

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

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**Financial Report**  
**Including Supplemental Information**  
**June 30, 2017**





# Dave Yost • Auditor of State

Board of Trustees  
Northeast Ohio Medical University  
4209 State Route 44  
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, 2016 through June 30, 2017. 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 1, 2017

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# NORTHEAST OHIO MEDICAL UNIVERSITY

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# NORTHEAST OHIO MEDICAL UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2017, 2016, and 2015. 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

Northeast Ohio Medical University is a community-based public institution of higher education focused on the interprofessional 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 eight 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

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### 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 help measure the ability to meet financial obligations as they mature.



# NORTHEAST OHIO MEDICAL UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### 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 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 the 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 was a shortfall.

The University's financial position, as a whole, increased during the fiscal year ended June 30, 2017 as compared to the previous year as evidenced by the following:

- The University's total assets increased over the prior year by \$6.7 million. Current assets increased by \$6.5 million, while noncurrent assets increased by \$200,000.
- Cash and cash equivalents increased by \$2.0 million. This is due to converting investments to cash.
- The University's net position increased by \$1.5 million to \$73.9 million, of which \$61 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 \$6.9 million compared to the prior year, primarily due to an increase of \$3.1 million in tuition and fees, \$3.0 million in federal grants, and \$.5 million in sales and services of auxiliary enterprises.
- The University's operating expenses increased by \$8.5 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 \$4.9 million, primarily due to an increase in state appropriations and an increase in investment income.
- Other revenue, expenses, gains, or losses increased by approximately \$2.5 million due to an increase in capital appropriations and permanently restricted gifts.

# NORTHEAST OHIO MEDICAL UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Northeast Ohio Medical University  
Condensed Statements of Net Position  
as of June 30, 2017, 2016, and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
Current assets	\$47,865,634	\$41,319,804	\$40,503,647
Noncurrent			
Capital	87,370,483	89,333,973	93,530,801
Other	<u>32,426,846</u>	<u>30,266,348</u>	<u>32,691,723</u>
Total assets	<u>167,662,963</u>	<u>160,920,125</u>	<u>166,726,171</u>
DEFERRED OUTFLOWS	16,651,458	10,988,308	2,964,766
 <b>LIABILITIES</b>			
Current liabilities	15,091,511	12,999,031	14,284,499
Noncurrent liabilities	95,125,396	84,503,511	75,095,230
Total liabilities	<u>110,216,907</u>	<u>97,502,542</u>	<u>89,379,729</u>
DEFERRED INFLOWS	185,394	2,020,606	3,605,180
 <b>NET POSITION</b>			
Net Investment in Capital Assets	48,901,219	47,993,331	46,521,597
Restricted			
Nonexpendable	11,371,587	9,641,290	9,771,574
Expendable	710,026	793,953	585,915
Unrestricted	12,929,288	13,956,711	19,826,942
Total net position	<u><u>\$73,912,120</u></u>	<u><u>\$72,385,285</u></u>	<u><u>\$76,706,028</u></u>

**2017 versus 2016** During the year ended June 30, 2017:

As of June 30, 2017, the University's current assets of \$47.9 million were sufficient to cover current liabilities of \$15.1 million (current ratio of 3.17:1). As of June 30, 2016, 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, 2017, the University's capital assets decreased to \$87.3 million from \$89.3 million in fiscal year 2016, and other noncurrent assets increased to \$32.4 million from \$32.6 million.

At June 30, 2017, total University assets were \$167.6 million, compared to \$160.9 million in fiscal year 2016.

# NORTHEAST OHIO MEDICAL UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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University liabilities totaled \$110.2 million at June 30, 2017, compared to \$97.5 million in fiscal year 2016. Current liabilities totaled \$15.1 million and consisted primarily of \$4.7 million in unearned revenue, accrued liabilities of \$3.0 million (\$786,000 owed to associated hospitals and pharmacies for clinical experiences, and \$692,000 owed to consortium universities for the collaborative academic programs), approximately \$3.6 million in accrued employee compensation and benefits, \$1.8 million in general accounts payable, \$1.0 million in capital lease obligations, and \$915,000 in bonds payable.

Total net position increased by \$1.5 million to \$73.9 million. Restricted net assets include \$6.8 million in student loans, \$4.5 million in endowments, and \$710,000 in current operations. Unrestricted net assets totaled \$12.9 million, 95.4 percent of which (\$12.3 million) was allocated to reserves for ongoing academic and research programs, capital projects, and other initiatives. The remaining \$600,000 consists of designated, undesignated, and unrestricted funds.

**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 year 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.

University liabilities totaled \$97.5 million at June 30, 2016, compared to \$89.4 million in fiscal year 2015. Current liabilities totaled \$13.0 million and consisted 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 totaled \$14.0 million, 94.2 percent of which (\$13.2 million) was 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.

# 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, 2017, 2016, and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Revenue</b>			
Tuition and Fees	\$ 34,402,078	\$ 31,280,873	\$ 29,380,476
Federal and State Appropriations	24,579,036	22,618,173	20,011,127
Federal, state, local, and private grants and contracts	21,592,632	18,417,954	16,637,968
Auxiliary activities	2,590,820	2,068,069	1,617,552
Other	<u>7,569,132</u>	<u>2,380,789</u>	<u>2,857,629</u>
<b>Total Revenue</b>	<u>90,733,698</u>	<u>76,765,858</u>	<u>70,504,752</u>
<b>Expenses</b>			
Instruction	21,529,081	19,015,849	18,454,170
Research	14,401,248	12,278,452	10,628,411
Academic support	9,246,947	7,963,405	8,602,817
Institutional support	10,497,835	10,074,408	9,802,075
Scholarships and fellowships	-	-	58,492
Other	<u>33,531,752</u>	<u>31,754,487</u>	<u>29,113,536</u>
<b>Total Expenses</b>	<u>89,206,863</u>	<u>81,086,601</u>	<u>76,659,501</u>
Increase (decrease) in net position	<u>\$ 1,526,835</u>	<u>\$ (4,320,743)</u>	<u>\$ (6,154,749)</u>

**2017 versus 2016** During the year ended June 30, 2017:

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 2017 as compared to 2016 by 10 percent primarily due to increased student enrollment and tuition rates. Grant revenue increased by \$3.2 million, or 17.2 percent, in 2017.

Other revenue has increased by \$5.2 million as compared to 2016 due to the increase in capital appropriations.

Operating expenditures, including depreciation of \$7.1 million, totaled \$86.9 million, an increase from the prior year of \$8.4 million, or 10.8 percent, 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 \$24.6 million, which was an increase from 2016 of 8.7 percent.

# NORTHEAST OHIO MEDICAL UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**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, 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 Condensed Statements of Cash Flows for the years ended June 30, 2017, 2016, and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cashed (used in) provided by:			
Operating activities	\$ (14,925,140)	\$ (18,564,278)	\$ (17,966,517)
Investing activities	(1,527,595)	3,283,927	6,620,030
Capital and related financing activities	(6,093,227)	(6,637,558)	(5,792,018)
Noncapital financing activities	<u>24,579,036</u>	<u>22,618,173</u>	<u>20,011,127</u>
Net increase in cash and cash equivalents	2,033,074	700,264	2,872,622
Cash and cash equivalents, beginning of year	<u>5,301,544</u>	<u>4,601,280</u>	<u>1,728,658</u>
Cash and cash equivalents, end of year	<u>\$ 7,334,618</u>	<u>\$ 5,301,544</u>	<u>\$ 4,601,280</u>

**2017 versus 2016** During the year ended June 30, 2017:

Major sources of cash included student tuition and fees (\$34.5 million), state appropriations (\$24.6 million), auxiliary activities (\$2.6 million), and grants and contracts (\$22.2 million). The largest payments were for suppliers (\$26.6 million) and employees (\$46.1 million).

# NORTHEAST OHIO MEDICAL UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Major sources of cash included student tuition and fees (\$32.9 million), 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).

### **Asset and Debt Administration**

#### **Capital Assets**

At the end of 2017, the University had invested \$87.4 million in capital assets (net of accumulated depreciation of \$70.7 million); this amount represents a decrease of \$2.0 million, or 2.2 percent, over last year.

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.

	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Land	\$2,149,470	\$2,149,470	\$2,149,470
Equipment, furnishing, and library materials	33,812,050	43,159,615	44,410,925
Buildings, infrastructure, improvements, and construction in progress	<u>122,122,816</u>	<u>120,304,486</u>	<u>119,656,525</u>
Total	<u>\$158,084,336</u>	<u>\$165,613,571</u>	<u>\$166,216,920</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

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### 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.

Effective for the fiscal year ending June 30, 2018, the University will be adopting GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which changes the financial reporting requirements for OPEB. NEOMED will no longer be allowed to amortize the unfunded OPEB obligation over a 30-year period as allowed by GASB 45, but will be required to report the full unfunded actuarial liability in its entirety in the financial statements. In addition, GASB 75 changes certain actuarial assumptions previously allowed under current OPEB accounting guidance, including annual updates to estimated liabilities based on current year rates. The University's total unfunded OPEB obligation in 2017 and 2016 is estimated at \$3.3 million and \$3.2 million, respectively, using a discount rate of 6 percent. Of these amounts, the University has recorded a noncurrent liability \$1.6 million and \$1.5 million for 2017 and 2016, respectively, representing the net OPEB obligation. This increase of \$100,000 represents the continued amortization of the total unfunded OPEB obligation. See Note 9 for more information. As discussed in Note 1, this change will also impact STRS and OPERS, requiring a liability to be recorded for the unfunded postemployment benefits in these plans as well.

