

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

Financial Report
Including Supplemental Information
June 30, 2018



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Northeast Ohio Medical University, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2017 through June 30, 2018. 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

October 24, 2018

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NORTHEAST OHIO MEDICAL UNIVERSITY

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Independent Auditor's Report

To the Board of Trustees
Northeast Ohio Medical University

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast Ohio Medical University and its discretely presented component units (the "University"), a component unit of the State of Ohio, as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise Northeast Ohio Medical University's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Ohio Medical University as of June 30, 2018 and 2017 and the changes in its financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the University adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. Our opinion is not modified with respect to this matter.

To the Board of Trustees
Northeast Ohio Medical University

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Northeast Ohio Medical University's basic financial statements. The other supplemental information, as identified in the table of contents, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2018 on our consideration of Northeast Ohio Medical University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeast Ohio Medical University's internal control over financial reporting and compliance.



October 11, 2018

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Northeast Ohio Medical University's (NEOMED or the "University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2018, 2017, and 2016. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of University management.

Introduction

Northeast Ohio Medical University is a community-based public University focused on the interprofessional training of health professionals. Created pursuant to Ohio Revised Code Chapter 3350, the University is accredited by The Higher Learning Commission (HLC). The University consists of three colleges, including Medicine, Pharmacy, and Graduate Studies and offers the following degrees:

Doctor of Medicine (M.D.)
Doctor of Pharmacy (Pharm.D.)
Master of Public Health (M.P.H.)
Master of Science in Integrated Pharmaceutical Medicine (M.S.)
Master of Science Degree/Residency in Health-System Pharmacy Administration (M.S.)
Master of Arts in Medical Ethics and Humanities (M.A.)
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 of the diverse communities of Northeast Ohio through education, research and service.

The University does not have its own hospital. Rather, the College of Medicine has established affiliation agreements with some of the most prestigious medical campuses and institutions in Northeast Ohio for the clinical education of its students. Likewise, the College of Pharmacy partners with many nationally recognized pharmacy chains, locally-owned pharmacies, hospitals, health centers and associations to provide pharmacy practice opportunities and training to students.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using the Annual Financial Report

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

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

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Noteworthy Financial Activity

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

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

The University's financial position, as a whole, decreased during the fiscal year ended June 30, 2018 as compared to the previous year as evidenced by the following:

- The University's total assets decreased over the prior year by \$151,000. Current assets increased by \$1.1 million primarily due to earnings on investments, while noncurrent assets decreased by \$1.3 million primarily due to depreciation on capital assets greater than new asset purchasing.
- Cash and cash equivalents increased by \$917,000. This is due to converting investments to cash.
- The University's net position decrease by \$14.7 million to \$59.2 million, of which \$61 million is invested in capital assets or is restricted. The decrease is the implementation of GASB 75 requiring the University to recognize the calculated portion of the OPEB liability.
- Operating revenue decreased by \$2 million compared to the prior year, primarily due to an increase of \$161,000 in tuition and fees, a decrease of \$2.7 million in federal grants due to a decrease in active grants, and an increase of \$385,000 in other revenues.
- The University's operating expenses decreased by \$7.1 million, primarily due to reduction in pension expense that is required to be reported for the state pension plans funding shortfalls.
- Net nonoperating revenue decreased by a net \$180,000 primarily due to a decrease in investment income.
- Other revenue, expenses, gains, or losses decreased by approximately \$814,000 due to a decrease in capital appropriations and permanently restricted gifts.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Northeast Ohio Medical University
Condensed Statements of Net Position
as of June 30, 2018, 2017, and 2016**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
ASSETS			
Current assets	\$48,990,179	\$47,865,634	\$41,319,804
Noncurrent			
Capital	85,344,660	87,370,483	89,333,973
Other	33,177,396	32,426,846	30,266,348
Total assets	<u>167,512,235</u>	<u>167,662,963</u>	<u>160,920,125</u>
DEFERRED OUTFLOWS	15,797,873	16,651,458	10,988,308
 LIABILITIES			
Current liabilities	15,614,314	15,091,511	12,999,031
Noncurrent liabilities	101,643,957	95,125,396	84,503,511
Total liabilities	<u>117,258,271</u>	<u>110,216,907</u>	<u>97,502,542</u>
DEFERRED INFLOWS	6,858,302	185,394	2,020,606
 NET POSITION			
Net Investment in Capital Assets	48,787,862	48,901,219	47,993,331
Restricted			
Nonexpendable	11,234,100	11,371,587	9,641,290
Expendable	959,517	710,026	793,953
Unrestricted	(1,787,944)	12,929,288	13,956,711
Total net position	<u>\$59,193,535</u>	<u>\$73,912,120</u>	<u>\$72,385,285</u>

2018 versus 2017 During the year ended June 30, 2018:

As of June 30, 2018, the University's current assets of \$49 million were sufficient to cover current liabilities of \$15.6 million (current ratio of 3.14:1). As of June 30, 2017, current assets of \$47.9 million were sufficient to cover current liabilities of \$15.1 million (current ratio of 3.17:1).

As of June 30, 2018, the University's capital assets decreased to \$85.3 million from \$87.3 million in fiscal year 2017, and other noncurrent assets increased to \$33.2 million from \$32.4 million.

At June 30, 2018, total University assets were \$167.5 million, compared to \$167.7 million in fiscal year 2017.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

University liabilities totaled \$117.3 million at June 30, 2018, compared to \$110.2 million in fiscal year 2017. The increase is due the implementation of GASB 75 requiring the University to recognize the calculated portion of the OPEB liability. Current liabilities totaled \$15.6 million and consisted primarily of \$5.6 million in unearned revenue, accrued liabilities of \$3.3 million (\$786,000 owed to associated hospitals and pharmacies for clinical experiences, and \$701,000 owed to consortium universities for the collaborative academic programs), approximately \$4.1 million in accrued employee compensation and benefits, \$1.6 million in general accounts payable, \$18,000 in capital lease obligations, and \$940,000 in bonds payable.

Total net position decreased by \$14.7 million to \$59.2 million due to the implementation of GASB 75. Restricted net assets include \$6.6 million in student loans, \$4.6 million in endowments, and \$960,000 in current operations. Unrestricted net assets totaled \$(1.79) million, of which \$12.5 million was allocated to reserves for ongoing academic and research programs, capital projects, and other initiatives. The remaining (\$10.7) million consists of designated, undesignated, and unrestricted funds.

