

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

Financial Report
Including Supplemental Information
June 30, 2015



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Northeast Ohio Medical University, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2014 through June 30, 2015. 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

December 15, 2015

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NORTHEAST OHIO MEDICAL UNIVERSITY

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NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Northeast Ohio Medical University's (NEOMED or the "University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2015, 2014 and 2013. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of University management.

Introduction

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

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

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using the Annual Financial Report

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

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

The Statements of Net Position include all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University's financial health when considered with 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 nonoperating. A public institution's dependency on state aid and gifts could result in operating deficits because the financial reporting model classifies state appropriations and gifts as nonoperating revenue. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Noteworthy Financial Activity

In 2012, ERS Strategic Properties, Inc. was created to establish related commercial business units for the benefit and support of Northeast Ohio Medical University. ERS Housing LLC, ERS HWMEC LLC, ERS Bradley LLC, ERS MOB and ERS Contiguous Properties LLC were created under the umbrella of ERS Strategic Properties, Inc., a not-for-profit 501(c)(3). Specifically, ERS Housing LLC is operated for the purpose of developing, constructing and equipping housing for students, faculty, staff and guests of Northeast Ohio Medical University. ERS HWMEC LLC is operated for the purpose of development, construction and equipping of a health, wellness and medical education center to promote the educational, social and physical well-being of students, faculty, and staff of Northeast Ohio Medical University and local community. ERS Bradley LLC and ERS Contiguous Properties LLC are operated for the purpose of purchasing and developing property for the benefit of Northeast Ohio Medical University. ERS MOB LLC will be a medical office building for community physicians to give care to patients and be a resource for student clinical rotations.

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

The University's financial position, as a whole, diminished during the fiscal year ended June 30, 2015 as compared to the previous year as evidenced by:

- The University's total assets decreased over the prior year by \$736,000. Current assets decreased by \$4.7 million, while non-current assets increased \$1.9 million. The decrease in current assets primarily relates to a decrease in short-term investments to pay for the increase in capital assets.
- Cash and cash equivalents increased by \$2.6 million. This is due to converting short-term investments to cash.
- The University's net position decreased by \$38.1 million, of which \$32.0 million of this relates to a prior year adjustment to record a new GASB requirement. GASB 68 requires government entities to report their percentage of the state retirement systems' pension liability shortfall on their entity's financial statements.
- Operating revenue increased by \$9.4 million compared to the prior year primarily due to an increase of \$3.2 million in state grants, \$2.9 million in tuition and fees, and \$2.0 million in federal grants.
- The University's operating expenses increased by \$10.6 million primarily due to additional research funding, the rental of an additional building for educational and auxiliary functions, and increased auxiliary services due to expansion.
- Net nonoperating revenue decreased by a net \$12.6 million primarily due to a decrease in investment income and an increase in bond interest expense.
- Other revenue, expenses, gains or losses increased by approximately \$694,000 due to capital appropriations and permanently restricted gifts.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Northeast Ohio Medical University
Condensed Statements of Net Position
as of June 30, 2015, 2014 and 2013**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Current assets	\$40,503,647	\$44,820,098	\$67,524,034
Noncurrent			
Capital	93,530,801	92,182,689	82,401,770
Other	<u>32,691,723</u>	<u>32,578,586</u>	<u>14,087,549</u>
Total assets	<u>166,726,171</u>	<u>169,581,373</u>	<u>164,013,353</u>
LIABILITIES			
Current liabilities	14,284,499	11,589,128	12,518,548
Noncurrent liabilities	<u>75,095,230</u>	<u>43,167,213</u>	<u>43,520,228</u>
Total liabilities	<u>89,379,729</u>	<u>54,756,341</u>	<u>56,038,776</u>
DEFERRED INFLOWS OF RESOURCES			
	640,414	-	-
NET POSITION			
Net Investment in Capital Assets	46,521,597	45,097,603	43,324,540
Restricted			
Nonexpendable	9,771,574	9,135,388	7,980,553
Expendable	585,915	343,750	304,272
Unrestricted	<u>19,826,942</u>	<u>60,248,291</u>	<u>56,365,212</u>
Total net position	<u>\$76,706,028</u>	<u>\$114,825,032</u>	<u>\$107,974,577</u>

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Deferred inflows represent the adoption of GASB 68 during this fiscal year.

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

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

As of June 30, 2014, the University's current assets of \$44.8 million were sufficient to cover current liabilities of \$11.6 million (current ratio of 3.9:1). As of June 30, 2013, current assets of \$67.5 million were sufficient to cover current liabilities of \$12.5 million (current ratio of 5.4:1).

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

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

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

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

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, 2015, 2014, and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenue			
Tuition and fees	\$29,380,476	\$26,474,532	\$25,133,726
Federal and state appropriations	20,011,127	19,472,518	18,821,145
Federal, state, local and private grants and contracts	16,637,968	14,649,077	13,461,008
Auxiliary activities	1,617,552	849,989	871,702
Other	<u>2,857,629</u>	<u>11,335,143</u>	<u>7,081,129</u>
Total revenue	<u>70,504,752</u>	<u>72,781,259</u>	<u>65,368,710</u>
Expenses			
Instruction	18,454,170	16,967,523	17,263,543
Research	10,628,411	9,653,090	7,695,938
Academic support	8,602,817	8,710,783	6,294,411
Institutional support	9,802,075	11,278,807	10,314,635
Scholarships and fellowships	58,492	108,726	42,318
Other	<u>29,113,536</u>	<u>19,211,875</u>	<u>14,872,974</u>
Total expenses	<u>76,659,501</u>	<u>65,930,804</u>	<u>56,483,819</u>
(Decrease) increase in net position	<u>\$(6,154,749)</u>	<u>\$ 6,850,455</u>	<u>\$ 8,884,891</u>

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

The most significant sources of operating revenue for the University are tuition and fees and grants and contracts. Tuition and fee revenue grew during fiscal year 2015 as compared to 2014 by 11.0 percent primarily due to increased student enrollment and tuition rates. Grant revenue increased by \$2.0 million, or 13.6 percent, in 2015.

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

Noncapital state appropriations were the most significant nonoperating revenue totaling \$19.5 million, an increase from 2013 of 3.5 percent.

Northeast Ohio Medical University Condensed Statements of Cash Flows for the years ended June 30, 2015, 2014, and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash (used in) provided by:			
Operating activities	\$ (17,966,517)	\$(24,136,538)	\$(9,025,768)
Investing activities	6,620,030	8,783,468	(69,884)
Capital and related financing activities	(5,792,018)	(16,846,112)	(41,865,350)
Noncapital financing activities	<u>20,011,127</u>	<u>19,472,518</u>	<u>18,821,145</u>
Net increase (decrease) in cash and cash equivalents	2,872,622	(12,726,664)	(32,139,857)
Cash and cash equivalents, beginning of year	<u>1,728,658</u>	<u>14,455,322</u>	<u>46,595,179</u>
Cash and cash equivalents, end of year	<u>\$4,601,280</u>	<u>\$1,728,658</u>	<u>\$14,455,322</u>

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Asset and Debt Administration

Capital Assets

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$2,149,470	\$2,149,470	\$2,149,470
Equipment, furnishing, and library materials	44,410,925	38,245,603	34,773,622
Buildings, infrastructure, improvements, and construction in progress	<u>119,656,525</u>	<u>118,010,437</u>	<u>106,165,398</u>
Total	<u>\$166,216,920</u>	<u>\$158,405,510</u>	<u>\$143,088,490</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. In November 2011, the University had its second bond issuance for \$27 million to be used toward this project.

