

# **NORTHEAST OHIO MEDICAL UNIVERSITY**

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**Financial Report**  
**Including Supplemental Information**  
**June 30, 2013**





# Dave Yost • Auditor of State

Board of Trustees  
Northeast Ohio Medical University  
4209 State Route 44  
PO Box 95  
Rootstown, Ohio 44272

We have reviewed the *Independent Auditor's Report* of the Northeast Ohio Medical University, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2012 through June 30, 2013. 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

January 2, 2014

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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, 2013, 2012 and 2011. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of University management.

**Introduction**

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

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

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

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

The University does not have its own hospital - rather the University has established affiliation agreements with nine major hospitals in Akron, Canton and Youngstown to serve as the primary clinical sites for medical education.

**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”), the NEOMED Foundation, Inc. (the “Foundation”), and ERS Strategic Properties, Inc. (“ERS”) have been determined to be component units of the University. Accordingly, the Research Corp will be shown blended with the University’s financial statements and the Foundation and ERS will be discretely presented in the University’s financial statements. The discretely presented component units have been excluded from Management’s Discussion and Analysis.

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

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2013 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$13.2 million. Current assets increased by \$7.6 million, while non-current assets increased \$5.6 million. The increase in current assets reflects the ongoing budgetary practice to allow departments to carryover unspent operating funds for future academic program, research, or project needs and the increase in investment income.
- Cash and cash equivalents decreased by \$32.1 million. This is due to the 2010 and 2011 bond issues being depleted for the construction of the Research and Education building. This building was almost complete at June 30, 2013.
- The University's net position increased by \$8.9 million to \$108.2 million, of which \$51.6 million is invested in capital assets or is restricted. Of the remaining \$56.6 million in unrestricted assets, all but \$2.3 million is designated for specific purposes.
- Operating revenue increased by \$3.3 million compared to the prior year primarily due to an increase of \$2.5 million in federal grants and \$0.6 million in tuition and fees.
- The University's operating expenses increased by \$6.3 million primarily due to additional research and instructional and academic support expenses.
- Net non-operating revenue increased by a net \$6.1 million primarily due to an increase in investment income.
- Other revenue, expenses, gains or losses decreased by approximately \$0.3 million due to the permanently restricted contributions.

**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, 2013, 2012 and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Current assets	\$67,524,034	\$59,958,626	\$55,149,935
Noncurrent			
Capital	82,401,770	45,420,941	42,851,128
Other	<u>14,340,194</u>	<u>45,711,490</u>	<u>21,015,525</u>
Total assets	<u>164,265,998</u>	<u>151,091,057</u>	<u>119,016,588</u>
<b>LIABILITIES</b>			
Current liabilities	12,518,547	7,756,488	7,505,267
Noncurrent liabilities	<u>43,520,228</u>	<u>43,992,237</u>	<u>18,311,180</u>
Total liabilities	<u>56,038,775</u>	<u>51,748,725</u>	<u>25,816,447</u>
<b>NET POSITION</b>			
Net investment in capital assets	43,324,540	43,806,555	40,588,297
Restricted			
Nonexpendable	7,980,553	7,500,031	7,189,139
Expendable	304,271	285,979	321,697
Unrestricted	<u>56,617,858</u>	<u>47,749,767</u>	<u>45,101,008</u>
Total net position	<u>\$108,227,222</u>	<u>\$99,342,332</u>	<u>\$93,200,141</u>

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

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

As of June 30, 2013, the University's capital assets increased to \$82.4 million from \$45.4 million in fiscal 2012 while other non-current assets decreased to \$14.3 million from \$45.7 million. This was due to using the cash in the bond funds to pay for new construction for the Research and Graduate Education building.

At June 30, 2013, total University assets were \$164.3 million, compared to \$151.1 million in fiscal 2012.

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Total net position increased by \$8.9 million to \$108.2 million. Unrestricted net assets total \$56.6 million; 69.4 percent of which (\$39.3 million) is designated for specific purposes, and 26.5 percent of which (\$15.0 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives. The remaining \$2.3 million consists of undesignated, unrestricted funds.

**2012 versus 2011**      During the year ended June 30, 2012:

As of June 30, 2012, the University's current assets of \$60.0 million were sufficient to cover current liabilities of \$7.8 million (current ratio of 7.7:1). As of June 30, 2011, current assets of \$55.1 million were sufficient to cover current liabilities of \$7.5 million (current ratio of 7.4:1).

As of June 30, 2012, the University's capital assets increased to \$45.4 million from \$42.9 million in fiscal 2011 while other non-current assets increased to \$45.7 million from \$21.0 million.

At June 30, 2012, total University assets were \$151.1 million, compared to \$119.0 million in fiscal 2011.

University liabilities total \$51.7 million at June 30, 2012 which include an additional \$27 million bond issuance in fiscal 2012, compared to \$25.8 million in fiscal 2011. Current liabilities total \$7.8 million and consist of accrued liabilities of \$3.1 million (\$1.1 million owed to associated hospitals and pharmacies for clinical experiences, and \$0.7 million owed to consortium universities for the collaborative academic programs); approximately \$1.5 million in accrued employee compensation and benefits, \$1.3 million in deferred revenue, and \$1.6 million in general accounts payable.

Total net assets increased by \$6.1 million to \$99.3 million. Unrestricted net assets total \$47.7 million; 47.8 percent of which (\$22.8 million) is designated for specific purposes, and 31 percent of which (\$14.8 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives. The remaining \$10.1 million consists of plant funds (\$6.9 million) and undesignated, unrestricted funds (\$3.2 million).

**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, 2013, 2012, and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Revenue</b>			
Tuition and fees	\$25,133,726	\$24,583,329	\$23,495,419
Federal and state appropriations	18,821,145	18,658,277	19,948,639
Federal, state, local and private grants and contracts	13,461,008	10,700,888	11,564,451
Auxiliary activities	871,702	833,260	748,421
Other	<u>7,081,129</u>	<u>3,281,344</u>	<u>6,553,579</u>
<b>Total revenue</b>	<u>65,368,710</u>	<u>58,057,098</u>	<u>62,310,509</u>
<b>Expenses</b>			
Instruction	17,263,543	16,252,583	16,623,083
Research	7,695,938	7,520,556	6,548,679
Academic support	6,294,411	4,938,291	5,365,705
Institutional support	10,314,635	9,253,742	8,072,272
Scholarships and fellowships	42,318	42,030	30,042
Other	<u>14,872,975</u>	<u>13,907,705</u>	<u>11,571,452</u>
<b>Total expenses</b>	<u>56,483,820</u>	<u>51,914,907</u>	<u>48,211,233</u>
Increase in net position	<u>\$ 8,884,890</u>	<u>\$ 6,142,191</u>	<u>\$14,099,276</u>

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

The most significant sources of operating revenue for the University are tuition and fees, and grants and contracts. Tuition and fee revenue grew during fiscal year 2013 as compared to 2012 by 2.0 percent primarily due to increased tuition rates. Grant revenue increased by \$2.8 million, or 26.2 percent due to 4 new grant awards received by the University in 2013.

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

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

Non-capital state appropriations were the most significant non-operating revenue totaling \$18.8 million, an increase from 2012 of 0.9 percent.

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**2012 versus 2011**      During the year ended June 30, 2012:

The most significant sources of operating revenue for the University are tuition and fees, auxiliary services, and grants and contracts. Tuition and fee revenue grew during fiscal year 2012 as compared to 2011 by 4.6 percent primarily due to increased tuition rates.

