

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

Financial Report
Including Supplemental Information
June 30, 2016



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, 2015 through June 30, 2016. 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 18, 2016

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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 the "University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2016, 2015 and 2014. 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"), Clinical Initiatives Inc. ("Clinical Initiatives"), the Northeast Ohio Medical University Foundation, Inc. (the "Foundation"), and ERS Strategic Properties, Inc. ("ERS") have been determined to be component units of the University. Accordingly, the Research Corp and Clinical Initiatives 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 nonfinancial 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 nonoperating. 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 nonoperating 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, noncapital 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, ERS HWMEC LLC, ERS Bradley LLC, ERS MOB, and ERS Contiguous Properties 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 is operated for the purpose of 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 and local community. ERS Bradley LLC and ERS Contiguous Properties LLC are operated for the purpose of purchasing and developing property for the benefit of Northeast Ohio Medical University. ERS MOB LLC will be a medical office building for community physicians to give care to patients and be a resource for student clinical rotations.

ERS Housing LLC and ERS HWMEC LLC each issued debt for construction, using the University as a guarantor of payment if there were a shortfall.

The University's financial position, as a whole, diminished during the fiscal year ended June 30, 2016 as compared to the previous year as evidenced by the following:

- The University's total assets decreased over the prior year by \$5.8 million. Current assets increased by \$816,157, while noncurrent assets decreased \$6.6 million. The decrease in noncurrent assets primarily relates to a decrease in capital assets due to a change in the University's capitalization policy.
- Cash and cash equivalents increased by \$700,264. This is due to converting short-term investments to cash.
- The University's net position decreased by \$4.3 million to \$72.4 million, of which \$58.4 million is invested in capital assets or is restricted. This is mainly due to the net pension liability that is required to be reported for the state pension plans funding shortfalls.
- Operating revenue increased by \$4.1 million compared to the prior year, primarily due to an increase of \$1.9 million in tuition and fees, \$1.6 million in federal grants, and \$450,518 in sales and services of auxiliary enterprises.
- The University's operating expenses increased by \$3.9 million primarily due to additional pension expense that is required to be reported for the state pension plans funding shortfalls.
- Net nonoperating revenue increased by a net \$2.9 million primarily due to an increase in state appropriations and an increase in investment income.
- Other revenue, expenses, gains, or losses decreased by approximately \$1.2 million due to a decrease in capital appropriations and permanently restricted gifts.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Northeast Ohio Medical University
Condensed Statements of Net Position
as of June 30, 2016, 2015 and 2014**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Current assets	\$41,319,804	\$40,503,647	\$44,820,098
Noncurrent			
Capital	89,333,973	93,530,801	92,182,689
Other	<u>30,266,348</u>	<u>32,691,723</u>	<u>32,578,586</u>
Total assets	<u>160,920,125</u>	<u>166,726,171</u>	<u>169,581,373</u>
DEFERRED OUTFLOWS	10,988,308	2,964,766	-
LIABILITIES			
Current liabilities	12,999,031	14,284,499	11,589,128
Noncurrent liabilities	84,503,511	75,095,230	43,167,213
Total liabilities	<u>97,502,542</u>	<u>89,379,729</u>	<u>54,756,341</u>
DEFERRED INFLOWS	2,020,606	3,605,180	-
NET POSITION			
Net Investment in Capital Assets	47,993,331	46,521,597	45,097,603
Restricted			
Nonexpendable	9,641,290	9,771,574	9,135,388
Expendable	793,953	585,915	343,750
Unrestricted	13,956,711	19,826,942	60,248,291
Total net position	<u><u>\$72,385,285</u></u>	<u><u>\$76,706,028</u></u>	<u><u>\$114,825,032</u></u>

2016 versus 2015 During the year ended June 30, 2016:

As of June 30, 2016, the University's current assets of \$41.3 million were sufficient to cover current liabilities of \$13.0 million (current ratio of 3.2:1). As of June 30, 2015, current assets of \$40.5 million were sufficient to cover current liabilities of \$14.2 million (current ratio of 2.8:1).

As of June 30, 2016, the University's capital assets decreased to \$89.3 million from \$93.5 million in fiscal 2015 and other noncurrent assets decreased to \$30.3 million from \$32.7 million.

At June 30, 2016, total University assets were \$160.9 million, compared to \$166.7 million in fiscal year 2015.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

University liabilities total \$97.5 million at June 30, 2016, compared to \$89.4 million in fiscal year 2015. Current liabilities total \$13.0 million and consist primarily of \$3.3 million in unearned revenue, accrued liabilities of \$2.9 million (\$683,000 owed to associated hospitals and pharmacies for clinical experiences, and \$731,000 owed to consortium universities for the collaborative academic programs); approximately \$2.4 million in accrued employee compensation and benefits, \$2.5 million in general accounts payable, \$1 million in capital lease obligations, and \$890,000 in bonds payable.

Deferred outflows and inflows are related to the adoption of GASB 68 during the prior fiscal year.

Total net position decreased by \$4.3 million to \$72.4 million. Restricted net assets include \$5.6 million in student loans, \$4.1 million in endowments and \$794,000 in current operations. Unrestricted net assets total \$14.0 million; 94.2 percent of which (\$13.2 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives. The remaining \$800,000 consists of designated, undesignated and unrestricted funds.

2015 versus 2014 During the year ended June 30, 2015:

As of June 30, 2015, the University's current assets of \$40.5 million were sufficient to cover current liabilities of \$14.2 million (current ratio of 2.8:1). As of June 30, 2014, current assets of \$44.8 million were sufficient to cover current liabilities of \$11.6 million (current ratio of 3.9:1).

As of June 30, 2015, the University's capital assets increased to \$93.5 million from \$92.2 million in fiscal 2014 and other noncurrent assets increased to \$32.7 million from \$32.6 million.

At June 30, 2015, total University assets were \$166.7 million, compared to \$169.6 million in fiscal 2014.

University liabilities total \$89.3 million at June 30, 2015, compared to \$54.8 million in fiscal year 2014. Current liabilities total \$14.2 million and consist primarily of \$2.5 million in unearned revenue (\$1.6 million in tuition and fees), accrued liabilities of \$4.6 million (\$1.2 million owed to associated hospitals and pharmacies for clinical experiences, and \$625,000 owed to consortium universities for the collaborative academic programs); approximately \$3.3 million in accrued employee compensation and benefits, \$2 million in general accounts payable, \$1 million in capital lease obligations, and \$870,000 in bonds payable.

Deferred outflows and inflows are related to the adoption of GASB 68 during this fiscal year.

Total net position decreased by \$38.1 million to \$76.7 million. \$32.0 million of the decrease relates to a restatement of net position at the beginning of the year for the GASB 68 required OPERS and STRS liability. Restricted net assets include \$5.6 million in student loans, \$4.2 million in endowments, and \$586,000 in current operations. Unrestricted net assets total \$19.8 million; 39.4 percent of which (7.8 million) is designated for specific purposes, and 56.3 percent of which (\$11.2 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives. The remaining \$796,000 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, 2016, 2015, and 2014**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenue			
Tuition and Fees	\$31,280,873	\$ 29,380,476	\$ 26,474,532
Federal and State Appropriations	22,618,173	20,011,127	19,472,518
Federal, state, local, and private grants and contracts	18,417,954	16,637,968	14,649,077
Auxiliary activities	2,068,069	1,617,552	849,989
Other	<u>2,380,789</u>	<u>2,857,629</u>	<u>11,335,143</u>
Total Revenue	<u>76,765,858</u>	<u>70,504,752</u>	<u>72,781,259</u>
Expenses			
Instruction	19,015,849	18,454,170	16,967,523
Research	12,278,452	10,628,411	9,653,090
Academic support	7,963,405	8,602,817	8,710,783
Institutional support	10,074,408	9,802,075	11,278,807
Scholarships and fellowships	-	58,492	108,726
Other	<u>31,754,487</u>	<u>29,113,536</u>	<u>19,211,875</u>
Total Expenses	<u>81,086,601</u>	<u>76,659,501</u>	<u>65,930,804</u>
(Decrease) increase in net position	<u>\$ (4,320,743)</u>	<u>\$ (6,154,749)</u>	<u>\$ 6,850,455</u>

2016 versus 2015 During the year ended June 30, 2016:

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 2016 as compared to 2015 by 6.5 percent primarily due to increased student enrollment and tuition rates. Grant revenue increased by \$1.8 million, or 10.7 percent, in 2016.

Other revenue has decreased by \$476,840, or 16.7 percent, as compared to 2015 due to the decrease in capital appropriations.

Operating expenditures, including depreciation of \$7.2 million, totaled \$78.4 million, an increase from the prior year of \$3.9 million, or 5.2 percent, is mainly due to the additional pension expense recorded for the state pension plans funding shortfalls.

Noncapital state appropriations were the most significant nonoperating revenue totaling \$22.6 million, which was an increase from 2015 of 13.0 percent.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

2015 versus 2014 During the year ended June 30, 2015:

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 2015 as compared to 2014 by 11.0 percent primarily due to increased student enrollment and tuition rates. Grant revenue increased by \$2.0 million, or 13.6 percent, in 2015.

Other revenue has decreased by \$8.5 million, or 74.8 percent, as compared to 2014 due to the decrease in investment income as a result to market conditions.

Operating expenditures, including depreciation of \$6.8 million, totaled \$74.6 million, an increase from the prior year of \$10.6 million, or 16.5 percent, mostly due to increased research, additional expenses for new buildings and auxiliary programs.

Noncapital state appropriations were the most significant nonoperating revenue totaling \$20.0 million, which was an increase from 2014 of 2.8 percent.

Northeast Ohio Medical University Condensed Statements of Cash Flows for the years ended June 30, 2016, 2015, and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cashed (used in) provided by:			
Operating activities	\$ (18,564,278)	\$ (17,966,517)	\$ (24,136,538)
Investing activities	3,283,927	6,620,030	8,783,468
Capital and related financing activities	(6,637,558)	(5,792,018)	(16,846,112)
Noncapital financing activities	<u>22,618,173</u>	<u>20,011,127</u>	<u>19,472,518</u>
Net increase (decrease) in cash and cash equivalents	700,264	2,872,622	(12,726,664)
Cash and cash equivalents, beginning of year	<u>4,601,280</u>	<u>1,728,658</u>	<u>14,455,322</u>
Cash and cash equivalents, end of year	<u>\$ 5,301,544</u>	<u>\$ 4,601,280</u>	<u>\$ 1,728,658</u>

2016 versus 2015 During the year ended June 30, 2016:

Major sources of cash included student tuition and fees (\$32.9 million), federal and state appropriations (\$22.6 million), auxiliary activities (\$1.9 million), and grants and contracts (\$18.1 million). The largest payments were for suppliers (\$27.2 million) and employees (\$43.3 million).