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Factors Affecting Future Periods

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

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

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

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

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

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

Independent Auditor's Report

To the Board of Directors
Northeast Ohio Medical University

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast Ohio Medical University and its discretely presented component units (the "University"), a component unit of the State of Ohio, as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise Northeast Ohio Medical University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
Northeast Ohio Medical University

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Ohio Medical University and its discretely presented component units as of June 30, 2015 and 2014 and the changes in its financial position and, where applicable, cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

.As discussed in Note I to the financial statements, effective July 1, 2014, the University adopted new accounting guidance under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 is an amendment to Statement No. 27. In accordance with Statement No. 68, the University is now recognizing its unfunded pension benefit obligation as a liability on the statement of net position for the first time. This statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). 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, the schedule of the University's proportionate share of the net pension liability, and the schedule of University's contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Ohio Medical University's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements.

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

To the Board of Directors
Northeast Ohio Medical University

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015 on our consideration of Northeast Ohio Medical University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeast Ohio Medical University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 15, 2015

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2015	2014	2015	2014	2015	2014
ASSETS						
Current assets						
Cash and cash equivalents (Note 2)	\$ 3,660,988	\$ 1,102,138	\$ 816,967	\$ 510,733	\$ 368,915	\$ 299,591
Investments (Note 2)	22,166,914	29,014,230	-	-	-	-
Accounts receivable (Note 3)	12,984,603	12,565,056	-	-	170,548	631,699
Inventories	181,314	149,708	-	-	-	-
Prepaid expenses and deferred charges	1,191,728	1,623,873	600	3,273	5,981	-
Pledges receivable	-	-	458,957	446,411	-	-
Notes receivable (Note 3)	318,100	365,093	35,100	41,892	-	-
Total current assets	<u>40,503,647</u>	<u>44,820,098</u>	<u>1,311,624</u>	<u>1,002,309</u>	<u>545,444</u>	<u>931,290</u>
Noncurrent assets						
Cash-restricted (Note 2)	940,292	626,520	-	-	-	-
Long-term investments (Note 2)	27,521,460	27,693,827	14,892,619	14,300,756	-	-
Funds held in trust	-	-	208,644	489,179	3,358,306	23,201,024
Pledges receivable	-	-	1,429,367	1,554,652	-	-
Notes receivable (Note 3)	4,229,971	4,258,239	249,689	238,424	-	-
Unamortized bond issue costs, net	-	-	-	-	2,531,708	2,618,170
Capital assets, net (Note 4)	93,530,801	92,182,689	-	-	116,583,020	107,979,290
Total noncurrent assets	<u>126,222,524</u>	<u>124,761,275</u>	<u>16,780,319</u>	<u>16,583,011</u>	<u>122,473,034</u>	<u>133,798,484</u>
Total assets	<u>166,726,171</u>	<u>169,581,373</u>	<u>18,091,943</u>	<u>17,585,320</u>	<u>123,018,478</u>	<u>134,729,774</u>
LIABILITIES						
Current liabilities						
Accounts payable	2,023,710	2,036,469	-	-	23,206	23,522
Accrued compensation and benefits (Note 5)	3,293,182	2,159,897	-	-	-	-
Unearned revenue	2,489,048	2,426,417	-	-	40,311	59,338
Other accrued liabilities	4,618,272	4,116,345	309,135	862,735	8,818,351	16,920,700
Capital lease obligations (Note 5)	990,287	-	-	-	-	-
Bonds payable (Note 10)	870,000	850,000	-	-	1,585,584	949,874
Total current liabilities	<u>14,284,499</u>	<u>11,589,128</u>	<u>309,135</u>	<u>862,735</u>	<u>10,467,452</u>	<u>17,953,434</u>
Noncurrent liabilities						
Compensated absences (Note 5)	2,049,678	2,114,623	-	-	-	-
Annuity obligations	-	-	79,497	105,053	-	-
Post-employment benefits (Notes 5 & 8)	1,380,504	1,253,423	-	-	-	-
Capital lease obligations (Note 5)	2,047,527	-	-	-	-	-
Bonds payable (Note 10)	38,935,355	39,799,167	-	-	117,571,784	119,137,561
Net pension liability (Note 7)	30,682,166	-	-	-	-	-
Total noncurrent liabilities	<u>75,095,230</u>	<u>43,167,213</u>	<u>79,497</u>	<u>105,053</u>	<u>117,571,784</u>	<u>119,137,561</u>
Total liabilities	<u>89,379,729</u>	<u>54,756,341</u>	<u>388,632</u>	<u>967,788</u>	<u>128,039,236</u>	<u>137,090,995</u>
DEFERRED INFLOWS OF RESOURCES						
Net deferred inflows arising from GASB 68	640,414	-	-	-	-	-
NET POSITION						
Net investment in capital assets	46,521,597	45,097,603	-	-	-	-
Restricted						
Nonexpendable						
Student loans	5,613,363	5,148,652	874,430	860,620	-	-
Endowments	4,158,211	3,986,736	7,410,273	7,222,053	-	-
Annuity and life income	-	-	97,263	83,986	-	-
Expendable						
Current operations	585,915	343,750	8,241,879	7,548,989	-	-
Unrestricted	19,826,942	60,248,291	1,079,466	901,884	(5,020,758)	(2,361,221)
Total net position	<u>76,706,028</u>	<u>114,825,032</u>	<u>17,703,311</u>	<u>16,617,532</u>	<u>(5,020,758)</u>	<u>(2,361,221)</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 166,726,171</u>	<u>\$ 169,581,373</u>	<u>\$ 18,091,943</u>	<u>\$ 17,585,320</u>	<u>\$ 123,018,478</u>	<u>\$ 134,729,774</u>