Operating expenditures, including depreciation of \$4.5 million, totaled \$50.1 million, an increase from the prior year of \$2.6 million, or 5.4 percent.

Non-capital state appropriations were the most significant non-operating revenue totaling \$18.7 million, an increase from 2011 of 5.4 percent. The federal appropriations from federal stimulus dollars were eliminated in 2011.

**Northeast Ohio Medical University**  
**Condensed Statements of Cash Flows**  
**for the years ended June 30, 2013, 2012, and 2011**

	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Cash provided by/(used in):			
Operating activities	\$(9,034,929)	\$(8,046,508)	\$(4,434,200)
Investing activities	(69,885)	(5,142,492)	(8,487,272)
Capital and related financing activities	(41,856,188)	17,925,404	9,277,717
Non-capital financing activities	<u>18,821,145</u>	<u>18,658,277</u>	<u>19,948,639</u>
Net (decrease) increase in cash	(32,139,857)	23,394,681	16,304,884
Cash and cash equivalents, beginning of year	<u>46,595,179</u>	<u>23,200,498</u>	<u>6,895,614</u>
Cash and cash equivalents, end of year	<u>\$14,455,322</u>	<u>\$46,595,179</u>	<u>\$23,200,498</u>

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

Major sources of cash included student tuition and fees (\$24.9 million), federal and state appropriations (\$18.8 million), auxiliary activities (\$0.9 million) and grants and contracts (\$11.8 million). The largest payments were for suppliers (\$12.7 million) and employees (\$33.1 million).

**2012 versus 2011**      During the year ended June 30, 2012:

Major sources of cash included student tuition and fees (\$24.7 million), federal and state appropriations (\$18.7 million), auxiliary activities (\$0.8 million) and grants and contracts (\$10.2 million). The largest payments were for suppliers (\$15.1 million) and employees (\$28.5 million).

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Capital Asset and Debt Administration**

**Capital Assets**

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

At the end of 2012, the University had invested \$45.4 million in capital assets (net of accumulated depreciation of \$58.1 million); this amount represents an increase of \$2.6 million, or 6 percent, over 2011, primarily due to construction of the Research and Graduate Education building.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 2,149,470	\$ 2,149,470	\$ 2,108,971
Equipment, furnishing, and library materials	34,773,622	34,485,592	32,102,386
Buildings, infrastructure, improvements, and construction in progress	<u>106,165,398</u>	<u>66,935,834</u>	<u>62,453,589</u>
<b>Total</b>	<u>\$143,088,490</u>	<u>\$103,570,896</u>	<u>\$ 96,664,946</u>

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

**Long-term Debt**

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

In addition, at June 30, 2011, the University had \$1,454,983 in outstanding capital lease obligations. This obligation was paid in full in April 2012. This activity for this is shown in Note 5.

**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.

Historically, state funding in Ohio has been full-time equivalent-based and subsidy eligible enrollment for medical school has been statutorily capped. Thus, in periods of flat or declining state funding, the University had been negatively impacted when enrollments at other state-assisted public schools were growing. A departure from that methodology occurred in fiscal year 2008 and also occurred in fiscal year 2009, as appropriation increases were applied equally across the board to institutions based on fiscal year 2007 amounts, as opposed to adjusting for enrollment shifts.

For fiscal year 2014, several notable changes were made to the state share of instructional support funding formula. First, all data for enrollments, completions and degrees utilized in the funding calculation transitioned to a three-year average. Previously, the data was based on the higher of the two- or five-year average.

Also, for Pharmacy and Graduate Studies, 50 percent of the state funding allocated to main campuses will be based upon degree completion, which is up from the previous allocation of 20 percent for degree completion. In regard to medical funding, funding continues to be based 100 percent on headcount enrollments with a new provision in FY 2014 that eliminated any stop-loss adjustments.

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

Opportunities for future enrollment growth for the College of Medicine hinge on the availability of increased state funding. The 127<sup>th</sup> Ohio General Assembly House Bill 562 called for the addition of Cleveland State University to the list of institutions partnering in NEOMED's medical program. Any class size increases will be in accordance with accreditation requirements as specified by the Liaison Committee on Medical Education (LCME) of the American Association of Medical Universities (AAMC). Based on projected physician shortages by 2015, the AAMC recently issued a call for all American medical schools to consider increasing class size by up to 30 percent.

In fiscal year 2012, NEOMED contracted with ERS Strategic Properties Inc. (ERS) for a ground lease to allow ERS to construct a 330-bed apartment building to house NEOMED students, faculty and guests on the NEOMED campus. The construction of the apartments was completed in August 2013.

## Independent Auditor's Report

To the Board of Trustees  
Northeast Ohio Medical University

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Northeast Ohio Medical University and its discretely presented component units (the "University") as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

To the Board of Trustees  
Northeast Ohio Medical University

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Ohio Medical University and its discretely presented component units as of June 30, 2013 and 2012 and the changes in its financial position and where applicable, cash flow for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, effective July 1, 2012, the University adopted new accounting guidance under GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplemental Information***

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

To the Board of Trustees  
Northeast Ohio Medical University

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Northeast Ohio Medical University's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013 on our consideration of the 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 the University's internal control over financial reporting and compliance.