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

As of June 30, 2017, the University's current assets of \$47.9 million were sufficient to cover current liabilities of \$15.1 million (current ratio of 3.17:1). As of June 30, 2016, current assets of \$41.3 million were sufficient to cover current liabilities of \$13.0 million (current ratio of 3.2:1).

As of June 30, 2017, the University's capital assets decreased to \$87.3 million from \$89.3 million in fiscal year 2016, and other noncurrent assets increased to \$32.4 million from \$30.2 million.

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Ohio Medical University Condensed Statements of Revenue, Expenses, and Changes in Net Position for the Years Ended June 30, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenue			
Tuition and Fees	\$ 34,563,217	\$ 34,402,078	\$ 31,280,873
Federal and State Appropriations	24,782,041	24,579,036	22,618,173
Federal, state, local, and private grants and contracts	19,147,099	21,592,632	18,417,954
Auxiliary activities	2,660,592	2,590,820	2,068,069
Other	6,508,355	7,569,132	2,380,789
Total Revenue	<u>87,661,304</u>	<u>90,733,698</u>	<u>76,765,858</u>
Expenses			
Instruction	17,167,303	21,529,081	19,015,849
Research	13,017,991	14,401,248	12,278,452
Academic support	9,524,276	9,246,947	7,963,405
Institutional support	12,751,859	10,497,835	10,074,408
Other	29,537,134	33,531,752	31,754,487
Total Expenses	<u>81,998,563</u>	<u>89,206,863</u>	<u>81,086,601</u>
Increase (decrease) in net position	<u>\$ 5,662,741</u>	<u>\$ 1,526,835</u>	<u>\$ (4,320,743)</u>

2018 versus 2017 During the year ended June 30, 2018:

The most significant sources of operating revenue for the University are tuition and fees and grants and contracts. Tuition and fee revenue grew during fiscal year 2018 as compared to 2017 by .5 percent primarily due to increased student enrollment and tuition rates. Grant revenue decreased by \$2.4 million or 11.3 percent, in 2018 due to a decrease in active federal awards.

Other revenue has decreased by \$1.0 million as compared to 2017 due to the decrease in capital appropriations and investment income during 2018.

Operating expenditures, including depreciation of \$6.8 million, totaled \$82 million, a decrease from the prior year of \$7.2 million, mainly due to the decrease of pension expense recorded for the state pension plans funding overages.

Noncapital state appropriations were the most significant nonoperating revenue totaling \$24.8 million, which was an increase from 2017 of .8 percent.

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The most significant sources of operating revenue for the University are tuition and fees and grants and contracts. Tuition and fee revenue grew during fiscal year 2017 as compared to 2016 by 10 percent primarily due to increased student enrollment and tuition rates. Grant revenue increased by \$3.2 million, or 17.2 percent, in 2017.

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

Operating expenditures, including depreciation of \$7.1 million, totaled \$86.9 million, an increase from the prior year of \$8.4 million, or 10.8 percent, mainly due to the additional pension expense recorded for the state pension plans funding shortfalls.

Noncapital state appropriations were the most significant nonoperating revenue totaling \$24.6 million, which was an increase from 2016 of 8.7 percent.

Northeast Ohio Medical University Condensed Statements of Cash Flows for the years ended June 30, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash (used in) provided by:			
Operating activities	\$ (17,999,460)	\$ (14,925,140)	\$ (18,564,278)
Investing activities	742,556	(1,527,595)	3,283,927
Capital and related financing activities	(6,343,831)	(6,093,227)	(6,637,558)
Noncapital financing activities	<u>24,782,041</u>	<u>24,579,036</u>	<u>22,618,173</u>
Net increase in cash and cash equivalents	1,181,306	2,033,074	700,264
Cash and cash equivalents, beginning of year	<u>7,334,618</u>	<u>5,301,544</u>	<u>4,601,280</u>
Cash and cash equivalents, end of year	<u>\$ 8,515,924</u>	<u>\$ 7,334,618</u>	<u>\$ 5,301,544</u>

2018 versus 2017 During the year ended June 30, 2018:

Major sources of cash included student tuition and fees \$36 million, state appropriations \$24.8 million, auxiliary activities \$2.7 million, and grants and contracts \$19.7 million. The largest payments were for suppliers (\$27.8 million) and employees (\$47.5 million).

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Asset and Debt Administration

Capital Assets

At the end of 2018, the University had invested \$85.3 million in capital assets (net of accumulated depreciation of \$75.5 million); this amount represents a decrease of \$2.0 million, or 2.3 percent, over last year.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 2,149,470	\$ 2,149,470	\$ 2,149,470
Equipment, furnishing, and library materials	33,192,482	33,812,050	43,159,615
Buildings, infrastructure, improvements, and construction in progress	<u>125,546,836</u>	<u>122,122,816</u>	<u>120,304,486</u>
Total	<u>\$ 160,888,788</u>	<u>\$ 158,084,336</u>	<u>\$ 165,613,571</u>

More detailed information about the University's capital assets is presented in Note 5 to the financial statements.

Long-term Debt

In November 2010, the University had its first bond issuance for \$15 million of tax-exempt Build America Bonds, rated BAA1, to be used toward a new Research and Graduate Education building. In November 2011, the University had its second bond issuance for \$27 million to be used toward this project.

More detailed information about the University's long-term debt is presented in Note 10 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.

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

The University is cognizant to the fact that state support for higher education is certainly susceptible to declines during tough economic downturns, and University personnel continue to closely monitor this revenue stream. Considering the stabilized enrollment growth as well as the current outcome based state funding model, the negative impact to NEOMED will likely be minimized.