## 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"), as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise Northeast Ohio Medical University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Ohio Medical University and its discretely presented component units as of June 30, 2017 and 2016 and the changes in their 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.



To the Board of Trustees  
Northeast Ohio Medical University

### **Other Matters**

#### *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 Northeast Ohio Medical University's basic financial statements. The schedule of expenditures of federal awards is presented for purposes 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2017 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 9, 2017

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2017 AND 2016**

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2017	2016	2017	2016	2017	2016
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents (Note 2)	\$ 5,669,529	\$ 4,324,661	\$ 606,238	\$ 522,614	\$ 477,044	\$ 349,472
Investments (Note 2)	26,591,978	22,103,294	-	-	-	-
Accounts receivable (Note 4)	13,445,268	12,804,600	38,959	36,646	20,862	254,996
Inventories	168,396	171,618	-	-	-	-
Prepaid expenses and deferred charges	1,638,853	1,559,951	15,049	-	13,744	8,632
Pledges receivable	-	-	642,120	594,690	-	-
Notes receivable (Note 4)	351,610	355,680	37,134	35,426	-	-
Total current assets	<u>47,865,634</u>	<u>41,319,804</u>	<u>1,339,500</u>	<u>1,189,376</u>	<u>511,650</u>	<u>613,100</u>
Noncurrent assets						
Cash-restricted (Note 2)	1,665,089	976,883	-	-	-	-
Long-term investments (Note 2)	25,715,226	25,054,845	16,345,020	14,588,796	-	-
Funds held in trust	-	-	70,382	65,504	1,936,268	1,973,033
Pledges receivable	-	-	1,051,361	1,561,501	-	-
Notes receivable (Note 4)	5,046,531	4,234,620	325,534	313,690	-	-
Capital assets, net (Note 5)	87,370,483	89,333,973	-	-	109,730,153	113,896,101
Total noncurrent assets	<u>119,797,329</u>	<u>119,600,321</u>	<u>17,792,297</u>	<u>16,529,491</u>	<u>111,666,421</u>	<u>115,869,134</u>
Total assets	<u>167,662,963</u>	<u>160,920,125</u>	<u>19,131,797</u>	<u>17,718,867</u>	<u>112,178,071</u>	<u>116,482,234</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pension Costs	16,651,458	10,988,308	-	-	-	-
Total deferred outflows	<u>16,651,458</u>	<u>10,988,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflow of resources	<u>\$ 184,314,421</u>	<u>\$ 171,908,433</u>	<u>\$ 19,131,797</u>	<u>\$ 17,718,867</u>	<u>\$ 112,178,071</u>	<u>\$ 116,482,234</u>
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable	\$ 1,789,837	\$ 2,477,002	\$ -	\$ -	\$ 1,224	\$ 8,492
Accrued compensation and benefits (Note 6)	3,619,845	2,389,276	-	-	-	-
Unearned revenue	4,720,877	3,282,456	-	-	222,971	55,623
Other accrued liabilities	3,017,171	2,924,676	508,912	433,304	666,277	679,884
Capital lease obligations (Note 6)	1,028,781	1,035,621	-	-	-	-
Bonds payable (Note 11)	915,000	890,000	-	-	1,863,923	1,725,627
Total current liabilities	<u>15,091,511</u>	<u>12,999,031</u>	<u>508,912</u>	<u>433,304</u>	<u>2,754,395</u>	<u>2,469,626</u>
Noncurrent liabilities						
Compensated absences (Note 6)	2,198,136	2,312,375	-	-	-	-
Related Party Payable	-	-	-	-	5,972,761	6,526,117
Annuity obligations	-	-	98,199	105,165	-	-
Postemployment benefits (Notes 6 and 9)	1,567,160	1,460,165	-	-	-	-
Capital lease obligations (Note 6)	67,848	1,011,906	-	-	-	-
Bonds payable (Note 11)	37,142,730	38,051,543	-	-	111,663,063	113,420,719
Net pension liability (Note 8)	54,149,522	41,667,522	-	-	-	-
Total noncurrent liabilities	<u>95,125,396</u>	<u>84,503,511</u>	<u>98,199</u>	<u>105,165</u>	<u>117,635,824</u>	<u>119,946,836</u>
Total liabilities	<u>110,216,907</u>	<u>97,502,542</u>	<u>607,111</u>	<u>538,469</u>	<u>120,390,219</u>	<u>122,416,462</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension Costs	185,394	2,020,606	-	-	-	-
Total deferred inflows	<u>185,394</u>	<u>2,020,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>						
Net investment in capital assets	48,901,219	47,993,331	-	-	-	-
Restricted						
Nonexpendable						
Student loans	6,823,187	5,565,552	908,193	878,125	-	-
Endowments	4,548,400	4,075,738	8,620,363	8,265,882	-	-
Annuity and life income	-	-	49,822	60,834	-	-
Expendable						
Current operations	710,026	793,953	7,525,379	6,787,088	-	-
Unrestricted	12,929,288	13,956,711	1,420,929	1,188,469	(8,212,148)	(5,934,228)
Total net position	<u>73,912,120</u>	<u>72,385,285</u>	<u>18,524,686</u>	<u>17,180,398</u>	<u>(8,212,148)</u>	<u>(5,934,228)</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 184,314,421</u>	<u>\$ 171,908,433</u>	<u>\$ 19,131,797</u>	<u>\$ 17,718,867</u>	<u>\$ 112,178,071</u>	<u>\$ 116,482,234</u>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION**  
**JUNE 30, 2017 AND 2016**

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2017	2016	2017	2016	2017	2016
<b>OPERATING REVENUES</b>						
Student tuition and fees (net of scholarship allowances of \$2,108,818 and \$2,328,191, respectively)	\$ 34,402,078	\$ 31,280,873	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	15,650,784	12,632,991	-	-	-	-
State grants and contracts	1,451,891	1,900,049	-	-	-	-
Local grants and contracts	12,248	8,585	-	-	-	-
Private grants and contracts	4,477,709	3,876,329	-	-	-	-
Contributions and bequests	-	-	2,058,321	1,628,841	-	-
In-kind contributions from NEOMED	-	-	1,188,255	1,231,128	310,816	380,629
Sales and services of departments	485,823	468,974	-	-	-	-
Sales and services of auxiliary enterprises	2,590,820	2,068,069	-	-	8,775,779	9,516,125
Other	341,873	261,653	24,919	53,716	-	-
Total operating revenues	59,413,226	52,497,523	3,271,495	2,913,685	9,086,595	9,896,754
<b>OPERATING EXPENSES</b>						
Educational and general						
Instruction and departmental research	21,529,081	19,015,849	199,580	187,057	-	-
Separately budgeted research	14,401,248	12,278,452	488,713	444,362	-	-
Public service	5,288,931	4,003,955	404,149	74,125	-	-
Academic support	9,246,947	7,963,405	90,603	117,922	-	-
Student services	2,822,989	2,151,656	-	-	-	-
Institutional support	10,497,835	10,074,408	1,969,459	2,600,524	-	-
Operation and maintenance of plant	8,585,128	8,409,776	13,408	3,769	-	-
Scholarships and fellowships	0	0	721,034	639,562	-	-
Auxiliary enterprises	7,379,477	7,361,593	-	-	962,187	1,251,421
Depreciation	7,152,824	7,179,741	-	-	4,219,305	3,293,930
Total operating expenses	86,904,460	78,438,835	3,886,946	4,067,321	5,181,492	4,545,351
Operating (loss) income	(27,491,234)	(25,941,312)	(615,451)	(1,153,636)	3,905,103	5,351,403
<b>NONOPERATING REVENUES (EXPENSES)</b>						
State appropriations	24,579,036	22,618,173	-	-	-	-
Investment income (loss)	3,388,534	784,962	1,609,008	(230,761)	-	-
Interest expense	(2,112,431)	(2,182,506)	-	-	(6,183,023)	(6,264,873)
Loss on disposal of assets	(189,972)	(465,260)	-	-	-	-
Net nonoperating revenues (expenses)	25,665,167	20,755,369	1,609,008	(230,761)	(6,183,023)	(6,264,873)
<b>(LOSS) GAIN BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	(1,826,067)	(5,185,943)	993,557	(1,384,397)	(2,277,920)	(913,470)
<b>OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>						
Capital appropriations and grants	3,352,902	865,200	-	-	-	-
Contributions	-	-	350,731	861,484	-	-
Total other revenues, expenses, gains, or losses	3,352,902	865,200	350,731	861,484	-	-
<b>INCREASE (DECREASE) IN NET POSITION</b>	1,526,835	(4,320,743)	1,344,288	(522,913)	(2,277,920)	(913,470)
<b>NET POSITION AT BEGINNING OF YEAR</b>	72,385,285	76,706,028	17,180,398	17,703,311	(5,934,228)	(5,020,758)
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 73,912,120</b>	<b>\$ 72,385,285</b>	<b>\$ 18,524,686</b>	<b>\$ 17,180,398</b>	<b>\$ (8,212,148)</b>	<b>\$ (5,934,228)</b>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 34,545,612	\$ 32,853,374
Grants and contracts	22,202,505	18,149,991
Employee compensation	(46,138,180)	(43,278,757)
Payments to suppliers	(26,575,796)	(27,221,206)
Payments for utilities	(2,049,257)	(2,331,967)
Student loan advances	(1,738,701)	(634,419)
Student loan repayments	925,507	717,185
Sales and services of auxiliary enterprises	2,551,200	1,901,440
Sales and services of departments	905,071	466,064
Other operating receipts	446,899	814,017
Net cash and cash equivalents used in operating activities	(14,925,140)	(18,564,278)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	24,579,036	22,618,173
Federal loan receipts	29,827,585	27,748,308
Federal loan disbursements	(29,827,585)	(27,748,308)
Net cash and cash equivalents provided by financing activities	24,579,036	22,618,173
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State capital appropriations	3,352,902	865,200
Purchases of capital assets	(5,399,033)	(3,579,951)
Payments on capital lease	(1,044,666)	(990,287)
Principal paid on debt	(890,000)	(870,000)
Interest paid on debt	(2,112,430)	(2,062,520)
Net cash and cash equivalents used in capital and related financing activities	(6,093,227)	(6,637,558)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	3,366,042	824,090
Sale of investments	32,280,732	38,837,302
Purchase of investments	(37,174,369)	(36,377,465)
Net cash and cash equivalents (used in) provided by investing activities	(1,527,595)	3,283,927
<b>NET INCREASE IN CASH AND EQUIVALENTS</b>	2,033,074	700,264
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	5,301,544	4,601,280
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>\$ 7,334,618</b>	<b>\$ 5,301,544</b>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating loss	\$ (27,491,234)	\$ (25,941,312)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	7,152,824	7,179,741
Gain on disposal of asset	189,972	-
Changes in assets and liabilities		
Receivables	(925,042)	229,248
Inventories	3,222	9,696
Prepaid expenses and deferred charges	(78,905)	(368,220)
Notes receivable	(807,841)	(42,229)
Accounts payable	(687,163)	453,294
Accrued compensation	1,223,326	(561,548)
Deferred revenue	1,438,421	793,408
Net pension liability	12,469,518	10,985,356
Deferred inflow/outflow from GASB 68 Liability	(7,504,733)	(9,608,116)
Other accrued liabilities	92,495	(1,693,596)
<b>NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES</b>	<b><u>\$ (14,925,140)</u></b>	<b><u>\$ (18,564,278)</u></b>