*Plante & Morse, PLLC*

October 28, 2013

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2013 AND 2012**

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2013	2012	2013	2012	2013	2012
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents (Note 2)	\$ 7,273,180	\$ 7,305,531	\$ 635,506	\$ 427,240	\$ -	\$ -
Investments (Note 2)	53,511,402	48,646,121	-	-	-	-
Accounts receivable (Note 3)	5,748,535	2,894,134	-	-	-	-
Inventories	142,318	129,341	-	-	-	-
Prepaid expenses and deferred charges	571,849	563,807	1,400	-	-	-
Pledges receivable	-	-	306,057	307,244	-	-
Notes receivable (Note 3)	276,750	419,692	48,463	67,257	-	-
Total current assets	<u>67,524,034</u>	<u>59,958,626</u>	<u>991,426</u>	<u>801,741</u>	<u>-</u>	<u>-</u>
Noncurrent assets						
Cash-restricted (Note 2)	7,182,142	39,289,648	-	-	83,109,235	-
Long-term investments (Note 2)	2,931,225	2,514,010	11,910,230	10,589,000	-	-
Funds held in trust	-	-	699,407	915,842	-	-
Pledges receivable	-	-	754,973	978,287	-	-
Notes receivable (Note 3)	3,974,182	3,646,026	243,406	235,780	-	-
Bond issue costs, net	252,645	261,806	-	-	3,134,837	-
Capital assets, net (Note 4)	82,401,770	45,420,941	-	-	51,028,761	-
Total noncurrent assets	<u>96,741,964</u>	<u>91,132,431</u>	<u>13,608,016</u>	<u>12,718,909</u>	<u>137,272,833</u>	<u>-</u>
Total assets	<u>164,265,998</u>	<u>151,091,057</u>	<u>14,599,442</u>	<u>13,520,650</u>	<u>137,272,833</u>	<u>-</u>
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable	1,378,263	1,577,515	-	-	-	-
Accrued compensation and benefits (Note 6)	1,840,479	1,479,142	-	-	-	-
Unearned revenue	1,151,433	1,276,949	-	-	-	-
Other accrued liabilities	7,313,373	3,082,882	134,412	106,610	17,287,102	-
Bonds payable (Note 9)	835,000	340,000	-	-	-	-
Total current liabilities	<u>12,518,548</u>	<u>7,756,488</u>	<u>134,412</u>	<u>106,610</u>	<u>17,287,102</u>	<u>-</u>
Noncurrent liabilities						
Compensated absences (Note 5)	1,756,477	1,610,334	-	-	-	-
Annuity obligations	-	-	119,153	129,623	-	-
Post-employment benefits (Notes 5 & 7)	1,120,771	910,627	-	-	-	-
Bonds payable (Note 9)	40,642,980	41,471,276	-	-	120,067,628	-
Total noncurrent liabilities	<u>43,520,228</u>	<u>43,992,237</u>	<u>119,153</u>	<u>129,623</u>	<u>120,067,628</u>	<u>-</u>
Total liabilities	<u>56,038,776</u>	<u>51,748,725</u>	<u>253,565</u>	<u>236,233</u>	<u>137,354,730</u>	<u>-</u>
<b>NET POSITION</b>						
Net investment in capital assets	43,324,540	43,806,555	-	-	(81,897)	-
Restricted						
Nonexpendable						
Student loans	5,140,517	5,077,209	825,563	799,553	-	-
Endowments	2,840,036	2,422,822	7,031,083	6,865,035	-	-
Annuity and life income	-	-	73,762	72,258	-	-
Expendable						
Current operations	304,271	285,979	5,517,176	4,902,644	-	-
Unrestricted	56,617,858	47,749,767	898,293	644,927	-	-
Total net position	<u>\$ 108,227,222</u>	<u>\$ 99,342,332</u>	<u>\$ 14,345,877</u>	<u>\$ 13,284,417</u>	<u>\$ (81,897)</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2013	2012	2013	2012	2013	2012
<b>OPERATING REVENUES</b>						
Student tuition and fees (net of scholarship allowances of \$273,250 and \$104,392, respectively)	\$ 25,133,726	\$ 24,583,329	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	7,187,703	4,681,612	-	-	-	-
State grants and contracts	2,195,047	2,319,356	-	-	-	-
Local grants and contracts	60,601	45,947	-	-	-	-
Private grants and contracts	4,017,657	3,653,973	-	-	-	-
Contributions and bequests	-	-	733,337	610,058	-	-
In-kind contributions from NEOMED	-	-	1,098,581	901,984	-	-
Sales and services of departments	412,395	463,680	-	-	-	-
Sales and services of auxiliary enterprises	871,702	833,260	-	-	-	-
Other	383,976	429,792	26,255	64,332	-	-
Total operating revenues	<u>40,262,807</u>	<u>37,010,949</u>	<u>1,858,173</u>	<u>1,576,374</u>	<u>-</u>	<u>-</u>
<b>OPERATING EXPENSES</b>						
Educational and general						
Instruction and departmental research	17,263,543	16,252,583	117,701	1,777,811	-	-
Separately budgeted research	7,695,938	7,520,556	81,078	58,801	-	-
Public service	2,397,388	779,779	201,048	38,583	-	-
Academic support	6,294,411	4,938,291	157,810	457,611	-	-
Student services	1,687,630	1,460,948	-	-	-	-
Institutional support	10,314,635	9,253,742	1,543,245	1,311,066	872	-
Operation and maintenance of plant	4,911,329	4,323,471	-	-	81,025	-
Scholarships and fellowships	42,318	42,030	332,945	306,324	-	-
Auxiliary enterprises	1,225,371	1,092,816	-	-	-	-
Depreciation	4,619,046	4,468,142	-	-	-	-
Total operating expenses	<u>56,451,609</u>	<u>50,132,358</u>	<u>2,433,827</u>	<u>3,950,196</u>	<u>81,897</u>	<u>-</u>
Operating loss	(16,188,802)	(13,121,409)	(575,654)	(2,373,822)	(81,897)	-
<b>NONOPERATING REVENUES (EXPENSES)</b>						
State appropriations	18,821,145	18,658,277	-	-	-	-
Investment income	5,212,610	1,032,934	1,180,916	77,819	-	-
Interest expense	-	(1,765,540)	-	-	-	-
Loss on disposal of assets	(32,210)	(17,009)	-	-	-	-
Net nonoperating revenues (expenses)	<u>24,001,545</u>	<u>17,908,662</u>	<u>1,180,916</u>	<u>77,819</u>	<u>-</u>	<u>-</u>
<b>GAIN (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	7,812,743	4,787,253	605,262	(2,296,003)	(81,897)	-
<b>OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>						
Capital appropriations and grants	1,072,148	1,054,938	-	-	-	-
Contributions permanently restricted	-	300,000	456,198	340,920	-	-
Total other revenues, expenses, gains or losses	<u>1,072,148</u>	<u>1,354,938</u>	<u>456,198</u>	<u>340,920</u>	<u>-</u>	<u>-</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	8,884,890	6,142,191	1,061,460	(1,955,083)	(81,897)	-
<b>NET POSITION AT BEGINNING OF YEAR</b>	99,342,332	93,200,141	13,284,417	15,239,500	-	-
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 108,227,222</u>	<u>\$ 99,342,332</u>	<u>\$ 14,345,877</u>	<u>\$ 13,284,417</u>	<u>\$ (81,897)</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 24,869,817	\$ 24,726,174
Grants and contracts	11,841,791	10,161,195
Employee compensation	(33,100,159)	(28,533,729)
Payments to suppliers	(12,663,896)	(15,062,488)
Payments for utilities	(1,274,522)	(1,156,503)
Payments for student financial aid	-	(1,500)
Student loan advances	(652,189)	(589,333)
Student loan repayments	524,656	614,540
Sales and services of auxiliary enterprises	872,836	833,346
Sales and services of departments	286,060	509,463
Other operating receipts	260,677	452,327
Net cash and cash equivalents used in operating activities	(9,034,929)	(8,046,508)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	18,821,145	18,658,277
Federal loan receipts	23,787,687	25,967,676
Federal loan disbursements	(23,787,687)	(25,967,676)
Net cash and cash equivalents provided by financing activities	18,821,145	18,658,277
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State capital appropriations	100,560	603,516
Capital gifts and grants	-	710,923
Bond issue costs	9,162	(47,858)
Purchases of capital assets	(39,528,612)	(7,014,462)
Principal paid on debt	(340,000)	(1,454,983)
Interest paid on debt	(2,097,298)	(1,683,008)
Proceeds from capital debt	-	26,811,276
Net cash and cash equivalents (used in) provided by capital and financing activities	(41,856,188)	17,925,404
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	5,017,219	1,081,768
Sale of investments	49,837,547	42,987,495
Purchase of investments	(54,924,651)	(49,211,755)
Net cash and cash equivalents used in investing activities	(69,885)	(5,142,492)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(32,139,857)	23,394,681
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	46,595,179	23,200,498
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	\$ 14,455,322	\$ 46,595,179

**NORTHEAST OHIO MEDICAL UNIVERSITY  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012**

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

	<u>2013</u>	<u>2012</u>
Operating loss	\$ (16,188,802)	\$ (13,121,409)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	4,619,046	4,468,142
Changes in assets and liabilities		
Receivables	(1,882,814)	(86,005)
Inventories	(12,977)	9,302
Prepaid expenses and deferred charges	(8,042)	124,272
Notes receivable	(185,214)	65,737
Accounts payable	4,005,834	868,246
Accrued compensation	717,624	466,671
Unearned revenue	(125,516)	(264,974)
Other accrued liabilities	25,932	(576,490)
<b>NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES</b>	<u>\$ (9,034,929)</u>	<u>\$ (8,046,508)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:**

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 7,273,180	\$ 7,305,531
Cash-Restricted	7,182,142	39,289,648
<b>Total cash and equivalents at end of the year</b>	<u>\$ 14,455,322</u>	<u>\$ 46,595,179</u>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

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

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

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

The major associated community hospitals and health department are:

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

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

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

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

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

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

**Basis of Presentation**

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

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

*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. Non-capital state appropriations are recognized as revenue in the year appropriated.