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

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current assets						
Cash and cash equivalents (Note 2)	\$ 6,586,779	\$ 5,669,529	\$ 502,049	\$ 606,238	\$ 554,324	\$ 477,044
Investments (Note 2)	27,649,068	26,591,978	-	-	-	-
Accounts receivable (Note 4)	12,552,745	13,445,268	4,300	38,959	22,502	20,862
Inventories	172,884	168,396	-	-	-	-
Prepaid expenses and deferred charges	1,617,072	1,638,853	6,745	15,049	4,989	13,744
Pledges receivable	-	-	569,865	642,120	-	-
Notes receivable (Note 4)	411,631	351,610	42,753	37,134	-	-
Total current assets	<u>48,990,179</u>	<u>47,865,634</u>	<u>1,125,712</u>	<u>1,339,500</u>	<u>581,815</u>	<u>511,650</u>
Noncurrent assets						
Cash-restricted (Note 2)	1,929,145	1,665,089	-	-	-	-
Long-term investments (Note 2)	26,939,093	25,715,226	17,958,688	16,345,020	-	-
Funds held in trust	-	-	72,669	70,382	1,906,212	1,936,268
Pledges receivable	-	-	828,226	1,051,361	-	-
Notes receivable (Note 4)	4,309,158	5,046,531	356,490	325,534	-	-
Capital assets, net (Note 5)	85,344,660	87,370,483	-	-	105,546,815	109,730,153
Total noncurrent assets	<u>118,522,056</u>	<u>119,797,329</u>	<u>19,216,073</u>	<u>17,792,297</u>	<u>107,453,027</u>	<u>111,666,421</u>
Total assets	<u>167,512,235</u>	<u>167,662,963</u>	<u>20,341,785</u>	<u>19,131,797</u>	<u>108,034,842</u>	<u>112,178,071</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows related to pensions	14,603,062	16,651,458	-	-	-	-
Deferred outflows related to OPEB	1,194,811	-	-	-	-	-
Total deferred outflows of resources	<u>15,797,873</u>	<u>16,651,458</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflow of resources	<u>183,310,108</u>	<u>184,314,421</u>	<u>20,341,785</u>	<u>19,131,797</u>	<u>108,034,842</u>	<u>112,178,071</u>
LIABILITIES						
Current liabilities						
Accounts payable	1,618,970	1,789,837	-	-	12,115	1,224
Accrued compensation and benefits (Note 6)	4,131,316	3,619,845	-	-	-	-
Unearned revenue	5,617,539	4,720,877	-	-	355,954	222,971
Other accrued liabilities	3,288,550	3,017,171	474,282	508,912	635,712	666,277
Capital lease obligations	17,939	1,028,781	-	-	-	-
Bonds payable (Note 10)	940,000	915,000	-	-	2,010,635	1,863,923
Total current liabilities	<u>15,614,314</u>	<u>15,091,511</u>	<u>474,282</u>	<u>508,912</u>	<u>3,014,416</u>	<u>2,754,395</u>
Noncurrent liabilities						
Compensated absences (Note 6)	3,405,823	2,198,136	-	-	-	-
Related party payable	-	-	-	-	5,855,295	5,972,761
Annuity obligations	-	-	89,866	98,199	-	-
Net OPEB liability (Notes 6 and 9)	21,424,756	1,567,160	-	-	-	-
Capital lease obligations	51,024	67,848	-	-	-	-
Bonds payable (Note 10)	36,208,918	37,142,730	-	-	109,758,697	111,663,063
Net pension liability (Note 8)	40,553,436	54,149,522	-	-	-	-
Total noncurrent liabilities	<u>101,643,957</u>	<u>95,125,396</u>	<u>89,866</u>	<u>98,199</u>	<u>115,613,992</u>	<u>117,635,824</u>
Total liabilities	<u>117,258,271</u>	<u>110,216,907</u>	<u>564,148</u>	<u>607,111</u>	<u>118,628,408</u>	<u>120,390,219</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	5,415,955	185,394	-	-	-	-
Deferred inflows related to OPEB	1,442,347	-	-	-	-	-
Total deferred inflows of resources	<u>6,858,302</u>	<u>185,394</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	48,787,862	48,901,219	-	-	-	-
Restricted						
Nonexpendable						
Student loans	6,607,544	6,823,187	940,375	908,193	-	-
Endowments	4,626,556	4,548,400	9,032,133	8,620,363	-	-
Annuity and life income	-	-	40,974	49,822	-	-
Expendable						
Current operations	959,517	710,026	7,989,169	7,525,379	-	-
Unrestricted (deficit)	(1,787,944)	12,929,288	1,774,986	1,420,929	(10,593,566)	(8,212,148)
Total net position	<u>59,193,535</u>	<u>73,912,120</u>	<u>19,777,637</u>	<u>18,524,686</u>	<u>(10,593,566)</u>	<u>(8,212,148)</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 183,310,108</u>	<u>\$ 184,314,421</u>	<u>\$ 20,341,785</u>	<u>\$ 19,131,797</u>	<u>\$ 108,034,842</u>	<u>\$ 112,178,071</u>