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

2015 versus 2014 During the year ended June 30, 2015:

Major sources of cash included student tuition and fees (\$29.0 million), federal and state appropriations (\$20.0 million), auxiliary activities (\$1.1 million), and grants and contracts (\$16.7 million). The largest payments were for suppliers (\$24.8 million) and employees (\$39.2 million).

Asset and Debt Administration

Capital Assets

At the end of 2016, the University had invested \$89.3 million in capital assets (net of accumulated depreciation of \$76.3 million); this amount represents a decrease of \$4.2 million, or 4.5 percent, over last year.

At the end of 2015, the University had invested \$93.5 million in capital assets (net of accumulated depreciation of \$72.7 million); this amount represents an increase of \$1.3 million, or 1.5 percent, over last year.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$2,149,470	\$2,149,470	\$2,149,470
Equipment, furnishing, and library materials	43,159,615	44,410,925	38,245,603
Buildings, infrastructure, improvements, and construction in progress	<u>120,304,486</u>	<u>119,656,525</u>	<u>118,010,437</u>
Total	<u>\$165,613,571</u>	<u>\$166,216,920</u>	<u>\$158,405,510</u>

More detailed information about the University's capital assets is presented in Note 5 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. In November 2011, the University had its second bond issuance for \$27 million to be used toward this project.

In June 2015, the University entered into a \$3.1 million three-year capital lease with Provident Leasing to purchase furniture and equipment for the new Health and Wellness Center.

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.

The State Share of Instructional Support for the University's College of Medicine is based upon the three-year average of full-time equivalent enrollment, with no enrollment caps in place. The current state funding for NEOMED's Colleges of Pharmacy and Graduate Studies is more outcome based and utilizes the three-year average of course completions and degrees conferred. With the University's enrollment growth and high completion and graduation rates, the current funding model provides obvious benefits for NEOMED.

The University is cognizant to the fact that state support for higher education is certainly susceptible to declines during tough economic downturns. However, considering the enrollment growth the University is experiencing, particularly within the College of Medicine, as well as the current outcome based state funding model, the negative impact to NEOMED will likely be minimized.

In addition to the State Share of Instructional Support, the University also receives state funding specific to the College of Medicine for Clinical Teaching, Family Practice, Primary Care Residencies, and Geriatric Medicine. NEOMED has some concern about the continuity of these other state support revenue streams as there have been detailed discussions at the state level about possibly eliminating or redirecting these funds. However, NEOMED's Government Relations team continues to work closely with the State to reiterate the importance of these funds to the education of our students and the continued success of our University.

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 the 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, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the 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 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 audits 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 opinion.

To the Board of Trustees
Northeast Ohio Medical University

Opinion

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, 2016 and 2015 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 financial statements, during the year ended June 30, 2016, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the University's proportionate share of the net pension liability, and the schedule of the University's contributions 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 the Northeast Ohio Medical University's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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.

To the Board of Trustees
Northeast Ohio Medical University

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016 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 & Moran, PLLC

October 10, 2016

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current assets						
Cash and cash equivalents (Note 2)	\$ 4,324,661	\$ 3,660,988	\$ 522,614	\$ 816,967	\$ 349,472	\$ 368,915
Investments (Note 2)	22,103,294	22,166,914	-	-	-	-
Accounts receivable (Note 4)	12,804,600	12,984,603	36,646	-	254,996	170,548
Inventories	171,618	181,314	-	-	-	-
Prepaid expenses and deferred charges	1,559,951	1,191,728	-	600	8,632	5,981
Pledges receivable	-	-	594,690	458,957	-	-
Notes receivable (Note 4)	355,680	318,100	35,426	35,100	-	-
Total current assets	41,319,804	40,503,647	1,189,376	1,311,624	613,100	545,444
Noncurrent assets						
Cash-restricted (Note 2)	976,883	940,292	-	-	-	-
Long-term investments (Note 2)	25,054,845	27,521,460	14,588,796	14,892,619	-	-
Funds held in trust	-	-	65,504	208,644	1,973,033	3,358,306
Pledges receivable	-	-	1,561,501	1,429,367	-	-
Notes receivable (Note 4)	4,234,620	4,229,971	313,690	249,689	-	-
Unamortized bond issue costs, net	-	-	-	-	2,445,246	2,531,708
Capital assets, net (Note 5)	89,333,973	93,530,801	-	-	113,896,101	116,583,020
Total noncurrent assets	119,600,321	126,222,524	16,529,491	16,780,319	118,314,380	122,473,034
Total assets	160,920,125	166,726,171	17,718,867	18,091,943	118,927,480	123,018,478
DEFERRED OUTFLOWS OF RESOURCES						
Pension Costs	10,988,308	2,964,766	-	-	-	-
Total deferred outflows	10,988,308	2,964,766	-	-	-	-
Total assets and deferred outflow of resources	171,908,433	169,690,937	17,718,867	18,091,943	118,927,480	123,018,478
LIABILITIES						
Current liabilities						
Accounts payable	2,477,002	2,023,710	-	-	8,492	23,206
Accrued compensation and benefits (Note 6)	2,389,276	3,293,182	-	-	-	-
Unearned revenue	3,282,456	2,489,048	-	-	55,623	40,311
Other accrued liabilities	2,924,676	4,618,272	433,304	309,135	7,206,001	8,818,351
Capital lease obligations (Note 6)	1,035,621	990,287	-	-	-	-
Bonds payable (Note 11)	890,000	870,000	-	-	1,725,627	1,585,584
Total current liabilities	12,999,031	14,284,499	433,304	309,135	8,995,743	10,467,452
Noncurrent liabilities						
Compensated absences (Note 6)	2,312,375	2,049,678	-	-	-	-
Annuity obligations	-	-	105,165	79,497	-	-
Post-employment benefits (Notes 6 and 9)	1,460,165	1,380,504	-	-	-	-
Capital lease obligations (Note 6)	1,011,906	2,047,527	-	-	-	-
Bonds payable (Note 11)	38,051,543	38,935,355	-	-	115,865,965	117,571,784
Net pension liability (Note 8)	41,667,522	30,682,166	-	-	-	-
Total noncurrent liabilities	84,503,511	75,095,230	105,165	79,497	115,865,965	117,571,784
Total liabilities	97,502,542	89,379,729	538,469	388,632	124,861,708	128,039,236
DEFERRED INFLOWS OF RESOURCES						
Pension Costs	2,020,606	3,605,180	-	-	-	-
Total deferred inflows	2,020,606	3,605,180	-	-	-	-
NET POSITION						
Net investment in capital assets	47,993,331	46,521,597	-	-	-	-
Restricted						
Nonexpendable						
Student loans	5,565,552	5,613,363	878,125	874,430	-	-
Endowments	4,075,738	4,158,211	8,265,882	7,410,273	-	-
Annuity and life income	-	-	60,834	97,263	-	-
Expendable						
Current operations	793,953	585,915	6,787,088	8,241,879	-	-
Unrestricted	13,956,711	19,826,942	1,188,469	1,079,466	(5,934,228)	(5,020,758)
Total net position	72,385,285	76,706,028	17,180,398	17,703,311	(5,934,228)	(5,020,758)
Total liabilities, deferred inflow of resources, and net position	\$ 171,908,433	\$ 169,690,937	\$ 17,718,867	\$ 18,091,943	\$ 118,927,480	\$ 123,018,478

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, 2016 AND 2015

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2016	2015	2016	2015	2016	2015
OPERATING REVENUES						
Student tuition and fees (net of scholarship allowances of \$2,328,191 and \$1,122,358, respectively)	\$ 31,280,873	\$ 29,380,476	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	12,632,991	11,018,825	-	-	-	-
State grants and contracts	1,900,049	1,985,879	-	-	-	-
Local grants and contracts	8,585	15,559	-	-	-	-
Private grants and contracts	3,876,329	3,617,705	-	-	-	-
Contributions and bequests	-	-	1,628,841	2,370,984	-	-
In-kind contributions from NEOMED	-	-	1,231,128	1,137,409	380,629	343,960
Sales and services of departments	468,974	465,729	-	-	-	-
Sales and services of auxiliary enterprises	2,068,069	1,617,552	-	-	9,516,125	7,413,869
Other	261,653	301,542	53,716	63,778	-	-
Total operating revenues	<u>52,497,523</u>	<u>48,403,267</u>	<u>2,913,685</u>	<u>3,572,171</u>	<u>9,896,754</u>	<u>7,757,829</u>
OPERATING EXPENSES						
Educational and general						
Instruction and departmental research	19,015,849	18,454,170	187,057	169,432	-	-
Separately budgeted research	12,278,452	10,628,411	444,362	294,560	-	-
Public service	4,003,955	3,596,105	74,125	550,356	-	-
Academic support	7,963,405	8,602,817	117,922	356,021	-	-
Student services	2,151,656	2,048,443	-	-	-	-
Institutional support	10,074,408	9,802,075	2,600,524	1,490,026	-	-
Operation and maintenance of plant	8,409,776	8,486,853	3,769	-	-	-
Scholarships and fellowships	0	58,492	639,562	501,707	-	-
Auxiliary enterprises	7,361,593	6,122,096	-	-	1,337,883	1,204,774
Depreciation	7,179,741	6,758,175	-	-	3,293,930	3,457,526
Total operating expenses	<u>78,438,835</u>	<u>74,557,637</u>	<u>4,067,321</u>	<u>3,362,102</u>	<u>4,631,813</u>	<u>4,662,300</u>
Operating (loss) income	(25,941,312)	(26,154,370)	(1,153,636)	210,069	5,264,941	3,095,529
NONOPERATING REVENUES (EXPENSES)						
State appropriations	22,618,173	20,011,127	-	-	-	-
Investment income (loss)	784,962	(23,942)	(230,761)	396,625	-	-
Interest expense	(2,182,506)	(2,101,864)	-	-	(6,178,411)	(5,755,066)
Loss on disposal of assets	(465,260)	-	-	-	-	-
Net nonoperating revenues/(expenses)	<u>20,755,369</u>	<u>17,885,321</u>	<u>(230,761)</u>	<u>396,625</u>	<u>(6,178,411)</u>	<u>(5,755,066)</u>
(LOSS) GAIN BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(5,185,943)	(8,269,049)	(1,384,397)	606,694	(913,470)	(2,659,537)
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES						
Capital appropriations and grants	865,200	1,824,300	-	-	-	-
Contributions	-	290,000	861,484	479,085	-	-
Total other revenues, expenses, gains, or losses	<u>865,200</u>	<u>2,114,300</u>	<u>861,484</u>	<u>479,085</u>	<u>-</u>	<u>-</u>
(DECREASE) INCREASE IN NET POSITION	(4,320,743)	(6,154,749)	(522,913)	1,085,779	(913,470)	(2,659,537)
NET POSITION AT BEGINNING OF YEAR- AS PREVIOUSLY STATED	76,706,028	114,825,032	-	-	-	-
RESTATEMENT (NOTE 1)	-	(31,964,255)	-	-	-	-
NET POSITION AT BEGINNING OF YEAR- AS RESTATED	<u>76,706,028</u>	<u>82,860,777</u>	<u>17,703,311</u>	<u>16,617,532</u>	<u>(5,020,758)</u>	<u>(2,361,221)</u>
NET POSITION AT END OF YEAR	<u>\$ 72,385,285</u>	<u>\$ 76,706,028</u>	<u>\$17,180,398</u>	<u>\$17,703,311</u>	<u>\$ (5,934,228)</u>	<u>\$(5,020,758)</u>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 32,853,374	\$ 28,966,680
Grants and contracts	18,149,991	16,652,032
Employee compensation	(43,278,757)	(39,232,369)
Payments to suppliers	(27,221,206)	(24,818,219)
Payments for utilities	(2,331,967)	(2,140,218)
Student loan advances	(634,419)	(791,171)
Student loan repayments	717,185	641,333
Sales and services of auxiliary enterprises	1,901,440	1,057,396
Sales and services of departments	466,064	464,779
Other operating receipts	814,017	1,233,240
Net cash and cash equivalents used in operating activities	(18,564,278)	(17,966,517)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	22,618,173	20,011,127
Federal loan receipts	27,748,308	24,413,859
Federal loan disbursements	(27,748,308)	(24,413,859)
Net cash and cash equivalents provided by financing activities	22,618,173	20,011,127
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	865,200	1,939,388
Capital gifts and grants	-	290,000
Purchases of capital assets	(3,579,951)	(8,106,286)
Proceeds from capital lease	-	3,100,000
Payments on capital lease	(990,287)	(62,186)
Principal paid on debt	(870,000)	(850,000)
Interest paid on debt	(2,062,520)	(2,102,934)
Net cash and cash equivalents used in capital and related financing activities	(6,637,558)	(5,792,018)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income (loss)	824,090	(399,654)
Sale of investments	38,837,302	43,037,360
Purchase of investments	(36,377,465)	(36,017,676)
Net cash and cash equivalents provided by investing activities	3,283,927	6,620,030
NET INCREASE IN CASH AND EQUIVALENTS	700,264	2,872,622
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	4,601,280	1,728,658
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 5,301,544	\$ 4,601,280