The accompanying notes are an integral part of the financial statements

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2015 AND 2014

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2015	2014	2015	2014	2015	2014
OPERATING REVENUES						
Student tuition and fees (net of scholarship allowances of \$1,122,358 and \$917,844, respectively)	\$ 29,380,476	\$ 26,474,532	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	11,018,825	9,045,829	-	-	-	-
State grants and contracts	1,985,879	2,660,523	-	-	-	-
Local grants and contracts	15,559	49,575	-	-	-	-
Private grants and contracts	3,617,705	2,893,150	-	-	-	-
Contributions and bequests	-	-	2,370,984	2,447,391	-	-
In-kind contributions from NEOMED	-	-	1,137,409	1,054,907	343,960	332,188
Sales and services of departments	465,729	401,148	-	-	-	-
Sales and services of auxiliary enterprises	1,617,552	849,989	-	-	7,413,869	1,913,598
Other	301,542	465,188	63,778	115,133	-	-
Total operating revenues	48,403,267	42,839,934	3,572,171	3,617,431	7,757,829	2,245,786
OPERATING EXPENSES						
Educational and general						
Instruction and departmental research	18,454,170	16,967,523	169,432	200,076	-	-
Separately budgeted research	10,628,411	9,653,090	294,560	636,153	-	-
Public service	3,596,105	2,758,994	550,356	159,782	-	-
Academic support	8,602,817	8,710,783	356,021	792,862	-	-
Student services	2,048,443	1,854,787	-	-	-	-
Institutional support	9,802,075	11,278,807	1,490,026	1,217,956	-	-
Operation and maintenance of plant	8,486,853	5,921,216	-	250,001	-	-
Scholarships and fellowships	58,492	108,726	501,707	373,568	-	-
Auxiliary enterprises	6,122,096	1,199,559	-	-	1,204,774	2,451,766
Depreciation	6,758,175	5,539,095	-	-	3,457,526	461,081
Total operating expenses	74,557,637	63,992,580	3,362,102	3,630,398	4,662,300	2,912,847
Operating income (loss)	(26,154,370)	(21,152,646)	210,069	(12,967)	3,095,529	(667,061)
NONOPERATING REVENUES (EXPENSES)						
State appropriations	20,011,127	19,472,518	-	-	-	-
Investment income (loss)	(23,942)	9,048,894	396,625	1,803,076	-	-
Interest expense	(2,101,864)	(1,938,224)	-	-	(5,755,066)	(1,612,263)
Net nonoperating revenues/(expenses)	17,885,321	26,583,188	396,625	1,803,076	(5,755,066)	(1,612,263)
GAIN (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(8,269,049)	5,430,542	606,694	1,790,109	(2,659,537)	(2,279,324)
OTHER REVENUES, EXPENSES, GAINS OR LOSSES						
Capital appropriations and grants	1,824,300	839,913	-	-	-	-
Contributions permanently restricted	290,000	580,000	479,085	481,546	-	-
Total other revenues, expenses, gains or losses	2,114,300	1,419,913	479,085	481,546	-	-
INCREASE (DECREASE) IN NET POSITION	(6,154,749)	6,850,455	1,085,779	2,271,655	(2,659,537)	(2,279,324)
NET POSITION AT BEGINNING OF YEAR- AS PREVIOUSLY STATED						
	114,825,032	-	-	-	-	-
RESTATEMENT (NOTE 1)	(31,964,255)	-	-	-	-	-
NET POSITION AT BEGINNING OF YEAR- AS RESTATED	82,860,777	107,974,577	16,617,532	14,345,877	(2,361,221)	(81,897)
NET POSITION AT END OF YEAR	\$ 76,706,028	\$ 114,825,032	\$ 17,703,311	\$ 16,617,532	\$ (5,020,758)	\$ (2,361,221)

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 28,966,680	\$ 26,017,193
Grants and contracts	16,652,032	12,723,460
Employee compensation	(39,232,369)	(35,941,701)
Payments to suppliers	(24,818,219)	(28,287,958)
Payments for utilities	(2,140,218)	(1,788,541)
Student loan advances	(791,171)	(1,121,288)
Student loan repayments	641,333	635,462
Sales and services of auxiliary enterprises	1,057,396	857,695
Sales and services of departments	464,779	458,653
Other operating receipts	1,233,240	2,310,487
Net cash and cash equivalents used in operating activities	(17,966,517)	(24,136,538)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	20,011,127	19,472,518
Federal loan receipts	24,413,859	25,591,156
Federal loan disbursements	(24,413,859)	(25,591,156)
Net cash and cash equivalents provided by financing activities	20,011,127	19,472,518
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	1,939,388	589,912
Capital gifts and grants	290,000	830,000
Purchases of capital assets	(8,106,286)	(15,320,013)
Proceeds from capital lease	3,100,000	
Payments on capital lease	(62,186)	
Principal paid on debt	(850,000)	(835,000)
Interest paid on debt	(2,102,934)	(2,111,011)
Net cash and cash equivalents used in capital and related financing activities	(5,792,018)	(16,846,112)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment loss	(399,654)	8,750,275
Sale of investments	43,037,360	45,977,681
Purchase of investments	(36,017,676)	(45,944,488)
Net cash and cash equivalents provided by investing activities	6,620,030	8,783,468
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	2,872,622	(12,726,664)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,728,658	14,455,322
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 4,601,280	\$ 1,728,658

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014**

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

	<u>2015</u>	<u>2014</u>
Operating loss	\$ (26,154,370)	\$ (21,152,646)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	6,935,220	5,539,095
Gain on disposal of asset	(177,045)	
Changes in assets and liabilities		
Receivables	(381,736)	(6,612,179)
Inventories	(31,606)	(7,390)
Prepaid expenses and deferred charges	432,144	(1,052,024)
Notes receivable	24,739	(372,399)
Accounts payable	(12,768)	(2,548,087)
Accrued compensation	1,206,017	810,216
Deferred revenue	62,631	1,274,984
Net pension liability	(371,675)	
Other accrued liabilities	501,932	(16,108)
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	<u>\$ (17,966,517)</u>	<u>\$ (24,136,538)</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, 2015 and 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

The major associated community hospitals and health department are:

Major Teaching Hospitals and Health Department:

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

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

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

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

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

Basis of Presentation

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

Management’s Discussion and Analysis

Basic financial statements:

Statements of Net Position

Statements of Revenue, Expenses, and Changes in Net Position

Statements of Cash Flows

Notes to the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

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, 2015 and 2014, restricted cash and cash equivalents consists of \$940,292 and \$626,520, respectively, of cash restricted for loan purposes.

Investments

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

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

Accounts Receivable

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

Inventories

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

Bond Issuance Costs

Bond issuance costs are expensed as incurred.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

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 \$0 and \$176,761 as of June 30, 2015 and 2014, respectively.

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

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

Compensated Absences

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

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

Operating Revenue

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

Unearned Revenue

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

Scholarship Discounts and Allowances

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

Pensions

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

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The University deferred outflows of resources related to the net pension liability (see Note 7).

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The University deferred inflows of resources related to the net pension liability (see Note 7).

Net Position Classifications

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

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

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014

Use of Estimates

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

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Adoption of New Standard - The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Statements also enhance accountability and transparency through revised note disclosures and required supplemental information (RSI). In accordance with the statement, the University has recorded a net pension liability and related deferred inflow of \$(32.0) million as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014. June 30, 2014 amounts have not been restated to reflect the impact of GASB 68 because the information is not available to calculate the impact on pension expense for the fiscal year ended June 30, 2014.

Upcoming Accounting Pronouncements

GASB 72 - Fair Value of Measurement and Application - In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. NEOMED is currently evaluating the impact this standard will have on the financial statements when adopted, during the University's fiscal year ending June 30, 2016.

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

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 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, 2015 and 2014 are summarized as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
University's book value	\$4,601,280	\$1,728,658
Cash on hand	3,524	2,575
Bank balances	5,480,033	3,500,260

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, 2015 and 2014, \$646,769 and \$454,381, respectively, was covered by federal depository insurance and \$4,833,264 and \$3,045,879, respectively, was uncollateralized as defined by GASB.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

The University's investments, at fair value, at June 30, 2015 and 2014 are summarized as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Money market funds	\$ 845,230	\$ 2,071,646
U.S. government obligations	1,188,190	199,681
U.S. government agency obligations	11,357,165	3,081,046
Corporate bonds and notes	18,045,683	21,566,891
Fixed income mutual funds	759,632	617,329
Equities	12,806,620	28,850,994
Other	411,885	300,000
State Treasury Asset Reserve of Ohio Plus	4,255,571	14,445
State Treasury Asset Reserve of Ohio	<u>18,398</u>	<u>6,025</u>
Total Investments	<u>\$49,688,374</u>	<u>\$ 56,708,057</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, 2015 are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. government obligations	\$1,188,190	\$ -	\$1,120,402	\$ -	\$ 67,788
U.S. government agency obligations	11,357,165	6,755,983	1,216,870	-	3,384,312
Corporate bonds and notes	<u>18,045,683</u>	<u>57,909</u>	<u>10,955,962</u>	<u>463,546</u>	<u>6,568,266</u>
Total	<u>\$30,591,038</u>	<u>\$6,813,892</u>	<u>\$13,293,234</u>	<u>\$463,546</u>	<u>\$10,020,366</u>