***Cash and Cash Equivalents***

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

***Restricted Cash and Cash Equivalents***

As of June 30, 2013, restricted cash and cash equivalents consists of \$6,192,093 of unspent proceeds of the General Receipt Bonds issued in 2010 and 2011 and \$990,049 of cash restricted for loan purposes. As of June 30, 2012, restricted cash consisted of \$38,277,802 of unspent proceeds of the General Receipt Bonds issued in 2011 and \$1,011,846 for loan purposes.

***Investments***

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

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

***Accounts Receivable***

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

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

***Inventories***

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

***Bond Issuance Costs***

Deferred bond issuance costs for the General Receipts Bonds have been capitalized and are included on the Statements of Net Position, and are being amortized over the life of the bonds on the straight-line method, which approximates the interest method.

***Capital Assets***

Capital assets include land and infrastructure assets such as roads and sidewalks, buildings and improvements, equipment with an original cost of \$2,500 or more, and all library materials. Such assets are recorded at cost at the date of acquisition, or if acquired by gift, at an estimated fair value at the date of donation. Interest expense relating to construction is capitalized net of interest income on resources set aside for that purpose. Capital assets include capitalized interest of \$2,114,952 as of June 30, 2013.

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

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

***Compensated Absences***

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

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

***Operating Revenue***

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

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

***Unearned Revenue***

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

***Net Position Classifications***

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

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

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

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

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

***Use of Estimates***

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

***Newly Adopted Accounting Pronouncements***

Effective July 1, 2012, the University implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement introduces and defines those elements as a consumption of net assets by the University that are applicable to a future reporting period, and an acquisition of net assets by the University that are applicable to a future reporting period, respectively. The standards also incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

***Newly Issued Accounting Pronouncements Not Yet Adopted***

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012 (or June 30, 2014).

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

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

**2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

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

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 the State Street Bank & Trust Company in "book entry" form. The banks internally designate the securities as owned by or pledged to the University.

The University's bank deposits and cash on hand for all fund groups at June 30, 2013 and 2012 are summarized as follows:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
University's book value	\$14,455,322	\$46,595,179
Cash on hand	6,674	7,901
Bank balances	15,423,671	47,361,027

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, 2013 and 2012, \$500,000 and \$500,000, respectively, was covered by federal depository insurance and \$14,923,671 and \$46,861,027, respectively, was uncollateralized as defined by GASB.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

The University's investments, at fair value, at June 30, 2013 and 2012 are summarized as follows:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Money market funds	\$ 1,512,080	\$ 1,481,542
U.S. government obligations	174,889	5,813,441
U.S. government agency obligations	4,139,027	5,175,045
Corporate bonds and notes	22,133,311	14,170,113
Fixed income mutual funds	467,068	332,532
Equities	25,704,625	24,182,121
State Treasury Asset Reserve of Ohio Plus	2,303,067	-
State Treasury Asset Reserve of Ohio	<u>8,560</u>	<u>5,337</u>
Total Investments	<u>\$ 56,442,627</u>	<u>\$51,160,131</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, 2013 are as follows:

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

The maturities of the University's interest-bearing investments at June 30, 2012 are as follows:

	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. government obligations	\$5,813,441	\$ 22,094	\$5,720,920	\$ 38,328	\$ 32,099
U.S. government agency obligations	5,175,045	-	1,845,927	723,506	2,605,612
Corporate bonds and notes	<u>14,170,113</u>	<u>13,947,775</u>	<u>105,462</u>	<u>52,594</u>	<u>64,282</u>
Total	<u>\$25,158,599</u>	<u>\$13,969,869</u>	<u>\$7,672,309</u>	<u>\$814,428</u>	<u>\$2,701,993</u>

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*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, 2013 were as follows:

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

The credit ratings for the University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2012 were as follows:

Credit Rating (S&P)	<u>Total</u>	U.S. Government <u>Obligations</u>	U.S. Agency <u>Obligations</u>	Corporate Bonds and <u>Notes</u>
AAA	\$ 10,988,486	\$5,813,441	\$5,175,045	\$ -
AA	2,760,539	-	-	2,760,539
A	1,873,45	-	-	1,873,450
BBB	<u>9,536,124</u>	-	-	<u>9,536,124</u>
Total	<u>\$ 25,158,599</u>	<u>\$5,813,441</u>	<u>\$5,175,045</u>	<u>\$14,170,113</u>

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

*Foreign currency risk.* Foreign currency risk is that risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2013 and 2012, the University had no exposure to foreign currency risk.

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**3. ACCOUNTS AND NOTES RECEIVABLE**

The following is a summary of accounts and student notes receivable at June 30, 2013 and 2012:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Student notes	\$4,150,932	\$4,065,718
Grants and contracts	4,072,257	2,316,003
Sales and services	1,599,883	527,456
Tuition and fees	<u>176,395</u>	<u>50,675</u>
Total accounts and notes receivable	9,999,467	6,959,852
Less current portion	<u>(6,025,285)</u>	<u>(3,313,826)</u>
Accounts and notes receivable, noncurrent portion	<u>\$3,974,182</u>	<u>\$3,646,026</u>

Federal Direct Loans Program processed for students by the University during the years ended June 30, 2013 and 2012 totaled \$23,787,687 and \$25,967,676, 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.

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**4. CAPITAL ASSETS**

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

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

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**4. CAPITAL ASSETS (cont.)**

Capital asset activity for the year ended June 30, 2012 was as follows:

	July 1, 2011 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2012 Ending Balance
Land - Non-depreciable	\$ 2,108,970	\$ 40,500	\$ -	\$ 2,108,970
Infrastructure	1,637,836	-	-	1,637,836
Buildings	59,374,775	1,338,576	840,457	61,553,808
Furnishings and movable equipment	18,330,226	1,921,836	(109,102)	20,142,960
Library materials	13,772,161	570,471	-	14,342,632
Construction in progress - Non-depreciable	1,440,977	3,183,579	(880,366)	3,744,190
Total historical cost	<u>96,664,945</u>	<u>7,054,962</u>	<u>(149,011)</u>	<u>103,570,896</u>
Less: accumulated depreciation				
Infrastructure	1,119,781	78,430	-	1,198,211
Buildings	28,535,621	1,858,017	-	30,393,638
Furnishings and movable equipment	13,375,442	1,788,468	(132,004)	15,031,906
Library materials	10,782,973	743,227	-	11,526,200
Total accumulated depreciation	<u>53,813,817</u>	<u>4,468,142</u>	<u>(132,004)</u>	<u>58,149,955</u>
Total capital assets, net of depreciation	<u>\$ 42,851,128</u>	<u>\$ 2,586,820</u>	<u>\$ (17,007)</u>	<u>\$ 45,420,941</u>

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**5. LONG-TERM LIABILITIES**

Long-term liabilities as of June 30, 2013 and 2012 are as follows:

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

  

	Balance July 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2012</u>	Current <u>Portion</u>	Non-current <u>Portion</u>
Compensated absences	\$1,876,365	\$315,160	\$ 180,177	\$2,011,348	\$401,014	\$1,610,334
Post-employment	607,158	303,469	-	910,627	-	910,627
Capital lease obligations	1,454,983	-	1,454,983	-	-	-
Total long-term	<u>\$3,938,506</u>	<u>\$618,629</u>	<u>\$ 1,635,160</u>	<u>\$2,921,975</u>	<u>\$401,014</u>	<u>\$2,520,961</u>

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

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**6. COMMITMENTS AND CONTINGENCIES**

The University has entered into various contractual service agreements with its consortium universities, associated hospitals and health departments primarily for clinical instruction, research and other services. For fiscal years ended June 30, 2013 and 2012, these instructional expenses relating to contracts totaled \$3,478,640 and \$3,343,293, respectively. At June 30, 2013 and 2012, the University had recorded accrued liabilities of \$1,770,925 and \$1,812,874, respectively, which represented unbilled services rendered by the related organizations under these contracts.