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

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

	<u>2016</u>	<u>2015</u>
Operating loss	\$(25,941,312)	\$ (26,154,370)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	7,179,741	6,935,220
Gain on disposal of asset	-	(177,045)
Changes in assets and liabilities		
Receivables	229,248	(381,736)
Inventories	9,696	(31,606)
Prepaid expenses and deferred charges	(368,220)	432,144
Notes receivable	(42,229)	24,739
Accounts payable	453,294	(12,768)
Accrued compensation	(561,548)	1,206,017
Deferred revenue	793,408	62,631
Net pension liability	10,985,356	(371,675)
Deferred inflow/outflow from GASB 68 Liability	(9,608,116)	
Other accrued liabilities	(1,693,596)	501,932
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	<u>\$(18,564,278)</u>	<u>\$(17,966,517)</u>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

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 as follows:

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, 2016 and 2015**

The accompanying financial statements consist of the accounts of the University, and the accounts of the NEOMED Research Corporation (the "Research Corp"), Clinical Initiatives Inc. ("Clinical Initiatives"), Northeast Ohio Medical University Foundation ("Foundation") and ERS Strategic Properties, Inc. ("ERS"). The Research Corp and Clinical Initiatives are component units which are 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 14 and 15. The Research Corp, Clinical Initiatives, 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 is operated 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. ERS Bradley LLC and ERS Contiguous Properties LLC will provide additional land for the University's future needs. ERS MOB LLC will be a medical office building for community physicians to give care to patients and be a resource for student clinical rotations. 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:

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

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

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. Noncapital 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, 2016 and 2015, restricted cash and cash equivalents consists of \$976,883 and \$940,292, respectively, of cash restricted 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.

Fair Value Measurements

As of June 30, 2016, the University retrospectively applied GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

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.

Inventories

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

Bond Issuance Costs

Bond issuance costs are expensed as incurred.

Capital Assets

Capital assets include land and infrastructure assets such as roads and sidewalks, buildings and improvements, equipment with an original cost of \$5,000 or more, and all library materials. Such assets are recorded at cost at the date of acquisition, or if acquired by gift, at an estimated fair value at the date of donation. Interest expense relating to construction is capitalized net of interest income on resources set aside for that purpose.

Depreciation of University's 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 nonoperating revenue.

Unearned Revenue

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

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 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.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

Pensions

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the (Ohio Public Employees' Retirement System/State Teachers' Retirement System of Ohio) Pension Plan (OPERS/STRS) and additions to/deductions from STRS'/OPERS' fiduciary net position have been determined on the same basis as they are reported by STRS/OPERS. STRS/OPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The University deferred outflows of resources related to the net pension liability (see Note 8).

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The University deferred inflows of resources related to the net pension liability (see Note 8).

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.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

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.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. Deferred outflows of resources totaling \$2,964,766 related to OPERS and STRS, which were presented with deferred inflows of resources of \$640,414 in 2015, have been reclassified to their respective deferred inflows of resources lines on the 2015 statement of position.

Adoption of New Standard

As of June 30, 2016, the University retrospectively applied Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

Recent Accounting Pronouncements

The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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. Statement No. 71 is a clarification to GASB 68, requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The statements also enhance accountability and transparency through revised note disclosures and required supplemental information (RSI). In accordance with the statement, the University has recorded a net pension liability and related net deferred inflow of \$(32.0) million as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014.

Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require Northeast Ohio Medical University to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Ohio Public Employees Retirement System (OPERS) or State Teachers Retirement System (STRS). In addition, this standard will also impact the Northeast Ohio Medical University Post-Retirement Welfare Plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2018.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The University's investment policy authorizes the University to invest nonendowment funds in the following investments:

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

U.S. government and agency securities are invested through trust agreements with banks 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, 2016 and 2015 are summarized as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
University's book value	\$5,301,544	\$4,601,280
Cash on hand	2,895	3,524
Bank balances	5,758,134	5,480,033

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, 2016 and 2015, \$628,810 and \$646,769, respectively, was covered by federal depository insurance and \$5,129,324 and \$4,833,264, respectively, was uncollateralized as defined by GASB.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

The University's investments, at fair value, at June 30, 2016 and 2015 are summarized as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Money market funds	\$ 392,905	\$ 845,230
U.S. government obligations	3,193,035	1,188,190
U.S. government agency obligations	8,448,740	11,357,165
Corporate bonds and notes	5,005,193	18,045,683
Fixed income mutual funds	9,336,408	759,632
Equities	17,346,558	12,806,620
Other	493,251	411,885
State Treasury Asset Reserve of Ohio Plus	2,931,252	4,255,571
State Treasury Asset Reserve of Ohio	<u>10,797</u>	<u>18,398</u>
Total Investments	<u>\$47,158,139</u>	<u>\$49,688,374</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.

The maturities of the University's interest-bearing investments at June 30, 2016 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	\$ 3,193,035	\$ 61,065	\$2,565,089	\$ 441,487	\$ 125,394
U.S. government agency obligations	8,448,740	-	2,995,292	715,340	4,738,108
Corporate bonds and notes	<u>5,005,193</u>	<u>1,360,717</u>	<u>3,342,825</u>	<u>198,728</u>	<u>102,923</u>
Total	<u>\$16,646,968</u>	<u>\$1,421,782</u>	<u>\$8,903,206</u>	<u>\$1,355,555</u>	<u>\$4,966,425</u>

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The maturities of the University's interest-bearing investments at June 30, 2015 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	\$1,188,190	\$ -	\$1,120,402	\$ -	\$ 67,788
U.S. government agency obligations	11,357,165	6,755,983	1,216,870	-	3,384,312
Corporate bonds and notes	<u>18,045,683</u>	<u>7,909</u>	<u>10,955,962</u>	<u>463,546</u>	<u>6,568,266</u>
Total	<u>\$30,591,038</u>	<u>\$6,813,892</u>	<u>\$13,293,234</u>	<u>\$463,546</u>	<u>\$10,020,366</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, 2016 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	\$11,637,795	\$3,193,035	\$8,405,840	\$ 38,920
AA	759,226	-	42,900	716,326
A	2,129,157	-	-	2,129,157
BBB	<u>2,120,790</u>	<u>-</u>	<u>-</u>	<u>2,120,790</u>
Total	<u>\$16,646,968</u>	<u>\$3,193,035</u>	<u>\$8,448,740</u>	<u>\$5,005,193</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
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The credit ratings for the University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2015 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	\$12,510,025	\$ 1,188,190	\$11,321,835	\$ -
AA	515,678	-	35,330	480,348
A	3,923,397	-	-	3,923,397
BBB	<u>13,641,938</u>	<u>-</u>	<u>-</u>	<u>13,641,938</u>
Total	<u>\$30,591,038</u>	<u>\$ 1,188,190</u>	<u>\$11,357,165</u>	<u>\$18,045,683</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 5 percent in any single issue, except the investments of U.S. government securities. At June 30, 2016 and 2015, the University had no exposure to concentration of credit risk.

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, 2016 and 2015, the University had no exposure to foreign currency risk.

3. FAIR VALUE MEASUREMENTS

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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The University has the following recurring fair value measurements as of June 30, 2016 and 2015:

Assets Measured at Fair Value on a Recurring Basis

	Fair Value Measurements Using			
	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt securities ^(b) :				
U.S. government obligations	\$ 3,193,035	\$ -	\$ 3,193,035	\$ -
U.S. government agency obligations	8,448,740	-	8,448,740	-
Corporate bonds	5,005,193	-	5,005,193	-
Total debt securities	<u>16,646,968</u>	-	<u>16,646,968</u>	-
Equity securities ^(a)	17,346,558	17,346,558	-	-
Mutual funds:				
Fixed-income mutual funds	9,336,408	9,336,408	-	-
Total mutual funds	<u>9,336,408</u>	<u>9,336,408</u>	-	-
Total investments by fair value level	<u>\$ 43,329,934</u>	<u>\$ 26,682,966</u>	<u>\$ 16,646,968</u>	<u>\$ -</u>

Assets Measured at Fair Value on a Recurring Basis

	Fair Value Measurements Using			
	Balance at June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt securities ^(b) :				
U.S. government obligations	\$ 1,188,190	\$ -	\$ 1,188,190	\$ -
U.S. government agency obligations	11,357,165	-	11,357,165	-
Corporate bonds	18,045,683	-	18,045,683	-
Total debt securities	<u>30,591,038</u>	-	<u>30,591,038</u>	-
Equity securities ^(a)	12,806,620	12,806,620	-	-
Mutual funds:				
Fixed-income mutual funds	759,632	759,632	-	-
Total mutual funds	<u>759,632</u>	<u>759,632</u>	-	-
Total investments by fair value level	<u>\$ 44,157,290</u>	<u>\$ 13,566,252</u>	<u>\$ 30,591,038</u>	<u>\$ -</u>

- a. Equity securities and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.
- b. The fair value of debt securities at June 30, 2016 and 2015 was determined primarily based on Level 2 inputs. The Organization estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

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Short-term investment and investments on the statement of net position at June 30, 2016 and 2015 include investments in STAR Ohio of \$2,942,049 and \$4,273,969, respectively. The investments in STAR Ohio are measured at amortized cost; therefore, they are not included in the tables above. There are no limitations or restrictions on any STAR Ohio participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given to STAR Ohio 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the STAR Ohio investors will be combined for these purposes.