The accompanying notes are an integral part of the financial statements

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2018 AND 2017

	NEOMED		Component Unit NEOMED Foundation		Component Unit ERS Strategic Properties, Inc	
	2018	2017	2018	2017	2018	2017
OPERATING REVENUES						
Student tuition and fees (net of scholarship allowances of \$1,847,281 and \$2,108,818, respectively)	\$ 34,563,217	\$ 34,402,078	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts	12,933,187	15,650,784	-	-	-	-
State grants and contracts	1,484,366	1,451,891	-	-	-	-
Local grants and contracts	60,283	12,248	-	-	-	-
Private grants and contracts	4,669,263	4,477,709	-	-	-	-
Contributions and bequests	-	-	1,535,167	2,058,321	-	-
In-kind contributions from NEOMED	-	-	1,219,754	1,188,255	317,916	310,816
Sales and services of departments	334,273	485,823	-	-	-	-
Sales and services of auxiliary enterprises	2,660,592	2,590,820	-	-	8,583,387	8,775,779
Other	727,366	341,873	47,171	24,919	-	-
Total operating revenues	<u>57,432,547</u>	<u>59,413,226</u>	<u>2,802,092</u>	<u>3,271,495</u>	<u>8,901,303</u>	<u>9,086,595</u>
OPERATING EXPENSES						
Educational and general						
Instruction and departmental research	17,167,303	21,529,081	203,134	199,580	-	-
Separately budgeted research	13,017,991	14,401,248	571,111	488,713	-	-
Public service	2,034,654	5,288,931	41,548	404,149	-	-
Academic support	9,524,276	9,246,947	140,295	90,603	-	-
Student services	2,874,355	2,822,989	-	-	-	-
Institutional support	12,751,859	10,497,835	1,250,974	1,969,459	-	-
Operation and maintenance of plant	7,450,610	8,585,128	5,000	13,408	-	-
Scholarships and fellowships	-	-	854,677	721,034	-	-
Auxiliary enterprises	8,153,642	7,379,477	-	-	966,555	962,187
Depreciation	6,818,952	7,152,824	-	-	4,217,258	4,219,305
Total operating expenses	<u>79,793,642</u>	<u>86,904,460</u>	<u>3,066,739</u>	<u>3,886,946</u>	<u>5,183,813</u>	<u>5,181,492</u>
Operating (loss) income	(22,361,095)	(27,491,234)	(264,647)	(615,451)	3,717,490	3,905,103
NONOPERATING REVENUES (EXPENSES)						
State appropriations	24,782,041	24,579,036	-	-	-	-
Investment income	2,907,581	3,388,534	1,098,244	1,609,008	-	-
Interest expense	(2,103,324)	(2,112,431)	-	-	(6,098,908)	(6,183,023)
Loss on disposal of assets	(101,597)	(189,972)	-	-	-	-
Net nonoperating revenues (expenses)	<u>25,484,701</u>	<u>25,665,167</u>	<u>1,098,244</u>	<u>1,609,008</u>	<u>(6,098,908)</u>	<u>(6,183,023)</u>
(LOSS) GAIN BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	3,123,606	(1,826,067)	833,597	993,557	(2,381,418)	(2,277,920)
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES						
Capital appropriations and grants	2,539,135	3,352,902	-	-	-	-
Contributions	-	-	419,354	350,731	-	-
Total other revenues, expenses, gains, or losses	<u>2,539,135</u>	<u>3,352,902</u>	<u>419,354</u>	<u>350,731</u>	<u>-</u>	<u>0</u>
INCREASE (DECREASE) IN NET POSITION	5,662,741	1,526,835	1,252,951	1,344,288	(2,381,418)	(2,277,920)
NET POSITION AT BEGINNING OF YEAR	73,912,120					
Adjustment for Change in Accounting Principle (Note 1)	(20,381,326)					
NET POSITION AT BEGINNING OF YEAR, as restated	<u>53,530,794</u>	<u>72,385,285</u>	<u>18,524,686</u>	<u>17,180,398</u>	<u>(8,212,148)</u>	<u>(5,934,228)</u>
NET POSITION AT END OF YEAR	<u>\$ 59,193,535</u>	<u>\$ 73,912,120</u>	<u>\$ 19,777,637</u>	<u>\$ 18,524,686</u>	<u>\$ (10,593,566)</u>	<u>\$ (8,212,148)</u>

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 35,987,177	\$ 34,545,612
Grants and contracts	19,653,049	22,202,505
Employee compensation	(47,464,615)	(46,138,180)
Payments to suppliers	(27,809,290)	(26,575,796)
Payments for utilities	(2,197,326)	(2,049,257)
Student loan advances	(381,891)	(1,738,701)
Student loan repayments	1,043,608	925,507
Sales and services of auxiliary enterprises	2,653,395	2,551,200
Sales and services of departments	14,731	905,071
Other operating receipts	501,702	446,899
Net cash and cash equivalents used in operating activities	(17,999,460)	(14,925,140)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	24,782,041	24,579,036
Federal loan receipts	30,592,983	29,827,585
Federal loan disbursements	(30,592,983)	(29,827,585)
Net cash and cash equivalents provided by financing activities	24,782,041	24,579,036
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	2,539,135	3,352,902
Purchases of capital assets	(4,836,976)	(5,399,033)
Payments on capital lease	(1,027,666)	(1,044,666)
Principal paid on debt	(915,000)	(890,000)
Interest paid on debt	(2,103,324)	(2,112,430)
Net cash and cash equivalents used in capital and related financing activities	(6,343,831)	(6,093,227)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	2,907,581	3,366,042
Sale of investments	24,186,393	32,280,732
Purchase of investments	(26,351,418)	(37,174,369)
Net cash and cash equivalents (used in) provided by investing activities	742,556	(1,527,595)
NET INCREASE IN CASH AND EQUIVALENTS	1,181,306	2,033,074
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	7,334,618	5,301,544
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 8,515,924	\$ 7,334,618

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED June 30, 2018 and 2017**

CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES

	<u>2018</u>	<u>2017</u>
Operating loss	\$ (22,361,095)	\$ (27,491,234)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	6,818,952	7,152,824
Loss on disposal of asset	101,597	189,972
Changes in assets and liabilities		
Receivables	892,523	(925,042)
Inventories	(4,488)	3,222
Prepaid expenses and deferred charges	21,781	(78,905)
Notes receivable	677,352	(807,841)
Accounts payable	(170,867)	(687,163)
Accrued compensation	1,719,158	1,223,326
Deferred revenue	896,662	1,438,421
Net OPEB liability	(297,749)	-
Net pension liability	(13,596,086)	12,469,518
Deferred inflow / outflow from GASB 75 Liability	(247,536)	-
Deferred inflow / outflow from GASB 68 Liability	7,278,957	(7,504,733)
Other accrued liabilities	271,379	92,495
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	<u>\$ (17,999,460)</u>	<u>\$ (14,925,140)</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, 2018 and 2017**

1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Today NEOMED has transformed into a free standing state University operating community-based colleges in medicine, pharmacy, and graduate studies. The College of Medicine offers an Early Assurance Baccalaureate/M.D. admissions pathway which enables undergraduate students attending one of the Universities within the NEOMED partnership program (Kent State University, The University of Akron, Youngstown State University, Bowling Green State University, Hiram and Baldwin-Wallace) the right to reserve a seat in NEOMED’s medical school during their sophomore year of College. Early Assurance is a reserved seat in NEOMED’s medical school provided that candidates achieve certain milestones to claim that reserved seat. The College of Medicine also partners with Cleveland State University to meet the healthcare needs within urban communities by offering a Post Baccalaureate/M.D. admissions pathway in addition to the Early Assurance Pathway.

NEOMED’s College of Medicine partners with some of the most prestigious medical campuses and institutions in Northeast Ohio to provide clinical instruction to NEOMED students. The more than 2,300 members of the University’s clinical faculty hold staff appointments at these hospitals.

Similarly, NEOMED’s College of Pharmacy partners with many nationally recognized pharmacy chains, locally-owned pharmacies, hospitals, health centers and associations to provide pharmacy practice opportunities and training to its students.

