

NORTHEAST OHIO MEDICAL UNIVERSITY

Financial Report
Including Supplemental Information
June 30, 2012



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Northeast Ohio Medical University, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northeast Ohio Medical University is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 8, 2013

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NORTHEAST OHIO MEDICAL UNIVERSITY

Contents

Management’s Discussion and Analysis	1-9
Report Letter	10-11
Basic Financial Statements	
Statements of Net Assets	12
Statements of Revenue, Expenses, and Changes in Net Assets	13
Statements of Cash Flows	14-15
Notes to Financial Statements	16-38
Supplemental Information	39
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	42-43
Schedule of Expenditures of Federal Awards	44-47
Notes to Schedule of Expenditures of Federal Awards	49
Schedule of Findings and Questioned Costs	50
Summary Schedule of Prior Audit Findings	51

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Northeast Ohio Medical University’s (“NEOMED” or “University”) annual financial report presents management’s discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2012, 2011 and 2010. 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 (the “University” or “NEOMED”), formerly Northeastern Ohio Universities College of Medicine and Pharmacy, is a community-based public institution of higher education focused on the inter-professional training of health professionals. Created pursuant to Ohio Revised Code Chapter 3350, the University is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools. The University consists of three colleges, including Medicine, Pharmacy and Graduate Studies and offers the following degrees:

Doctor of Medicine (M.D.)
Doctor of Pharmacy (Pharm.D.)
Master of Public Health (M.P.H.)
Master of Science in Integrated Pharmaceutical Medicine (M.S.)
Doctorate in Integrated Pharmaceutical Medicine (Ph.D.)

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS

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 Assets, Statements of Revenue, Expenses and Changes in Net Assets, 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. 39, *Determining Whether Certain Organizations Are Component Units*, the NEOMED Foundation, Inc. (the “Foundation”) has been determined to be a component unit of the University. Accordingly, the Foundation is discretely presented in the University’s financial statements. The Foundation has been excluded from Management’s Discussion and Analysis.

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

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

Noteworthy Financial Activity

Historically, state funding has been based on the prior two-year average of enrollment. The University was promised funding for the Pharmacy program based upon this revenue distribution formula.

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Beginning in 2008, due to declining revenue, the State elected to alter this format and distributed revenue as a percentage of existing revenue levels. Since this revised model failed to take into account our new Pharmacy program, no revenue was distributed. During fiscal year 2010, the University started receiving state funding for the students in the Pharmacy program. In fiscal years 2011 and 2012, the University received full state funding for this program based on enrollment.

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2012 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$32.1 million. Current assets increased by \$4.8 million, while non-current assets increased \$27.3 million. The increase in current assets reflects the ongoing budgetary practice to allow departments to carryover unspent operating funds for future academic program, research, or project needs and the increase in state funding for the Pharmacy program.
- Cash and cash equivalents increased by \$23.4 million. This is mainly due to the 2011 bond issue of \$27 million.
- The University's net assets increased by \$6.1 million to \$99.3 million, of which \$51.6 million is invested in capital assets or is restricted. Of the remaining \$47.7 million in unrestricted assets, all but \$3.2 million is designated for specific purposes.
- Operating revenue increased by \$588,000 compared to the prior year primarily due to an increase of \$1.1 million in student tuition and fees, which in part was attributable to incremental state subsidy of the pharmacy program and a decrease of \$864,000 of grants and contracts.
- The University's operating expenses increased by \$2.6 million primarily due to research and institutional expenses.
- Net non-operating revenue decreased by a net \$5.9 million primarily due to a decrease of \$3.4 million in investment income from the prior year, a decrease of \$1.3 million in state and federal appropriations and an increase of \$1.1 million in interest expense due to the bond issuance.
- Other revenue, expenses, gains or losses decreased by approximately \$.1 million due to the timing of state appropriations for capital improvement projects.

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Ohio Medical University
Condensed Statements of Net Assets
as of June 30, 2012, 2011 and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Current assets	\$59,958,626	\$55,149,935	\$40,721,421
Noncurrent			
Capital	45,420,941	42,851,128	40,678,410
Other	<u>45,711,490</u>	<u>21,015,525</u>	<u>6,081,072</u>
Total assets	<u>151,091,057</u>	<u>119,016,588</u>	<u>87,480,903</u>
LIABILITIES			
Current liabilities	7,756,488	7,505,267	5,328,320
Noncurrent liabilities	<u>43,992,237</u>	<u>18,311,180</u>	<u>3,051,718</u>
Total liabilities	<u>51,748,725</u>	<u>25,816,447</u>	<u>8,380,038</u>
NET ASSETS			
Invested in capital assets, net of related debt	43,806,555	40,588,297	38,976,598
Restricted			
Nonexpendable	7,500,031	7,189,139	6,553,548
Expendable	285,979	321,697	304,515
Unrestricted	<u>47,749,767</u>	<u>45,101,008</u>	<u>33,266,204</u>
Total net assets	<u>\$99,342,332</u>	<u>\$93,200,141</u>	<u>\$79,100,865</u>

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

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

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

At June 30, 2012, total University assets were \$151 million, compared to \$119 million in fiscal 2011.

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

University liabilities total \$51.8 million at June 30, 2012, which include an additional \$27 million bond issuance in fiscal 2012, compared to \$25.8 million in fiscal 2011. Current liabilities total \$7.8 million and consist primarily of accrued liabilities of \$3.1 million (\$1.1 million owed to associated hospitals and pharmacies for clinical experiences, and \$.7 million owed to consortium universities for the collaborative academic programs); approximately \$1.5 million in accrued employee compensation and benefits, \$1.3 million in deferred revenue, and \$1.6 million in general accounts payable.

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

2011 versus 2010 During the year ended June 30, 2011:

As of June 30, 2011, the University's current assets of \$55.1 million were sufficient to cover current liabilities of \$7.5 million (current ratio of 7.4:1). As of June 30, 2010, current assets of \$40.7 million were sufficient to cover current liabilities of \$5.3 million (current ratio of 7.6:1).

As of June 30, 2011, the University's capital assets increased to \$42.9 million from \$40.7 million in fiscal 2010 while other non-current assets increased to \$21 million from \$6.1 million.

At June 30, 2011, total University assets were \$119 million, compared to \$87.5 million in fiscal 2010.

University liabilities total \$25.8 million at June 30, 2011 which include a \$15 million bond issuance in fiscal 2011, compared to \$8.4 million in fiscal 2010. Current liabilities total \$7.5 million and consist of accrued liabilities of \$3.1 million (\$1.76 million owed to associated hospitals and pharmacies for clinical experiences, and \$.65 million owed to consortium universities for the collaborative academic programs) and approximately \$1.6 million in accrued employee compensation and benefits and \$1.5 million in deferred revenue.