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, 2017 and 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

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, 2017 and 2016**

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 No. 61, are described more fully in Notes 14 and 15, respectively. 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, 2017 and 2016**

*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, 2017 and 2016, restricted cash and cash equivalents consists of \$1,665,088 and \$976,883, respectively, of cash restricted for loan purposes.

**Investments**

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, 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.

The University has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold on June 30, 2017 and 2016.

**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.



**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

***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. Due to the nature of the receivables and minimal write offs, the University concluded that an allowance is not deemed necessary.

***Inventories***

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

***Bond Issuance Costs***

Bond issuance costs are expensed as incurred.

***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 as well as summer term tuition received prior to June 30.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

***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 revenue, expenses, and changes in net position. 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.

***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 OPERS'/STRS' fiduciary net position have been determined on the same basis as they are reported by OPERS/STRS. OPERS/STRS 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 statements of net position report 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 statements of net position report 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.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

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

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

***Use of Estimates***

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

***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.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The University is currently evaluating the impact of this standard. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The University is currently evaluating the impact of this standard, specifically related to holding assets for student club accounts. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2020.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The University is currently evaluating the impact of this standard as it relates to prior defeasances. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is expected to have a significant effect on the University's financial statements as a result of the leases for various facilities and equipment classified as operating leases. The effect of applying the new lease guidance on the financial statements has not yet been determined. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2021.

**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.

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The University's bank deposits and cash on hand for all fund groups at June 30, 2017 and 2016 are summarized as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
University's book value	\$ 7,334,618	\$ 5,301,544
Cash on hand	2,979	2,895
Bank balances	7,625,129	5,758,134

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, 2017 and 2016, \$720,309 and \$628,810, respectively, was covered by federal depository insurance and \$6,904,820 and \$5,129,324, respectively, was uncollateralized as defined by the GASB.

The University's investments, at fair value, at June 30, 2017 and 2016 are summarized as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Money market funds	\$ 976,897	\$ 392,905
U.S. government obligations	6,792,834	3,193,035
U.S. government agency obligations	7,234,669	8,448,740
Corporate bonds and notes	3,704,003	5,005,193
Fixed-income mutual funds	8,879,424	9,336,408
Equities	19,315,696	17,346,558
Other	520,510	493,251
State Treasury Asset Reserve of Ohio	4,872,321	2,931,252
State Treasury Asset Reserve of Ohio Plus	<u>10,850</u>	<u>10,797</u>
Total Investments	<u>\$ 52,307,204</u>	<u>\$ 47,158,139</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, 2017 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	\$ 6,792,834	\$ 119,204	\$ 5,016,100	\$ -	\$ 1,657,530
U.S. government agency obligations	7,234,669	1,297,010	1,910,974	568,494	3,458,191
Corporate bonds and notes	<u>3,704,003</u>	<u>-</u>	<u>3,305,761</u>	<u>274,116</u>	<u>124,126</u>
Total	<u>\$ 17,731,506</u>	<u>\$ 1,416,214</u>	<u>\$ 10,232,835</u>	<u>\$ 842,610</u>	<u>\$ 5,239,847</u>

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The maturities of the University's interest-bearing investments at June 30, 2016 are as follows:

	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
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	5,005,193	1,360,717	3,342,825	198,728	102,923
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>

*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, 2017 were as follows:

Credit Rating (S&P)	Total	U.S. Government Obligations	U.S. Agency Obligations	Corporate Bonds and Notes
AAA	\$ 13,983,184	\$ 6,792,834	\$ 7,190,350	\$ -
AA	140,619	-	44,319	96,300
A	1,386,091	-	-	1,386,091
BBB	2,221,612	-	-	2,221,612
Total	<u>\$ 17,731,506</u>	<u>\$ 6,792,834</u>	<u>\$ 7,234,669</u>	<u>\$ 3,704,003</u>

The credit ratings for the University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2016 were as follows:

Credit Rating (S&P)	Total	U.S. Government Obligations	U.S. Agency Obligations	Corporate Bonds and Notes
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	2,120,790	-	-	2,120,790
Total	<u>\$ 16,646,968</u>	<u>\$ 3,193,035</u>	<u>\$ 8,448,740</u>	<u>\$ 5,005,193</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, 2017 and 2016, the University had no exposure to concentration of credit risk.

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*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, 2017 and 2016, 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.

The University has the following recurring fair value measurements as of June 30, 2017 and 2016:

**Assets Measured at Fair Value on a Recurring Basis**

	Balance at June 30, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level:</b>				
Debt securities <sup>(b)</sup> :				
U.S. government obligations	\$ 6,792,834	\$ -	\$ 6,792,834	\$ -
U.S. government agency obligations	7,234,669	-	7,234,669	-
Corporate bonds	3,704,003	-	3,704,003	-
Total debt securities	17,731,506	-	17,731,506	-
Equity securities <sup>(a)</sup>	19,315,696	19,315,696	-	-
Mutual funds:				
Fixed-income mutual funds	8,879,424	8,879,424	-	-
Total mutual funds	8,879,424	8,879,424	-	-
Total investments by fair value level	\$ 45,926,626	\$ 28,195,120	\$ 17,731,506	\$ -

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**Assets Measured at Fair Value on a Recurring Basis**

	Balance at June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level:</b>				
Debt securities <sup>(b)</sup> :				
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 <sup>(a)</sup>	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>

- 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 was determined primarily based on Level 2 inputs. The University estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Short-term investments and investments on the statements of net position at June 30, 2017 and 2016 include investments in STAR Ohio of \$4,883,171 and \$2,942,049, 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 statements of net position also include money market mutual funds of \$976,897 and \$392,905 as of June 30, 2017, and June 30 2016, respectively.



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**4. ACCOUNTS AND NOTES RECEIVABLE**

The following is a summary of accounts and student notes receivable at June 30, 2017 and 2016:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Student notes	\$ 5,398,141	\$ 4,590,299
Grants and contracts	4,459,600	5,081,857
Sales and services	1,672,800	967,507
ERS Strategic Properties, Inc.	5,972,761	6,526,117
Tuition and fees	<u>1,340,107</u>	<u>2,120</u>
Total accounts and notes receivable	18,843,409	17,394,900
Less current portion	<u>(13,796,878)</u>	<u>(13,160,280)</u>
Accounts and notes receivable, noncurrent portion	<u>\$ 5,046,531</u>	<u>\$ 4,234,620</u>

Federal Direct Loans Program processed for students by the University during the years ended June 30, 2017 and 2016 totaled \$29,827,585 and \$27,748,308, 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.