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

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

The accompanying financial statements consist of the accounts of the University and the accounts of the NEOMED Research Corporation (the “Research Corp”), Clinical Initiatives Inc. (Clinical Initiatives), Northeast Ohio Medical University Foundation (Foundation), and ERS Strategic Properties, Inc. (ERS). The Research Corp and Clinical Initiatives are component units which are presented blended with the University accounts. The Foundation and ERS, which are discretely presented component units of the University as determined in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, are described more fully in Notes 13 and 14, respectively. The Research Corp, Clinical Initiatives, Foundation, and ERS are exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

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

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

Basis of Presentation

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

Management's Discussion and Analysis

Basic financial statements:

Statements of Net Position

Statements of Revenue, Expenses, and Changes in Net Position

Statements of Cash Flows

Notes to the financial statements

Basis of Accounting

The accompanying financial statements of the University have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred. Restricted grant revenue and state capital appropriations are recognized only to the extent expended. Noncapital state appropriations are recognized as revenue in the year appropriated.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

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, 2018, and 2017, restricted cash and cash equivalents consists of \$1,929,145 and \$1,665,089, respectively, of cash restricted for loan purposes.

Investments

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the University's investments are reported at fair value based on market quotations.

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

The University has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold on June 30, 2018 and 2017.

Fair Value Measurements

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

Accounts Receivable

Accounts receivable consists of amounts due for tuition and fees, grants and contracts, and auxiliary enterprise services. Grants and contracts receivables include amounts due from the federal government, state and local governments, or private sources, as reimbursement for certain expenditures made in accordance with agreements. Due to the nature of the receivables and minimal write offs, the University concluded that an allowance is not deemed necessary.

Inventories

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

Bond Issuance Costs

Bond issuance costs are expensed as incurred.

Capital Assets

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

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

<u>Asset</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 - 40 years
Leashold improvements	Life of lease
Infrastructure	20 years
Furnishings and moveable equipment	3 - 7 years
Library materials	10 years

Compensated Absences

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

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

Operating Revenue

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

Unearned Revenue

Unearned revenue represents unspent (and therefore unearned) revenue from various restricted grants and contracts as well as summer term tuition received prior to June 30.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

Scholarship Discounts and Allowances

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

Pensions

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

Other Postemployment Benefit Costs

For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Ohio Public Employees' Retirement System/State Teachers Retirement System of Ohio OPEB Lan (OPERS/STRS) and additions to deduction from OPERS/STRS fiduciary net position have been determined on the same basis as they are reported by OPERS/STRS. OPERS/STRS use the economic resources measurement focus and the full accrual basis of accounting. For this purpose, OPERS/STRS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The University provides certain healthcare benefits for dependents of retired employees and life insurance benefits for retired employees. Substantially all of the University's employees hired prior to 1992 may become eligible for those benefits if they reach the normal retirement age while working for the University. Effective July 1, 2017, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The liability for these benefits is actuarially determined and based on a number of assumptions used to calculate the liability.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The University reports deferred outflows of resources for certain pension-related and OPEB-related amounts, such as change in expected and actual experience, changes in assumptions, and certain contributions made to the plan subsequent to the measurement date. More detailed information can be found in Note 8.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time. The University reports deferred inflows of resources for certain pension-related and OPEB-related amounts, such as the difference between projected and actual earnings of the plan's investments. More detailed information can be found in Note 8.

Net Position Classifications

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

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

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

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

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

Use of Estimates

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

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

Adoption of New Standard

The GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which requires governments providing other postemployment benefit (OPEB) plans to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statements, the University has reported a change in accounting principle adjustment to unrestricted net position of \$20,381,326, which is the net of the net OPEB liability and related deferred outflows of resources as of July 1, 2017. June 30, 2017 amounts have not been restated to reflect the impact of GASB No. 75 because the information is not available to calculate the impact on OPEB expense for the fiscal year ended June 30, 2017.

Upcoming Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The University is currently evaluating the impact of this standard. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2019. In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2021. In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2019.

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In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the University's financial statements for the June 30, 2021 fiscal year.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

The University's bank deposits and cash on hand for all fund groups at June 30, 2018 and 2017 are summarized as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
University's book value	\$ 8,515,924	\$ 7,334,618
Cash on hand	2,979	2,979
Bank balances	7,535,113	7,625,129

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, 2018 and 2017, \$803,923 and \$720,309, respectively, was covered by federal depository insurance and \$6,731,190 and \$6,904,820, respectively, was uncollateralized as defined by the GASB.

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The University's investments, at fair value, at June 30, 2018 and 2017 are summarized as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Money market funds	\$ 1,920,341	\$ 976,897
U.S. government obligations	10,510,419	6,792,834
U.S. government agency obligations	5,275,392	7,234,669
Corporate bonds and notes	2,552,534	3,704,003
Fixed-income mutual funds	8,558,663	8,879,424
Equities	20,671,697	19,315,696
Other	325,008	520,510
State Treasury Asset Reserve of Ohio	2,497,739	4,872,321
State Treasury Asset Reserve of Ohio Plus	<u>2,276,368</u>	<u>10,850</u>
Total Investments	<u>\$ 54,588,161</u>	<u>\$ 52,307,204</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, 2018 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	\$ 10,510,419	\$ -	\$ 6,333,854	\$ 1,682,192	\$ 2,494,373
U.S. government agency obligations	5,275,392	-	2,054,237	442,404	2,778,751
Corporate bonds and notes	<u>2,552,534</u>	<u>282,926</u>	<u>1,767,974</u>	<u>393,127</u>	<u>108,507</u>
Total	<u>\$ 18,338,345</u>	<u>\$ 282,926</u>	<u>\$ 10,156,065</u>	<u>\$ 2,517,723</u>	<u>\$ 5,381,631</u>

The maturities of the University's interest-bearing investments at June 30, 2017 are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. government obligations	\$ 6,792,834	\$ 119,204	\$ 5,016,100	\$ -	\$ 1,657,530
U.S. government agency obligations	7,234,669	1,297,010	1,910,974	568,494	3,458,191
Corporate bonds and notes	<u>3,704,003</u>	<u>-</u>	<u>3,305,761</u>	<u>274,116</u>	<u>124,126</u>
Total	<u>\$ 17,731,506</u>	<u>\$ 1,416,214</u>	<u>\$ 10,232,835</u>	<u>\$ 842,610</u>	<u>\$ 5,239,847</u>

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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, 2018 were as follows:

Credit Rating (S&P)	Total	U.S. Government Obligations	U.S. Agency Obligations	Corporate Bonds and Notes
AAA	\$ 15,760,326	\$ 10,510,419	\$ 5,249,907	\$ -
AA	96,971	-	25,485	71,486
A	338,899	-	-	338,899
BBB	2,142,149	-	-	2,142,149
Total	<u>\$ 18,338,345</u>	<u>\$ 10,510,419</u>	<u>\$ 5,275,392</u>	<u>\$ 2,552,534</u>

The credit ratings for the University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2017 were as follows:

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

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's investment policy limits investments, at cost, to no more than 5 percent in any single issue, except the investments of U.S. government securities. At June 30, 2018 and 2017, the University had no exposure to concentration of credit risk.