Investments on the statement of net position also include money market mutual funds of \$392,905 and \$845,230 As of June 30, 2016, and June 30 2015, respectively.

4. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2016 and 2015:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Student notes	\$ 4,590,299	\$ 4,673,070
Grants and contracts	5,081,857	4,151,964
Sales and services	967,507	757,793
ERS Strategic Properties, Inc.	6,526,117	7,376,566
Tuition and fees	<u>229,120</u>	<u>573,281</u>
Total accounts and notes receivable	17,394,900	17,532,674
Less current portion	<u>(13,160,280)</u>	<u>(13,302,703)</u>
Accounts and notes receivable, Noncurrent portion	<u>\$ 4,234,620</u>	<u>\$ 4,229,971</u>

Federal Direct Loans Program processed for students by the University during the years ended June 30, 2016 and 2015 totaled \$27,748,308 and \$24,067,761, 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.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	July 1, 2015 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2016 Ending Balance
Land - Nondepreciable	\$ 2,149,470	\$ -	\$ -	\$ 2,149,470
Infrastructure	2,049,956	85,570	58,033	2,193,559
Buildings	116,553,584	334,922	360,473	117,248,979
Leasehold improvements	400,000	-	(400,000)	-
Furnishings and movable equipment	28,454,584	1,828,012	(3,603,346)	26,679,250
Library materials	15,956,341	535,321	(11,297)	16,480,365
Construction in progress - Nondepreciable	652,985	796,126	(587,163)	861,948
Total historical cost	166,216,920	3,579,951	(4,183,300)	165,613,571
Less accumulated depreciation				
Infrastructure	1,497,420	114,290	-	1,611,710
Buildings	38,201,296	3,391,476	(24,463)	41,568,309
Leasehold improvements	333,333	66,667	(400,000)	-
Furnishings and movable equipment	19,623,397	3,029,336	(3,150,502)	19,502,231
Library materials	13,030,673	577,972	(11,297)	13,597,348
Total accumulated depreciation	72,686,119	7,179,741	(3,586,262)	76,279,598
Total capital assets, net of depreciation	\$ 93,530,801	\$ (3,599,790)	\$ (597,038)	\$ 89,333,973

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Capital asset activity for the year ended June 30, 2015 was as follows:

	July 1, 2014 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2015 Ending Balance
Land - Nondepreciable	\$ 2,149,470	\$ -	\$ -	\$ 2,149,470
Infrastructure	2,049,956	-	-	2,049,956
Buildings	110,690,310	3,190,838	2,672,436	116,553,584
Leasehold improvements	400,000	-	-	400,000
Furnishings and movable equipment	22,712,495	3,699,861	2,042,228	28,454,584
Library materials	15,533,109	562,602	(139,370)	15,956,341
Construction in progress - Nondepreciable	4,870,170	652,985	(4,870,170)	652,985
Total historical cost	158,405,510	8,106,286	(294,876)	166,216,920
Less accumulated depreciation				
Infrastructure	1,390,399	107,021	-	1,497,420
Buildings	34,874,662	3,326,634	-	38,201,296
Leasehold improvements	200,000	133,333	-	333,333
Furnishings and movable equipment	16,974,101	2,804,802	(155,506)	19,623,397
Library materials	12,783,659	563,430	(316,416)	13,030,673
Total accumulated depreciation	66,222,821	6,935,220	(471,922)	72,686,119
Total capital assets, net of depreciation	<u>\$ 92,182,689</u>	<u>\$ 1,171,066</u>	<u>\$ 177,046</u>	<u>\$ 93,530,801</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

6. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2016 and 2015 are as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion	Noncurrent Portion
Compensated absences	\$ 2,527,833	\$ 271,713	\$ 243,978	\$ 2,555,568	\$ 243,193	\$ 2,312,375
Post-employment benefits	1,380,504	79,661	-	1,460,165	-	1,460,165
Capital Lease	3,037,814	-	990,287	2,047,527	1,035,621	1,011,906
Total long-term liabilities	<u>\$ 6,946,151</u>	<u>\$ 351,374</u>	<u>\$ 1,234,265</u>	<u>\$ 6,063,260</u>	<u>\$ 1,278,814</u>	<u>\$ 4,784,446</u>

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion	Noncurrent Portion
Compensated absences	\$ 2,518,669	\$ 310,903	\$ 301,739	\$ 2,527,833	\$ 478,155	\$ 2,049,678
Post-employment benefits	1,253,423	127,081	-	1,380,504	-	1,380,504
Capital Lease	-	3,100,000	62,186	3,037,814	990,287	2,047,527
Total long-term liabilities	<u>\$ 3,772,092</u>	<u>\$ 3,537,984</u>	<u>\$ 363,925</u>	<u>\$ 6,946,151</u>	<u>\$ 1,468,442</u>	<u>\$ 5,477,709</u>

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

In fiscal year 2015, the University entered into a capital lease with Provident Leasing for equipment to furnish the new Health and Wellness Center in the amount of \$3,100,000. Monthly payments began during June 2015. Depreciation expense for these assets totaled \$819,313 and \$409,657 during fiscal year 2016 and 2015, respectively and the net book value of the assets as of June 30, 2016 and 2015 was \$1,871,030 and \$2,690,343.

Principal and interest payable for the next two years are as follows:

	Principal	Interest
2017	1,035,621	70,707
2018	1,011,906	23,919
	<u>\$2,047,527</u>	<u>\$ 94,626</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
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7. 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, 2016 and 2015, these instructional expenses relating to contracts totaled \$3,782,855 and \$3,490,350, respectively. At June 30, 2016 and 2015, the University had recorded accrued liabilities of \$1,413,952 and \$1,775,573, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Such audits are subject to the approval of the granting agency, which reserves the right to conduct further examinations. It is the opinion of the University's management that any potential disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

8. EMPLOYEE BENEFIT PLANS

Plan Description - The University participates in the State Teachers Retirement System (STRS) and the Ohio Public Employees Retirement System (OPERS), statewide, cost-sharing, multiple-employer defined benefit public employee retirement systems governed by the Ohio Revised Code (ORC) that covers substantially all employees of the University. Each system has multiple retirement plan options available to its members, ranging from three in STRS and three in OPERS. Each system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The systems also each provide postemployment healthcare benefits (including Medicare B premiums) to retirees and beneficiaries who elect to receive those benefits.

Each retirement system issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. The reports may be obtained by contacting:

State Teachers Retirement
System of Ohio
275 E. Broad Street
Columbus, Ohio 43215
(888) 227-7877
www.strsoh.org

Ohio Public Employees
Retirement System
277 East Town Street
Columbus, Ohio 43215
(800) 222-7377
www.opers.org

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Contributions - State retirement law requires contributions by covered employees and their employers, and Chapter 3307 of the ORC limit the maximum rate of contributions. The retirement boards of the systems individually set contributions rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Under these provisions, each university's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Member contributions are 10 percent of gross wages for the OPERS plan and 13 percent of gross wages for the STRS plans, set at the maximums authorized by the ORC. The plans' 2016 and 2015 contribution rates on covered payroll to each system are as follows:

	Employer Contribution Rate			
	Post			Total
	Pension	Retirement Health Care	Death Benefits	
STRS	14.00%	0.00%	0.00%	14.00%
OPERS	12.00%	2.00%	0.00%	14.00%
OPERS - Law Enforcement and Public Safety	16.10%	2.00%	0.00%	18.10%

The Universities required and actual contributions to the plans are as follows:

	For the years ended 6/30	
	2016	2015
STRS	\$ 1,125,247	\$ 1,058,973
OPERS	1,858,599	1,766,704
	<u>\$ 2,983,846</u>	<u>\$ 2,825,677</u>

Benefits Provided

STRS - Plan benefits are established under Chapter 3307 of the Revised Code, as amended by Substitute Senate Bill 342 in 2012, gives the Retirement Board the authority to make future adjustments to the member contribution rate, retirement age and service requirements, and the COLA as the need or opportunity arises, depending on the retirement system's funding progress.

Any member may retire who has (1) five years of service credit and attained age 60; (2) 25 years of service credit and attained age 55; or (3) 30 years of service credit regardless of age. Beginning on August 1, 2015, eligibility requirements for an unreduced benefit will change. The maximum annual retirement allowance, payable for life considers years of credited service, final average salary (3-5 years) and multiplying by a factor ranging from 2.2 percent to 2.6 percent with 0.1 percent incremental increases for years greater than 30-31, depending on retirement age.

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A defined benefit plan or combined plan member with five or more years of credited service who is determined to be disabled (illness or injury preventing individual's ability to perform regular job duties for at least 12 months) may receive a disability benefit. Additionally, eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least 10 years of qualifying service credit to apply for disability benefits.

A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the plan. Death benefit coverage up to \$2,000 can be purchased by participants in all three of the plans. Various other benefits are available to members' beneficiaries.

OPERS - Plan benefits are established under Chapter 145 of the Ohio Revised Code, as amended by Substitute Senate Bill 343 in 2012. The requirements to retire depends on years of service (15 to 30 years) and from attaining the age of 48 to 62, depending on when the employee became a member. Members retiring before age 65 with less than 30 years service credit receive a percentage reduction in benefit. Member retirement benefits are calculated on a formula that considers years of service (15-30 years), age (48-62 years), and final average salary, using a factor ranging from 1.0 percent to 2.5 percent.

A plan member who becomes disabled before age 60 or at any age, depending on when the member entered the plan, and has completed 60 contributing months is eligible for a disability benefit.

A death benefit of \$500 - \$2,500 is determined by the number of years of service credit of the retiree. Benefits may transfer to a beneficiary upon death with 1.5 years of service credits with the plan obtained within the last 2.5 years, except for Law Enforcement and Public Safety personnel who are eligible immediately upon employment.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent.

