JAG CLUSTER			\$ 45,786
TOTAL CLUSTERS			\$ 38,159,573

NORTHEAST OHIO MEDICAL UNIVERSITY
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
OTHER PROGRAMS			
Department of Veterans Affairs			
<i>Veteran Benefits Administration</i>			
Yellow Ribbon Scholarship	64.028		\$ 17,842
Total Department of Veterans Affairs			17,842
Department of Health and Human Services			
<i>Health Resources and Services Administration</i>			
HRSA Physician Faculty Development in Primary Care	93.884	D55HP20645-05-00	244,369
<i>Passed through St. Elizabeth Health Center</i>			
HRSA- St. E- Residency Training in Primary Care	93.884	PO 61602389942	15,419
Total CFDA #93.884			259,788
<i>Passed through The Ohio State University</i>			
OSU-HRSA Ohio Public Health Training Center	93.249	RF01227450 / UB6HP20203	7,185
<i>Passed through The University of Toledo</i>			
HRSA- AHEC Point of Service Maintenance and Enhancement Award	93.107	2 U77HP23072-02-00	71,400
HRSA-AHEC Point of Service Maintenance and Enhancement Award Year 2	93.107	F2014-13	218,033
Total CFDA #93.107			289,433
<i>Total Health Resources and Services Administration</i>			556,406
<i>National Institutes of Health</i>			
<i>Passed through Cleveland State University</i>			
CSU-NIH-Urban Universities for Health: NEOMED-CSU Partnership Year 2	93.307	1003288306	24,667
<i>Total National Institutes of Health</i>			24,667
<i>Agency of Healthcare Research and Quality</i>			
<i>Passed through Case Western University</i>			
AHRQ-Collaborative Ohio Inquiry Network (COIN)	93.226	RES508468	7,368
<i>Total Agency of Healthcare Research and Quality</i>			7,368

NORTHEAST OHIO MEDICAL UNIVERSITY
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
OTHER PROGRAMS (Continued)			
Department of Health and Human Services (Continued)			
<i>Substance Abuse and Mental Health Services Administration</i>			
SAMHSA - Ohio Program for Campus Safety and Mental Health	93.243	5U79SM060506-03	\$ 117,102
SAMHSA- Criminal Justice CCoE 2014	93.958	99-BG-14-424-08-01	189,418
<i>Passed through the Summit County ADM Board</i>			
ADM- ODMH- SAMHSA- Criminal Justice CCoE 2013	93.958		74
<i>Passed through the National Council for Community Healthcare</i>			
SAMHSA- NCCBH- Ohio Health Home/Health Integration Technical Assistance Resource Center	93.958		12,281
Total CFDA #93.958			<u>201,773</u>
<i>Total Substance Abuse and Mental Health Services Administration</i>			318,875
<i>Corporation for National and Community Service</i>			
<i>Passed through Ohio Commission on Service and Volunteerism</i>			
AmeriCorps Rural Health Care Corps with HPAC	94.006	12AFH-1502-14-OC115	224,796
<i>Total Corporation for National and Community Service</i>			<u>224,796</u>
Total Department of Health and Human Services			1,132,112
Department of Justice			
<i>Bureau of Justice Assistance</i>			
BJA- Mental Health Court Improvement Mental Health Services Project	16.745	2012-MO-BX-0011	11,200
Total Department of Justice			11,200
Department of Education			
<i>Bureau of Justice Assistance</i>			
<i>Passed through Ohio Department of Education</i>			
ODE- 21st Century Community Learning Centers (Brown Local Schools)	84.287	7055	118,277
Total Department of Education			<u>118,277</u>
TOTAL OTHER PROGRAMS			<u>1,279,431</u>
TOTAL EXPEDITURES OF FEDERAL PROGRAMS			<u>\$ 39,439,004</u>

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Note 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Note 2 - LOANS ISSUED

The University issued \$447,700 of Perkins loans and \$550,000 of Health Professional Student Loans during the year ended June 30, 2014. The outstanding loan balances at June 30, 2014 are included in the federal expenditures presented in the Schedule.

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2014

Note 3 - SUBRECIPIENT AWARDS

Of the federal expenditures presented in the Schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
SAMHSA - Ohio Program for Campus Safety and Mental Health	93.243	\$ 42,728
DHHS- OSU- FY14 MEDTAPP Healthcare Access Grant Continuation and Expansion	93.778	422,805
NIH- Development of a Drug Therapy to Ameliorate Permanent Hearing Loss	93.173	6,434
SAMHSA- Criminal Justice CCoE 2014	93.958	16,250
HRSA- AHEC Point of Service Maintenance and Enhancement Award	93.107	61,573
EPA- Selective Multiplexed Realtime Detection of Bacteria	66.469	26,676
USDJ- OCJS- Ohio Cross-Systems Mapping Initiative	16.738	2,450
NIH- Mechanisms of Coronary Vasomotor Control	93.837	24,229
HRSA- AHEC Point of Service Maintenance and Enhancement Award Year 2	93.107	165,418
ODE- 21st Century Community Learning Centers (Brown Local Schools)	84.287	101,124
Total		<u>\$ 869,687</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: Unmodified

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.038, 84.268, 93.342	Student Financial Aid Cluster
Various	Research & Development Cluster

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

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS

None

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended June 30, 2014**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

<u>Reference Number</u>	<u>Finding</u>
2014-001	<p>Program Name - Student Financial Aid Cluster</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant Deficiency</p> <p>Criteria - Changes in student status are required to be reported to the National Student Loan Data System (NSLDS) within 30 days of the change or included in a Student Status Confirmation Report (SSCR) sent to the NSLDS within 60 days of the status change (34 CFR Section 682.610)</p> <p>Condition - The University did not report status changes within the required timeframe.</p> <p>Questioned Costs - None</p> <p>Context - Of the 22 students tested for status change testing, 12 did not have status changes reported in a timely manner.</p> <p>Cause and Effect - The University transmits student enrollment data to the Federal Clearinghouse from September through June, but not usually during July and August. During the June reporting period the registrar's office failed to update the status of graduated students from full time to graduated. During August a report was submitted which picked up these changes, however it was not within the required timeframe.</p> <p>Recommendation - The University should implement controls to ensure all student status changes are reported timely.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The 12 students that did not have their status changes reported in a timely manner simply represents a processing oversight from one of Enrollment Services' most dedicated staff members, and involved the most recently graduated student cohort. Although this staff member self-disclosed as soon as she realized the oversight, corrective action was outside the required timeframe. In order to prevent this from occurring in the future, Enrollment Services will submit reports on a monthly basis to the NSC for registered students and continue to report enrollment status changes as they occur, but will also implement three additional record reviews at the September, January, and June reporting benchmarks specifically for the purpose of double-checking the graduated student cohort to ensure they were reported correctly and within the required timeframe.</p>



Dave Yost • Auditor of State

NORTHEAST OHIO MEDICAL UNIVERSITY

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
NOVEMBER 25, 2014**