Total net assets increased by \$14.1 million to \$93.2 million. Unrestricted net assets total \$45.1 million; 44.6 percent of which (\$20.1 million) is designated for specific purposes, and 28.2 percent of which (\$12.7 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives.

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Ohio Medical University
Condensed Statements of Revenue, Expenses and Changes in Net Assets
for the years ended June 30, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue			
Tuition and fees	\$24,583,329	\$23,495,419	\$21,003,047
Federal and state appropriations	18,658,277	19,948,639	18,538,878
Federal, state, local and private grants and contracts	10,700,888	11,564,451	9,300,772
Auxiliary activities	833,260	748,421	795,508
Other	<u>3,281,344</u>	<u>6,553,579</u>	<u>4,459,933</u>
Total revenue	<u>58,057,098</u>	<u>62,310,509</u>	<u>54,098,138</u>
Expenses			
Instruction	16,252,583	16,623,083	15,192,519
Research	7,520,556	6,548,679	6,099,504
Academic support	4,938,291	5,365,705	5,606,620
Institutional support	9,253,742	8,072,272	7,245,045
Scholarships and fellowships	42,030	30,042	41,568
Other	<u>13,907,705</u>	<u>11,571,452</u>	<u>10,592,135</u>
Total expenses	<u>51,914,907</u>	<u>48,211,233</u>	<u>44,777,391</u>
Increase in net assets	<u>\$ 6,142,191</u>	<u>\$14,099,276</u>	<u>\$ 9,320,747</u>

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

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

2011 versus 2010 During the year ended June 30, 2011:

The most significant sources of operating revenue for the University are tuition and fees, auxiliary services, and grants and contracts. Tuition and fee revenue grew during fiscal year 2011 as compared to 2010 by 11.9 percent. These increases were a result of a combination of increases in rates for tuition and student fees, and the addition of a fourth year pharmacy class.

Operating expenditures, including depreciation of \$4.1 million, totaled \$47.6 million, an increase from the prior year of \$2.9 million, or 6.4 percent mostly due to the additional pharmacy class.

Non-capital state appropriations were the most significant non-operating revenue totaling \$17.7 million, a slight decrease from 2010 of 7.2 percent. In addition, we received federal appropriations of \$2.2 million from federal stimulus dollars.

Northeast Ohio Medical University
Condensed Statements of Cash Flows
for the years ended June 30, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash provided by/(used in):			
Operating activities	\$(8,046,508)	\$(4,434,200)	\$(9,675,123)
Investing activities	(5,142,492)	(8,487,272)	(6,196,220)
Capital and related financing activities	17,925,404	9,277,717	(2,149,086)
Non-capital financing activities	<u>18,658,277</u>	<u>19,948,639</u>	<u>18,538,878</u>
Net increase in cash	23,394,681	16,304,884	518,449
Cash and cash equivalents, beginning of year	<u>23,200,498</u>	<u>6,895,614</u>	<u>6,377,165</u>
Cash and cash equivalents, end of year	<u>\$46,595,179</u>	<u>\$23,200,498</u>	<u>\$ 6,895,614</u>

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

Major sources of cash included student tuition and fees (\$24.7 million), federal and state appropriations (\$18.7 million), auxiliary activities (\$.8 million) and grants and contracts (\$10.2 million). The largest payments were for suppliers (\$15.1 million) and employees (\$28.5 million).

2011 versus 2010 During the year ended June 30, 2011:

Major sources of cash included student tuition and fees (\$23.9 million), federal and state appropriations (\$19.9 million), auxiliary activities (\$.8 million) and grants and contracts (\$11.1 million). The largest payments were for suppliers (\$12.8 million) and employees (\$26.9 million).

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

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

At the end of 2011, the University had invested \$42.9 million in capital assets (net of accumulated depreciation of \$53.8 million); this amount represents an increase of \$2.2 million, or 5.3 percent, over 2010, primarily due to equipment purchases on grants as well as the University.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 2,149,470	\$ 2,108,971	\$ 2,108,971
Equipment, furnishing, and library materials	34,485,590	32,102,386	28,495,915
Buildings, infrastructure, improvements, and construction in progress	<u>66,935,834</u>	<u>62,453,589</u>	<u>60,011,906</u>
Total	<u>\$103,570,894</u>	<u>\$ 96,664,946</u>	<u>\$ 90,616,792</u>

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

Long-term Debt

In November 2011, the University had its second bond issuance for \$27 million to be used toward a new Research and Graduate Education building, of which there were deferred bond issue costs of \$59,921. There are more details regarding the University's bonds in Note 10 to the financial statements.

In November 2010, the University had its first bond issuance for \$15 million to be used toward a new Research and Graduate Studies building, of which there were deferred bond issue costs of \$222,850. There are more details regarding the University's bonds in Note 10 to the financial statements.

In addition, at June 30, 2011, the University had \$1,454,983 in outstanding capital lease obligations. This obligation was paid off in full in April 2012. More detailed information about the University's long-term liabilities is presented in Notes 5 and 6 to the financial statements.

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

In fiscal year 2010, medical funding was still based upon full-time equivalent enrollments and limited by the statutorily based caps. However, a medical funding consultation group developed a revised medical funding model. The proposed model incorporates clinical teaching funding into the state share of instruction and bases funding upon actual enrollments, rather than capped enrollments. The model will also incorporate outcome or quality measures. The proposed funding model was submitted to the Ohio Board of Regents Chancellor for input and approval and was passed. It will have a positive impact for NEOMED as it will provide the University with a greater share of the medical education State Share of Instruction.

Opportunities for future enrollment growth for the College of Medicine hinge on the availability of increased state funding. 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.

In relation to the Pharmacy program, the University received state funding for the first time for Pharmacy in fiscal year 2010. Pharmacy funding is based upon outcome measures such as course completions and degree attainment. The Pharmacy program reached full state funding in fiscal year 2012.

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

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

Independent Auditor's Report

To the Board of Trustees
Northeast Ohio Medical University

We have audited the accompanying financial statements of the Northeast Ohio Medical University (the "University"), a component unit of the State of Ohio, and its discretely presented component unit as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the University's management. Our responsibility is to an 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its component unit as of June 30, 2012 and 2011 and respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended June 30, 2012. 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 opinions 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* and should be considered in assessing the results of our audit.