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2016 and 2015, the University reported a liability for its proportionate share of the net pension liability of STRS/OPERS. For the year ended June 30, 2016, the net pension liability was measured as of July 1, 2015 for STRS and December 31, 2015 for the OPERS plan. For the year ended June 30, 2015, the net pension liability was measured as of July 1, 2014 for STRS and December 31, 2014 for the OPERS plan. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

Plan	Measurement Date	Net Pension Liability		Proportionate Share		Percentage Change
		2016	2015	2016	2015	
STRS	July 1	\$ (22,621,327)	\$ (18,190,132)	0.08185%	0.07478%	0.01%
OPERS	December 31	\$ (19,046,195)	\$ (12,492,034)	0.11032%	0.10406%	0.01%

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For the years ended June 30, 2016 and 2015, the University recognized pension expense of \$1,377,145 and \$4,148,146, respectively. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,035,810	\$ (390,930)
Changes of assumptions	-	-
Net difference between projected and actual earnings of pension plan investments	5,614,975	(1,626,901)
Changes in proportion and differences between University contributions and proportionate share of contributions	2,120,899	(2,775)
University contributions subsequent to the measurement date	2,216,624	-
Total	<u>\$ 10,988,308</u>	<u>\$ (2,020,606)</u>

At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 175,120	\$ 235,622
Changes of assumptions	-	-
Net difference between projected and actual earnings of pension plan investments	672,266	3,365,243
Changes in proportion and differences between University contributions and proportionate share of contributions	-	4,315
University contributions subsequent to the measurement date	2,117,380	-
Total	<u>\$ 2,964,766</u>	<u>\$ 3,605,180</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ 1,517,255
2018	\$ 1,601,912
2019	\$ 1,518,609
2020	\$ 2,127,878
2021	\$ (3,109)
Thereafter	\$ (11,467)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2017).

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Actuarial Assumptions - The total pension liability in the actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>STRS - as of 06/30/15</u>	<u>OPERS - as of 12/31/15</u>
Valuation Date	July 1, 2015	December 31, 2015
Actuarial cost method	Entry age normal	Individual Entry Age
Cost of living	2.0 percent	Pre 1/7/2013 retirees: 3.0 percent through 2018, then 2.8 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	4.25 percent - 10.05 percent
Inflation	2.75 percent	3.00 percent
Investment rate of return	7.75 percent, net of pension plan investment expense	8.00 percent, net of pension plan investment expense
Experience study date	Period of 5 years ended July 1, 2012	Period of 5 years ended December 31, 2010
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)
	<u>STRS - as of 06/30/14</u>	<u>OPERS - as of 12/31/14</u>
Valuation Date	July 1, 2014	December 31, 2014
Actuarial cost method	Entry age normal	Individual Entry Age
Cost of living	2.0 percent	3.0 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	4.25 percent - 10.05 percent
Inflation	2.75 percent	3.00 percent
Investment rate of return	7.75 percent, net of pension plan investment expense	8.00 percent, net of pension plan investment expense
Experience study date	Period of 5 years ended July 1, 2012	Period of 5 years ended December 31, 2010
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)	RP-2000 mortality table projected 20 years using Projection Scale AA

Discount Rate - The discount rates used to measure the pension liabilities at June 30, 2016 and 2015 were 7.75 percent for STRS and 8.0 percent for OPERS. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

STRS - as of 7/1/15			OPERS - as of 12/31/15		
Investment Category	Target Allocation	Long-term Expected Real Rate of Return	Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	31.00%	8.00%	Fixed Income	23.00%	2.31%
International Equity	26.00%	7.85%	Domestic Equities	20.70%	5.84%
Alternatives	14.00%	8.00%	Real Estate	10.00%	4.25%
Fixed Income	18.00%	3.75%	Private Equity	10.00%	9.25%
Real Estate	10.00%	6.75%	International Equities	18.30%	7.40%
Liquidity Reserves	1.00%	3.00%	Other Investments	18.00%	4.59%
Total	100.00%		Total	100.00%	

STRS - as of 7/1/14			OPERS - as of 12/31/14		
Investment Category	Target Allocation	Long-term Expected Real Rate of Return	Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	31.00%	5.50%	Fixed Income	23.00%	2.31%
International Equity	26.00%	5.35%	Domestic Equities	19.90%	5.84%
Alternatives	14.00%	5.50%	Real Estate	10.00%	4.25%
Fixed Income	18.00%	1.25%	Private Equity	10.00%	9.25%
Real Estate	10.00%	4.25%	International Equities	19.10%	7.40%
Liquidity Reserves	1.00%	5.00%	Other Investments	18.00%	4.59%
Total	100.00%		Total	100.00%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the University, calculated using the discount rate listed below, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate for the year ended June 30, 2016:

Plan	1.00 percent decrease	Current Discount Rate	1.00 percent increase
STRS	6.75% 31,422,730	7.75% 22,621,327	8.75% 15,178,429
OPERS	7.00% 30,447,642	8.00% 19,046,195	9.00% 9,432,942
	61,870,372	41,667,522	24,611,371

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The following presents the net pension liability of the University, calculated using the discount rate listed below, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate for the year ended June 30, 2015:

<u>Plan</u>	<u>1.00 percent decrease</u>		<u>Current Discount Rate</u>		<u>1.00 percent increase</u>	
STRS	6.75%	26,039,657	7.75%	18,190,132	8.75%	11,550,141
OPERS	7.00%	23,080,401	8.00%	12,492,034	9.00%	3,576,862
		\$ 49,120,058		\$ 30,682,166		\$ 15,127,003

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued STRS/OPERS financial report.

Payable to the Pension Plan - At June 30, 2016 and 2015, the University reported a payable of \$305,662 and \$287,410, respectively, for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016 and 2015.

9. OTHER POST-EMPLOYMENT BENEFITS

Background

Beginning in fiscal year 2009, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 45 for other postemployment 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 nonpension 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 postemployment 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 postemployment 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.

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.

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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 postemployment benefits on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The annual cost of other postemployment 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:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Annual required contribution	\$ 236,704	\$ 221,717
Interest on net OPEB obligation	82,830	75,205
Adjustment to annual required contribution	<u>(94,616)</u>	<u>(85,913)</u>
Annual OPEB cost (expense)	224,918	211,009
Employer contribution (pay-as-you-go)	<u>(145,257)</u>	<u>(83,928)</u>
Increase in net OPEB obligation	79,661	127,081
Net OPEB obligation, beginning of year	<u>1,380,504</u>	<u>1,253,423</u>
Net OPEB obligation, end of year	<u>\$ 1,460,165</u>	<u>\$ 1,380,504</u>
Actuarial contribution rate	64.58%	39.77%

For the year ended June 30, 2016, the University estimated the cost of \$1,460,165 based on actuarial valuation as of June 30, 2016.

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.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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The valuation of the liability as of June 30, 2016 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 postemployment 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 Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
6/30/2016	\$2,942,805	\$2,942,805	0.00%	\$1,492,279	197.20%
6/30/2015	\$2,677,149	\$2,677,149	0.00%	\$2,201,638	121.60%
6/30/2014	\$2,685,931	\$2,685,931	0.00%	\$2,241,522	119.83%
6/30/2013	\$3,326,854	\$3,326,854	0.00%	\$2,670,810	124.56%
6/30/2012	\$4,453,852	\$4,453,852	0.00%	\$2,676,674	166.40%
6/30/2011	\$5,372,684	\$5,372,684	0.00%	\$3,108,647	172.83%
6/30/2010	\$4,593,702	\$4,593,702	0.00%	\$3,524,376	130.34%

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 change as follows:

2016-17	7.50%
2017+	7.00

**NORTHEAST OHIO MEDICAL UNIVERSITY
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10. POSTRETIREMENT HEALTHCARE BENEFITS (IN WHOLE NUMBERS)

OPERS provides postretirement 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 postretirement healthcare through their contributions to OPERS. The employer contribution rate allocated for health care for members in the Traditional Plan was 2.0% of covered payroll for 2015. For employees in the Combined Plan, the employer contribution rate allocated to health care was 2.0 percent for 2016, 2015, and 2014. OPERS' required and actual healthcare contributions were \$309,767, \$294,451, and \$267,653 for 2016, 2015, and 2014, respectively.

OPERS benefits are advance-funded on an actuarially determined basis. As of December 31, 2015, OPERS reported the actuarially accrued liability and the unfunded actuarial accrued liability for Other Post Employment Benefits (OPEB) at \$19.4 billion and \$7.3 billion, respectively. Significant actuarial assumptions include a 5 percent investment return, a 3.75 percent individual pay increase, and healthcare costs are assumed to increase initially at 9 percent before leveling off at 3.75 percent in 2024. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. As of December 31, 2015, the actuarial value of the retirement system's net assets available for other postemployment benefits was \$12.0 billion. The number of active contributing participants in the traditional and combined plans was 345,622 as of December 31, 2015.

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

The Ohio Revised Code grants authority to STRS Ohio to provide healthcare coverage to eligible benefit recipients, spouses, and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2014, the State Teachers' Retirement Board allocated employer contributions, which equals 1 percent of covered payroll, to a healthcare stabilization fund from which healthcare benefits are paid. Effective July 1, 2014, no employer contributions are being allocated to health care. The STRS required and actual healthcare contributions were \$0, \$0, and \$66,891 for 2016, 2015, and 2014, respectively. The balance in the healthcare reserve fund was \$3.45 billion at June 30, 2015.

For the year ended June 30, 2015 (latest information available), net healthcare costs paid by STRS were \$672 million. There were 158,116 eligible benefit recipients on June 30, 2015.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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11. 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 were used for the construction, improvement, reconstruction, remodeling, renovation, and equipping of the University's facilities primarily for the 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, 2016 and 2015 was \$38,941,543 and \$39,805,355, respectively.