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

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

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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, 2015 were as follows:

Credit Rating (S&P)	Total	U.S. Government Obligations	U.S. Agency Obligations	Corporate Bonds and Notes
AAA	\$ 12,510,025	\$ 1,188,190	\$ 11,321,835	\$ -
AA	515,678	-	35,330	480,348
A	3,923,397	-	-	3,923,397
BBB	13,641,938	-	-	13,641,938
Total	<u>\$ 30,591,038</u>	<u>\$ 1,188,190</u>	<u>\$ 11,357,165</u>	<u>\$ 18,045,683</u>

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

Credit Rating (S&P)	Total	U.S. Government Obligations	U.S. Agency Obligations	Corporate Bonds and Notes
AAA	\$ 3,237,814	\$ 199,681	\$3,038,133	\$ -
AA	1,134,942	-	42,913	1,092,029
A	3,722,244	-	-	3,722,244
BBB	16,752,618	-	-	16,752,618
Total	<u>\$ 24,847,618</u>	<u>\$ 199,681</u>	<u>\$3,081,046</u>	<u>\$ 21,566,891</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. At June 30, 2015 and 2014, the University had no exposure to concentration of credit risk.

Foreign currency risk. Foreign currency risk is that risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2015 and 2014, 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, 2015 and 2014:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Student notes	\$4,673,070	\$ 4,523,334
Grants and contracts	4,151,964	4,520,490
Sales and services	757,793	1,497,829
ERS Strategic Properties, Inc.	7,376,566	6,550,876
Tuition and fees	<u>573,281</u>	<u>95,859</u>
Total accounts and notes receivable	17,532,674	17,188,388
Less current portion	<u>(13,302,703)</u>	<u>(12,930,149)</u>
Accounts and notes receivable, Non-current portion	<u>\$ 4,229,971</u>	<u>\$ 4,258,239</u>

Federal Direct Loans Program processed for students by the University during the years ended June 30, 2015 and 2014 totaled \$24,067,761 and \$24,723,935, 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, 2015 was as follows:

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

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
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5. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2015 and 2014 are as follows:

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

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

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

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

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

	<u>Principal</u>	<u>Interest</u>
2016	\$ 990,287	\$ 116,041
2017	1,035,621	70,707
2018	1,011,906	23,919
	<u>\$ 3,037,814</u>	<u>\$ 210,667</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
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6. COMMITMENTS AND CONTINGENCIES

The University has entered into various contractual service agreements with its consortium universities, associated hospitals and health departments primarily for clinical instruction, research and other services. For fiscal years ended June 30, 2015 and 2014, these instructional expenses relating to contracts totaled \$3,490,350 and \$3,969,515, respectively. At June 30, 2015 and 2014, the University had recorded accrued liabilities of \$1,775,573 and \$1,855,395, 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. EMPLOYEE BENEFIT PLANS

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

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

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

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

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

Member contributions are 10 percent of gross wages for the OPERS plan and 12 percent of gross wages for the STRS plans, set at the maximums authorized by the ORC. The plans' 2014 contribution rates on covered payroll to each system are:

	2014 Employer Contribution Rate			
	Post			
		Retirement	Death	
	Pension	Healthcare	Benefits	Total
STRS	13.00%	1.00%	0.00%	14.00%
OPERS- State	12.00%	2.00%	0.00%	14.00%

The plans' 2015 contribution rates on covered payroll to each system are:

	2015 Employer Contribution Rate			
	Post			
		Retirement	Death	
	Pension	Healthcare	Benefits	Total
STRS	14.00%	0.00%	0.00%	14.00%
OPERS- State	12.00%	2.00%	0.00%	14.00%
OPERS- Law Enforcement and Public Safety	16.10%	2.00%	0.00%	18.10%

The Universities required and actual contributions to the plans are:

	For the years ended 6/30		
	2015	2014	2013
STRS	\$ 1,058,973	\$ 936,479	\$ 888,073
OPERS	\$ 2,061,155	\$ 1,873,569	\$ 1,639,573
	\$ 3,120,128	\$ 2,810,048	\$ 2,527,646

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Benefits Provided

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

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

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

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

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

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

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

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

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

Plan	Measurement Date	Net Pension Liability		Proportionate Share		Percentage Change
		2015	2014	2015	2014	
STRS	July 1	\$ (18,190,132)	\$ (21,609,613)	0.07478%	0.07478%	0.00%
OPERS	December 31	\$ (12,492,034)	\$ (12,245,214)	0.10406%	0.10406%	0.00%

For the years ended June 30, 2015 and 2014, the University recognized pension expense of \$4,148,146 and \$3,656,386, respectively. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

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

Year Ending June 30	Amount
2016	\$(734,829)
2017	(734,829)
2018	(648,652)
2019	(631,338)
2020	(1,871)
Thereafter	(6,275)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2016).

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

	<u>STRS - as of 6/30/14</u>	<u>OPERS - as of 12/31/14</u>
Valuation date	July 1, 2014	December 31, 2014
Actuarial cost method	Entry age normal	Individual entry age
Cost of living	2.0 percent	3.0 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	4.25 percent - 10.05 percent
Inflation	2.75 percent	3.75 percent
Investment rate of return	7.75 percent, net of pension plan investment expense	8.00 percent, net of pension plan investment expense
Experience study date	Period of 5 years ended July 1, 2012	Period of 5 years ended December 31, 2010
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022–Scale AA)	RP-2000 mortality table projected 20 years using Projection Scale AA

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

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

<u>STRS</u>			<u>OPERS</u>		
Investment Category	Target Allocation	Long-term Expected Real Rate of Return	Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	31.00%	5.50%	Fixed Income	23.00%	2.31%
International Equity	26.00%	5.35%	Domestic Equities	19.90%	5.84%
Alternatives	14.00%	5.50%	Real Estate	10.00%	4.25%
Fixed Income	18.00%	1.25%	Private Equity	10.00%	9.25%
Real Estate	10.00%	4.25%	International Equity	19.10%	7.40%
Liquidity Reserves	1.00%	0.50%	Other Investments	18.00%	4.59%
Total	<u>100%</u>		Total	<u>100%</u>	

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

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

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

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

8. OTHER POST-EMPLOYMENT BENEFITS

Background

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

Plan Description

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

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

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

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Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Annual required contribution	\$ 221,717	\$ 229,359
Interest on net OPEB obligation	75,205	67,246
Adjustment to annual required contribution	<u>(85,913)</u>	<u>(76,814)</u>
Annual OPEB cost (expense)	211,009	219,791
Employer contribution (pay-as-you-go)	<u>(83,928)</u>	<u>(87,139)</u>
Increase in net OPEB obligation	127,081	132,652
Net OPEB obligation, beginning of year	1,253,423	1,120,771
Net OPEB obligation, end of year	<u>\$ 1,380,504</u>	<u>\$ 1,253,423</u>
Actuarial contribution rate	39.77%	39.65%

For the year ended June 30, 2015, the University estimated the cost of \$1,380,504 based on actuarial valuation as of June 30, 2015.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Actuarial Methods and Assumptions

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

The valuation of the liability as of June 30, 2015 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	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	% of Covered Payroll
6/30/2015	\$0	\$2,677,149	\$2,677,149	0.00%	\$2,201,638	121.60%
6/30/2014	\$0	\$2,685,931	\$2,685,931	0.00%	\$2,241,522	119.83%
6/30/2013	\$0	\$3,326,854	\$3,326,854	0.00%	\$2,670,810	124.56%
6/30/2012	\$0	\$4,453,852	\$4,453,852	0.00%	\$2,676,674	166.40%
6/30/2011	\$0	\$5,372,684	\$5,372,684	0.00%	\$3,108,647	172.83%
6/30/2010	\$0	\$4,593,702	\$4,593,702	0.00%	\$3,524,376	130.34%
6/30/2009	\$0	\$4,419,638	\$4,419,638	0.00%	\$3,791,167	116.58%

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

2015-16	8.00%
2016+	7.50

**NORTHEAST OHIO MEDICAL UNIVERSITY
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FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

9. POST-RETIREMENT HEALTHCARE BENEFITS (IN WHOLE NUMBERS)

OPERS provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying State service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS. The employer contribution rate allocated for health care for members in the Traditional Plan was 2.0% of covered payroll for 2014. For employees in the Combined Plan, the employer contribution rate allocated to health care was 2.0% for 2014 and 2015.