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

**7. OTHER POST-EMPLOYMENT BENEFITS**

Background

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

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 plus years of service receive \$4,000 of life insurance coverage and those with less than 10 years of service receive \$1,000 of life insurance coverage.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The annual cost of other post-employment benefits (OPEB) under GASB No. 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, 2013</u>	<u>June 30, 2012</u>
Annual required contribution	\$ 288,623	\$ 390,251
Interest on net OPEB obligation	54,638	36,429
Adjustment to annual required contribution	<u>(62,412)</u>	<u>(41,613)</u>
Annual OPEB cost (expense)	280,849	385,067
Employer contribution (pay-as-you-go)	70,705	81,598
Net cash contribution	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	210,144	303,469
Net OPEB obligation, beginning of year	<u>910,627</u>	<u>607,158</u>
Net OPEB obligation, end of year	<u>\$ 1,120,771</u>	<u>\$ 910,627</u>
Actuarial contribution rate	25.18%	21.19%

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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, 2013 is based only on the spouses and legal dependents of employees and retirees hired prior to January 1, 1992, with at least 10 years of service at NEOMED for healthcare benefits and all retirees and active employees for life insurance. Using the actuarial assumptions, the number of retired participants is projected each year in the future. Costs are projected for each year at each age using the trend and aging assumptions. Retiree post-employment benefit expenses are determined under the Projected Unit Credit actuarial cost method. Under this method, benefits are projected for life and their present value is determined.

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

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

NEOMED implemented GASB 45 in fiscal year 2009, therefore six years of data is not available, but will be accumulated over time. This annual valuation has been calculated using the Projected Unit Credit actuarial cost method, an investment rate of return of 6.0 percent, and the initial unfunded actuarial liability is amortized over 30 years based on a level percent of payroll method on covered payroll, with 25 years remaining. Under this method, benefits are projected for life and their present value is determined and divided into equal parts, which are earned over the period from hire date to the full eligibility date. The annual healthcare costs are assumed to increase as follows:

2013-14	7.00%
2014-15	6.00
2015+	5.00

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**8. EMPLOYEE BENEFIT PLANS**

**Retirement Plans**

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

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

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

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

University employees may choose an Alternative Retirement Plan ("ARP") in lieu of OPERS or STRS. For employees electing an ARP in lieu of STRS, the University is required to make employer contributions of 0.77% and 3.5% of earned compensation to OPERS and STRS, respectively. In addition, the University contributes 13.23% or 10.5% of earned compensation for OPERS or STRS-eligible employees, respectively, to the employee's account with the ARP provider.

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

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The University's contributions, including employer contributions for pensions and other postretirement benefits, for the year ended June 30, 2013 and for each of the two preceding years are:

Year Ended June 30	OPERS Contributions	STRS Contributions	ARP Contributions
2013	\$ 1,665,303	\$ 907,729	\$ 648,822
2012	1,443,648	743,719	605,170
2011	1,371,615	653,094	599,484

**Post-Retirement Health Care Benefits (in whole numbers)**

OPERS provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying State service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS. The employer contribution rates allocated for health care for members in the Traditional Plan was 4.0% of covered payroll for 2012. For employees in the Combined Plan, the employer contribution rates allocated to health care was 6.05% for 2012.

OPERS benefits are advance-funded on an actuarially determined basis. As of December 31, 2011, OPERS reported the actuarially accrued liability and the unfunded actuarial accrued liability for Other Post Employment Benefits (OPEB) at \$31.0 billion and \$18.9 billion, respectively. Significant actuarial assumptions include a 5% investment return, a 3.75% individual pay increase, and healthcare costs are assumed to increase initially at 0% before rising to 7.5%. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. As of December 31, 2011, the actuarial value of the retirement system's net assets available for other post-employment benefits was \$12.1 billion. The number of active contributing participants in the traditional and combined plans was 348,235 as of December 31, 2011.

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

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The Ohio Revised Code grants authority to STRS Ohio to provide healthcare coverage to eligible benefit recipients, spouses, and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The State Teachers Retirement Board currently allocates employer contributions, which equals 1% of covered payroll, to a health care stabilization fund from which health care benefits are paid. The balance in the healthcare reserve fund was \$3.01 billion at June 30, 2012.

For the year ended June 30, 2012 (latest information available), net healthcare costs paid by STRS were \$628 million. There were 143,256 eligible benefit recipients on June 30, 2012.

**9. BONDS PAYABLE**

In FY 2011, the University was approved to issue an amount not to exceed \$42,000,000 in General Receipt Bonds. On November 10, 2010, the University issued General Receipts Bonds Series 2010 in the amount of \$15,000,000. On November 9, 2011, the remaining \$27,000,000 of General Receipts Bonds Series 2011 was issued. The proceeds are being used for the construction, improvement, reconstruction, remodeling, renovation and equipping of the University facilities primarily for construction of a new research and graduate education complex consisting of medical research, laboratory, graduate education and related purposes. The Bonds are in various denominations, with fixed interest rates of 4.0 to 4.5 percent and a maturity of 30 years. The balance outstanding as of June 30, 2013 and 2012 was \$41,477,980 and \$41,811,276, respectively.

The bond discount on the Series 2011 bonds totaled \$194,911 with an accumulated amortized balance of \$12,891 and \$6,187 as of June 30, 2013 and 2012, 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 are summarized as follows:

	<u>July 1, 2012</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2013</u>	<u>Current</u>
General receipts bond					
Series 2010	\$ 15,000,000	\$ -	\$ 340,000	\$14,660,000	\$ 345,000
General receipts bond					
Series 2011	<u>\$ 27,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$27,000,000</u>	<u>\$ 490,000</u>
Total bonds and notes payable	<u>\$ 42,000,000</u>	<u>\$ -</u>	<u>\$ 340,000</u>	<u>\$41,660,000</u>	<u>\$ 835,000</u>

In accordance with the Build America Bonds program, the University should receive semi-annual federal credit payments equal to 45 percent of actual interest expense incurred on the outstanding principal balance of the Series 2010 bonds. Due to sequestration, the semi-annual federal credit payments equaled 43 percent of actual interest expense in fiscal year 2013.