The bond discount on the November 2011 bonds totaled \$194,911 with an accumulated amortized balance of \$31,454 and \$25,266 as of June 30, 2016 and 2015, 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, 2016 are summarized as follows:

	<u>July 1, 2015</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2016</u>	<u>Current</u>
General receipts bond Series 2010	\$ 13,965,000	\$ -	\$ 355,000	\$ 13,610,000	\$ 360,000
General receipts bond Series 2011	26,010,000	-	515,000	\$ 25,495,000	530,000
General receipts bond Series 2011-Discoun	<u>(169,645)</u>	<u>-</u>	<u>(6,188)</u>	<u>\$ (163,457)</u>	<u>-</u>
Total bonds and notes payable	<u>\$ 39,805,355</u>	<u>\$ -</u>	<u>\$ 863,812</u>	<u>\$ 38,941,543</u>	<u>\$ 890,000</u>

The University's bonds and notes payable as of June 30, 2015 are summarized as follows:

	<u>June 30, 2014</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2015</u>	<u>Current</u>
General receipts bond Series 2010	\$ 14,315,000	\$ -	\$ 350,000	\$13,965,000	\$ 355,000
General receipts bond Series 2011	26,510,000	-	500,000	26,010,000	515,000
General receipts bond Series 2011-Discoun	<u>(175,833)</u>	<u>-</u>	<u>(6,188)</u>	<u>(169,645)</u>	<u>-</u>
Total bonds and notes payable	<u>\$ 40,649,167</u>	<u>\$ -</u>	<u>\$ 843,812</u>	<u>\$39,805,355</u>	<u>\$ 870,000</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.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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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, 2016 are summarized as follows:

Year Ending June 30	Principal	Interest	Interest Subsidy *	Net Interest	Total
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	975,000	1,924,617	(370,231)	1,554,386	2,529,386
2021	1,005,000	1,885,503	(361,411)	1,524,092	2,529,092
2022-2026	5,580,000	8,709,506	(1,645,342)	7,064,164	12,644,164
2027-2031	6,765,000	7,161,104	(1,189,418)	5,971,686	12,736,686
2032-2036	8,375,000	5,061,836	(863,884)	4,197,952	12,572,952
2037-2041	10,495,000	2,124,315	(313,025)	1,811,290	12,306,290
2042-2043	3,165,000	160,125	-	160,125	3,325,125
	<u>\$39,105,000</u>	<u>\$ 33,032,473</u>	<u>\$(5,899,391)</u>	<u>\$ 27,133,082</u>	<u>\$ 66,238,082</u>

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

12. 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 healthcare 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 healthcare plan is a self-funded benefit plan with a specific stop loss of \$100,000. The plan offers two levels of coverage to employees: the Core Plan and the Enhanced Plan. All full-time NEOMED employees who work 40 hours or more per week are eligible for coverage. The U.S. Affordable Health Care Act (ACA) also allows any employee who works an average of 30 hours per week over a given measurement period of 12 months the option to choose to enroll in the medical coverage. The 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.

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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, 2016, 2015 and 2014 are summarized as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Accrued claims liability - Beginning of year	\$ 516,384	\$ 601,059	\$ 409,438
Incurred claims - Net of favorable settlements	4,440,552	2,769,802	3,096,092
Claims paid	<u>(4,442,076)</u>	<u>(2,854,477)</u>	<u>(2,904,471)</u>
Accrued claims liability - End of year	<u>\$ 514,860</u>	<u>\$ 516,384</u>	<u>\$ 601,059</u>

13. RELATED PARTY TRANSACTIONS

NEOMED Foundation - For the years ended June 30, 2016 and 2015, the University has received distributions from the Foundation in the amount of \$2,712,621 and \$2,105,500, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted student loans of \$123,245 and \$85,442, respectively, for the years ended June 30, 2016 and 2015.

The University received reimbursements of \$218,225 and \$161,141, respectively, from the Foundation for management, fundraising, services, and office space during the years ended June 30, 2016 and 2015. 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 \$1,231,128 and \$1,137,409, respectively, for the years ended June 30, 2016 and 2015.

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. ERS Bradley LLC and ERS Contiguous Properties LLC will provide additional land for the University's future needs. ERS MOB LLC will be a medical office building for community physicians to give care to patients and be a resource for student clinical rotations.

For the years ended June 30, 2016 and 2015, the University made payments on behalf of ERS in the amount of \$76,307 and \$825,691, respectively, for expenses and capitalized items related to the company start-up and deferred financing 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 \$380,629 and \$343,960, respectively, for the years ended June 30, 2016 and 2015.

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For the years ended June 30, 2016 and 2015, ERS had accounts payable to NEOMED totaling \$6,526,117 and 7,376,566 respectively 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.

14. 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 2016 or 2015.

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>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$253,048	\$253,048	\$ 244,907	\$ 244,907
Cash surrender value of life insurance	232,508	232,508	236,646	236,646
Equities	6,169,489	7,631,528	6,162,732	8,378,903
Other	282,058	296,847	112,518	321,719
Fixed income	<u>5,777,056</u>	<u>6,174,865</u>	<u>4,443,370</u>	<u>5,710,444</u>
Total long-term investments	<u>\$12,714,159</u>	<u>\$14,588,796</u>	<u>\$11,200,177</u>	<u>\$14,892,619</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
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Assets Measured at Fair Value on a Recurring Basis at June 30, 2016:

	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Investments				
Domestic Fixed Income	\$ 4,774,642	\$ 4,774,642	\$ -	\$ -
International Fixed Income	1,400,223	1,400,223	-	-
Domestic Equities	5,420,030	5,420,030	-	-
International Equities	2,211,498	2,211,498	-	-
Money market	253,048	-	253,048	-
Other investments	296,847	291,034	-	5,813
Total Investments	\$ 14,356,288	\$ 14,097,427	\$ 253,048	\$ 5,813
Assets - Beneficial Interest in Trusts				
Total Beneficial Interests in Trust:	\$ 65,504	\$ -	\$ -	\$ 65,504
Total Fair Value Measurements	\$ 14,421,792	\$ 14,097,427	\$ 253,048	\$ 71,317

Assets Measured at Fair Value on a Recurring Basis at June 30, 2015:

	Balance at June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Investments				
Domestic Fixed Income	\$ 4,450,227	\$ 4,450,227	\$ -	\$ -
International Fixed Income	1,260,217	1,260,217	-	-
Domestic Equities	5,994,709	5,994,709	-	-
International Equities	2,384,194	2,384,194	-	-
Money market	244,907	-	244,907	-
Other investments	321,719	313,318	-	8,401
Total Investments	\$ 14,655,973	\$ 14,402,665	\$ 244,907	\$ 8,401
Assets - Beneficial Interest in Trusts				
Total Beneficial Interests in Trust:	\$ 208,644	\$ -	\$ -	\$ 208,644
Total Fair Value Measurements	\$ 14,864,617	\$ 14,402,665	\$ 244,907	\$ 217,045

Details of the Foundation's restricted net assets at June 30, 2016 and 2015 are as follows:

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Temporarily restricted net assets as of June 30:

	<u>2016</u>	<u>2015</u>
Instruction and departmental research	\$ 1,277,159	\$ 1,430,735
Separately budgeted research	583,588	477,473
Public service	410,150	431,156
Academic support	837,803	1,049,937
Institutional support	1,233,845	2,179,901
Plant operation and maintenance	10,882	11,243
Student scholarships and other student aid	2,201,153	2,424,786
Deferred gift annuity	232,508	236,648
	<hr/>	<hr/>
Total temporarily restricted net assets, June 30	<u>\$ 6,787,088</u>	<u>\$ 8,241,879</u>

Permanently restricted net assets as of June 30:

	<u>2016</u>	<u>2015</u>
Student loans	\$ 878,125	\$ 874,430
Endowments requiring earnings only be made available for:		
Student scholarships and awards	3,956,943	3,639,440
Student loans	100,236	100,236
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	1,229,950	671,780
Deferred gift annuity	60,834	97,263
Allowance for uncollectible pledges	(23,718)	(3,654)
	<hr/>	<hr/>
Total permanently restricted net assets, June 30	<u>\$ 9,204,841</u>	<u>\$ 8,381,966</u>

15. 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.

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 sold 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.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

Capital asset activity for the year ended June 30, 2016 was as follows:

	July 1, 2015 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2016 Ending Balance
Land - Nondepreciable	\$ 169,349	\$ -	\$ -	\$ 169,349
Infrastructure	10,317,586	59,655	-	10,377,241
Buildings	109,201,168	764,769	466,421	110,432,358
Furnishings and movable equipment	129,728	-	(3,307)	126,421
Construction in progress - Nondepreciable	683,796	-	(683,796)	-
Total historical cost	120,501,627	824,424	(220,682)	121,105,369
Less accumulated depreciation				
Infrastructure	677,869	1,359,228	-	2,037,097
Buildings	3,201,129	1,906,470	(2,718)	5,104,881
Furnishings and movable equipment	39,609	28,232	(551)	67,290
Total accumulated depreciation	3,918,607	3,293,930	(3,269)	7,209,268
Total capital assets, net of depreciation	<u>\$ 116,583,020</u>	<u>\$ (2,469,506)</u>	<u>\$ (217,413)</u>	<u>\$ 113,896,101</u>

Capital asset activity for the year ended June 30, 2015 was as follows:

	July 1, 2014 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2015 Ending Balance
Land - Nondepreciable	\$ 78,469	\$ 90,880	\$ -	\$ 169,349
Infrastructure	-	4,234,451	6,083,135	10,317,586
Buildings	35,831,950	7,038,950	66,330,268	109,201,168
Furnishings and movable equipment	116,550	13,178	-	129,728
Construction in progress - Nondepreciable	72,413,402	683,797	(72,413,403)	683,796
Total historical cost	108,440,371	12,061,256	-	120,501,627
Less accumulated depreciation				
Infrastructure	-	677,869	-	677,869
Buildings	448,610	2,752,519	-	3,201,129
Furnishings and movable equipment	12,471	27,138	-	39,609
Total accumulated depreciation	461,081	3,457,526	-	3,918,607
Total capital assets, net of depreciation	<u>\$ 107,979,290</u>	<u>\$ 8,603,730</u>	<u>\$ -</u>	<u>\$ 116,583,020</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

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, 2016 and 2015, fund balances held by the Trustee were as follows:

<u>ERS HWMEC LLC</u>	<u>2016</u>	<u>2015</u>
Bond proceeds fund	\$ 1,497,809	\$ 3,087,695
<u>ERS Housing LLC</u>		
Revenue fund	277,742	7,081
Repair & Replace fund	129,957	67,802
Sinking Fund	61	165,884
Surplus Fund	67,464	29,844
	<u>475,224</u>	<u>270,611</u>
Total	<u>\$ 1,973,033</u>	<u>\$ 3,358,306</u>

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, and 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 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, 2016 and 2015 was \$36,175,000 and \$36,460,000 respectively and the principal payments started on December 1, 2014.

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, 2016 and 2015 were \$81,969,542 and \$83,270,126 respectively and the principal payments stated on December 8, 2014.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

The original bond discount for the ERS Housing bonds totaled \$633,830, with an unamortized balance of \$552,950 and \$572,758 as of June 30, 2016 and 2015. 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 Position. There is no discount or premium on the ERS HWMEC bonds.