Foreign currency risk. Foreign currency risk is that risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2018 and 2017, the University had no exposure to foreign currency risk.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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3. FAIR VALUE MEASUREMENTS

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

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

The University has the following recurring fair value measurements as of June 30, 2018 and 2017:

	Balance at June 30, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt securities ^(b) :				
U.S. government obligations	\$ 10,510,419	\$ -	\$ 10,510,419	\$ -
U.S. government agency obligations	5,275,392	-	5,275,392	-
Corporate bonds	2,552,534	-	2,552,534	-
Total debt securities	18,338,345	-	18,338,345	-
Equity securities ^(a)	20,671,697	20,671,697	-	-
Mutual funds:				
Fixed-income mutual funds	8,558,663	8,558,663	-	-
Total mutual funds	8,558,663	8,558,663	-	-
Total investments by fair value level	\$ 47,568,705	\$ 29,230,360	\$ 18,338,345	\$ -

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

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

Short-term investments and investments on the statements of net position at June 30, 2018 and 2017 include investments in STAR Ohio of \$4,774,107 and \$4,883,171, respectively. The investments in STAR Ohio are measured at amortized cost; therefore, they are not included in the tables above. There are no limitations or restrictions on any STAR Ohio participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given to STAR Ohio 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the STAR Ohio investors will be combined for these purposes.

Investments on the statements of net position also include money market mutual funds of \$1,920,341 and \$976,897 as of June 30, 2018 and June 30, 2017, respectively.

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4. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2018 and 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Student notes	\$ 4,720,789	\$ 5,398,141
Grants and contracts	3,680,971	4,459,600
Sales and services	1,086,371	1,672,800
ERS Strategic Properties, Inc.	5,855,295	5,972,761
Tuition and fees	<u>1,930,108</u>	<u>1,340,107</u>
Total accounts and notes receivable	17,273,534	18,843,409
Less current portion	<u>(12,964,376)</u>	<u>(13,796,878)</u>
Accounts and notes receivable, noncurrent portion	<u>\$ 4,309,158</u>	<u>\$ 5,046,531</u>

Federal Direct Loans Program processed for students by the University during the years ended June 30, 2018 and 2017 totaled \$30,592,983 and \$29,827,585, respectively. The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loans Program and, accordingly, these loans are not included in the University's financial statements.

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

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5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	July 1, 2017 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2018 Ending Balance
Land - Nondepreciable	\$ 2,149,470	\$ -	\$ -	\$ 2,149,470
Infrastructure	2,643,234	85,325	(185,883)	2,542,676
Buildings	118,979,872	3,607,014	100,898	122,687,784
Furnishings and movable equipment	27,570,919	822,364	(1,447,830)	26,945,453
Library materials	6,111,256	5,898	-	6,117,154
Intangibles	129,875	-	-	129,875
Construction in progress - Nondepreciable	499,710	316,375	(499,709)	316,376
Total historical cost	158,084,336	4,836,976	(2,032,524)	160,888,788
Less accumulated depreciation				
Infrastructure	1,001,174	294,546	(138,515)	1,157,205
Buildings	44,755,919	3,382,890	(37,476)	48,101,333
Furnishings and movable equipment	21,676,445	2,556,558	(1,812,686)	22,420,317
Library materials	3,258,669	541,666	-	3,800,335
Intangibles	21,646	43,292	-	64,938
Total accumulated depreciation	70,713,853	6,818,952	(1,988,677)	75,544,128
Total capital assets, net of depreciation	\$ 87,370,483	\$(1,981,976)	\$ (43,847)	\$ 85,344,660

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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6. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2018 and 2017 are as follows:

	Balance July 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2018</u>	Current <u>Portion</u>	Noncurrent <u>Portion</u>
Compensated absences	\$ 2,623,272	\$ 468,441	\$ 309,254	\$ 2,782,459	\$ 535,411	\$ 2,247,048
Voluntary Separation Program	-	1,346,027	-	1,346,027	187,252	1,158,775
Postemployment benefits (Note 9)	1,567,160	3,073,503	-	4,640,663	225,981	4,414,682
Total long-term liabilities	<u>\$ 4,190,432</u>	<u>\$ 4,887,971</u>	<u>\$ 309,254</u>	<u>\$ 8,769,149</u>	<u>\$ 948,644</u>	<u>\$ 7,820,505</u>

	Balance June 30, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2017</u>	Current <u>Portion</u>	Noncurrent <u>Portion</u>
Compensated absences	\$ 2,555,568	\$ 427,154	\$ 359,450	\$ 2,623,272	\$ 425,136	\$ 2,198,136
Postemployment benefits (Note 9)	1,460,165	106,995	-	1,567,160	-	\$ 1,567,160
Total long-term liabilities	<u>\$ 4,015,733</u>	<u>\$ 534,149</u>	<u>\$ 359,450</u>	<u>\$ 4,190,432</u>	<u>\$ 425,136</u>	<u>\$ 3,765,296</u>

The current portion of compensated absence and the voluntary separation program (VSP) liabilities is included in accrued compensation and benefits on the Statements of Net Position.