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

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2013 are summarized as follows:

Year Ending June 30	Principal	Interest	Interest Subsidy *	Net Interest	Total
2014	\$ 835,000	\$ 2,111,011	\$ (406,276)	\$ 1,704,735	\$ 2,539,735
2015	850,000	2,088,431	(402,246)	1,686,185	2,536,185
2016	870,000	2,062,520	(397,438)	1,665,082	2,535,082
2017	890,000	2,034,632	(391,942)	1,642,690	2,532,690
2018	915,000	2,004,627	(385,696)	1,618,931	2,533,931
2019-2023	5,040,000	9,413,661	(1,802,242)	7,611,419	12,651,419
2024-2028	5,200,000	8,173,044	(1,523,506)	6,649,538	11,849,538
2029-2033	7,155,000	6,781,371	(1,143,070)	5,638,301	12,793,301
2034-2038	3,385,000	4,994,907	(656,396)	4,338,511	7,723,511
2039-2043	16,520,000	3,439,451	(115,572)	3,323,879	19,843,879
	<u>\$ 41,660,000</u>	<u>\$ 43,103,655</u>	<u>\$ (7,224,384)</u>	<u>\$ 35,879,271</u>	<u>\$ 77,539,271</u>

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

**10. RISK MANAGEMENT**

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

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

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

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

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

**11. RELATED PARTY TRANSACTIONS**

**NEOMED Foundation** - For the years ended June 30, 2013 and 2012, the University has received distributions from the Foundation in the amount of \$1,247,247 and \$1,183,569, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted student loans of \$76,066 and \$72,833, respectively, for the years ended June 30, 2013 and 2012.

The University received reimbursements of \$125,174 and \$66,661, respectively, from the Foundation for management, fundraising, services, and office space during the years ended June 30, 2013 and 2012. Amounts for such services provided by the University which are not reimbursed by the Foundation are reported as in-kind contributions in the Statements of Revenues, Expenses, and Changes in Net Position. The University's in-kind support for these services was valued at \$1,098,581 and \$901,984, respectively, for the years ended June 30, 2013 and 2012.

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

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

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

For the years ended June 30, 2013 and 2012, the University made payments on behalf of ERS in the amount of \$971,586 and \$0, respectively, for expenses related to the company start-up and some bond issue costs.

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

**12. COMPONENT UNIT - THE NEOMED FOUNDATION**

The NEOMED Foundation (hereinafter referred to as the "Foundation") was incorporated on April 14, 1978 as a nonprofit tax-exempt corporation. The Foundation is a legally separate nonprofit entity organized for the purpose to serve as the gift-receiving arm of the Northeast Ohio Medical University (hereinafter referred to as the "University"), and to assist in developing and increasing its resources to provide broader educational opportunities and services for charitable, educational and scientific purposes. The Foundation is governed by a volunteer Board of Directors consisting of a maximum 42 members. The Foundation had no unrelated business income in fiscal 2013 or 2012.

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.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

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

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 102,719	\$ 102,719	\$ 95,307	\$ 95,307
Cash surrender value of life insurance	239,413	239,413	238,850	238,850
Equities	4,907,787	6,511,364	4,407,620	5,725,378
Alternative	98,296	280,907	1,839	-5,573
Fixed income	<u>3,913,052</u>	<u>4,775,827</u>	<u>4,002,311</u>	<u>4,523,892</u>
Total long-term investments	<u>\$ 9,261,267</u>	<u>\$11,910,230</u>	<u>\$ 8,745,927</u>	<u>\$10,589,000</u>

The Foundation's Board of Directors has adopted an investment policy which is reviewed and updated on an annual basis and is used to determine asset allocation.

Details of the Foundation's restricted net assets at June 30, 2013 and 2012 are as follows:

Temporarily restricted net assets as of June 30:

	<u>2013</u>	<u>2012</u>
Instruction and departmental research	\$ 810,971	\$ 424,693
Separately budgeted research	264,719	223,489
Public service	753,248	904,516
Academic support	1,776,235	2,092,544
Institutional support	83,111	69,042
Plant operation and maintenance	258,674	8,674
Student scholarships and other student aid	1,339,496	950,738
Deferred gift annuity	239,413	238,850
Allowance for uncollectible pledges	<u>(8,691)</u>	<u>(9,902)</u>
Total temporarily restricted net assets, June 30	<u>\$5,517,176</u>	<u>\$4,903,004</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

Permanently restricted net assets as of June 30:

	<u>2013</u>	<u>2012</u>
Student loans	\$ 825,563	\$ 799,553
Endowments requiring earnings only be made available for:		
Student scholarships and awards	3,280,125	3,129,730
Student loans	100,236	100,236
Community health science professorship	-	-
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	658,825	648,674
Deferred gift annuity	73,762	72,258
Allowance for uncollectible pledges	<u>(10,574)</u>	<u>(16,076)</u>
Total permanently restricted net assets, June 30	<u>\$7,930,408</u>	<u>\$ 7,736,846</u>

**13. COMPONENT UNIT – ERS STRATEGIC PROPERTIES, INC.**

ERS Strategic Properties, Inc. (hereinafter referred to as “ERS”) was incorporated on March 23, 2012 as a nonprofit tax-exempt corporation. ERS is a legally separate nonprofit entity organized for the purpose to establish related commercial business units for the benefit and support of Northeast Ohio Medical University. ERS Housing LLC and ERS HWMEC LLC were created under the umbrella of ERS Strategic Properties, Inc., a not-for-profit 501(c) (3). Specifically, ERS Housing LLC is operated for the purpose of developing, constructing and equipping housing for students, faculty, staff and guests of Northeast Ohio Medical University. ERS HWMEC LLC will provide for the development, construction and equipping of a health, wellness and medical education center to promote the educational, social and physical well-being of students, faculty, and staff of Northeast Ohio Medical University. ERS is governed by a volunteer Board of Directors consisting of a seven members of NEOMED staff.

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

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

**ERS Investments**

ERS has proceeds from bonds issued that are held with trustees at US Bank and Wells Fargo.

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

	<u>June 30, 2013</u>		<u>June 30, 2012</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$67,845,202	\$67,845,202		
U.S. government obligations	<u>\$15,264,033</u>	<u>\$15,264,033</u>	\$ -	\$ -
Total cash & equivalents	<u>\$83,109,235</u>	<u>\$83,109,235</u>	<u>\$ -</u>	<u>\$ -</u>

**ERS Capital Assets**

ERS took out bonds to construct apartments for members of the University community and to construct a health, wellness and medical education building that will be available to the University and outside community. Capital assets include capitalized interest of \$4,559,383 as of June 30, 2013.

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

**ERS Bonds Payable**

In 2012, ERS Housing LLC worked with the Portage County Port Authority to issue tax-exempt bonds in the amount of \$36,680,000. As of June 2012 when the bonds were issued, ERS did not yet have tax exempt status, ERS partnered with Portage County Port Authority so the bonds can be tax exempt. The proceeds from this issuance are being used for the construction of University 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 of 32 years. The balance outstanding as of June 30, 2013 was \$36,680,000.

In November 2012, ERS HWMEC LLC issued senior secured notes 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 0.042 percent if NEOMED's credit rating were downgraded) and a maturity of 32 years. The balance outstanding as of June 30, 2013 was \$84,000,000.

The bond discount on the June 2012 bonds totaled \$633,830 with an accumulated amortized balance of \$21,458 as of June 30, 2013. 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 November 2012 bonds.

ERS' bonds and notes payable are summarized as follows:

	<u>July 1, 2012</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2013</u>	<u>Current</u>
ERS Housing LLC	\$ -	\$ 36,680,000	\$ -	\$ 36,680,000	\$ -
ERS HWMEC LLC	\$ -	\$ 84,000,000	\$ -	\$ 84,000,000	\$ -
Total bonds and notes payable	<u>\$ -</u>	<u>\$ 120,680,000</u>	<u>\$ -</u>	<u>\$ 120,680,000</u>	<u>\$ -</u>

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. ERS has complied with all covenants as of June 30, 2013.