The Perkins loan program is set to expire on September 30, 2017, which will end the issuance of new loans under this program. Pending additional information from the Federal government, the University will continue to service all outstanding loans in accordance with program specifications.

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**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

	July 1, 2016 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2017 Ending Balance
Land - Nondepreciable	\$ 2,149,470	\$ -	\$ -	\$ 2,149,470
Infrastructure	2,193,559	996,076	(546,401)	2,643,234
Buildings	117,248,979	1,412,411	318,482	118,979,872
Leasehold improvements	-	-	-	-
Furnishings and movable equipment	26,679,250	1,821,926	(930,257)	27,570,919
Library materials	16,480,365	539,036	(10,908,145)	6,111,256
Intangibles	-	129,875	-	129,875
Construction in progress - Nondepreciable	861,948	499,709	(861,947)	499,710
Total historical cost	165,613,571	5,399,033	(12,928,268)	158,084,336
Less accumulated depreciation				
Infrastructure	1,611,710	209,330	(819,866)	1,001,174
Buildings	41,568,309	3,457,610	(270,000)	44,755,919
Leasehold improvements	-	-	-	-
Furnishings and movable equipment	19,502,231	2,894,931	(720,717)	21,676,445
Library materials	13,597,348	569,307	(10,907,986)	3,258,669
Intangibles	-	21,646	-	21,646
Total accumulated depreciation	76,279,598	7,152,824	(12,718,569)	70,713,853
Total capital assets, net of depreciation	<u>\$ 89,333,973</u>	<u>\$ (1,753,791)</u>	<u>\$ (209,699)</u>	<u>\$ 87,370,483</u>

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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	<u>\$ 93,530,801</u>	<u>\$ (3,599,790)</u>	<u>\$ (597,038)</u>	<u>\$ 89,333,973</u>

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**6. LONG-TERM LIABILITIES**

Long-term liabilities as of June 30, 2017 and 2016 are as follows:

	Balance July 1, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2017</u>	Current <u>Portion</u>	Noncurrent <u>Portion</u>
Compensated absences	\$ 2,555,568	\$ 427,154	\$ 359,450	\$ 2,623,272	\$ 425,136	\$ 2,198,136
Postemployment benefits	1,460,165	106,995	-	1,567,160	-	1,567,160
Capital Lease	2,047,527	93,768	1,044,666	1,096,629	1,028,781	67,848
Total long-term liabilities	<u>\$ 6,063,260</u>	<u>\$ 627,917</u>	<u>\$ 1,404,116</u>	<u>\$ 5,287,061</u>	<u>\$ 1,453,917</u>	<u>\$ 3,833,144</u>

	Balance June 30, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2016</u>	Current <u>Portion</u>	Noncurrent <u>Portion</u>
Compensated absences	\$ 2,527,833	\$ 271,713	\$ 243,978	\$ 2,555,568	\$ 243,193	\$ 2,312,375
Postemployment 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>

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. In fiscal year 2017, the University entered into a new capital lease with Provident Leasing for equipment in the Anatomy and Neurobiology department in the amount of \$93,768. Monthly payments began during January 2017. Depreciation expense for these two assets totaled \$828,690 and \$819,313 during fiscal years 2017 and 2016, respectively, and the net book value of the assets as of June 30, 2017 and 2016 was \$1,136,108 and \$1,871,030, respectively.

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

	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,028,781	\$ 28,968
2019	18,014	3,910
2020	19,230	2,694
2021	20,529	1,395
2022	<u>10,074</u>	<u>184</u>
	<u>\$ 1,096,628</u>	<u>\$ 37,151</u>

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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 the fiscal years ended June 30, 2017 and 2016, these instructional expenses relating to contracts totaled \$3,300,154 and \$3,782,855, respectively. At June 30, 2017 and 2016, the University had recorded accrued liabilities of \$1,478,312 and \$1,413,952, 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](http://www.strsoh.org)

Ohio Public Employees  
Retirement System  
277 East Town Street  
Columbus, Ohio 43215  
(800) 222-7377  
[www.opers.org](http://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 limits 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 set at the maximums authorized by the ORC. The plans' 2017 employer and member contribution rates on covered payroll to each system are:

	Employer Contribution Rate				Member Contribution Rate
	Post				Total
	Pension	Retirement Healthcare	Death Benefits	Total	
STRS (beginning 7/1/16)	14.00%	0.00%	0.00%	14.00%	14.00%
OPERS - State/Local (through 12/31/16)	12.00%	2.00%	0.00%	14.00%	10.00%
OPERS - State/Local (beginning 1/1/17)	13.00%	1.00%	0.00%	14.00%	10.00%
OPERS - Law Enforcement (through 12/31/16)	16.10%	2.00%	0.00%	18.10%	13.00%
OPERS - Law Enforcement (beginning 1/1/17)	17.10%	1.00%	0.00%	18.10%	13.00%

The plans' 2016 employer and member contribution rates on covered payroll to each system are:

	Employer Contribution Rate				Member Contribution Rate
	Post				Total
	Pension	Retirement Healthcare	Death Benefits	Total	
STRS (beginning 7/1/15)	14.00%	0.00%	0.00%	14.00%	13.00%
STRS (beginning 7/1/14)	14.00%	0.00%	0.00%	14.00%	12.00%
OPERS - State/Local	12.00%	2.00%	0.00%	14.00%	10.00%
OPERS - Law Enforcement	16.10%	2.00%	0.00%	18.10%	13.00%

The University's required and actual contributions to the plans are as follows:

	For the years ended 6/30	
	2017	2016
STRS	\$ 1,266,875	\$ 1,125,247
OPERS	1,877,475	1,858,599
	<u>\$ 3,144,350</u>	<u>\$ 2,983,846</u>

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**Benefits Provided**

STRS - Plan benefits are established under Chapter 3307 of the Revised Code, as amended by Substitute Senate Bill 342 in 2012, giving 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 65 or (2) 30 years of service credit regardless of age. Beginning on August 1, 2015, eligibility requirements for an unreduced benefit have changed. The maximum annual retirement allowance, payable for life, considers years of credited service, final average salary of your five highest years of Ohio public earnings and multiplying by a factor ranging from 2.2 percent with 0.1 percent incremental increases for years greater than 30-31, depending on retirement age.

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 ORC, 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.

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**Net Pension Liability, Deferrals, and Pension Expense** - At June 30, 2017 and 2016, the University reported a liability for its proportionate share of the net pension liability of OPERS/STRS. For the year ended June 30, 2017, the net pension liability was measured as of July 1, 2016 for STRS and December 31, 2016 for the OPERS plan. 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. 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
		2017	2016	2017	2016	
STRS	July 1	\$ (29,065,942)	\$ (22,621,327)	0.08683%	0.08185%	0.0050%
OPERS	December 31	\$ (25,083,580)	\$ (19,046,195)	0.11078%	0.11032%	0.0005%

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$4,983,636 and \$1,377,145, respectively. At June 30, 2017, 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	\$ 1,214,942	\$ (184,514)
Changes of assumptions	4,008,225	-
Net difference between projected and actual earnings of pension plan investments	6,177,553	-
Changes in proportion and differences between University contributions and proportionate share of contributions	2,653,992	(880)
University contributions subsequent to the measurement date	2,596,746	-
Total	<u>\$ 16,651,458</u>	<u>\$ (185,394)</u>



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At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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>

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>
2018	\$ 4,889,604
2019	\$ 4,806,627
2020	\$ 2,838,047
2021	\$ 1,337,916
2022	\$ (1,670)
Thereafter	\$ (1,205)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2018).

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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 6/30/16</u>	<u>OPERS - as of 12/31/16</u>
Valuation date	July 1, 2016	December 31, 2016
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	3.25 percent - 10.75 percent
Inflation	2.75 percent	3.25 percent
Investment rate of return	7.75 percent, net of pension plan investment expense	7.50 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, 2015
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022–Scale AA)	RP-2014 Healthy Annuitant Mortality Table

	<u>STRS - as of 6/30/15</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	3.0 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	4.25 percent - 10.05 percent
Inflation	2.75 percent	3.75 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 total pension liabilities at June 30, 2017 were 7.75 percent and 7.50 percent for STRS and OPERS, respectively. The discount rates used to measure the total pension liabilities at June 30, 2016 were 7.75 percent and 8.00 percent for STRS and OPERS, respectively. 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 table as of the dates listed below:

<u>STRS - As of 7/1/16</u>			<u>OPERS - As of 12/31/16</u>		
<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	31.00%	5.50%	Fixed Income	23.00%	2.75%
International Equity	26.00%	5.35%	Domestic Equities	20.70%	6.34%
Alternatives	14.00%	5.50%	Real Estate	10.00%	4.75%
Fixed Income	18.00%	1.25%	Private Equity	10.00%	8.97%
Real Estate	10.00%	4.25%	International Equity	18.30%	7.95%
Liquidity Reserves	1.00%	0.50%	Other Investments	18.00%	4.92%
Total	<u>100%</u>		Total	<u>100%</u>	

<u>STRS - As of 7/1/15</u>			<u>OPERS - As of 12/31/15</u>		
<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	31.00%	5.50%	Fixed Income	23.00%	2.31%
International Equity	26.00%	5.35%	Domestic Equities	20.70%	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 Equity	18.30%	7.40%
Liquidity Reserves	1.00%	0.50%	Other Investments	18.00%	4.59%
Total	<u>100%</u>		Total	<u>100%</u>	

**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, 2017:

<u>Plan</u>	<u>1.00 percent decrease</u>		<u>Current Discount Rate</u>		<u>1.00 percent increase</u>	
STRS	6.75%	38,626,273	7.75%	29,065,942	8.75%	21,001,236
OPERS	6.50%	38,437,774	7.50%	25,083,580	8.50%	13,960,661
		<u>77,064,047</u>		<u>54,149,522</u>		<u>34,961,897</u>

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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, 2016:

<u>Plan</u>	<u>1.00 percent decrease</u>		<u>Current Discount Rate</u>		<u>1.00 percent increase</u>	
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

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

**Assumption Changes** - During the current measurement period, the OPERS board adopted certain assumption changes which impacted its annual actuarial valuations prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent which increased the University's respective net pension liability.