OPERS benefits are advance-funded on an actuarially determined basis. As of December 31, 2013, OPERS reported the actuarially accrued liability and the unfunded actuarial accrued liability for Other Post Employment Benefits (OPEB) at \$19.8 billion and \$7.7 billion, respectively. Significant actuarial assumptions include a 5% investment return, a 3.75% individual pay increase, and healthcare costs are assumed to increase initially at 8% before leveling off at 3.75% in 2024. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. As of December 31, 2013, the actuarial value of the retirement system's net assets available for other post-employment benefits was \$12.0 billion. The number of active contributing participants in the traditional and combined plans was 347,727 as of December 31, 2013.

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.

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. Through June 30, 2014, the State Teachers Retirement Board allocated employer contributions, which equals 1% of covered payroll, to a healthcare stabilization fund from which health care benefits are paid. Effective July 1, 2014, no employer contributions are being allocated to healthcare. The balance in the healthcare reserve fund was \$3.58 billion at June 30, 2014.

For the year ended June 30, 2014 (latest information available), net healthcare costs paid by STRS were \$629 million. There were 152,208 eligible benefit recipients on June 30, 2014.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

10. 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, 2015 and 2014 was \$39,805,355 and \$40,649,167, respectively.

The bond discount on the November 2011 bonds totaled \$194,911 with an accumulated amortized balance of \$25,266 and \$19,078 as of June 30, 2015 and 2014, respectively. The discount is being amortized to interest expense over the life of the bonds on the interest method. There is no discount or premium on the 2010 bonds.

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

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

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

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

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

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2015 are summarized as follows:

Year Ending June 30	Principal	Interest	Interest Subsidy *	Net Interest	Total
2016	\$ 870,000	\$ 2,062,520	\$ (397,438)	\$ 1,665,082	\$ 2,535,082
2017	890,000	2,034,632	(391,942)	1,642,690	2,532,690
2018	915,000	2,004,627	(385,696)	1,618,931	2,533,931
2019	940,000	1,966,208	(378,442)	1,587,766	2,527,766
2020	975,000	1,924,617	(374,519)	1,550,098	2,525,098
2021-2025	5,390,000	8,959,167	(1,727,813)	7,231,354	12,621,354
2026-2030	3,995,000	7,514,519	(1,421,740)	6,092,779	10,087,779
2031-2035	7,370,000	5,529,245	(1,008,921)	4,520,324	11,890,324
2036-2040	3,660,000	2,945,798	(490,325)	2,455,473	6,115,473
2041-2043	14,970,000	384,330	(26,285)	358,045	15,328,045
	<u>\$ 39,975,000</u>	<u>\$ 35,325,663</u>	<u>\$ (6,603,121)</u>	<u>\$ 28,722,542</u>	<u>\$ 68,697,542</u>

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

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II. 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 two levels of coverage to employees: the Core Plan and the Enhanced Plan. All full-time NEOMED employees who work 40 hours or more per week are eligible for coverage. The US Affordable Health Care Act (ACA) also allows any employee who works an average of 30 hours per week over a given measurement period of 12 months the option to choose to enroll in the medical coverage. The employee contributions vary depending upon the level of coverage elected.

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

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

Changes in the self-insurance claims liability for the years ended June 30, 2015, 2014 and 2013 are summarized as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Accrued claims liability - Beginning of year	\$ 601,059	\$ 409,438	\$ 374,472
Incurred claims - Net of favorable settlements	2,769,802	3,096,092	2,691,608
Claims paid	<u>(2,854,477)</u>	<u>(2,904,471)</u>	<u>(2,656,642)</u>
Accrued claims liability - End of year	<u>\$ 516,384</u>	<u>\$ 601,059</u>	<u>\$ 409,438</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

12. RELATED PARTY TRANSACTIONS

NEOMED Foundation - For the years ended June 30, 2015 and 2014, the University has received distributions from the Foundation in the amount of \$2,105,500 and \$2,574,517, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted student loans of \$85,442 and \$67,480, respectively, for the years ended June 30, 2015 and 2014.

The University received reimbursements of \$161,141 and \$224,231, respectively, from the Foundation for management, fundraising, services, and office space during the years ended June 30, 2015 and 2014. 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 \$1,137,409 and \$1,054,907, respectively, for the years ended June 30, 2015 and 2014.

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

ERS Strategic Properties - ERS Housing LLC is operated for the purpose of developing, constructing and equipping housing for students, faculty, staff and guests of Northeast Ohio Medical University. ERS HWMEC LLC will provide for the development, construction and equipping of a health, wellness and medical education center to promote the educational, social and physical well-being of students, faculty, and staff of Northeast Ohio Medical University. ERS Bradley LLC and ERS Contiguous Properties LLC will provide additional land for the University's future needs. ERS MOB LLC will be a medical office building for community physicians to give care to patients and be a resource for student clinical rotations.

For the years ended June 30, 2015 and 2014, the University made payments on behalf of ERS in the amount of \$825,691 and \$5,488,580, respectively, for expenses and capitalized items related to the company start-up and deferred financing costs. Amounts for such services provided by the University which are not reimbursed by ERS are reported as in-kind contributions in the Statements of Revenues, Expenses, and Changes in Net Position. The University's in-kind support for these services was valued at \$343,960 and \$332,188, respectively, for the years ended June 30, 2015 and 2014.

At June 30, 2015, ERS had accounts payable to NEOMED totaling \$7,376,566 for construction, equipment, consulting, and legal fees which was paid by NEOMED on behalf of ERS.

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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13. 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 2015 or 2014.