To the Board of Trustees
Northeast Ohio Medical University

The accompanying other supplemental information and schedule of expenditures of federal awards are presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Plante & Moran, PLLC

October 15, 2012

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

	NEOMED		Component Unit NEOMED Foundation	
	2012	2011	2012	2011
ASSETS				
Current assets				
Cash and cash equivalents (Note 2)	\$ 7,305,531	\$ 8,095,261	\$ 427,240	\$ 284,609
Investments (Note 2)	48,646,121	43,055,650	-	-
Accounts receivable (Note 3)	2,894,134	2,808,130	-	-
Inventories	129,341	138,643	-	-
Prepaid expenses and deferred charges	563,807	688,079	-	480
Pledges receivable	-	-	307,244	297,950
Notes receivable (Note 3)	419,692	364,172	-	-
Total current assets	<u>59,958,626</u>	<u>55,149,935</u>	<u>734,484</u>	<u>583,039</u>
Noncurrent assets				
Cash-restricted (Note 2)	39,289,648	15,105,237	-	-
Long-term investments (Note 2)	2,514,010	1,929,058	10,589,000	12,224,559
Funds held in trust	-	-	915,842	1,194,569
Pledges receivable	-	-	978,287	1,128,367
Notes receivable (Note 3)	3,646,026	3,767,282	303,037	324,434
Deferred bond issue costs, net	261,806	213,948	-	-
Capital assets, net (Note 4)	45,420,941	42,851,128	-	-
Total noncurrent assets	<u>91,132,431</u>	<u>63,866,653</u>	<u>12,786,166</u>	<u>14,871,929</u>
Total assets	<u>151,091,057</u>	<u>119,016,588</u>	<u>13,520,650</u>	<u>15,454,968</u>
LIABILITIES				
Current liabilities				
Accounts payable	1,577,515	1,177,296	-	-
Accrued compensation and benefits (Note 6)	1,479,142	1,557,954	-	-
Deferred revenue	1,276,949	1,541,923	-	-
Other accrued liabilities	3,082,882	3,108,813	106,610	76,053
Capital lease obligations (Notes 5 & 6)	-	119,281	-	-
Bonds payable (Note 10)	340,000	-	-	-
Total current liabilities	<u>7,756,488</u>	<u>7,505,267</u>	<u>106,610</u>	<u>76,053</u>
Noncurrent liabilities				
Compensated absences (Note 6)	1,610,334	1,368,320	-	-
Annuity obligations	-	-	129,623	139,415
Post-employment benefits (Notes 6 & 8)	910,627	607,158	-	-
Capital lease obligations (Notes 5 & 6)	-	1,335,702	-	-
Bonds payable (Note 10)	41,660,000	15,000,000	-	-
Bond discount- net Note 10)	(188,724)	-	-	-
Total noncurrent liabilities	<u>43,992,237</u>	<u>18,311,180</u>	<u>129,623</u>	<u>139,415</u>
Total liabilities	<u>51,748,725</u>	<u>25,816,447</u>	<u>236,233</u>	<u>215,468</u>
NET ASSETS				
Invested in capital assets, net of related debt	43,806,555	40,588,297	-	-
Restricted				
Nonexpendable				
Student loans	5,077,209	5,060,639	799,553	787,753
Endowments	2,422,822	2,128,500	6,865,035	8,167,294
Annuity and life income	-	-	72,258	74,768
Expendable				
Current operations	285,979	321,697	4,902,644	5,523,923
Unrestricted	47,749,767	45,101,008	644,927	685,762
Total net assets	<u>99,342,332</u>	<u>93,200,141</u>	<u>13,284,417</u>	<u>15,239,500</u>
Total liabilities and net assets	<u>\$151,091,057</u>	<u>\$119,016,588</u>	<u>\$ 13,520,650</u>	<u>\$ 15,454,968</u>

The accompanying notes are an integral part of the financial statements

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
JUNE 30, 2012 AND 2011

	NEOMED		Component Unit NEOMED Foundation	
	2012	2011	2012	2011
OPERATING REVENUE				
Student tuition and fees (net of scholarship allowances of \$214,080 and \$166,990, respectively)	\$ 24,583,329	\$ 23,495,419	\$ -	\$ -
Federal grants and contracts	4,681,612	5,328,269	-	-
State grants and contracts	2,319,356	3,780,658	-	-
Local grants and contracts	45,947	30,758	-	-
Private grants and contracts	3,653,973	2,424,766	-	-
Contributions and bequests	-	-	610,058	593,249
In-kind contributions from NEOMED	-	-	901,984	704,280
Sales and services of departments	463,680	481,903	-	-
Sales and services of auxiliary enterprises	833,260	748,421	-	-
Other	429,792	133,194	64,332	103,401
Total operating revenue	<u>37,010,949</u>	<u>36,423,388</u>	<u>1,576,374</u>	<u>1,400,930</u>
OPERATING EXPENSES				
Educational and general				
Instruction and departmental research	16,252,583	16,623,083	1,777,811	41,914
Separately budgeted research	7,520,556	6,548,679	58,801	42,456
Public service	779,779	474,445	38,583	99,298
Academic support	4,938,291	5,365,705	457,611	344,028
Student services	1,460,948	1,393,773	-	-
Institutional support	9,253,742	8,072,272	1,311,066	927,948
Operation and maintenance of plant	4,323,471	3,961,153	-	-
Scholarships and fellowships	42,030	30,042	306,324	296,658
Auxiliary enterprises	1,092,816	990,604	-	-
Depreciation	4,468,142	4,116,207	-	-
Total operating expenses	<u>50,132,358</u>	<u>47,575,963</u>	<u>3,950,196</u>	<u>1,752,302</u>
Operating loss	(13,121,409)	(11,152,575)	(2,373,822)	(351,372)
NONOPERATING REVENUE (EXPENSES)				
State appropriations	18,658,277	17,708,016	-	-
Federal appropriations	-	2,240,623	-	-
Investment income	1,032,934	4,460,972	77,819	2,156,129
Interest loss	(1,765,540)	(634,177)	-	-
Loss on disposal of assets	(17,009)	(1,093)	-	-
Net nonoperating revenue (expenses)	<u>17,908,662</u>	<u>23,774,341</u>	<u>77,819</u>	<u>2,156,129</u>
GAIN (LOSS) BEFORE OTHER REVENUE, EXPENSES, GAINS OR LOSSES	4,787,253	12,621,766	(2,296,003)	1,804,757
OTHER REVENUE, EXPENSES, GAINS OR LOSSES				
Capital appropriations and grants	1,054,938	1,197,510	-	-
Contributions permanently restricted	300,000	280,000	340,920	561,832
Total other revenue, expenses, gains or losses	<u>1,354,938</u>	<u>1,477,510</u>	<u>340,920</u>	<u>561,832</u>
INCREASE (DECREASE) IN NET ASSETS	6,142,191	14,099,276	(1,955,083)	2,366,589
NET ASSETS AT BEGINNING OF YEAR	93,200,141	79,100,865	15,239,500	12,872,911
NET ASSETS AT END OF YEAR	<u>\$ 99,342,332</u>	<u>\$ 93,200,141</u>	<u>\$ 13,284,417</u>	<u>\$ 15,239,500</u>