**Changes Between Measurement Date and Report Date** - In March 2017, the STRS board adopted certain assumption changes that will impact its annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS board voted to suspend cost-of-living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall increase or decrease to University's net pension liability is expected to be significant.

**Payable to the Pension Plan** - At June 30, 2017 and 2016, the University reported a payable of \$343,369 and \$305,662, respectively, for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017 and 2016.

**9. OTHER POSTEMPLOYMENT 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 postemployment 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.

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

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

Funding Policy

In 2011, NEOMED started charging the retirees a minimum monthly contribution to help offset the rising costs of the retiree spouses' and dependents' healthcare coverage and pays 100 percent of the retirees' life insurance. The University has chosen to fund the 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, 2017</u>	<u>June 30, 2016</u>
Annual required contribution	\$ 255,634	\$ 236,704
Interest on net OPEB obligation	87,610	82,830
Adjustment to annual required contribution	<u>(100,075)</u>	<u>(94,616)</u>
Annual OPEB cost (expense)	243,169	224,918
Employer contribution (pay-as-you-go)	<u>(136,174)</u>	<u>(145,257)</u>
Increase in net OPEB obligation	106,995	79,661
Net OPEB obligation, beginning of year	<u>1,460,165</u>	<u>1,380,504</u>
Net OPEB obligation, end of year	<u>\$ 1,567,160</u>	<u>\$ 1,460,165</u>
Actuarial contribution rate	56.00%	64.58%

For the year ended June 30, 2017, the University estimated the cost of \$1,567,160 based on actuarial valuation as of June 30, 2017.

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Actuarial Methods and Assumptions

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

The valuation of the liability as of June 30, 2017 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
7/1/2016	\$3,189,216	\$3,189,216	0.00%	\$1,423,492	224.04%
7/1/2015	\$2,942,805	\$2,942,805	0.00%	\$1,492,279	197.20%
7/1/2014	\$2,677,149	\$2,677,149	0.00%	\$2,201,638	121.60%
7/1/2013	\$2,685,931	\$2,685,931	0.00%	\$2,241,522	119.83%
7/1/2012	\$3,326,854	\$3,326,854	0.00%	\$2,670,810	124.56%
7/1/2011	\$4,453,852	\$4,453,852	0.00%	\$2,676,674	166.40%
7/1/2010	\$5,372,684	\$5,372,684	0.00%	\$3,108,647	172.83%
7/1/2009	\$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 20 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:

2017-18	7.50%
2018+	7.00%

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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 percent of covered payroll for 2016. For employees in the Combined Plan, the employer contribution rate allocated to health care was 2.0 percent for 2017, 2016, and 2015. OPERS' required and actual healthcare contributions were \$333,907, \$309,767, and \$294,451 for 2017, 2016, and 2015, respectively.

OPERS benefits are advance-funded on an actuarially determined basis. As of December 31, 2016, OPERS reported the actuarially accrued liability and the unfunded actuarial accrued liability for other postemployment benefits (OPEB) at \$18.5 billion and \$19.4 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 9.5 percent before leveling off at 3.75 percent in 2026. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. As of December 31, 2016, 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 346,959 as of December 31, 2016.

STRS provides access to healthcare coverage to retirees who participated in the defined benefit or combined plans. Coverage includes hospitalization, physicians' fees, and 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. 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 to provide healthcare coverage to eligible benefit recipients, spouses, and dependents. By state law, the cost of the coverage paid from STRS 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 \$0 for 2017, 2016, and 2015, respectively. The balance in the healthcare reserve fund was \$3.19 billion at June 30, 2016.

For the year ended June 30, 2016 (latest information available), net healthcare costs paid by STRS were \$677 million. There were 157,938 eligible benefit recipients on June 30, 2016.

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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 Receipt Bonds Series 2010 in the amount of \$15,000,000. On November 9, 2011, the remaining \$27,000,000 of General Receipt 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, 2017 and 2016 was \$38,057,730 and \$38,941,543, respectively.

The bond discount on the November 2011 bonds totaled \$194,911 with an accumulated amortized balance of \$37,641 and \$31,454 as of June 30, 2017 and 2016, 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, 2017 are summarized as follows:

	<u>July 1, 2016</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2017</u>	<u>Current</u>
General receipts bond Series 2010	\$ 13,610,000	\$ -	\$ 360,000	\$ 13,250,000	\$ 370,000
General receipts bond Series 2011	25,495,000	-	530,000	\$ 24,965,000	545,000
General receipts bond Series 2011-Discount	<u>(163,457)</u>	<u>-</u>	<u>(6,187)</u>	<u>\$ (157,270)</u>	<u>-</u>
Total bonds and notes payable	<u>\$38,941,543</u>	<u>\$ -</u>	<u>\$883,813</u>	<u>\$38,057,730</u>	<u>\$915,000</u>

The University's bonds and notes payable as of June 30, 2016 are summarized as follows:

	<u>June 30, 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-Discount	<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>



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

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

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2017 are summarized as follows:

Year Ending June 30	Principal	Interest	Interest Subsidy *	Net Interest	Total
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	1,040,000	1,842,222	(351,527)	1,490,695	2,530,695
2023-2027	5,780,000	8,442,282	(1,586,395)	6,855,887	12,635,887
2028-2032	7,055,000	6,786,144	(1,108,706)	5,677,438	12,732,438
2033-2037	8,760,000	4,568,838	(762,171)	3,806,667	12,566,667
2038-2042	10,125,000	1,767,569	(202,869)	1,564,700	11,689,700
2043	1,620,000	40,500	-	40,500	1,660,500
	<u>\$38,215,000</u>	<u>\$ 31,228,510</u>	<u>\$ (5,507,448)</u>	<u>\$ 25,721,062</u>	<u>\$ 63,936,062</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, 2017, 2016, and 2015 are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Accrued claims liability - Beginning of year	\$ 514,860	\$ 516,384	\$ 601,059
Incurred claims - Net of favorable settlements	3,273,088	4,440,552	2,769,802
Claims paid	<u>(2,963,589)</u>	<u>(4,442,076)</u>	<u>(2,854,477)</u>
Accrued claims liability - End of year	<u>\$ 824,359</u>	<u>\$ 514,860</u>	<u>\$ 516,384</u>

**13. RELATED PARTY TRANSACTIONS**

**NEOMED Foundation** - For the years ended June 30, 2017 and 2016, the University has received distributions from the Foundation in the amount of \$2,571,997 and \$2,712,621, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted student loans of \$106,461 and \$123,245, respectively, for the years ended June 30, 2017 and 2016.

The University received reimbursements of \$164,021 and \$218,225, respectively, from the Foundation for management, fundraising, services, and office space during the years ended June 30, 2017 and 2016. 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 revenue, expenses, and changes in net position. The University's in-kind support for these services was valued at \$1,188,255 and \$1,231,128, respectively, for the years ended June 30, 2017 and 2016.

**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.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

For the years ended June 30, 2017 and 2016, the University made payments on behalf of ERS in the amount of \$42,147 and \$76,307, 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 Revenue, Expenses, and Changes in Net Position. The University's in-kind support for these services was valued at \$310,816 and \$380,629, respectively, for the years ended June 30, 2017 and 2016.

For the years ended June 30, 2017 and 2016, ERS had accounts payable to NEOMED totaling \$5,972,761 and 6,526,117, 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 years 2017 or 2016.