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 and 2012**

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2013 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ -	\$ 6,246,625	\$ 6,246,625
2015	949,874	6,454,643	7,404,517
2016	1,585,584	6,448,838	8,034,422
2017	1,725,627	6,441,894	8,167,521
2018	1,863,923	6,428,214	8,292,137
2019-2023	11,714,769	31,871,067	43,585,836
2024-2028	15,648,923	30,054,613	45,703,536
2029-2033	19,873,446	26,815,862	46,689,308
2034-2038	25,313,919	22,696,304	48,010,223
2039-2043	32,334,447	17,422,844	49,757,291
2044-2045	9,669,488	2,757,532	12,427,020
	<u>\$ 120,680,000</u>	<u>\$ 163,638,436</u>	<u>\$ 284,318,436</u>

## 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 basic financial statements of Northeast Ohio Medical University and its discretely presented component units (the "University") as of and for the year ended June 30, 2013 and related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 28, 2013.

**Internal Control Over Financial Reporting**

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

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

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

To Management and the Board of Trustees  
Northeast Ohio Medical University

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Plante & Morse, PLLC*

Toledo, Ohio  
October 28, 2013

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

Independent Auditor's Report

To the Board of Trustees  
Northeast Ohio Medical University

**Report on Compliance for Each Major Federal Program**

We have audited Northeast Ohio Medical University's (the "University") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. Northeast Ohio Medical University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northeast Ohio Medical University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Northeast Ohio Medical University's compliance.

***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, 2013.

To the Board of Trustees  
Northeast Ohio Medical University

### **Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Plante & Morse, PLLC*

Toledo, Ohio  
October 28, 2013

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

Federal Grantor/Pass- Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
<b>STUDENT FINANCIAL AID CLUSTER</b>			
Loans:			
<b>Department of Education:</b>			
<i>Office of Student Financial Assistance Programs:</i>			
William D Ford Federal Direct Loan Program	84.268		\$ 23,787,687
Federal Perkins Loan Program	84.038		<u>2,285,381</u>
<i>Total Office of Student Financial Assistance Programs:</i>			<u>26,073,068</u>
<b>Total Department of Education:</b>			<b>26,073,068</b>
<b>Department of Health and Human Services:</b>			
<i>Health Resources and Services Administration:</i>			
Health Prof Student Loan Prgm--Loans to Disadvantaged Students	93.342		1,937,612
Health Prof Student Loan Prgm--Primary Care Loans	93.342		<u>1,354,687</u>
<i>Total Health Resources and Services Administration:</i>			<u>3,292,299</u>
<b>Total Department of Health and Human Services:</b>			<b>3,292,299</b>
<b>TOTAL STUDENT FINANCIAL AID CLUSTER</b>			<b>\$ 29,365,367</b>
<b>MEDICAID CLUSTER</b>			
<b>Department of Health and Human Services</b>			
<i>Health and Human Services</i>			
<i>Passed through the Ohio Department of Job and Family Services</i>			
DHHS-OSU- MEDTAPP Healthcare Access Grant, Phase One, Round Two	93.778	G-1213-07-0343	<u>\$ 561,102</u>
<b>Total Department of Health and Human Services:</b>			<b>561,102</b>
<b>TOTAL MEDICAID CLUSTER</b>			<b>\$ 561,102</b>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>			
<b>Department of Health and Human Services:</b>			
<i>National Institutes of Health:</i>			
NIH-NRSA Anatomical Analysis of Cortical Projections to the Auditory Midbrain	93.173	1F32DC010958-01	\$ 29,521
NIH- Regulation of Excitability in a Sensory System by Cellular and Network Components	93.173	5R01DC008120-06	113,076
NIH- Neural Mechanism Underlying Sound-Evoked Suppression of Tinnitus: Residual Inhibition	93.173	5R01DC011330-02	264,809
NIH- Auditory Information Processing in the Amygdala	93.173	5R01DC000937-22	514,161

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2013**

Federal Grantor/Pass- Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
<b>Department of Health and Human Services (Continued):</b>			
<i>National Institutes of Health (Continued):</i>			
NIH- Dysphagia and Recovery After Vagal or Laryngeal Nerve Injury	93.173	7R01DC009980-05	\$ 22,099
NIH- Functional Anatomy of the Auditory System	93.173	5R01DC004391-13	308,783
NIH-G- Protein-Coupled Receptors in Hearing Physiology	93.173	5R01DC008984-05	215,626
NIH-Cholinergic Inputs to Excitatory and Inhibitory Midbrain Circuits	93.173	5F32DC012450-02	<u>53,732</u>
Total CFDA #93.173			1,521,809
NIH- Suppression of MMP-13 Expression in Arthritis by Pomegranate	93.213	7R01AT005520-04	227,360
NIH- Mechanisms of Chondroprotection by Pomegranate Fruit Extract	93.213	7R01AT003627-07	<u>111,318</u>
Total CFDA #93.213			338,677
<i>Passed through Cleveland State University:</i>			
NIH-CSU- Dissemination of Evidence-Based Health Disparity Interventions	93.307	0513-1003347386-01	16,197
NIH - A Synthetic Triterpenoid in Breast Cancer Chemoprevention	93.392	1R03CA136014-01A2	(50)
ARRA NIH - Stem Cell Induction of Coronary Arteriogenesis	93.701	1RC1HL100828-01	11,784
ARRA NIH- Regulation of Excitability in a Sensory System by Cellular and Network Components	93.701	3R01DC008120-05S1	6,012
ARRA NIH- Hepatocyte Nuclear Factor 4alpha and Lipid Homeostasis	93.701	1R15DK088733-01	<u>216,411</u>
Total CFDA #93.701			234,207
NIH Year 22 - Microcirculatory Dynamics in the Coronary Circulation	93.837	5R01HL032788-22	(153)
NIH - Myocardial Injury Associated with Mitochondria-derived Oxygen Free Radical(s)	93.837	5R01HL083237-04	64,984
NIH - Myocardial Injury Associated with Mitochondria-derived Oxygen Free Radical(s)	93.837	7R01HL083237-05	127,877
NIH-Reactive Oxygen Species in Coronary Collateral Growth	93.837	5R01HL083366-05	499,910
NIH- Induction of Coronary Arteriogenesis by Reprogrammed Cells	93.837	1R15HL115540-01	125,472
NIH- Regulation of Lipid and Lipoprotein Metabolism by Nuclear Receptors	93.837	5R01HL103227-03	282,408
NIH-C- Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1	68,314
NIH-M- Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1	<u>70,795</u>
Total CFDA #93.837			1,239,606

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**YEAR ENDED June 30, 2013**