ERS Bonds payable as of June 30, 2016 are summarized as follows:

	<u>July 1, 2015</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2016</u>	<u>Current</u>
ERS Housing LLC	\$ 36,460,000	\$ -	\$ 285,000	\$ 36,175,000	\$ 360,000
ERS Housing LLC Discount	(572,757)		(19,807)	(552,950)	
ERS HWMEC LLC	<u>83,270,126</u>	<u>-</u>	<u>1,300,584</u>	<u>81,969,542</u>	<u>1,365,627</u>
Total bonds and notes payable	<u>\$ 119,157,369</u>	<u>\$ -</u>	<u>\$ 1,565,777</u>	<u>\$ 117,591,592</u>	<u>\$ 1,725,627</u>

ERS Bonds payable as of June 30 2015 are summarized as follows:

	<u>July 1, 2014</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2015</u>	<u>Current</u>
ERS Housing LLC	\$ 36,680,000	\$ -	\$ 220,000	\$ 36,460,000	\$ 285,000
ERS Housing LLC Discount	(592,565)		(19,807)	(572,758)	
ERS HWMEC LLC	<u>84,000,000</u>	<u>-</u>	<u>729,874</u>	<u>83,270,126</u>	<u>1,300,584</u>
Total bonds and notes payable	<u>\$ 120,087,435</u>	<u>\$ -</u>	<u>\$ 930,067</u>	<u>\$ 119,157,368</u>	<u>\$ 1,585,584</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, 2016 and 2015.

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2016 are summarized as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,725,627	\$ 6,081,894	\$ 7,807,521
2018	1,863,924	5,998,214	7,862,138
2019	2,010,635	5,908,182	7,918,817
2020	2,165,934	5,810,060	7,975,994
2021	2,329,998	5,703,611	8,033,609
2022-2026	14,136,475	26,561,827	40,698,302
2027-2031	18,078,117	22,425,008	40,503,125
2032-2036	22,955,300	17,197,965	40,153,265
2037-2041	29,316,290	10,395,311	39,711,601
2042-2044	<u>23,562,242</u>	<u>2,231,257</u>	<u>25,793,499</u>
	<u>\$ 118,144,542</u>	<u>\$ 108,313,329</u>	<u>\$ 226,457,871</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

Other Required Supplemental Information for GASB 68

Schedule of the University's Proportionate Share of the Net Pension Liability

	2015	
	OPERS	STRS
	December 31	June 30
Plan year end		
University's proportion of the collective net pension liability:		
As a percentage	0.11033%	0.08185%
Amount	\$ 19,046,195	\$ 22,621,327
University's covered-employee payroll	\$ 14,722,542	\$ 7,564,093
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered-employee payroll	129.37%	299.06%
Fiduciary net position as a percentage of the total pension liability	81.19%	72.10%

Schedule of University's Contributions

	2016	
	OPERS	STRS
Statutorily required contribution	\$ 1,858,599	\$ 1,125,247
Contributions in relation to the actuarially determined contractually required contribution	\$ 1,858,599	\$ 1,125,247
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 15,488,321	\$ 8,037,482
Contributions as a percentage of covered employee payroll	12.00%	14.00%

Schedule of the University's Proportionate Share of the Net Pension Liability

	2014	
	OPERS	STRS
	December 31	June 30
Plan year end		
University's proportion of the collective net pension liability:		
As a percentage	0.10406%	0.07478%
Amount	\$ 12,492,034	\$ 18,190,132
University's covered-employee payroll	\$ 13,919,290	\$ 8,894,530
University's proportionate share of the collective pension liability (amount), as a percentage of the University's covered-employee payroll	89.75%	204.51%
Fiduciary net position as a percentage of the total pension liability	86.53%	74.70%

Schedule of University's Contributions

	2015	
	OPERS	STRS
Statutorily required contribution	\$ 1,766,705	\$ 1,058,973
Contributions in relation to the actuarially determined contractually required contribution	\$ 1,766,705	\$ 1,058,973
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 14,722,542	\$ 7,564,093
Contributions as a percentage of covered employee payroll	12.00%	14.00%

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

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 the 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 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, 2016 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 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 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

October 10, 2016

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) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which are required to be reported in accordance with OMB and the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

Northeast Ohio Medical University's response to the noncompliance findings identified in our audit are 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 the response.

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 the Uniform Guidance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

To the Board of Trustees
Northeast Ohio Medical University

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 of those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of finding and questioned costs as Finding 2016-001 to be a material weakness.

Northeast Ohio Medical University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of finding and questioned costs. 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 the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

October 10, 2016

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	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	N/A	\$ 27,748,308	
Federal Perkins Loan Program	84.038	N/A	<u>1,801,641</u>	
<i>Total Office of Student Financial Assistance Program</i>			<u>29,549,949</u>	
Total Department of Education			29,549,949	
Department of Health & Human Services				
<i>Health Resources and Services Administration:</i>				
Health Prof Student Loan Prgm - Loans to Disadvantaged Students	93.342	N/A		2,302,574
Health Prof Student Loan Prgm - Primary Care Loans	93.342	N/A		<u>1,134,858</u>
<i>Total Health Resources and Services Administration</i>				<u>3,437,432</u>
Total Department of Health & Human Services				3,437,432
TOTAL STUDENT FINANCIAL AID CLUSTER				\$ 32,987,381
MEDICAID CLUSTER				
Department of Health and Human Services				
<i>Centers for Medicare and Medicaid Services:</i>				
<i>Passed through the Ohio Department of Medicaid -</i>				
<i>Passed through the Ohio State University:</i>				
DHHS - OSU - MEDTAPP Community Healthcare Workers	93.778	60051005	\$ 133,389	\$ 581,150
DHHS - OSU - MEDTAPP Healthcare Access Initiative	93.778	60051005	392,473	845,110
DHHS - OSU - MEDTAPP Regional Cross Collaboration	93.778	60051005		33,242
DHHS - OSU - MEDTAPP Behavioral Health Expansion	93.778	60051005	90,821	134,005
DHHS - OSU - Community Health Worker MEDTAPP Expansion Grant	93.778	60051005	78,372	141,500
<i>Passed through the University of Toledo:</i>				
DHHS - OSU - UT - MEDTAPP Healthcare Access Continuation Grant	93.778	R-122988-05		92,839
<i>Total Centers for Medicare and Medicaid Services</i>			<u>695,055</u>	<u>1,827,846</u>
Total Department of Health and Human Services			<u>695,055</u>	1,827,846
TOTAL MEDICAID CLUSTER			\$ 695,055	\$ 1,827,846
RESEARCH AND DEVELOPMENT CLUSTER				
Department of Health and Human Services				
<i>Agency for Healthcare Research and Quality:</i>				
AHRQ - Professional Judgements about Advance Care Planning in Skilled Nursing Facilities	93.226	1R03HS022162-01A1	\$ 2,980	\$ 16,554
<i>Passed through Case Western University:</i>				
AHRQ - Collaborative Ohio Inquiry Network (COIN) Year 3	93.226	RES509337		1,129
AHRQ - Collaborative Ohio Inquiry Network (COIN) FY16	93.226	RES510267		<u>1,398</u>
<i>Total Agency for Healthcare Research and Quality</i>			2,980	19,081
<i>National Institutes of Health:</i>				
NIH - Gene - Environment Interactions in Neurodegeneration	93.113	5R01ES021800-02	152,666	435,451
NIH - Integration of Mechanical and Soluble Signaling in Tumor Angiogenesis	93.396	1R15CA202847-01		19,156
NIH - Axonopathy in Glaucoma	93.867	4R01EY022358-05		366,574
NIH - Metabolic Vulnerability as a Disease Target for Glaucoma	93.867	1R01EY02662-01		<u>62,918</u>
<i>Total CFDA #93.867</i>				429,492

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
RESEARCH AND DEVELOPMENT CLUSTER (Continued)				
Department of Health and Human Services (Continued)				
NIH - Cholinergic Circuits in the Ventral Cochlear Nucleus	93.173	5F31DC014228-02		\$ 24,507
NRSA - Differential Pathologies Resulting from Sound Exposure: Tinnitus vs. Hearing Loss	93.173	5F31DC013498-02		3,768
NIH - Amelioration of Presbycusis by Blocking T-type Calcium Channels with Antiepileptic	93.173	5R01DC004391-15		390,104
NIH - Binaural and Top-Down Mechanisms in Auditory Scene Analysis	93.173	5R03DC012871-03		90,466
NIH - Neural Mechanism Underlying Sound-evoked Suppression of Tinnitus: Residual Inhibition	93.173	4R01DC011330-05		344,740
NIH - Dysphagia and Recovery After Vagal or Laryngeal Nerve Injury	93.173	R01DC009980-06		223,364
NIH - Auditory Processing Deficits in Early-onset Conductive Hearing Loss	93.173	5R01DC013314-03		279,365
NIH - Functional Anatomy of the Auditory System	93.173	5R01DC004391-15		428,740
NIH - Development of a Drug Therapy to Ameliorate Permanent Hearing Loss	93.173	7R33DC010489-06	\$ 1,337	1,337
NIH - Auditory Information Processing in the Amygdala	93.173	4R01DC000937-25		454,571
Total CFDA #93.173			1,337	2,240,962
NIH - Suppression of SHH Expression in Arthritis by Butea Monosperma	93.213	5R01AT007373-03		499,917
NIH - Suppression of MMP-13 Expression in Arthritis by Pomegranate	93.213	1R01AT005520-6		36,598
Total CFDA #93.213				536,515
NIH - Effect of Ethanol on Lipid Metabolism	93.273	5R01AA013623-14		348,760
NIH - Ethanol Regulation of Adiponectin and its Signaling	93.273	5R01AA015951-12		398,956
NIH - Alcohol, Hedgehog Signal, and HSC Dysfunction in Host Defense	93.273	5R01AA022816-03		386,814
NIH - Alcohol, Septicemia, and the LKS Cell Response	93.273	7R01AA019676-06		121,003
<i>Passed through University of South Florida :</i>				
NIH-USF Impact of Ethanol-Induced Protein Nitration on the Histone Modification Code	93.273	5R21AA022185-02		10,878
NIH-USF Role of PHPT1 in Oxidative Stress-induced Epigenetic Modification by Ethanol	93.273	1210-1037-00-A		3,387
Total CFDA #93.273				1,269,798
<i>Passed through Rutgers, The State University of New Jersey:</i>				
NIH - Rutgers - Developing Drugs to Mitigate Parathion Intoxication	93.853	8205		302,331
<i>Passed through Cleveland State University:</i>				
NIH - CSU - Dissemination of Evidence-based Health Disparity Interventions	93.307	0513-1003347386-01		12,482
NIH - UU - CSU - Health Dashboard	93.307	N/A		12,397
NIH - AAMC - CSU - YR4 - Urban Universities for Health: NEOMED - CSU Partnership	93.307	N/A		28,779
Total CFDA #93.307				53,658
<i>Passed through Case Western Reserve University:</i>				
NIH- Case - Aged Rat Heart Mitochondrial Dysfunction	93.866	RES510480		16,279
<i>Passed through Temple University</i>				
NIH - Temple - Follistatin - Like Protein 1 in Cardiac and Systemic Metabolism	93.837	N/A		2,678
NIH - Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1		6,912
NIH - Mechanotransduction in Myocardial Adaption to Ischemia	93.837	5R01HL119705-02		270,888
NIH - Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1		5,251
NIH - Induction of Coronary Arteriogenesis by Reprogrammed Cells	93.837	1R15HL115540-01		122,219
NIH - Myocardial Injury Associated with Mitochondria-Derived Oxygen Free Radical (s)	93.837	5R01HL083237	14,029	328,028
NIH - Regulation of Lipid and Lipoprotein Metabolism by Nuclear	93.837	5R01HL103227-04		124,592
NIH - Mechanisms of Coronary Vasomotor Control	93.837	5R01HL115114-04		398,773
Total CFDA #93.837			65,149	1,259,341