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>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money Market Funds	\$ 254,306	\$ 254,306	\$ 253,048	\$ 253,048
Cash Surrender Value of Life insurance	226,482	226,482	232,508	232,508
Equities	8,048,474	9,371,961	6,169,489	7,631,528
Alternative	219,341	236,402	282,058	296,847
Fixed Income	5,453,662	6,255,869	5,777,056	6,174,865
Total long-term investments	<u>\$ 14,202,265</u>	<u>\$ 16,345,020</u>	<u>\$ 12,714,159</u>	<u>\$ 14,588,796</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

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.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2017:

	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets - Investments</b>				
Domestic Fixed Income	\$ 5,023,962	\$ 5,023,962	\$ -	\$ -
International Fixed Income	1,231,907	1,231,907	-	-
Domestic Equities	6,081,485	6,081,485	-	-
International Equities	3,290,476	3,290,476	-	-
Money market	254,306	-	254,306	-
Other investments	236,402	232,356	-	4,046
<b>Total Investments</b>	<b>\$ 16,118,538</b>	<b>\$ 15,860,186</b>	<b>\$ 254,306</b>	<b>\$ 4,046</b>
<b>Assets - Beneficial Interest in Trusts</b>				
Total Beneficial Interests in Trusts	\$ 70,382	\$ -	\$ -	\$ 70,382
<b>Total Fair Value Measurements</b>	<b>\$ 16,188,920</b>	<b>\$ 15,860,186</b>	<b>\$ 254,306</b>	<b>\$ 74,428</b>

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

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
<b>Total Investments</b>	<b>\$ 14,356,288</b>	<b>\$ 14,097,427</b>	<b>\$ 253,048</b>	<b>\$ 5,813</b>
Assets - Beneficial Interest in Trusts				
Total Beneficial Interests in Trusts	\$ 65,504	\$ -	\$ -	\$ 65,504
<b>Total Fair Value Measurements</b>	<b>\$ 14,421,792</b>	<b>\$ 14,097,427</b>	<b>\$ 253,048</b>	<b>\$ 71,317</b>

Details of the Foundation's restricted net assets at June 30, 2017 and 2016 are as follows:

Temporarily restricted net assets as of June 30:

	<u>2017</u>	<u>2016</u>
Instruction and departmental research	\$ 1,760,488	\$ 1,277,159
Separately budgeted research	554,805	583,588
Public service	186,262	410,150
Academic support	950,691	837,803
Institutional support	1,042,349	1,233,845
Plant operation and maintenance	4,515	10,882
Student scholarships and other student aid	2,799,787	2,201,153
Deferred gift annuity	226,482	232,508
<b>Total temporarily restricted net assets, June 30</b>	<b><u>\$ 7,525,379</u></b>	<b><u>\$ 6,787,088</u></b>

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

Permanently restricted net assets as of June 30:

	<u>2017</u>	<u>2016</u>
Student loans	\$ 908,193	\$ 878,125
Endowments requiring earnings only be made available for:		
Student scholarships and awards	4,238,024	3,956,943
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	1,297,883	1,229,950
Deferred gift annuity	49,822	60,834
Allowance for uncollectible pledges	<u>(18,251)</u>	<u>(23,718)</u>
Total permanently restricted net assets, June 30	<u><u>\$9,578,378</u></u>	<u><u>\$9,204,841</u></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 the 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, 2017 and 2016**

Capital asset activity for the year ended June 30, 2017 was as follows:

	July 1, 2016 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2017 Ending Balance
Land - Nondepreciable	\$ 169,349	\$ -	\$ -	\$ 169,349
Infrastructure	10,377,241	-	-	10,377,241
Buildings	110,432,358	53,357	-	110,485,715
Furnishings and movable equipment	126,421	-	-	126,421
Construction in progress - Nondepreciable	-	-	-	-
Total historical cost	121,105,369	53,357	-	121,158,726
Less accumulated depreciation				
Infrastructure	2,037,097	1,362,718	-	3,399,815
Buildings	5,104,881	2,830,395	-	7,935,276
Furnishings and movable equipment	67,290	26,192	-	93,482
Total accumulated depreciation	7,209,268	4,219,305	-	11,428,573
Total capital assets, net of depreciation	<u>\$ 113,896,101</u>	<u>\$ (4,165,948)</u>	<u>\$ -</u>	<u>\$ 109,730,153</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

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	<u>120,501,627</u>	<u>824,424</u>	<u>(220,682)</u>	<u>121,105,369</u>
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	<u>3,918,607</u>	<u>3,293,930</u>	<u>(3,269)</u>	<u>7,209,268</u>
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>

**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.



**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

At June 30, 2017 and 2016, fund balances held by the Trustee were as follows:

<b><u>ERS HWMEC LLC</u></b>	<u>2017</u>	<u>2016</u>
Bond proceeds fund	\$ 1,452,093	\$ 1,497,809
<b><u>ERS Housing LLC</u></b>		
Revenue fund	22,895	277,742
Repair & Replace fund	207,818	129,957
Sinking Fund	176,385	61
Surplus Fund	<u>77,077</u>	<u>67,464</u>
	484,175	475,224
	<u>484,175</u>	<u>475,224</u>
 Total	 <u>\$ 1,936,268</u>	 <u>\$ 1,973,033</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, 2017 and 2016 was \$35,815,000 and \$36,175,000, 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, 2017 and 2016 was \$80,603,915 and \$81,969,542, respectively, and the principal payments stated on December 8, 2014.

The original bond discount for the ERS Housing bonds totaled \$633,830, with an unamortized balance of \$533,143 and \$552,950 as of June 30, 2017 and 2016, respectively. The discount is being amortized straight line over the life of the bonds and is included in interest expense in the accompanying Statements of Revenue, Expenses, and Changes in Net Position. There is no discount or premium on the ERS HWMEC bonds.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

ERS Bonds payable as of June 30, 2017 are summarized as follows:

	<u>July 1, 2016</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2017</u>	<u>Current</u>
ERS Housing LLC	\$ 36,175,000	\$ -	\$ 360,000	\$ 35,815,000	\$ 430,000
ERS Housing LLC Discount	(552,950)		(19,807)	(533,143)	
ERS HWMEC LLC	<u>81,969,542</u>	<u>-</u>	<u>1,365,627</u>	<u>80,603,915</u>	<u>1,433,923</u>
Total bonds and notes payable	<u>\$ 117,591,592</u>	<u>\$ -</u>	<u>\$ 1,705,820</u>	<u>\$ 115,885,772</u>	<u>\$ 1,863,923</u>

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>

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, 2017 and 2016. Total bonds and notes payable in the chart above is not shown net of bond financing costs of \$2,358,786 and 2,445,246 for the years ended June 30, 2017 and 2016, respectively.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2017 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,863,923	\$ 5,998,214	\$ 7,862,137
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	2,508,016	5,588,855	8,096,871
2023-2027	14,908,154	25,817,459	40,725,613
2028-2032	18,957,908	21,482,693	40,440,601
2033-2037	24,099,988	15,973,781	40,073,769
2038-2042	30,787,824	8,821,119	39,608,943
2043-2045	16,786,534	1,127,462	17,913,996
	<u>\$ 116,418,914</u>	<u>\$ 102,231,436</u>	<u>\$ 218,650,350</u>

**Change in Accounting Principle**

As of July 1, 2015, ERS adopted new guidance related to the presentation of debt issuance costs in its statements of net position. Under the new guidance, debt issuance costs are reported as a direct deduction from the carrying amount of the related debt. Previously, debt issuance costs were presented as an asset. The new presentation requirements have been applied retrospectively and amounts reported in the 2016 statements of net position have been restated, as follows:

	As Previously Reported	As Stated	Net Change
Assets - debt issuance costs	<u>\$ 2,445,246</u>	<u>\$ -</u>	<u>\$ (2,445,246)</u>
Liabilities - Long-term debt	<u>\$ 115,865,965</u>	<u>\$ 113,420,719</u>	<u>\$ (2,445,246)</u>

The new guidance does not affect how the debt issuance costs are accounted for after initial recognition, and these amounts continue to be amortized over the term of the related debt and reported as a component of interest expense.

In addition, the presentation for related party payable has been moved from current to noncurrent liabilities for both 2017 and 2016 as it was determined the balance will not be repaid in 12 months. This classification represents payments being made as surplus funds become available. Payments of \$540,141 and \$926,756 were made on these liabilities in 2017 and 2016, respectively.

ERS also determined to move the related party payables from the operating section of the cash flow to the financing section for 2017 and 2016 to conform to proper presentation.

## Other Required Supplemental Information for GASB 68

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

	2017	2016	2015
District's proportion of the collective OPERS net pension liability: As a percentage	0.11078%	0.11033%	0.10406%
Amount	\$25,083,579	\$19,046,195	\$12,492,034
University's covered employee payroll	\$15,488,321	\$14,722,542	\$13,919,290
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered employee payroll	149.04%	129.37%	89.75%
Plan fiduciary net position as a percentage of the total pension liability	77.39%	81.19%	86.53%

	2017	2016	2015
District's proportion of the collective STRS net pension liability: As a percentage	0.08683%	0.08185%	0.07478%
Amount	\$29,065,942	\$22,621,327	\$18,190,132
University's covered employee payroll	\$8,037,482	\$7,564,093	\$8,894,530
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered employee payroll	361.63%	299.06%	204.51%
Plan fiduciary net position as a percentage of the total pension liability	66.78%	72.10%	74.70%

Schedule of Pension Contributions OPERS

	2017	2016	2015
Statutorily required contribution	\$1,886,860	\$1,858,599	\$1,766,705
Contributions in relation to the actuarially determined contractually required contribution	\$1,886,860	\$1,858,599	\$1,766,705
Contribution deficiency (excess)	-	-	-
Covered employee payroll	\$15,723,837	\$15,488,321	\$14,722,542
Contributions as a percentage of covered employee payroll	12.00%	12.00%	12.00%

Schedule of Pension Contributions STRS

	2017	2016	2015
Statutorily required contribution	\$1,683,363	\$1,125,247	\$1,058,973
Contributions in relation to the actuarially determined contractually required contribution	\$1,683,363	\$1,125,247	\$1,058,973
Contribution deficiency (excess)		-	-
Covered employee payroll	\$12,024,026	\$8,037,482	\$7,564,093
Contributions as a percentage of covered employee payroll	14.00%	14.00%	14.00%

Notes to required supplemental information:

*Changes of benefit terms.* There were no changes in benefit terms affecting the STRS and OPERS plans for the plan years ended June 30, 2016 and December 31, 2016, respectively.