The accompanying notes are an integral part of the financial statements

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 24,726,174	\$ 23,850,693
Grants and contracts	10,161,195	11,146,554
Employee compensation	(28,533,729)	(26,893,991)
Payments to suppliers	(15,062,488)	(12,811,883)
Payments for utilities	(1,156,503)	(1,207,374)
Payments for student financial aid	(1,500)	-
Student loan advances	(589,333)	(459,189)
Student loan repayments	614,540	444,346
Sales and services of auxiliary enterprises	833,346	776,333
Sales and services of departments	509,463	458,023
Other operating receipts	452,327	262,288
Net cash and cash equivalents used in operating activities	(8,046,508)	(4,434,200)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	18,658,277	17,708,016
Federal appropriations	-	2,240,623
Net cash and cash equivalents provided by financing activities	18,658,277	19,948,639
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	603,516	1,288,542
Capital gifts and grants	710,923	280,000
Bond issue costs paid	(47,858)	(213,948)
Purchases of capital assets	(7,014,462)	(6,299,269)
Principal paid on capital leases	(1,454,983)	(221,825)
Interest paid on capital debt	(1,683,008)	(565,034)
Proceeds from capital debt	26,811,276	15,000,000
Proceeds from sale of capital assets	-	9,251
Net cash and cash equivalents provided by capital financing activities	17,925,404	9,277,717
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,081,768	4,265,992
Sale of investments	42,987,495	61,744,140
Purchase of investments	(49,211,755)	(74,497,404)
Net cash and cash equivalents used in investing activities	(5,142,492)	(8,487,272)
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,394,681	16,304,884
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	23,200,498	6,895,614
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 46,595,179	\$ 23,200,498

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2012 AND 2011**

RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	<u>2012</u>	<u>2011</u>
Operating loss	\$ (13,121,409)	\$ (11,152,575)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	4,468,142	4,116,207
Changes in assets and liabilities		
Receivables	(86,005)	(325,871)
Inventories	9,302	18,421
Prepaid expenses and deferred charges	124,272	231,070
Notes receivable	65,737	89,457
Accounts payable	868,246	540,379
Accrued compensation	466,671	730,204
Deferred revenue	(264,974)	267,280
Other accrued liabilities	(576,490)	1,051,228
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	<u><u>\$ (8,046,508)</u></u>	<u><u>\$ (4,434,200)</u></u>

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

	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents	\$ 7,305,531	\$ 8,095,261
Cash-Restricted	39,289,648	15,105,237
Total cash and equivalents at end of the year	<u><u>\$ 46,595,179</u></u>	<u><u>\$ 23,200,498</u></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, 2012 and 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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 associated community hospitals and health department are:

Major Teaching Hospitals and Health Department:

Akron Children’s Hospital
Akron General Medical Center
Aultman Hospital, Canton
Barberton Citizens Hospital
Forum Health, Youngstown
Humility of Mary Health Partners, Youngstown
Mercy Medical Center, Canton
Summa Health System Hospital, Akron
Akron Health Department

In 2005, the College of Pharmacy was started and graduated its first class in May 2011. In addition, in 2010, the College of Graduate Studies was founded.

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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.

The accompanying financial statements consist of the accounts of the University and the accounts of the NEOMED Foundation (“Foundation”). The Foundation, which is a discretely presented component unit of the University as determined in accordance with the provisions of Governmental Accounting Standards Board (“GASB”) Statement 39, is described more fully in Note 14. The Foundation is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

Furthermore, in accordance with GASB Statement No. 39, the Foundation is reported in a separate column on the University’s financial statements to emphasize that it is legally separate from the University. The Foundation is a not-for-profit organization 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.

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 Assets

Statements of Revenue, Expenses, and Changes in Net Assets

Statements of Cash Flows

Notes to the financial statements

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University is required to follow all applicable GASB pronouncements. In addition, the College should apply all applicable Financial Accounting Standards Board (the "FASB") Statements and Interpretations, Accounting Principles Board (the "APB") Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected to not apply FASB statements and interpretations issued after November 30, 1989.

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, 2012, restricted cash and cash equivalents consists of \$38,277,802 of unspent proceeds of the General Receipt Bonds issued in 2010 and 2011 and \$1,011,846 of cash restricted for loan purposes. As of June 30, 2011, restricted cash consisted of \$14,176,052 of unspent proceeds of the General Receipt Bonds issued in 2010 and \$929,185 for loan purposes.

Investments

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

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

Accounts Receivable

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

Inventories

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

Deferred Bond Issuance Costs

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

Capital Assets

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

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
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 or termination of employment with the University.

Operating Revenue

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

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

Deferred Revenue

Deferred revenue represents unspent (and therefore unearned) revenue from various restricted grants and contracts. Additionally, revenue billed for tuition and fees that span past the current fiscal year is also recorded in deferred revenue.

Net Asset Classifications

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

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

Restricted - Nonexpendable - Net assets whose use is subject to externally imposed stipulations that they be maintained permanently by the University.

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

Use of Estimates

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

Upcoming Accounting Standards

The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCAs)* in November 2010. This statement addresses financial reporting related to service concession arrangements which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The University is currently evaluating the impact this standard will have on the financial statements when adopted during the University's fiscal year ending June 30, 2013.

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement No. 14 and Statement No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The University is currently evaluating the impact this standard will have on the financial statements when adopted during the University's fiscal year ending June 30, 2013.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The University is currently evaluating the impact this standard will have on the financial statements when adopted during the University's fiscal year ending June 30, 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued in June 2011. This statement introduced and defined those elements as a consumption of net assets by the University that is applicable to a future reporting period, and an acquisition of net assets by the University that is applicable to a future reporting period, respectively. The standard also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The University is currently evaluating the impact this standard will have on the financial statements when adopted during the University's fiscal year ending June 30, 2013.

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

The University's bank deposits and cash on hand for all fund groups at June 30, 2012 and 2011 are summarized as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
University's book value	\$46,595,179	\$23,200,498
Cash on hand	7,901	9,209
Bank balances	47,361,027	24,141,524

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, 2012 and 2011, \$500,000 and \$500,000, respectively, was covered by federal depository insurance and \$46,861,027 and \$23,641,524, respectively, was uncollateralized as defined by GASB.