Federal Grantor/Pass- Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
<b>Department of Health and Human Services (Continued):</b>			
<i>National Institutes of Health (Continued):</i>			
NIH- The Role of Osteoactivin Development and Function	93.846	5R01AR048892-11	\$ 325,683
NIH-Hepatic Lipid Mobilization by Nuclear Hormone Receptors	93.847	1R01DK093774-01A1	122,419
NIH - Molecular Biology of Bile Acid Synthesis	93.847	5R37DK058379-26	237,256
NIH-NRSA-Effects of Sleep Deprivation and High Fat Diet on Human CYP7A1 Circadian Rhythm	93.847	1F32DK096784-01	47,174
NIH-Identification of Novel Genes/Pathways That Regulate Lipid and Glucose Metabolism	93.847	1R01DK095895-02	257,602
NIH - Regulation of Bile Acid Synthesis by Nuclear Receptors	93.847	5R01DK04442-17	217,140
Total CFDA #93.847			881,591
<i>Passed through National Institute of Health:</i>			
NIH-The Genetics and Extreme Body Size in Mice From Gough Island	93.859	427K372	15,981
Summa-NIH- Suppression of Ocular Scarring- Controlled Delivery of an ALK-5 Inhibitor	93.867	1R01EY020916-01A1	4,461
NIH-Axonopathy in Glaucoma	93.867	5R01EY022358-02	345,242
Total CFDA #93.867			349,703
<i>Total National Institutes of Health:</i>			4,923,405
<b>Total Department of Health and Human Services:</b>			<b>4,923,405</b>
<b>National Science Foundation:</b>			
NSF: Diet in Early Whales	47.050	EAR-0745543	1,873
NSF- A Novel database and ontology for evolutionary analyses of mammalian feeding physiology	47.074	DBI-1062332	3,416
NSF- Natural Selection on Growth and Locomotor Performance in Eastern Cottontail Rabbits (Sylvilagus Floridanus)	47.074	IOS- 1146916	104,902
Total CFDA #47.074			108,318
NSF-The Biomechanics of Arboreal Stability: An Intergated Analysis	47.075	1126790	85,273
ARRA NSF - MRI-R2 Acquisition: Establishment of a Core Facility for the Hierarchical Analysis of Bone	47.082	BCS-0959438	24,000
<b>Total National Science Foundations:</b>			<b>219,464</b>
<b>Environmental Protection Agency</b>			
<i>Office of Water</i>			
EPA-Selective multiplexed realtime detection of Bacteria	66.469	GL-00E00563-0	85,702
<b>Total Environmental Protection Agency:</b>			<b>85,702</b>
<i>Office of Personnel Management</i>			
Louis Stokes VA Medical Center IPA - Matthew Kiedrowski	27.011		15,116
<b>TOTAL RESEARCH AND DEVELOPMENT</b>			<b>\$ 5,243,687</b>

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**YEAR ENDED June 30, 2013**

Federal Grantor/Pass- Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
<b>JAG CLUSTER</b>			
<b>Department of Justice:</b>			
<i>Bureau of Justice Assistance</i>			
<i>Pass through Ohio Office of Criminal Justice Services</i>			
NAMI- Ohio Crisis Intervention Team CY12	16.738	2011-JG-B01-6317	\$ 4,896
USDJ- OCJS- Ohio Cross-Systems Mapping Initiative	16.738	2012-JG-C01-6963	34,640
Total CFDA #16.738			<u>39,536</u>
<b>Total Department of Justice:</b>			<u>39,536</u>
<b>TOTAL JAG CLUSTER:</b>			<u>\$ 39,536</u>
<b>TOTAL CLUSTERS</b>			<u>\$ 35,209,692</u>
<b>OTHER PROGRAMS</b>			
<b>Department of Veterans Affairs</b>			
<i>Veterans Benefits Administration</i>			
Yellow Ribbon Scholarship	64.028		\$ 26,230
<b>Total Department of Veterans Affairs:</b>			<u>26,230</u>
<b>Department of Health and Human Services:</b>			
<i>Centers for Medicare and Medicaid Services</i>			
<i>Passed through The Ohio State University</i>			
OSU-DHHS-ODJFS- Long Term Care Direct Care Workforce Project FY13	93.791	60037336	24,517
Total Centers for Medicare and Medicaid Services			24,517
<i>Health Resources and Services Administration:</i>			
HRSA Physician Faculty Development in Primary Care	93.884	5D55HP20645-03-00	243,262
<i>Passed through St. Elizabeth Health Center -</i>			
HRSA- St. E- Residency Training in Primary Care	93.884	PO 61602389942	4,581
Total CFDA #93.884			247,843
<i>Passed through The Ohio State University -</i>			
OSU-HRSA Ohio Public Health Training Center	93.249	RF01227450 / UB6HP20203	30,798
<i>Passed through the University of Toledo -</i>			
HRSA- AHEC Point of Service Maintenance and Enhancement Award	93.107	U77 HP 23072	77,178
HRSA- AHEC Point of Service Maintenance and Enhancement Award	93.107	2 U77HP23072-02-00	197,665
Total CFDA #93.107			274,843
<i>Passed through Ohio Board of Regents -</i>			
Online Clinical Simulation Project	93.211	DHHS 1 D1BTH03745- 01-00	573
Total Health Resources and Services Administration			<u>554,056</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**YEAR ENDED June 30, 2013**

Federal Grantor/Pass Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
<b>Department of Health and Human Services (Continued):</b>			
<i>National Institutes of Health</i>			
<i>Passed through Cleveland State University -</i>			
CSU-NIH-Urban Universities for Health: NEOMED-CSU Partnership	93.307	1003288306	\$ 10,079
<i>Total National Institutes of Health</i>			10,079
<i>Agency of Healthcare Research and Quality</i>			
<i>Passed through Case Western University -</i>			
AHRQ-Collaborative Ohio Inquiry Network (COIN)	93.226	RES507450	6,208
<i>Total Agency of Healthcare Research and Quality</i>			6,208
<i>Center for Disease Control</i>			
<i>Passed through the Austen BioInnovation Institute in Akron -</i>			
ABIA-CDCP- Summit Partners for Accountable Care Community Transformation (PACCT)	93.531	1U58DP003523-01(11.09.27-13 AB)	9,533
<i>Total Center for Disease Control</i>			9,533
<i>Substance Abuse and Mental Health Services Admin:</i>			
SAMHSA - Ohio Program for Campus Safety and Mental Health	93.243	5U79SM060506-02	122,317
<i>Passed through the Ohio Department of Mental Health -</i>			
ADM- ODMH- SAMHSA- Criminal Justice CCoE 2013	93.958		180,914
<i>Passed through the National Council for Community Behavioral Healthcare -</i>			
SAMHSA- NCCBH- Ohio Health Home/Health Integration Technical Assistance Resource Center	93.958		19,459
Total CFDA #93.958			200,373
<i>Total Substance Abuse and Mental Health Services Admin.</i>			322,690
<b>Total Department of Health and Human Services:</b>			<b>927,083</b>
<b>TOTAL OTHER PROGRAMS:</b>			<b>953,313</b>
<b>TOTAL EXPENDITURES OF FEDERAL PROGRAMS</b>			<b>\$ 36,163,005</b>

**NORTHEAST OHIO MEDICAL UNIVERSITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2013**

**Note 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**Note 2 - LOANS ISSUED**

The University issued \$297,275 of Perkins loans and \$300,000 of Health Professional Student Loans during the year ended June 30, 2013. The outstanding loan balances at June 30, 2013 are included in the federal expenditures presented in the Schedule.

**Note 3 - SUBRECIPIENT AWARDS**

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

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
SAMHSA - Ohio Program for Campus Safety and Mental Health	93.243	\$ 34,278
NIH - The Role of Osteoactivin Development and Function	93.846	44,427
HRSA Physician Faculty Development in Primary Care	93.884	26,981
ADM- ODMH- SAMHSA- Criminal Justice CcoE	93.958	62,559
HRSA- AHEC Point of Service Maintenance and Enhancement Award	93.107	202,677
EPA- Selective Multiplexed Realtime Detection of Bacteria	66.469	11,541
DHHS- OSU - MEDTAPP Healthcare Access Grant, Phase One, Round Two	93.778	298,123
Total		<u>\$ 680,586</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?  Yes  No

**SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS**

None

**SECTION III - FEDERAL PROGRAM AUDIT FINDINGS**

None



# 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  
JANUARY 14, 2014**