*Changes of assumptions.*

STRS: There were no changes in assumptions affecting STRS for the plan year ended June 30, 2016.

OPERS: During the plan year ended December 31, 2016, there were changes to several assumptions for OPERS. The wage inflation dropped from 3.75 percent to 3.25 percent. The projected salary increase range changed from 4.25-10.05 percent to 3.25-10.75 percent. The mortality tables used changed from RP-2000 to RP-2014.

## 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 Northeast Ohio Medical University and its discretely presented component units (the "University") as of and for the year ended June 30, 2017, 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 9, 2017.

**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 9, 2017



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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to 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, 2017.

### **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.

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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 9, 2017

**NORTHEAST OHIO MEDICAL UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
<b>STUDENT FINANCIAL AID CLUSTER</b>				
<b>Department of Education</b>				
<i>Office of Student Financial Assistance Program:</i>				
William D Ford Federal Direct Loan Program	84.268	N/A	\$ 29,827,585	
Federal Perkins Loan Program	84.038	N/A	1,750,940	
<i>Total Office of Student Financial Assistance Program</i>			<u>31,578,525</u>	
<b>Total Department of Education</b>			<u><b>31,578,525</b></u>	
<b>Department of Health &amp; Human Services</b>				
<i>Health Resources and Services Administration:</i>				
Health Prof Student Loan Prgm - Loans to Disadvantaged Students	93.342	N/A	3,170,239	
Health Prof Student Loan Prgm - Primary Care Loans	93.342	N/A	1,087,790	
<i>Total Health Resources and Services Administration</i>			<u>4,258,029</u>	
<b>Total Department of Health &amp; Human Services</b>			<u><b>4,258,029</b></u>	
<b>TOTAL STUDENT FINANCIAL AID CLUSTER</b>			<u><b>\$ 35,836,554</b></u>	
<b>MEDICAID CLUSTER</b>				
<b>Department of Health and Human Services</b>				
<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	60055249	\$ 105,002	\$ 606,546
DHHS - OSU - MEDTAPP Healthcare Access Initiative	93.778	60055249	105,597	160,146
DHHS - OSU - Healthcare Access Grant	93.778	60055249	345,830	988,194
<i>Passed through the University of Toledo:</i>				
DHHS - OSU - UT- MEDTAPP Healthcare Access Continuation Grant	93.778	R-122988-05		71,633
<i>Total Centers for Medicare and Medicaid Services</i>			<u>556,429</u>	<u>1,826,519</u>
<b>Total Department of Health and Human Services</b>			<u>556,429</u>	<u><b>1,826,519</b></u>
<b>TOTAL MEDICAID CLUSTER</b>			<u><b>\$ 556,429</b></u>	<u><b>\$ 1,826,519</b></u>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>				
<b>Department of Health and Human Services</b>				
<i>Agency for Healthcare Research and Quality:</i>				
<i>Passed through Case Western University:</i>				
AHRQ - Collaborative Ohio Inquiry Network (COIN) FY16	93.226	RES511426		\$ 5,483
<i>National Institutes of Health:</i>				
NIH - Gene - Environment Interactions in Neurodegeneration	93.113	5R01ES021800-04	\$ 58,457	198,869
NIH - Gene - Environment Interactions in Neurodegeneration (Diversity Supplement)	93.113	3R01ES021800-04S1	29,635	29,635
<i>Passed through Duke University:</i>				
NIH - Duke - Translational Studies on the Role of Pesticides in Cognitive Aging and AD	93.113	2035470		62,242
<i>Total CFDA #93.113</i>			<u>88,092</u>	<u>290,746</u>
NIH - Axonopathy in Glaucoma	93.867	5R01EY022358-05		344,413
NIH - Metabolic Vulnerability as a Disease Target for Glaucoma	93.867	5R01EY02662-02		356,567
<i>Total CFDA #93.867</i>				<u>700,980</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
<b>RESEARCH AND DEVELOPMENT CLUSTER (Continued)</b>				
<b>Department of Health and Human Services (Continued)</b>				
NIH - Minority Supplement to "Auditory Information Processing in the Midbrain	93.173	R01 DC000937-13S1	\$	596
NIH - Cholinergic Circuits in the Ventral Cochlear Nucleus	93.173	1F31DC015943-01		1,801
NIH- The Effects of Social Context on the Basolateral amygdalar Processing	93.173	1F31DC015943-01		21,295
NIH - Amelioration of Presbycusis by Blocking T-type Calcium Channels with Antiepileptic	93.173	5R01DC011793-06		326,363
NIH - Modulatory Circuits in the Auditory System	93.173	2R01DC004391-16A1		471,821
NIH - Neural Mechanism Underlying Sound-evoked Suppression of Tinnitus: Residual Inhibition	93.173	4R01DC011330-05 REVISED		174,171
NIH - Dysphagia and Recovery After Vagal or Laryngeal Nerve Injury	93.173	R01DC009980-06 REVISED		81,123
NIH - Auditory Processing Deficits in Early-onset Conductive Hearing Loss	93.173	5R01DC013314-04		359,943
NIH - Functional Anatomy of the Auditory System	93.173	5R01DC004391-15		79,963
NIH - Cellular Mechanisms of Binaural Hearing Neurons in an Avian Interaural Level Difference Circuit	93.173	1F31DC015707-01		23,597
NIH - Auditory Information Processing in the Amygdala	93.173	R01DC000937-25		242,092
Total CFDA #93.173				1,782,765
NIH - Suppression of SHH Expression in Arthritis by Butea Monosperma	93.213	4R01AT007373-04		572,944
<i>Passed through Gateway Biotechnology Inc.</i>				
NIH - Gateway - Preclinical Testing of Tetrandrine Against Noise - Induced Hearing Loss	93.213	R41AT008922		49,999
Total CFDA #93.213				622,943
NIH - Effect of Ethanol on Lipid Metabolism	93.273	5R01AA013623-14		331,000
NIH - Carboxylesterase 1 in Alcoholic Liver Disease	93.273	1R21AA024946-01A1		167,178
NIH - Ethanol Regulation of Adiponectin and its Signaling	93.273	5R01AA015951-12		294,751
NIH - Alcohol, Hedgehod Signal, and HSC Dysfunction in Host Defense Against Septicemia	93.273	5R01AA022816-04		379,720
NIH - Alcohol, Septicemia, and the LKS Cell Response	93.273	7R01AA019676-06		19,384
<i>Passed through Cleveland Clinic Foundaiton</i>				
NIH - CCLCM - CWRU - Lipin - 1 and the Development of Alcoholic Liver Disease	93.273	703 - SUB		114,719
Total CFDA #93.273				1,306,752
NIH - Mechanism of Gene Environment Interactions in Alzheimer's Disease	93.311	1R01ES026057-01A1	\$	182,016
NIH - Integration of Mechanical and Soluble Signaling in Tumor Angiogenesis	93.396	1R15CA202847-01		142,838
<i>Passed through Rutgers, The State University of New Jersey:</i>				
NIH - Rutgers - Developing Drugs to Mitigate Parathion Intoxication	93.853	8273		333,959
NIH - The Effect of Preterm Birth and RLN Damage on Airway Protection and Maturation	93.865	1R01HD088561-01		431,514
<i>Passed through Case Western Reserve University:</i>				
NIH- Case - Aged Rat Heart Mitochondrial Dysfunction	93.866	RES510480		26,473
<i>Passed through Temple University</i>				
NIH - Temple - Follistatin - Like Protein 1 in Cardiac and Systemic Metabolism	93.837	257816		18,053
NIH - The Critical Role of the Coronary Microcirculation in Heart Failure	93.837	1R01HL135024-01A1		22,584
NIH - Mechanotransduction in Myocardial Adaption to Ischemia	93.837	5R01HL119705-03		308,611
NIH - What Mechanisms Underlie Coronary Collateral Growth?	93.837	1R01HL135110-01		175,011
NIH - Myocardial Injury Associated with Mitochondria-Derived Oxygen Free Radical (s)	93.837	4R01HL083237-09	12,485	295,862
NIH - Regulation of Lipid and Lipoprotein Metabolism by Nuclear Receptors	93.837	2R01HL103227-05		286,126
NIH - Mechanisms of Coronary Vasomotor Control	93.837	5R01HL115114-04		319,257
Total CFDA #93.837			58,703	1,425,504