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

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

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

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 244,907	\$ 244,907	\$ 147,730	\$ 147,730
Cash surrender value of life insurance	236,646	236,646	239,230	239,230
Equities	6,162,732	8,378,903	5,430,217	7,606,180
Other	112,518	321,719	108,682	339,211
Fixed income	<u>4,443,370</u>	<u>5,710,444</u>	<u>4,576,345</u>	<u>5,968,405</u>
 Total long-term investments	 <u>\$11,200,173</u>	 <u>\$14,892,619</u>	 <u>\$10,502,204</u>	 <u>\$14,300,756</u>

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Details of the Foundation's restricted net assets at June 30, 2015 and 2014 are as follows:

Temporarily restricted net assets as of June 30:

	<u>2015</u>	<u>2014</u>
Instruction and departmental research	\$ 1,430,735	\$ 1,375,516
Separately budgeted research	477,473	727,404
Public service	431,156	768,616
Academic support	1,049,937	1,412,727
Institutional support	2,208,167	959,007
Plant operation and maintenance	11,243	8,785
Student scholarships and other student aid	2,424,786	2,085,970
Deferred gift annuity	236,648	239,230
Allowance for uncollectible pledges	<u>(28,266)</u>	<u>(28,266)</u>
Total temporarily restricted net assets, June 30	<u>\$ 8,241,879</u>	<u>\$ 7,548,989</u>

Permanently restricted net assets as of June 30:

	<u>2015</u>	<u>2014</u>
Student loans	\$ 874,430	\$ 860,620
Endowments requiring earnings only be made available for:		
Student scholarships and awards	3,639,440	3,462,221
Student loans	100,236	100,236
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	671,780	664,452
Deferred gift annuity	97,263	83,986
Allowance for uncollectible pledges	<u>(3,654)</u>	<u>(7,327)</u>
Total permanently restricted net assets, June 30	<u>\$ 8,381,966</u>	<u>\$ 8,166,659</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
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14. COMPONENT UNIT - ERS STRATEGIC PROPERTIES, INC.

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

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

ERS Capital Assets

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

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Capital asset activity for the year ended June 30, 2014 was as follows:

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

FUNDS HELD BY TRUSTEE

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

At June 30, 2015 and 2014, fund balances held by the Trustee were as follows:

	2015	2014
<u>ERS HWMEC LLC</u>		
Bond proceeds fund	\$ 3,087,695	\$ 22,913,144
Capitalized interest fund	-	124,600
	3,087,695	23,037,744
 <u>ERS Housing LLC</u>		
Revenue fund	\$ 7,081	\$ -
Repair & Replace fund	67,802	-
Sinking fund	165,884	161,590
Surplus fund	29,844	1,690
	270,611	163,280
 Total	 \$ 3,358,306	 \$ 23,201,024

BONDS PAYABLE

In 2012, ERS Housing LLC worked with the Portage County Port Authority to issue tax-exempt bonds in the amount of \$36,680,000. As of June 2012, when the bonds were issued, ERS did not yet have tax-exempt status, and ERS partnered with Portage County Port Authority to issue tax-exempt bonds. The proceeds from this issuance were used for the construction of NEOMED apartments. The bonds were assumed from the Portage County Port Authority by ERS in November 2012 when ERS received its tax-exempt status. The bonds are in various denominations, with fixed interest rates of 2.0 to 5.0 percent and a maturity date of June 1, 2044. The balance outstanding as of June 30, 2015 was \$36,460,000.

In November 2012, ERS HWMEC LLC issued a senior secured note in the amount of \$84,000,000. The proceeds from this issuance are being used for the construction of a health, wellness and medical education building. The bonds are in various denominations, with a fixed interest rate of 4.89 percent (and an additional .042 percent if NEOMED's credit rating were downgraded) and a maturity date of November 8, 2044. The balance outstanding as of June 30, 2015 was \$83,270,126.

The original bond discount for the ERS Housing bonds totaled \$633,830, with an unamortized balance of \$572,758 as of June 30, 2015. The discount is being amortized straight-line over the life of the bonds and is included in interest expense in the accompanying Statement of Activities and Changes in Net Position. There is no discount or premium on the ERS HWMEC bonds.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

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

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

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

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

These obligations are secured by a gross pledge of and first lien on the General Receipts of NEOMED. The General Receipts include the full amount of every type and character of campus receipts, except for State appropriations and receipts previously pledged or otherwise restricted. NEOMED has complied with all covenants as of June 30, 2015 and 2014.

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2015 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2016	\$ 1,585,584	\$ 6,163,838	\$ 7,749,422
2017	1,725,627	6,081,894	7,807,521
2018	1,863,923	5,998,214	7,862,137
2019	2,010,635	5,908,182	7,918,817
2020	2,165,934	5,810,060	7,975,994
2021-2025	13,342,737	27,253,283	40,596,020
2026-2030	17,232,608	23,328,323	40,560,931
2031-2035	21,872,987	18,357,554	40,230,541
2036-2040	27,917,457	11,894,422	39,811,879
2041-2045	30,012,634	3,681,398	33,694,032
	<u>\$ 119,730,126</u>	<u>\$ 114,477,168</u>	<u>\$ 234,207,294</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Other Required Supplemental Information for GASB 68

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

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

Schedule of University's Contributions

	2015	
	OPERS	STRS
Statutorily required contribution	\$ 2,061,155	\$ 1,058,973
Contributions in relation to the actuarially determined contractually required contribution	\$ 2,061,155	\$ 1,058,973
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 10,835,601	\$ 6,435,411
Contributions as a percentage of covered employee payroll	19.02%	16.46%

**NORTHEAST OHIO MEDICAL UNIVERSITY
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FOR THE YEARS ENDED JUNE 30, 2015 and 2014**

Supplemental Information

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

Independent Auditor's Report

To Management and the Board of Trustees
Northeast Ohio Medical University

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Northeast Ohio Medical University and its discretely presented component units (the "University") as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 15, 2015.

Internal Control Over Financial Reporting

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

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

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

To Management and the Board of Trustees
Northeast Ohio Medical University

Compliance and Other Matters

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

Purpose of this Report

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

Plante & Moran, PLLC

Toledo, Ohio
October 15, 2015

Report on Compliance for the 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 the 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 its major federal program for the year ended June 30, 2015. Northeast Ohio Medical University's major federal program is 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 its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Northeast Ohio Medical University's major federal program 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 the major federal program. However, our audit does not provide a legal determination of Northeast Ohio Medical University's compliance.

To the Board of Trustees
Northeast Ohio Medical University

Opinion on the 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 its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Northeast Ohio Medical University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northeast Ohio Medical University's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 & Moran, PLLC

Toledo, Ohio
October 15, 2015

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
STUDENT FINANCIAL AID CLUSTER			
Department of Education			
<i>Office of Student Financial Assistance Program</i>			
William D Ford Federal Direct Loan Program	84.268	N/A	\$ 24,067,761
Federal Perkins Loan Program	84.038	N/A	<u>2,171,556</u>
<i>Total Office of Student Financial Assistance Program</i>			<u>26,239,317</u>
Total Department of Education			26,239,317
Department of Health & Human Services			
<i>Health Resources and Services Administration</i>			
Health Prof Student Loan Prgm--Loans to Disadvantaged Students	93.342	N/A	2,868,048
Health Prof Student Loan Prgm--Primary Care Loans	93.342	N/A	<u>1,182,957</u>
<i>Total Health Resources and Services Administration</i>			<u>4,051,005</u>
Total Department of Health & Human Services			4,051,005
TOTAL STUDENT FINANCIAL AID CLUSTER			\$ 30,290,322
MEDICAID CLUSTER			
Department of Health and Human Services			
<i>Centers for Medicare and Medicaid Services</i>			
<i>Passed through the Ohio Department of Medicaid-</i>			
<i>Passed through the Ohio State University</i>			
MEDTAPP Community Healthcare Worker	93.778	60046085	\$ 493,848
DHHS- OSU- FY15 MEDTAPP Healthcare Access Grant Continuation and Expansion	93.778	G-1415-07-006	970,819
MEDTAPP UT Interprofessional Healthcare Provider Development	93.778	C-122988-03	<u>107,755</u>
<i>Total Centers for Medicare and Medicaid Services</i>			<u>1,572,422</u>
Total Department of Health and Human Services			1,572,422
TOTAL MEDICAID CLUSTER			\$ 1,572,422
RESEARCH AND DEVELOPMENT CLUSTER			
Department of Health and Human Services			
<i>Agency for Healthcare Research and Quality</i>			
AHRQ- Professional Judgements about Advance Care Planning in Skilled Nursing Facilities	93.226	1R03HS022162-01A1	\$ 80,365
<i>Passed through Case Western University</i>			
AHRQ-Collaborative Ohio Inquiry Network (COIN)	93.226	RESS09337	<u>5,600</u>
<i>Total Agency for Healthcare Research and Quality</i>			85,965