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

The University's investments, at fair value, at June 30, 2012 and 2011 are summarized as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Money market funds	\$ 1,481,542	\$ 1,091,874
U.S. government obligations	5,813,441	4,323,649
U.S. government agency obligations	5,175,045	3,304,558
Corporate bonds and notes	14,170,113	7,365,367
Fixed income mutual funds	332,532	9,067,814
Equities	24,182,121	19,819,219
State Treasury Asset Reserve of Ohio	<u>5,337</u>	<u>12,227</u>
Total Investments	<u>\$51,160,131</u>	<u>\$44,984,708</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, 2012 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	\$5,813,441	\$ 22,094	\$5,720,920	\$ 38,328	\$ 32,099
U.S. government agency obligations	5,175,045	-	1,845,927	723,506	2,605,612
Corporate bonds and notes	<u>14,170,113</u>	<u>13,947,775</u>	<u>105,462</u>	<u>52,594</u>	<u>64,282</u>
Total	<u>\$25,158,599</u>	<u>\$13,969,869</u>	<u>\$7,672,309</u>	<u>\$814,428</u>	<u>\$2,701,993</u>

The maturities of the University's interest-bearing investments at June 30, 2011 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	\$4,323,649	\$4,238,602	\$43,439	\$20,560	\$21,048
U.S. government agency obligations	3,304,558	1,762,719	5,866	-	1,535,973
Corporate bonds and notes	<u>7,365,367</u>	<u>7,187,043</u>	<u>98,950</u>	<u>39,205</u>	<u>40,169</u>
Total	<u>\$14,993,574</u>	<u>\$13,188,364</u>	<u>\$148,255</u>	<u>\$ 59,765</u>	<u>\$1,597,190</u>

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

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, 2012 were as follows:

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

The credit ratings for the University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2011 were as follows:

Credit Rating (S&P)	<u>Total</u>	U.S. Government <u>Obligations</u>	U.S. Agency <u>Obligations</u>	Corporate Bonds and <u>Notes</u>
AAA	\$ 7,628,207	\$4,323,649	\$3,304,558	\$ -
AA	5,904,359	-	-	5,904,359
A	1,379,841	-	-	1,379,841
BBB	<u>81,167</u>	<u>-</u>	<u>-</u>	<u>81,167</u>
Total	<u>\$ 14,993,574</u>	<u>\$4,323,649</u>	<u>\$3,304,558</u>	<u>\$7,365,367</u>

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

Foreign currency risk. Foreign currency risk is that risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2012 and 2011, the University had no exposure to foreign currency risk.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

3. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2012 and 2011:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Student notes	\$4,065,718	\$4,131,454
Grants and contracts	2,316,003	2,714,041
Sales and services	527,456	27,362
Tuition and fees	<u>50,675</u>	<u>66,727</u>
Total	<u>\$6,959,852</u>	<u>\$6,939,584</u>

Federal Direct Loans Program processed for students by the University during the years ended June 30, 2012 and 2011 totaled \$25,967,676 and \$25,202,523, respectively. The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loans Program and, accordingly, these loans are not included in the University's financial statements. The allowance for doubtful accounts is \$104,000 and \$214,000 as of June 30 2012 and 2011, respectively.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

4. CAPITAL ASSETS

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

	July 1, 2011 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2012 Ending Balance
Land - Non-depreciable	\$ 2,108,970	\$ 40,500	\$ -	\$ 2,149,470
Infrastructure	1,637,836	-	-	1,637,836
Buildings	59,374,775	1,338,576	840,457	61,553,808
Furnishings and movable equipment	18,330,226	1,921,836	(109,102)	20,142,960
Library materials	13,772,161	570,471	-	14,342,632
Construction in progress - Non-depreciable	1,440,977	3,183,579	(880,366)	3,744,190
Total historical cost	96,664,945	7,054,962	(149,011)	103,570,896
Less: accumulated depreciation				
Infrastructure	1,119,781	78,430		1,198,211
Buildings	28,535,621	1,858,017		30,393,638
Furnishings and movable equipment	13,375,442	1,788,468	(132,004)	15,031,906
Library materials	10,782,973	743,227		11,526,200
Total accumulated depreciation	53,813,817	4,468,142	(132,004)	58,149,955
Total capital assets, net of depreciation	<u>\$ 42,851,128</u>	<u>\$ 2,586,820</u>	<u>\$ (17,007)</u>	<u>\$ 45,420,941</u>

During 2012, the University received a donation of land with a fair market value of \$40,500 that was treated as a non-cash transaction on the statement of cash flows.

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

Capital asset activity for the year ended June 30, 2011 was as follows:

	July 1, 2010 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2011 Ending Balance
Land - Non-depreciable	\$ 2,108,970	\$ -	\$ -	\$ 2,108,970
Infrastructure	1,637,836	-	-	1,637,836
Buildings	58,157,856	1,145,071	71,848	59,374,775
Furnishings and movable equipment	15,292,303	3,282,638	(244,715)	18,330,226
Library materials	13,203,612	568,549	-	13,772,161
Construction in progress - Non-depreciable	216,214	1,303,011	(78,248)	1,440,977
Total historical cost	<u>90,616,791</u>	<u>6,299,269</u>	<u>(251,115)</u>	<u>96,664,945</u>
Less: accumulated depreciation				
Infrastructure	1,041,353	78,428	-	1,119,781
Buildings	26,756,811	1,778,810	-	28,535,621
Furnishings and movable equipment	12,017,953	1,598,261	(240,772)	13,375,442
Library materials	10,122,265	660,708	-	10,782,973
Total accumulated depreciation	<u>49,938,382</u>	<u>4,116,207</u>	<u>(240,772)</u>	<u>53,813,817</u>
Total capital assets, net of depreciation	<u>\$ 40,678,409</u>	<u>\$ 2,183,062</u>	<u>\$ (10,343)</u>	<u>\$ 42,851,128</u>

5. CAPITAL LEASE OBLIGATIONS

All capital lease obligations have been repaid as of June 30, 2012. For the year ended June 30, 2011, total net book value of capital leases was \$2,569,734 and principal payments of \$221,825 were made under the agreements during the year.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

6. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2012 and 2011 are as follows:

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

	Balance July 1, 2010	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2011	Current Portion	Non-current Portion
Compensated absences	\$1,920,883	\$354,259	\$ 398,777	\$1,876,365	\$508,045	\$1,368,320
Post-employment	203,216	403,942	-	607,158	-	607,158
Capital lease obligations	1,676,808	-	221,825	1,454,983	119,281	1,335,702
Total long-term	<u>\$3,800,907</u>	<u>\$758,201</u>	<u>\$ 620,602</u>	<u>\$3,938,506</u>	<u>\$627,326</u>	<u>\$3,311,180</u>

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

7. COMMITMENTS AND CONTINGENCIES

The University has entered into various contractual service agreements with its consortium universities, associated hospitals and health departments primarily for clinical instruction, research and other services. For fiscal years ended June 30, 2012 and 2011, these instructional expenses relating to contracts totaled \$3,343,293 and \$4,546,273, respectively. At June 30, 2012 and 2011, the University had recorded accrued liabilities of \$1,812,874 and \$2,411,702, 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.

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. This funding methodology mirrors the funding approach used in pension benefits.