In fiscal year 2018, the University Board of Trustees approved a Voluntary Separation Program (hereinafter "VSP"). Eligible employees are defined as Administrators, Classified Staff, and Police who are full-time NEOMED employees as of March 1, 2018, in a funded position on the University's operating budget or one of the University's auxiliary operation, with a minimum of ten (10) continuous years of employment not later than June 30, 2019. Under the plan the University promises to pay the VSP benefit to eligible employees who agree to retire or separate from service on June 30, 2018, December 31, 2018, or June 30, 2019 (or an alternate exit date mutually agreed upon by the University and employee based on operational and educational needs). The University may request that certain employees postpone their elected exit date for up to one year based on critical and essential operation needs. The VSP benefit will be 100% of his/her base salary as of March 1, 2018 divided equally and paid over a twenty-four month period, and will not exceed a maximum amount of \$100,000 to be paid per each twelve month period, irrespective of the participants base salary. Payment will either be made to an annuity contract or custodial account that is designed to meet the tax-qualification requirements of Internal Revenue Code Section 403(b) or direct deposited into the bank of choice; both beginning within 2-1/2 months following the participants exit date. All participants will also be entitled to the inclusion of an amount equivalent to his/her applicable contractual sick pay whether or not they are retiring upon their exit from the University. The calculation of the equivalent amount will be based on the lesser of thirty work days or 25% of their accumulated sick leave balance multiplied by their hourly rate. The window period for eligible employee elections began on April 23, 2018 and closes on April 19, 2019.

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Required election forms must be submitted to EPC no later than midnight (postmarked) on the exit dates corresponding final date for participant plan document submission in the table below:

<u>Participant Exit Date</u>	<u>Final Date for Submission</u>	<u>Seven-Day Revocation Period Ends</u>
June 30, 2018	June 15, 2018	June 22, 2018
December 31, 2018	November 2, 2018	November 9, 2018
June 30, 2019	April 19, 2019	April 26, 2019

If all required documentation is signed and returned by the exit dates corresponding final date for submission, the employee shall have seven additional days to revoke the decision to retire or separate. A decision to revoke the election to retire or separate must be made in writing and submitted within the corresponding seven-day revocation period or the decision to retire or to separate becomes final and binding.

7. COMMITMENTS AND CONTINGENCIES

The University has entered into various contractual service agreements with its consortium universities, associated hospitals, and health departments primarily for clinical instruction, research, and other services. For the fiscal years ended June 30, 2018 and 2017, these instructional expenses relating to contracts totaled \$3,936,866 and \$3,300,154 respectively. At June 30, 2018 and 2017, the University had recorded accrued liabilities of \$1,768,170 and \$1,478,312, respectively, which represented unbilled services rendered by the related organizations under these contracts.

The University receives grants and contracts from certain federal, state, and private agencies to fund research and other programs. The costs, both direct and indirect, which have been charged to the grant or contract, are audited annually in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Such audits are subject to the approval of the granting agency, which reserves the right to conduct further examinations. It is the opinion of the University's management that any potential disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

8. EMPLOYEE BENEFIT PLANS

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

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

State Teachers Retirement System of Ohio 275 E. Broad Street Columbus, Ohio 43215 (888) 227-7877 www.strsoh.org	Ohio Public Employees Retirement System 277 East Town Street Columbus, Ohio 43215 (800) 222-7377 www.opers.org
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Contributions - State retirement law requires contributions by covered employees and their employers, and Chapter 3307 of the ORC limits the maximum rate of contributions. The retirement boards of the systems individually set contributions rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Under these provisions, each University's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Member contributions are set at the maximums authorized by the ORC. The plan's 2018 employer and member contribution rates on covered payroll to each system are:

	Employer Contribution Rate				Member Contribution Rate
	Post-				Total
	Pension	Retirement Healthcare	Death Benefits	Total	
STRS	14.00%	0.00%	0.00%	14.00%	14.00%
OPERS-State/Local	13.00%	1.00%	0.00%	14.00%	10.00%
OPERS- Law Enforcement and Public Safety	17.10%	1.00%	0.00%	18.10%	13.00%

The plans' 2017 employer and member contribution rates on covered payroll to each system are:

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

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

		For the Years ended 6/30			
		2018		2017	
		Pension	OPEB	Pension	OPEB
STRS		\$ 1,380,988	\$ -	\$ 1,266,875	\$ -
OPERS		2,089,877	23,774	1,886,860	33,876
		\$ 3,470,865	\$ 23,774	\$ 3,153,735	\$ 33,876

Benefits Provided

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

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

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

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

STRS Ohio provides access to healthcare coverage to retirees who participated in the Defined Benefit or Combined Plans, and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the ORC, the State Teachers Retirement Board (the "Board") has discretionary authority over how much, if any, of the healthcare costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium.

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

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

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

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

In addition to the pension benefits described above, Ohio Law provides that the University fund postretirement healthcare benefits to retirees and their dependents through employer contributions. The portion of employer contributions, for all employers, allocated to health care was 2.0 percent during calendar years 2017 and 2016.

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2018 and 2017, the University reported a liability for its proportionate share of the net pension liability of STRS/OPERS. For June 30, 2018, the net pension liability was measured as of July 1, 2017 for STRS, and December 31, 2017 for the OPERS plan. For June 30, 2017, the net pension liability was measured as of July 1, 2016 for STRS and December 31, 2016 for the OPERS plan. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

Plan	Measurement Date	Net Pension Liability		Proportionate Share		Percentage Change
		2018	2017	2018	2017	
STRS	July 1	\$ (21,859,034)	\$ (29,065,942)	0.09202%	0.08683%	0.00519%
OPERS	December 31	\$ (18,694,402)	\$ (25,083,580)	0.12044%	0.11078%	0.00966%

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For the years ended June 30, 2018 and 2017, the University recognized pension income of \$6,317,127 and pension expense of \$4,983,636, respectively. At June 30, 2018 and 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 875,960	\$ (606,026)	\$ 1,214,942	\$ (184,514)
Changes of assumptions	7,056,398	-	4,008,225	-
Net difference between projected and actual earnings of pension plan investments	-	(4,809,929)	6,177,553	-
Changes in proportion and differences between University contributions and proportionate share of contributions	3,937,244	-	2,653,992	(880)
University contributions subsequent to the measurement date	2,733,460	-	2,596,746	-
Total	<u>\$ 14,603,062</u>	<u>\$ (5,415,955)</u>	<u>\$ 16,651,458</u>	<u>\$ (185,394)</u>

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

<u>Year Ended June 30</u>	<u>Amount</u>
2019	\$ 4,232,870
2020	\$ 3,050,945
2021	\$ 180,342
2022	\$ (996,854)
2023	\$ (4,887)
Thereafter	\$ (8,769)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2019).