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
RESEARCH AND DEVELOPMENT CLUSTER (Continued)				
Department of Health and Human Services (Continued)				
NIH - Uridylation of miRNAs by ZCCHC6 Regulates IL-6 Expression in Arthritis	93.846	5R01AR067056-02	\$	454,529
NIH - The Role of Osteoactivin Development and Function	93.846	5R01AR048892-11		19,917
<i>Passed through Case Western Reserve University:</i>				
NIH - Identification of Plasma microRNA Expression Profile in Ankylosing Spondylitis	93.846	RES509260		<u>96,753</u>
Total CFDA #93.846				571,199
NIH - Regulation of Bile Acid Synthesis by Nuclear Receptors	93.847	5R37DK058379-28		356,496
NIH - Identification of Novel Genes/Pathways That Regulate Lipid and Glucose Metabolism	93.847	5R01DK095895-04		231,004
NIH - Regulation of Bile Acid Synthesis by Nuclear Receptors	93.847	4R37DK058379-29		81,409
NIH - Molecular Biology of Bile Acid Synthesis	93.847	2R01DK044442-20		318,239
NIH - Hepatic Lipid Mobilization by Nuclear Hormone Receptors	93.847	4R01DK093774-04		308,804
NIH - Mechanisms Underlying the Pathogenesis of Nonalcoholic Fatty Liver Disease	93.847	5R01DK102619-02		310,118
<i>Passed through Summa Health System:</i>				
NIH - SUMMA - Comparative Effectiveness of Two Community Based Diabetes Management Approaches	93.847	89080-E		<u>716</u>
Total CFDA #93.847				1,606,786
NIH - SUMMA - Practive, Quality, and Retention - Interprofessional Collaborative Practice	93.359	89330-A		25,941
<i>Passed through University of Wisconsin:</i>				
NIH - The Genetics and Extreme Body Size in Mice from Gough Island	93.859	427K372		50,060
<i>Passed through University of Texas Medical Branch:</i>				
NIH - U. of Texas - Data-driven Models of the Dynamic Prteome in NAFLD	93.859	15-036		<u>77,519</u>
Total CFDA #93.859				127,579
<i>Total National Institutes of Health</i>			<u>\$ 219,152</u>	<u>8,894,488</u>
Total Department of Health and Human Services			222,132	8,913,569
National Science Foundation				
NSF - Mechanobiology of a Resilient Bone Extracellular Matrix: How Bats Achieve Exceptional Mechanical Properties in their Wings	47.041	1537745		130,950
NSF- Collaborative Research: ABI Innovation: A Novel Database and Ontology for Interdisciplinary Analyses of Mammalian Feeding	47.074	DBI- 1343588		21,793
NSF- Natural Selection on Growth and Locomotor Performance in Eastern Cottontail Rabbits (Sylvilagus Floridanus)	47.074	IOS- 1146916		<u>25,970</u>
Total CFDA #47.074				47,763
NSF- The Biomechanics of Arboreal Stability: An Integrated Analysis	47.075	1126790		<u>478</u>
Total National Science Foundation				179,191
US Department of Agriculture				
<i>Passed through North Carolina State University:</i>				
USDA - NC State - A Comprehensive Understanding of the Role of Flavor and Texture in the Eating Experience and Satiety	10.310	2013-1755-01		<u>692</u>
Total US Department of Agriculture				692

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
RESEARCH AND DEVELOPMENT CLUSTER (Continued)				
Department of Defense				
<i>U.S. Army Medical Command Passed Through Wake Forest University - Passed Through The Cleveland Clinic Foundation:</i>				
<i>DOD - Wake - CC - Re-Establishing Homing to Regenerate an Injured Anal Sphincter to Aid Continence</i>				
	12.420	428-SUB		\$ 17,685
Total Department of Defense				17,685
Department of the Interior				
<i>U.S. Fish and Wildlife Service Passed Through North Slope Borough Wildlife Management Department:</i>				
<i>USFWS-NSB-Determining the Age and Hearing Ability in Bowhead and Beluga Whales</i>				
	15.668	2012-110		66,723
Total Department of the Interior				66,723
Office of Personnel Management				
<i>Louis Stokes VA Medical Center IPA</i>				
	27.011	N/A		5,086
Total Office of Personnel Management				5,086
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			\$ 222,132	\$ 9,182,946
TOTAL CLUSTERS			\$ 917,187	\$ 43,998,173
OTHER PROGRAMS				
Department of Justice				
<i>Bureau of Justice Assistance:</i>				
<i>Passed through Ohio Office of Criminal Justice Services:</i>				
<i>DOJ - OCJS - Assessing Integration of Criminogenic Risk and Behavioral Health Needs in Ohio Mental Health Courts</i>				
	16.738	2014-JG-E01-6026		22,098
<i>DOJ - OCJS - Ohio Cross Systems Mapping Initiative CY15</i>				
	16.738	2014-JG-E01-6963		14,265
<i>DOJ - OCJS - Ohio Cross Systems Mapping Initiative CY16</i>				
	16.738	2015-JG-E01-6963		5,725
<i>DOJ - OCJS - Heroin Partnership Project</i>				
	16.738	2012-JGE01-V6033		18,532
<i>Total CFDA #16.738</i>				<u>60,620</u>
<i>DOJ - OCJS - CCoE Expansion</i>				
	16.745	2015-CP-JMH-604		20,900
Total Department of Justice				81,520
Department of Health and Human Services				
<i>Health Resources and Services Administration:</i>				
<i>SA - The Health Careers Opportunity Program (HCOP)</i>				
<i>HR of the Ohio Alliance</i>				
	93.822	1D18HP29040-01-00	\$ 59,918	293,961
<i>HRSA - Physician Faculty Development in Primary Care</i>				
	93.884	D55HP20645-05-00		126,535
<i>Passed through Summa Health System:</i>				
<i>HRSA - Summa - Geriatric Workforce Development through Interdisciplinary Team Learning</i>				
	93.969	89335-A		41,997
<i>Passed through The University of Toledo:</i>				
<i>HRSA - AHEC Point of Service Maintenance and Enhancement Award Yr 4</i>				
	93.107	F2016-87	200,423	267,910
<i>HRSA - AHEC Point of Service Maintenance and Enhancement Award Yr 3</i>				
	93.107	F2015-87	<u>73,256</u>	<u>85,511</u>
<i>Total CFDA #93.107</i>			<u>273,679</u>	<u>353,421</u>
<i>Total Health Resources and Services Administration</i>			333,597	815,914

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
OTHER PROGRAMS (Continued)				
Department of Health and Human Services (Continued)				
<i>Substance Abuse and Mental Health Services Administration</i>				
<i>Passed through Greater Cincinnati Behavioral Health:</i>				
SAMHSA - Evidence - Based Programs to Address First Episode Psychosis - Greater Cincinnati Behavioral Health	93.958	N/A	\$	60,845
<i>Passed through Coleman Professional Services Inc.:</i>				
SAMHSA - Evidence - Based Programs to Address First Episode Psychosis - Coleman	93.958	N/A		130,897
<i>Passed through the Summit County ADM Board</i>				
SAMHSA - Summit ADM- FY15 Criminal Justice Coordinating Centers of Excellence	93.958	N/A		2,447
Total CFDA #93.958				194,189
SAMHSA - Summit ADM - FY16 Criminal Justice Coordinating Centers of Excellence	93.959	N/A	\$ 10,000	181,055
<i>Total Substance Abuse and Mental Health Services Administration</i>				
			10,000	375,244
Total Department of Health and Human Services			343,597	1,191,158
Corporation for National and Community Service				
<i>Passed through Ohio Commission on Service and Volunteerism:</i>				
CNCS - Ohio - AmeriCorps FY16	94.006	15AFH-1502-16-OC115		237,646
CNCS - Ohio - AmeriCorps FY15	94.006	12AFH-1502-15-OC115		18,164
Total CFDA #94.006				255,810
Total Corporation for National and Community Service				255,810
Department of Education				
<i>Passed through Ohio Department of Education:</i>				
ODE - 21st Century Community Learning Centers FY16	84.287	7055	134,003	183,288
ODE - Community Connectors 360 Mentoring	84.184	N/A	43,247	74,960
Total Department of Education			177,250	258,248
TOTAL OTHER PROGRAMS			\$ 520,847	\$ 1,786,736
TOTAL EXPENDITURES OF FEDERAL PROGRAMS			\$ 1,438,034	\$ 45,784,909

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Northeast Ohio Medical University under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Northeast Ohio Medical University, it is not intended to and does not present the financial position, changes in net position or cash flows of Northeast Ohio Medical University.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, *Cost Principles for Educational Institutions*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The University has not elected to use the 10 percent *de minimus* indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Loans Balances

Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the schedule of expenditures. The balances of loans outstanding at June 30, 2016 consist of:

Cluster/Program Title	CFDA Number	Loan Balances
Federal Perkins Loan Program	84.038	\$ 1,516,273
Health Prof Student Loan Prgm - Loans to Disadvantaged Students	93.342	2,018,775
Health Prof Student Loan Prgm - Primary Care Loan	93.342	<u>998,684</u>
	Total	<u>\$ 4,533,732</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X 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 2 CFR 200.516 (a)? X Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.038, 84.268, 93.342 93.778	Student Financial Aid Cluster Medicaid Cluster

Dollar threshold used to distinguish between type A and type B programs: \$1,373,547

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Audit Findings

None

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Section III - Federal Program Audit Findings

Reference Number	Finding
2016-001	<p>CFDA Number, Federal Agency, and Program Name - 84.268 and 84.038, Department of Education, Federal Direct Student Loans, and Federal Perkins Loans</p> <p>Federal Award Identification Number and Year - N/A</p> <p>Pass-through Entity - None</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Repeat Finding - No</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 include 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>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - Of the 25 students tested for status change testing, 19 did not have status changes reported in a timely manner.</p> <p>Cause and Effect - During the June reporting period, the registrar's office failed to update the status of all spring graduated students from full time to graduated.</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 Registrar's team is experiencing challenges with a 50 percent reduction of staff, which has resulted in knowledge gaps and processing delays across the institution, including the late submission of our 2016 graduation data to the clearinghouse. Enrollment services is actively engaged in recruitment efforts to replace these vacancies and has also recently added an operations schedule to our procedures manual that is inclusive of outside reporting expectations so that this gap of understanding will be better addressed in the future.</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
DECEMBER 1, 2016**