Plan Description

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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

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

Funding Policy

In 2011, NEOMED started charging the retirees a minimum monthly contribution to help offset the rising costs of the retiree spouses' and dependents' healthcare coverage and pays 100% 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% and amortizing the unfunded actuarial liability over 30 years:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Annual required contribution	\$ 390,251	\$ 468,957
Interest on net OPEB obligation	36,429	12,193
Adjustment to annual required contribution	<u>(41,613)</u>	<u>(13,928)</u>
Annual OPEB cost (expense)	385,067	467,222
Employer contribution (pay-as-you-go)	81,598	63,280
Net cash contribution	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	303,469	403,942
Net OPEB obligation, beginning of year	<u>607,158</u>	<u>203,216</u>
Net OPEB obligation, end of year	<u>\$ 910,627</u>	<u>\$ 607,158</u>
Actuarial contribution rate	21.19%	13.54%

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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, 2012 is based only on the spouses and legal dependents of employees and retirees hired prior to January 1, 1992, with at least 10 years of service at NEOMED for healthcare benefits and all retirees and active employees for life insurance. Using the actuarial assumptions, the number of retired participants is projected each year in the future. Costs are projected for each year at each age using the trend and aging assumptions. Retiree post employment benefit expenses are determined under the Projected Unit Credit actuarial cost method. Under this method, benefits are projected for life and their present value is determined.

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

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

NEOMED implemented GASB 45 in fiscal year 2009, therefore six years of data is not available, but will be accumulated over time. This annual valuation has been calculated using the Projected Unit Credit actuarial cost method, an investment rate of return of 6.0%, 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:

2012-13	8.00%
2013-14	7.00
2014-15	6.00
2015+	5.00

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

9. EMPLOYEE BENEFIT PLANS

Retirement Plans

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

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

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

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

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

The University's contributions, including employer contributions for pensions and other postretirement benefits, for the year ended June 30, 2012 and for each of the two preceding years are:

Year Ended June 30	OPERS Contributions	STRS Contributions	ARP Contributions
2012	\$ 1,443,648	\$ 743,719	\$ 605,170
2011	1,371,615	653,094	599,484
2010	1,403,651	626,888	529,838

Post-Retirement Health Care Benefits (in whole numbers)

OPERS provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying State service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS. The employer contribution rates allocated for health care for members in the Traditional Plan was 4.0% of covered payroll for 2011. For employees in the Combined Plan, the employer contribution rates allocated to health care was 6.05% for 2011.

OPERS benefits are advance-funded on an actuarially determined basis. As of December 31, 2010, OPERS reported the actuarially accrued liability and the unfunded actuarial accrued liability for Other Post Employment Benefits (OPEB) at \$26.9 billion and \$15.6 billion, respectively. Significant actuarial assumptions include a 6.5% investment return, a 4% individual pay increase, and healthcare costs are assumed to increase initially at 0% before rising to 7.5%. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. As of December 31, 2010, the actuarial value of the retirement system's net assets available for other post-employment benefits was \$11.3 billion. The number of active contributing participants in the traditional and combined plans was 349,189 as of December 31, 2011.

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

The Ohio Revised Code grants authority to STRS Ohio to provide healthcare coverage to eligible benefit recipients, spouses, and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The State Teachers Retirement Board currently allocates employer contributions, which equals 1% of covered payroll, to a health care stabilization fund from which health care benefits are paid. The balance in the healthcare reserve fund was \$3.2 billion at June 30, 2011.

For the year ended June 30, 2011 (latest information available), net healthcare costs paid by STRS were \$604 million. There were 138,088 eligible benefit recipients on June 30, 2011.

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 the approved bonds 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 the 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, 2012 was \$41,811,276.

The bond discount on the 2011 bonds totaled \$194,911 with an amortized balance of \$6,187 as of June 30, 2012. The discount is being amortized to interest expense over the life of the bonds on the interest method. There is no discount or premium on the 2010 bonds.

The University's bonds and notes payable are summarized as follows:

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

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, 2012 are summarized as follows:

Year Ending June 30	Principal	Interest	Interest Subsidy *	Net Interest	Total
2013	\$ 340,000	\$ 2,124,299	\$ (409,500)	\$ 1,714,799	\$ 2,054,799
2014	835,000	2,111,011	(406,276)	1,704,735	2,539,735
2015	850,000	2,088,431	(402,246)	1,686,185	2,536,185
2016	870,000	2,062,520	(397,438)	1,665,082	2,535,082
2017	890,000	2,034,632	(391,942)	1,642,690	2,532,690
2018-2022	4,875,000	9,623,177	(1,847,307)	7,775,870	12,650,870
2023-2027	5,780,000	8,442,282	(1,586,395)	6,855,887	12,635,887
2028-2032	7,055,000	7,170,945	(1,227,740)	5,943,205	12,998,205
2033-2037	3,255,000	5,229,963	(762,171)	4,467,792	7,722,792
2038-2042	3,105,000	3,987,069	(202,869)	3,784,200	6,889,200
2043	14,145,000	353,625	-	353,625	14,498,625
	<u>\$ 42,000,000</u>	<u>\$ 45,227,954</u>	<u>\$(7,633,884)</u>	<u>\$ 37,594,070</u>	<u>\$ 79,594,070</u>

* Direct payment subsidy received from federal government on 2010 Build America Bonds

11. RISK MANAGEMENT

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Accrued claims liability - Beginning of year	\$ 391,362	\$ -
Incurred claims - Net of favorable settlements	1,629,942	1,399,749
Claims paid	<u>(1,646,832)</u>	<u>(1,008,387)</u>
Accrued claims liability - End of year	<u>\$ 374,472</u>	<u>\$ 391,362</u>

12. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2012 and 2011, the University has received distributions from the Foundation in the amount of \$1,183,569 and \$926,594, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted student loans of \$72,833 and \$59,650, respectively, for the years ended June 30, 2012 and 2011.

The University received reimbursements of \$66,661 and \$49,293, respectively, from the Foundation for management, fundraising, services, and office space during the years ended June 30, 2012 and 2011. Amounts for such services provided by the College which are not reimbursed by the Foundation are reported as in-kind contributions in the Statements of Revenues, Expenses, and Changes in Net Assets. The College's in-kind support for these services was valued at \$901,984 and \$704,280, respectively, for the years ended June 30, 2012 and 2011.

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

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 2012 or 2011.