**NORTHEAST OHIO MEDICAL UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
<b>RESEARCH AND DEVELOPMENT CLUSTER (Continued)</b>				
<b>Department of Health and Human Services (Continued)</b>				
NIH - Uridylation of miRNAs by ZCCHC6 Regulates IL-6 Expression in Arthritis	93.846	5R01AR067056-03	\$	561,386
<i>Passed through Case Western Reserve University:</i>				
NIH - Identification of Plasma microRNA Expression Profile in Ankylosing Spondylitis	93.846	RES509260		5,990
Total CFDA #93.846				567,376
NIH - Identification of Novel Genes/Pathways That Regulate Lipid and Glucose Metabolism	93.847	5R01DK095895-04		192,285
NIH - Regulation of Bile Acid Synthesis by Nuclear Receptors	93.847	5R37DK058379-30		434,446
NIH - Molecular Biology of Bile Acid Synthesis	93.847	5R01DK044442-20		267,341
NIH - Hepatic Lipid Mobilization by Nuclear Hormone Receptors	93.847	5R01DK093774-05		257,746
NIH - Mechanisms Underlying the Pathogenesis of Nonalcoholic Fatty Liver Disease	93.847	5R01DK102619-02		326,969
Total CFDA #93.847				1,478,787
<i>Passed through University of Texas Medical Branch:</i>				
NIH - U. of Texas - Data-driven Models of the Dynamic Proteome in NAFLD	93.859	15-036	\$	5,160
				72,022
<i>Total National Institutes of Health</i>				
			333,971	9,714,944
<b>Total Department of Health and Human Services</b>			<b>333,971</b>	<b>9,720,427</b>
<b>National Science Foundation</b>				
NSF - Mechanobiology of a Resilient Bone Extracellular Matrix: How Bats Achieve Exceptional Mechanical Properties in their Wings	47.041	1537745		125,521
NSF- Collaborative Research: ABI Innovation: A Novel Database and Ontology for Interdisciplinary Analyses of Mammalian Feeding	47.074	DBI- 1343588		15,604
NSF - Kinematics of Quadrupedal Locomotion in Free Ranging Primates	47.075	BCS-1640552		48,434
<b>Total National Science Foundation</b>				<b>189,559</b>
<b>US Department of Agriculture</b>				
<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		3,246
<b>Total US Department of Agriculture</b>				<b>3,246</b>
<b>Department of Defense</b>				
<i>U.S. Army Medical Command Passed Through Wake Forest University - Passed Through The Cleveland Clinic Foundation:</i>				
DOD - Wake - CC - Re-Establishing Homing to Regenerate an Injured Anal Sphincter to Aid Continence	12.420	428-SUB		19,157
<b>Total Department of Defense</b>				<b>19,157</b>
<b>Department of the Interior</b>				
<i>U.S. Fish and Wildlife Service Passed Through North Slope Borough Wildlife Management Department:</i>				
USFWS-NSB-Determining the Age and Hearing Ability in Bowhead and Beluga Whales	15.668	2012-110		19,867
USFWS-NSB-Bowhead Whale Health and Physiological Research	15.668	PO 20171095-000		13,475
Total CFDA #15.668				33,342
<b>Total Department of the Interior</b>				<b>33,342</b>
<b>TOTAL RESEARCH AND DEVELOPMENT CLUSTER</b>			<b>\$ 333,971</b>	<b>\$ 9,965,731</b>
<b>TOTAL CLUSTERS</b>			<b>\$ 890,400</b>	<b>\$ 47,628,804</b>

See Notes to Schedule of Expenditures of Federal Awards.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
<b>OTHER PROGRAMS</b>				
<b>Department of Justice</b>				
<i>Bureau of Justice Assistance:</i>				
<i>Passed through Ohio Office of Criminal Justice Services:</i>				
DOJ - OCJS - Ohio Cross Systems Mapping Initiative CY16	16.738	2015-JG-E01-6963	\$ 13,403	
DOJ - OCJS - CCoE Expansion	16.745	2015-CP-JMH-604		120,151
<b>Total Department of Justice</b>				<b>133,554</b>
<b>Department of Health and Human Services</b>				
<i>Health Resources and Services Administration:</i>				
<i>SA - The Health Careers Opportunity Program (HCOP)</i>				
HR of the Ohio Alliance	93.822	6 D18HP29040-02-01	\$ 84,401	571,307
HRSA - Physician Faculty Development in Primary Care	93.884	1 TOBHP30006-01-00	103,192	384,482
<i>Passed through Summa Health System:</i>				
HRSA - Summa - Geriatric Workforce Development through Interdisciplinary Team Learning	93.969	89335-A		34,118
HRSA - Summa - Practice, Quality, and Retention - Interprofessional Collaborative Practice	93.359	89330-A		27,830
<i>Passed through The University of Toledo:</i>				
HRSA - AHEC Point of Service Maintenance and Enhancement Award 2017	93.107	F2017-105	197,965	272,098
HRSA - AHEC Point of Service Maintenance and Enhancement Award 2016	93.107	RSP C-010336-22	174,624	186,472
Total CFDA #93.107			372,589	458,570
Total Health Resources and Services Administration			560,182	1,476,307
<b>Department of Health and Human Services (Continued)</b>				
<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		69,107
<i>Passed through The Thresholds:</i>				
SAMHSA - Thresholds - Coordinated Specialty Care for First Episode Psychosis Program	93.958	N/A		40,236
<i>Passed through Allwell Behavioral Health Services:</i>				
SAMHSA - Evidence - Based Programs to Address First Episode Psychosis - Greater Cincinnati Behavioral Health	93.958	N/A		78,244
<i>Passed through Coleman Professional Services Inc.:</i>				
SAMHSA - Evidence - Based Programs to Address First Episode Psychosis - Coleman	93.958	N/A		111,909
Total CFDA #93.958				299,496
<i>Passed through Ohio Suicide Prevention Program:</i>				
SAMHSA - OSPF - Incorporating Evidence - Based Suicide Prevention in Undergraduate Medical Education	93.243	N/A		27,591
<i>Passed through the Summit County ADM Board</i>				
SAMHSA - Summit ADM - FY16 Criminal Justice Coordinating Centers of Excellence	93.959	N/A	16,000	178,851
Total Substance Abuse and Mental Health Services Administration			16,000	505,938
<b>Total Department of Health and Human Services</b>			<b>576,182</b>	<b>1,982,245</b>
<b>Corporation for National and Community Service</b>				
<i>Passed through Ohio Commission on Service and Volunteerism:</i>				
CNCS - Ohio - AmeriCorps FY16	94.006	15AFH-1502-16-OC115		7,530
CNCS - Ohio - AmeriCorps FY17	94.006	15AFH-1502-17-OC115		400,742
Total CFDA #94.006				408,272
<b>Total Corporation for National and Community Service</b>				<b>408,272</b>
<b>Department of Education</b>				
<i>Passed through Ohio Department of Education:</i>				
ODE - 21st Century Brown Local Schools FT2017	84.287	#7055	110,378	143,722
ODE - Community Connectors 360 Mentoring	84.184	N/A	50,308	76,297
<b>Total Department of Education</b>			<b>160,686</b>	<b>220,019</b>
<b>Department of Commerce</b>				
<i>Economic Development Administration:</i>				
EDA - Accelerating Pharmaceutical Commercialization	11.020	FED16HDQ0200015		48,962
<b>Total Department of Commerce</b>				<b>48,962</b>
<b>TOTAL OTHER PROGRAMS</b>			<b>\$ 736,868</b>	<b>\$ 2,793,052</b>
<b>TOTAL EXPENDITURES OF FEDERAL PROGRAMS</b>			<b>\$ 1,627,268</b>	<b>\$ 50,421,856</b>

See Notes to Schedule of Expenditures of Federal Awards.

# Northeast Ohio Medical University

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

### 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 (the "University") under programs of the federal government for the year ended June 30, 2017. 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. Pass-through entity identifying numbers are presented where available.

The University has elected not 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 of federal awards. The balances of loans outstanding at June 30, 2017 consist of:

<u>Cluster/Program Title</u>	<u>CFDA Number</u>	<u>Loan Balances</u>
Federal Perkins Loan Program	84.038	\$ 1,416,138
Health Prof Student Loan Prgm - Loans to Disadvantaged Students	93.342	2,706,176
Health Prof Student Loan Prgm - Primary Care Loan	93.342	971,156
	Total	<u>\$ 5,093,470</u>

# Northeast Ohio Medical University

## Schedule of Findings and Questioned Costs Year Ended June 30, 2017

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)?  Yes  No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.268, 84.038, 93.342	Student Financial Aid Cluster
93.778	Medicaid Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs: \$1,512,656

Auditee qualified as low-risk auditee?  Yes  No



# **Northeast Ohio Medical University**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None



Federal Audit Clearinghouse  
RE: Northeast Ohio Medical University  
**Summary Schedule of Prior audit Findings**  
Fiscal Year Ended 2017

**Prior Year Finding Number:** 2016-001

**Fiscal Year in Which the Finding Initially Occurred:** 2016

**Federal Program, CFDA Number and Name:** Student Financial Aid Cluster (84.268 and 84.038, Department of Education, Federal Direct Student Loans, and Federal Perkins Loans)

**Original Finding Description:** The University did not report student status changes within the required timeframe.

**Status/Partial Corrective Action (as applicable):** Fully corrected

**Planned Corrective Action: (if Finding Not Corrected):** N/A



# Dave Yost • Auditor of State

**NORTHEAST OHIO MEDICAL UNIVERSITY**

**PORTAGE COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 14, 2017**