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
Department of Health and Human Services (Continued)			
<i>National Institutes of Health</i>			
NIH - Cholinergic Circuits in the Ventral Cochlear Nucleus	93.173	1F31DC014228-01A1	\$ 19,035
NRSA- Differential Pathologies Resulting from Sound Exposure: Tinnitus vs. Hearing Loss	93.173	5F31DC013498-02	25,844
NIH-Cholinergic Inputs to Excitatory and Inhibitory Midbrain Circuits	93.173	5F32DC012450-03	53,919
NIH-G- Protein-Coupled Receptors in Hearing Physiology	93.173	5R01DC008984-05	69,865
NIH- Amelioration of Presbycusis by Blocking T-type Calcium Channels with Antiepileptic	93.173	5R01DC011793-05	136,595
NIH- Binaural and Top-Down Mechanisms in Auditory Scene Analysis	93.173	1R03DC012871-02	142,810
NIH- Neural Mechanism Underlying Sound-Evoked Suppression of Tinnitus: Residual Inhibition	93.173	5R01DC011330-04	306,971
NIH- Dysphagia and Recovery After Vagal or Laryngeal Nerve Injury	93.173	R01DC009980-06	326,121
NIH- Auditory Processing Deficits in Early-Onset Conductive Hearing Loss	93.173	5R01DC013314-02	326,877
NIH- Functional Anatomy of the Auditory System	93.173	5R01DC004391-15	330,268
NIH- Development of a Drug Therapy to Ameliorate Permanent Hearing Loss	93.173	7R33DC010489-06	369,006
NIH- Auditory Information Processing in the Amygdala	93.173	5R01DC000937-24	419,899
<i>Passed through Gateway Biotechnology Inc</i>			
NIH - Gate - A New Two - Drug Combination Therapy for Noise - Induced Hearing Loss	93.173	N/A	31,355
Total CFDA #93.173			<u>2,558,565</u>
NIH- Suppression of SHH Expression in Arthritis by Butea monosperma	93.213	5R01AT007373-02	509,187
NIH- Suppression of MMP-13 Expression in Arthritis by Pomegranate	93.213	1R01AT005520-6	514,727
Total CFDA #93.213			<u>1,023,914</u>
NIH - Effect of Ethanol on Lipid Metabolism	93.273	5R01AA013623-13	103,256
NIH - Ethanol Regulation of Adiponectin and its Signaling	93.273	7R01AA015951-10	204,530
<i>Passed through University of South Florida</i>			
NIH-USF Impact of Ethanol-Induced Protein Nitration on the Histone Modification Code	93.273	5R21AA022185-02	12,111
NIH-USF Role of PHPT1 in Oxidative Stress-Induced Epigenetic Modification by Ethanol	93.273	1210-1037-00-A	14,306
Total CFDA #93.273			<u>334,203</u>
<i>Passed through Cleveland State University</i>			
NIH-CSU- Dissemination of Evidence-Based Health Disparity Interventions	93.307	0513-1003347386-01	8,928
NIH-C- Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1	41,623
NIH-Reactive Oxygen Species in Coronary Collateral Growth	93.837	5R01HL083366-05	48,511
NIH-M- Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1	64,030
NIH- Induction of Coronary Arteriogenesis by Reprogrammed Cells	93.837	1R15HL115540-01	70,027
NIH- Myocardial Injury Associated with Mitochondria-Derived Oxygen Free Radical (s)	93.837	5R01HL083237	326,870
NIH- Regulation of Lipid and Lipoprotein Metabolism by Nuclear Receptors	93.837	5R01HL103227-04	346,008
NIH- Mechanisms of Coronary Vasomotor Control	93.837	5R01HL115114-03	360,081
Total CFDA #93.837			<u>1,257,150</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
Department of Health and Human Services (Continued)			
NIH - Uridylation of miRNAs by ZCCHC6 Regulates IL-6 Expression in Arthritis	93.846	1R01AR067056-01A1	\$ 46,093
NIH- The Role of Osteoactivin Development and Function	93.846	5R01AR048892-11	83,549
<i>Passed through Case Western Reserve University</i>			
NIH - Identification of Plasma microRNA Expression Profile in Ankylosing Spondylitis	93.846	RES509260	58,784
Total CFDA #93.846			<u>188,426</u>
NIH-NRSA-Effects of Sleep Deprivation and High Fat Diet on Human	93.847	5F32DK096784-03	57,418
NIH-Identification of Novel Genes/Pathways That Regulate Lipid and Glucose Metabolism	93.847	5R01DK095895-03	285,705
NIH- Regulation of Bile Acid Synthesis by Nuclear Receptors	93.847	5R37DK058379-28	328,377
NIH - Molecular Biology of Bile Acid Synthesis	93.847	2R01DK044442-19	352,300
NIH-Hepatic Lipid Mobilization by Nuclear Hormone Receptors	93.847	5R01DK093774-03	363,844
NIH-Axonopathy in Glaucoma	93.847	5R01EY022358-04	433,367
<i>Passed through Summa Health System Hospitals</i>			
NIH- SUMMA- Comparative Effectiveness of Two Community Based Diabetes Management Approaches	93.847	89511-C	1,462
NIH - SUMMA - Comparative Effectiveness of Two Community Based Diabetes Management Approaches	93.847	89080-E	2,153
Total CFDA #93.847			<u>1,824,626</u>
<i>Passed through University of Wisconsin</i>			
NIH-The Genetics and Extreme Body Size in Mice From Gough Island	93.859	5R01GM100426-02	63,659
Total National Institutes of Health			<u>7,259,471</u>
Total Department of Health and Human Services			7,345,436
National Science Foundation			
NSF- A Novel Database and Ontology for Evolutionary Analyses of Mammalian Feeding Physiology	47.074	DBI-1062332	(2)
NSF- Collaborative Research: ABI Innovation: A Novel Database and Ontology for Interdisciplinary Analyses of Mammalian Feeding	47.074	DBI- 1343588	7,431
NSF- Natural Selection on Growth and Locomotor Performance in Eastern Cottontail Rabbits (Sylvilagus Floridanus)	47.074	IOS- 1146916	83,579
Total CFDA #47.074			<u>91,008</u>
NSF- REU Supplement to The Biomechanics of Arboreal Stability: an Integrated Analysis	47.075	1126790	3,079
NSF- The Biomechanics of Arboreal Stability: An Integrated Analysis	47.075	1126790	73,678
Total CFDA #47.075			<u>76,757</u>
Total National Science Foundation			167,765
US Department of Agriculture			
<i>Passed through North Carolina State University</i>			
USDA - NC State - A Comprehensive Understanding of the Role of Flavor and Texture in the Eating Experience and Satiety	10.310	2013-1755-01	1,180
Total US Department of Agriculture			1,180
Department of Defense			
<i>U.S. Army Medical Command</i>			
<i>Passed Through Wake Forest University - Passed Through The Cleveland Clinic Foundation</i>			
DOD- Wake-CC- Re-Establishing Homing to Regenerate an Injured Anal Sphincter to Aid Continence	12.420	428-SUB	20,605
Total Department of Defense			20,605