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 College’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>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 95,307	\$ 95,307	\$ 67,007	\$ 67,007
Cash surrender value of life insurance	238,850	238,850	235,569	235,569
Real estate	-	-	200,229	200,229
Equities	4,407,620	5,725,378	5,645,169	6,893,669
Alternative	1,839	5,573	-	-
Fixed income	<u>4,002,311</u>	<u>4,523,892</u>	<u>4,020,548</u>	<u>4,828,085</u>
Total long-term investments	<u>\$ 8,745,927</u>	<u>\$10,589,000</u>	<u>\$10,168,522</u>	<u>\$12,224,559</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. Investments in real estate are recorded at cost, which approximates market value. The Foundation donated real estate to the University in 2012.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

Details of the Foundation's restricted net assets at June 30, 2012 and 2011 are as follows:

Temporarily restricted net assets as of June 30:

	<u>2012</u>	<u>2011</u>
Instruction and departmental research	\$ 424,693	\$ 740,878
Separately budgeted research	223,489	204,503
Public service	904,516	829,258
Academic support	2,092,544	2,562,917
Institutional support	69,042	81,847
Plant operation and maintenance	8,674	8,674
Student scholarships and other student aid	950,738	870,979
Deferred gift annuity	238,850	235,569
Allowance for uncollectible pledges	<u>(9,902)</u>	<u>(10,702)</u>
 Total temporarily restricted net assets, June 30	 <u>\$4,902,644</u>	 <u>\$5,523,923</u>

Permanently restricted net assets as of June 30:

	<u>2012</u>	<u>2011</u>
Student loans	\$ 799,553	\$ 787,753
Endowments requiring earnings only be made available for:		
Student scholarships and awards	3,129,730	2,887,564
Student loans	100,236	100,236
Community health science professorship	-	1,500,000
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	648,674	696,331
Deferred gift annuity	72,258	74,769
Allowance for uncollectible pledges	<u>(16,076)</u>	<u>(19,309)</u>
 Total permanently restricted net assets, June 30	 <u>\$7,736,846</u>	 <u>\$ 9,029,815</u>

Supplemental Information

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

Independent Auditor's Report

To the Board of Trustees
Northeast Ohio Medical University

We have audited the financial statements of Northeast Ohio Medical University (the "University") and its discretely presented component unit as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 15, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Northeast Ohio Medical University is responsible for establishing and maintaining an effective internal control over financial reporting. In planning and performing our audit, we considered Northeast Ohio Medical University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees
Northeast Ohio Medical University

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Ohio Medical University's financial statements are free of 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*.

This report is intended solely for the information and use of management, the board of trustees, others within the University, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Morse, PLLC

October 15, 2012

Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133

Independent Auditor's Report

To the Board of Trustees
Northeast Ohio Medical University

Compliance

We have audited the compliance of Northeast Ohio Medical University with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The major federal programs of Northeast Ohio Medical University are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northeast Ohio Medical University's management. Our responsibility is to express an opinion on Northeast Ohio Medical University's compliance based on our audit.

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. Our audit does not provide a legal determination on Northeast Ohio Medical University's compliance with those requirements.

In our opinion, Northeast Ohio Medical University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

To the Board of Trustees
Northeast Ohio Medical University

Internal Control Over Compliance

The management of Northeast Ohio Medical University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northeast Ohio Medical University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of trustees, others within the University, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Morse, PLLC

October 15, 2012

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
STUDENT FINANCIAL AND CLUSTER			
Scholarships:			
Department of Health and Human Services			
<i>Health Resources and Services Administration:</i>			
		T08HP22519-01-00 (FY11	
Scholarship for Disadvantaged Students - FY12	93.925	18830)	\$ 17,292
Total Department of Health and Human Services:			17,292
Loans:			
Department of Education:			
<i>Office of Student Financial Assistance Programs:</i>			
William D Ford Federal Direct Loan Program	84.268		25,967,676
Federal Perkins Loan Program	84.038		2,253,357
<i>Total Office of Student Financial Assistance Programs:</i>			<u>28,221,033</u>
Total Department of Education:			28,221,033
Department of Health and Human Services:			
<i>Health Resources and Services Administration:</i>			
Health Prof Student Loan Prgm--Loans to Disadvantaged Students	93.342		1,885,828
Health Prof Student Loan Prgm--Primary Care Loans	93.342		1,307,895
<i>Total Health Resources and Services Administration:</i>			<u>3,193,723</u>
Total Department of Health and Human Services:			3,193,723
TOTAL STUDENT FINANCIAL AID CLUSTER			\$ 31,432,048
RESEARCH AND DEVELOPMENT CLUSTER			
Department of Health and Human Services:			
<i>National Institutes of Health:</i>			
Auditory Information Processing in the Midbrain: Modulation by the Amygdala	93.173	R01 DC000937	\$ 132,270
NIH- Auditory Information Processing in the Amygdala	93.173	2R01DC000937-21	177,059
NIH- Neural Mechanism Underlying Sound-Evoked Suppression of Tinnitus: Residual Inhibition	93.173	1R01DC011330-01A1	157,451
NIH - G-protein-coupled Receptors in Hearing Physiology	93.173	1R01DC008984-01A2	232,759
NIH - Regulation of excitability in a sensory system by cellular and network components	93.173	R01 DC008120-02	68,324
NIH-NRSA Anatomical Analysis of Cortical Projections to the Auditory Midbrain	93.173	1F32DC010958-01	58,570
NIH-Functional anatomy of the auditory system	93.173	2R01DC004391-11A1	464,950
NIH-Cholinergic Inputs to Excitatory and Inhibitory Midbrain Circuits	93.173	1F32DC012450-01A1	463
Total CFDA #93.173			<u>1,291,846</u>

NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
Department of Health and Human Services (Continued):			
<i>National Institutes of Health (Continued):</i>			
ARRA NIH - Hepatocyte Nuclear Factor 4alpha and Lipid Homeostasis	93.701	1R15DK088733-01	\$ 84,203
ARRA NIH - Myocardial Injury Associated with Mitochondria-derived Oxygen Free Radicals	93.701	3R01HL083237-05S1	3,687
ARRA NIH - Regulation of Excitability in a Sensory System by Cellular and Network Components	93.701	3R01DC008120-05S1	26,893
ARRA NIH - Stem Cell Induction of Coronary Arteriogenesis	93.701	1RC1HL100828-01	334,528
Total CFDA #93.173			449,311
NIH - A Synthetic Triterpenoid in Breast Cancer Chemoprevention	93.392	1R03CA136014-01A2	3,585
UCSD - NIH Sub Award Molecular Biology of the Cardiac Interstitium	93.837	2 R01 HL043617-14A2	(24,526)
NIH - Myocardial Injury Associated with Mitochondria-derived Oxygen Free Radicals	93.837	7R01HL083237-05	136,946
NIH - Myocardial Injury Associated with Mitochondria-derived Oxygen Free Radical(s)	93.837	5R01HL083237-04	47,859
NIH-Reactive oxygen species in coronary collateral growth	93.837	1 R01 HL083366-01A2	501,109
NIH Year 22 - Microcirculatory Dynamics in the Coronary Circulation	93.837	5R01HL032788-22	5,111
NIH- Regulation of Lipid and Lipoprotein Metabolism by Nuclear Receptors	93.837	1R01HL103227-01A1	262,723
NIH-C- Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1	33,380
NIH-M- Post-Infarction Remodeling in the Diabetic Myocardium	93.837	1R15HL106442-01A1	24,916
Total CFDA #93.837			987,518
NIH- The Role of Osteoactivin Development and Function	93.846	5R01AR048892-10	170,351
NIH - Molecular Biology of Bile Acid Synthesis	93.847	2R01DK044442-14A1	334,763
NIH - Regulation of bile acid synthesis by nuclear receptors	93.847	2R01DK058379-24	358,561
Total CFDA #93.847			693,324
Summa-NIH-Suppression of Ocular Scarring - Controlled Delivery of an ALK- 5 Inhibitor	93.867	1R01EY020916-01A1	26,459
Summa-NIH- Suppression of Ocular Scarring- Controlled Delivery of an ALK- 5 Inhibitor	93.867	1R01EY020916-01A1	3,562
NIH-Axonopathy in Glaucoma	93.867	1R01EY022358-01	43,052
Total CFDA #93.867			73,073
<i>Total National Institutes of Health:</i>			3,669,008
Total Department of Health and Human Services:			\$ 3,669,008
Department of Justice:			
<i>Passed through Ohio Office of Criminal Justice Services:</i>			
OCJS - Multi-Site Comparison of CIT Effect	16.738	2009-JG-E0R-6697	(3,807)
Total Department of Justice:			\$ (3,807)

NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
Department of Defense:			
DoD-Texas Tech Cationic Chemotherapeutics to Penetrate Both the Blood- Brain Barrier and Brain Metastasis of Breast Cancer Cells	12.420	10AP100008FNV	\$ 2,167
Total Department of Defense:			\$ 2,167
National Science Foundation:			
NSF- A Novel database and ontology for evolutionary analyses of mammalian feeding physiology	47.074	DBI-1062332	27,907
NSF: Diet in Early Whales	47.050	EAR-0745543	25,766
Ecological and functional morphology of feeding in free-ranging mantled howling monkeys	47.075	BCS-0720028	5,479
NSF-The Biomechanics of Arboreal Stability: An Intergated Analysis	47.075	1126790	58,102
ARRA NSF - MRI-R2 Acquisition: Establishment of a Core Facility for the Hierarchical Analysis of Bone	47.082	BCS-0959438	16,706
Total National Science Foundations:			\$ 133,960
Environmental Protection Agency			
EPA-Selective multiplexed realtime detection of Bacteria	66.469	GL-00E00563-0	10,378
Total Environmental Protection Agency:			\$ 10,378
TOTAL RESEARCH AND DEVELOPMENT			\$ 3,811,706
TOTAL CLUSTERS			\$ 35,243,754
OTHER PROGRAMS			
Department of Health and Human Services:			
<i>Passed through The Ohio State University</i>			
OSU-DHHS-ODJFS-Long Term Direct Care Workforce Project	93.791	60033102	\$ 16,272
DHHS-ODJFS-OSU-CIN- Ohio's Direct Care Workforce Initiative and Health Care Integration: Exploring Job Roles and Competencies	93.791	007899	4,135
<i>Health Resources and Services Administration:</i>			
HRSA Physician Faculty Development in Primary Care	93.884	1 D55HP20645-01-00	250,744
HRSA - Renovation and Expansion of Gross Anatomy Teaching Lab	93.887	1C76HF19842-01-00	42,234
<i>Passed through Ohio State University Research Foundation:</i>			
OSU-HRSA Ohio Public Health Training Center	93.249	1 UB6HP20203-01-00	39,409
<i>Passed through The University of Toledo:</i>			
HRSA - AHEC Program FY10	93.107	UT:F2010-30; HRSA:6U77HP03029	128,498
HRSA- AHEC Point of Service Maintenance and Enhancement Award	93.107	U77 HP 23072	217,024
<i>Passed through the Ohio Board of Regents:</i>			
Online Clinical Simulation Project	93.211	D1BTH03745-01-00	10,238
<i>Total Health Resources and Services Administration</i>			<i>688,147</i>

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor/Program Title	CFDA	Agency or Pass-Through Grant Number	Expenses
Department of Health and Human Services (Continued):			
<i>Center for Disease Control</i>			
Student Sight Saver Program	93.988	GRANT #29	\$ 544
ABIA-CDCP- Summit Partners for Accountable Care Community Transformation (PACCT)	93.531	1U58DP003523- 01(11.09.27-13 AB)	<u>11,674</u>
<i>Total Center for Disease Control</i>			<u>12,218</u>
<i>Admin for Children and Families:</i>			
Passed through the Cleveland Clinic Foundation CCF - Hard Wired for Health	93.630	PO#4059937	<u>6,287</u>
<i>Total Admin for Children and Families</i>			<u>6,287</u>
<i>Substance Abuse and Mental Health Services Admin:</i>			
Passed through Ohio Department of Mental Health SAMHSA - Ohio Program for Campus Safety and Mental Health	93.243	5U79SM060506-02	50,407
Passed through Ohio Department of Mental Health and Summit County ADM- ODMH- SAMHSA- Criminal Justice CcoE	93.958		<u>170,392</u>
<i>Total Substance Abuse and Mental Health Services Admin.</i>			<u>220,799</u>
Total Department of Health and Human Services			\$ 947,858
Department of Justice:			
<i>Passed through the Ohio Office of Criminal Justice Services</i>			
<i>National Alliance on Mental Illness of Ohio:</i>			
NAMI: Ohio Crisis Intervention Team CY11	16.579	2010-JG-B01-6317	<u>4,896</u>
Total Department of Justice			\$ 4,896
TOTAL OTHER PROGRAMS:			\$ 952,754
TOTAL EXPENDITURES OF FEDERAL PROGRAMS			\$ 36,196,508

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

Note 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Note 2 - LOANS ISSUED

The University issued \$290,000 of Perkins loans and \$240,395 of Health Professional Student Loans during the year ended June 30, 2012. The outstanding loan balances at June 30, 2012 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, 2012

Note 3 - SUBRECIPIENT AWARDS

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

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
SAMHSA - Ohio Program for Campus Safety and Mental Health	93.243	\$ 19,776
NIH - The Role of Osteoactivin Development and Function	93.846	45,105
HRSA Physician Faculty Development in Primary Care	93.884	50,099
ADM- ODMH- SAMHSA- Criminal Justice CcoE	93.958	67,878
HRSA - AHEC Program FY10	93.107	108,212
HRSA- AHEC Point of Service Maintenance and Enhancement Award	93.107	<u>158,101</u>
Total		<u>\$ 449,171</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

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: Unqualified

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.038, 84.268, 93.342, 93.925 93.107	Student Financial Aid Area Health Education Program

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

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS

None

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

None

**NORTHEAST OHIO MEDICAL UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Planned Corrective Action
2011-1	Student Financial Aid Cluster - Federal Direct Loan Program - CFDA #84.268	Changes in student status are required to be reported to the National Student Loan Data System (NSLDS) within 30 days of the change or included in a Student Status Confirmation Report (SSCR) sent to the NSLDS within 60 days of the status change (34 CFR Section 682.610). The University did not report status changes within the required timeframe.	Corrective action has been taken	All enrollment status changes will be reported by student to the National Student Clearinghouse at the time that the University is notified of the status change.



Dave Yost • Auditor of State

NORTHEAST OHIO MEDICAL UNIVERSITY

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 22, 2013**