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
Department of the Interior			
<i>US Fish and Wildlife Service</i>			
<i>Passed Through North Slope Borough Wildlife Management Department</i>			
USFWS-NSB-Determining the Age and Hearing Ability in Bowhead and Beluga Whales	15.668	2012-110	\$ 56,100
Total Department of the Interior			56,100
Office of Personnel Management			
Louis Stokes VA Medical Center IPA	27.011	N/A	15,429
Total Office of Personnel Management			15,429
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			\$ 7,606,515
TOTAL CLUSTERS			\$ 39,469,259
OTHER PROGRAMS			
Department of Justice			
<i>Bureau of Justice Assistance</i>			
<i>Passed through Ohio Office of Criminal Justice Services</i>			
DOJ - OCJS - Assessing Integration of Criminogenic Risk and Behavioral Health Needs in Ohio Mental Health Courts	16.738	2014-JG-E01-6026	\$ 18,579
DOJ - OCJS - Ohio Cross Systems Mapping Initiative CY15	16.738	2014-JG-E01-6963	20,859
DOJ-OCJS-Ohio Cross Systems Mapping Initiative CY14	16.738	2013-JG-E01-6963	25,740
<i>Passed Through National Alliance for the Mentally Ill</i>			
NAMI- Ohio Crisis Intervention Team CY 201	16.738	N/A	4,896
Total CFDA # 16.738			70,074
Total Department of Justice			70,074
Department of Health and Human Services			
<i>Health Resources and Services Administration</i>			
HRSA Physician Faculty Development in Primary Care	93.884	D55HP20645-05-00	212,202
<i>Passed through The University of Toledo</i>			
HRSA-AHEC Point of Service Maintenance and Enhancement Award Year 2	93.107	F2014-13	77,943
HRSA-AHEC-Point of Service Maintenance and Enhancement Award Yr3	93.107	F2015-87	222,416
Total CFDA #93.107			300,359
<i>Total Health Resources and Services Administration</i>			512,561
<i>National Institutes of Health</i>			
<i>Passed through Cleveland State University</i>			
NIH - AAMC - CSU - YR3 - Urban Universities for Health: NEOMED - CSU Partnership	93.307	200000546	30,374
<i>Total National Institutes of Health</i>			30,374
<i>Agency for Healthcare Research and Quality</i>			
<i>Passed through Case Western University</i>			
AHRQ-Collaborative Ohio Inquiry Network (COIN)	93.226	RES508468	1,353
<i>Total Agency of Healthcare Research and Quality</i>			1,353

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
OTHER PROGRAMS (Continued)			
Department of Health and Human Services (Continued)			
<i>Substance Abuse and Mental Health Services Administration</i>			
SAMHSA - Ohio Program for Campus Safety and Mental Health	93.243	5U79SM060506-03	\$ 15,966
<i>Passed through Greater Cincinnati Behavioral Health</i>			
SAMHSA - Evidence - Based Programs to Address First Episode Psychosis - Greater Cincinnati Behavioral Health	93.958	N/A	93,275
<i>Passed through Coleman Professional Services Inc</i>			
SAMHSA - Coleman - Evidence - Based Programs to Address First Episode Psychosis - Coleman	93.958	N/A	135,855
<i>Passed through the Summit County ADM Board</i>			
SAMHSA - Criminal Justice CCoE FY15	93.958	N/A	187,521
Total CFDA #93.958			<u>416,651</u>
<i>Total Substance Abuse and Mental Health Services Administration</i>			<u>432,617</u>
Total Department of Health and Human Services			976,905
Corporation for National and Community Service			
<i>Passed through Ohio Commission on Service and Volunteerism</i>			
AmeriCorps Rural Health Care Corps with HPAC	94.006	12AFH-1502-14-OC115	19,817
AmeriCorps FY 15	94.006	12AFH-1502-15-OC115	205,738
Total CFDA #94.006			<u>225,555</u>
Total Corporation for National and Community Service			225,555
Department of Education			
<i>Passed through Ohio Department of Education</i>			
ODE- 21st Century Community Learning Centers (Brown Local Schools)			
ODE- 21st Century Community Learning Centers (Brown Local Schools) Year 2	84.287	7055	52,965
ODE- 21st Century Community Learning Centers (Brown Local Schools) Year 2	84.287	7055	184,191
Total CFDA #84.287			<u>237,156</u>
Total Department of Education			237,156
TOTAL OTHER PROGRAMS			1,509,690
TOTAL EXPENDITURES OF FEDERAL PROGRAMS			\$ 40,978,949

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Northeast Ohio Medical University under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Northeast Ohio Medical University, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of Northeast Ohio Medical University.

Note 2 - Summary of Significant Accounting Policies

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

Note 3 - Loans Issued

The University issued \$150,000 of Perkins loans and \$630,500 of Health Professional Student Loans during the year ended June 30, 2015. The outstanding loan balances at June 30, 2015 are included in the federal expenditures presented in the Schedule.

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2015

Note 4 - 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
MEDTAPP Community Health Worker	93.778	\$ 99,453
HRSA Physician Faculty Development in Primary Care	93.884	29,599
NIH- Dysphagia and Recovery After Vagal or Laryngeal Nerve Injury	93.173	27,167
HRSA- AHEC Point of Service Maintenance and Enhancement Award Year 2	93.107	56,567
NIH- Mechanisms of Coronary Vasomotor Control	93.837	71,938
NIH- Myocardial Injury Associated with Mitochondria-Derived Oxygen Free Radical (s)	93.837	23,045
ODE- 21st Century Community Learning Centers (Brown Local Schools)	84.287	52,965
NIH- Development of a Drug Therapy to Ameliorate Permanent Hearing Loss	93.173	20,077
SAMHSA - Criminal Justice CCoE FY15	93.958	10,000
ODE- 21st Century Community Learning Centers (Brown Local Schools) Year 2	84.287	164,841
DHHS - OSU - FY 2015 MEDTAPP Healthcare Access Grant Continuation and Expansion	93.778	579,947
HRSA-AHEC-Point of Service Maintenance and Enhancement Award Yr3	93.107	<u>160,932</u>
Total		<u>\$ 1,296,531</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

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 program:

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

Dollar threshold used to distinguish between type A and type B programs: \$1,229,368

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS

None

Section III - FEDERAL PROGRAM AUDIT FINDINGS

None

**NORTHEAST OHIO MEDICAL UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Planned Corrective Action
2014-001	Student Financial Aid Cluster	The University transmits student enrollment data to the Federal Clearinghouse from September through June, but not usually during July and August. During the June reporting period, the registrar's office failed to update the status of graduated students from full time to graduated. During August, a report was submitted which picked up these changes; however, it was not within the required time frame.	Complete	The 12 students that did not have their status changes reported in a timely manner simply represent a processing oversight from one of Enrollment Services' most dedicated staff members, and involved the most recently graduated student cohort. Although this staff member self-disclosed as soon as she realized the oversight, corrective action was outside the required time frame. In order to prevent this from occurring in the future, Enrollment Services will submit reports on a monthly basis to the NSC for registered students and continue to report enrollment status changes as they occur, but will also implement three additional record reviews at the September, January, and June reporting benchmarks specifically for the purpose of double-checking the graduated student cohort to ensure they were reported correctly and within the required time frame.



Dave Yost • Auditor of State

NORTHEAST OHIO MEDICAL UNIVERSITY (NEOMED)

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 29, 2015**