Net OPEB Liability, Deferrals, and OPEB Expense – At June 30, 2018, the University reported a liability for its proportionate share of the net OPEB liability of STRS/OPERS. For June 30, 2018, the net OPEB liability was measured as of June 30, 2017 for STRS, and December 31, 2017 for the OPERS plan. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 for STRS and December 31, 2016 for OPERS; OPERS used updated procedures to roll forward the estimated liability to December 31, 2017.

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Plan	Measurement Date	Net OPEB Liability	Proportionate Share
		2018	2018
STRS	June 30	\$ 3,590,196	0.09202%
OPERS	December 31	\$ 13,419,878	0.12358%

For the year ended June 30, 2018, the University recognized OPEB income of \$134,235. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 217,702	\$ -
Changes of assumptions	977,109	(289,202)
Net difference between projected and actual earnings of OPEB plan investments	-	(1,153,145)
Changes in proportion and differences between University contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	-	-
Total	<u>\$ 1,194,811</u>	<u>\$(1,442,347)</u>

Amounts reports as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Amount
2019	\$ 170,212
2020	\$ 170,212
2021	\$ (258,695)
2022	\$ (301,945)
2023	\$ (13,659)
Thereafter	\$ (13,661)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net OPEB liability in the next year (2019).

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Actuarial Assumptions - The total pension liability and OPEB liability is based on results of an actuarial valuation were determined using the following actuarial assumptions for 2017, applied to all periods included in the measurement on June 30, 2018:

	STRS	OPERS
Valuation Date - Pensions	July 1, 2017	December 31, 2017
Valuation Date - OPEB	June 30, 2017	December 31, 2016
Actuarial cost method	Entry age normal	Individual Entry Age
Cost of living	None	3.0 percent
Salary increases, including inflation	2.50 percent - 12.50 percent	3.25 percent - 10.75 percent
Inflation	2.50 percent	3.25 percent
Investment rate of return- Pensions	7.45 percent, net of pension plan investment expense	7.50 percent, net of plan investment expense
Investment rate of return- OPEB	4.51 percent, net of investment expense, including inflation	6.50 percent, net of plan investment expense
Health care cost trend rates	6.00 percent to 11 percent initial, 4.50 percent ultimate	7.50 percent initial, 3.25 percent ultimate in 2028
Experience study date	Period of 5 years ended June 30, 2016	Period of 5 years ended December 31, 2015
Mortality basis	PR-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between 70 and 79, 90% of rates between age 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016.	RP-2014 Healthy Annuitant Mortality Table

The following are pension actuarial assumptions for 2016, applied to all periods included in the measurement on June 30, 2017:

	STRS	OPERS
Valuation Date	July 1, 2016	December 31, 2016
Actuarial cost method	Entry age normal	Individual Entry Age
Cost of living	2.0 percent	3.0 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	3.25 percent - 10.75 percent
Inflation	2.75 percent	3.25 percent
Investment rate of return- Pensions	7.75 percent, net of pension plan investment expense	7.50 percent, net of plan investment expense
Experience study date	Period of 5 years ended July 1, 2012	Period of 5 years ended December 31, 2015
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)	RP-2014 Healthy Annuitant Mortality Table

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Discount Rate - The discount rates used to measure the total pension liabilities at June 30, 2018 were 7.45 percent and 7.50 percent, for STRS and OPERS, respectively. The discount rate used to measure the total pension liabilities at June 30, 2017 were 7.75 percent and 7.50 percent, for STRS and OPERS, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, each pension plan's fiduciary net position were projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rates used to measure the total OPEB liabilities at June 30, 2018 were 4.13 percent and 3.85 percent, for STRS and OPERS, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, each pension plan's fiduciary net position was projected to become insufficient to make all projected future benefit payments for current active and inactive employees for STRS and OPERS. Therefore, a blended rate was used, which consisted of the long-term expected rate of return on OPEB plan investments for the funded benefit payments and a 20-year municipal bond rate applied to the unfunded benefit payment period to determine the total OPEB liability.

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

STRS - as of 7/1/17			OPERS - as of 12/31/17				
Investment Category	Target Allocation	Long-term Expected Real Rate of Return	Investment Category	Defined Benefit Portfolio		Health Care Portfolio	
				Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	28.00%	5.10%	Fixed Income	23.00%	2.20%	34.00%	1.88%
International Equity	23.00%	5.30%	Domestic Equities	19.00%	6.37%	21.00%	6.37%
Alternatives	17.00%	4.84%	Real Estate	10.00%	5.26%	0.00%	0.00%
Fixed Income	21.00%	0.75%	Private Equity	10.00%	8.97%	0.00%	0.00%
Real Estate	10.00%	3.75%	International Equities	20.00%	7.88%	22.00%	7.88%
Liquidity Reserves	1.00%	0.00%	REITs	0.00%	0.00%	6.00%	5.91%
			Other Investments	18.00%	5.26%	17.00%	5.39%
Total	<u>100.00%</u>		Total	<u>100.00%</u>		<u>100.00%</u>	

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STRS - as of 7/1/16			OPERS - as of 12/31/16		
<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	31.00%	5.50%	Fixed Income	23.00%	2.75%
International Equity	26.00%	5.35%	Domestic Equities	20.70%	6.34%
Alternatives	14.00%	5.50%	Real Estate	10.00%	4.75%
Fixed Income	18.00%	1.25%	Private Equity	10.00%	8.97%
Real Estate	10.00%	4.25%	International Equities	18.30%	7.95%
Liquidity Reserves	1.00%	0.50%	Other Investments	18.00%	4.92%
Total	<u>100.00%</u>		Total	<u>100.00%</u>	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the University, calculated using the discount rate listed below, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate for the year ended June 30, 2017:

<u>Plan</u>	<u>2018</u>		<u>2017</u>	
	<u>1.00 percent decrease</u>	<u>Current Discount Rate</u>	<u>1.00 percent increase</u>	
STRS	6.45% \$ 31,334,180	7.45% \$ 21,859,034	8.45% \$ 13,877,642	
OPERS	6.50% 33,442,136	7.50% 18,694,402	8.50% 6,411,404	
	\$ 64,776,316	\$ 40,553,436	\$ 20,289,046	
STRS	6.75% \$ 38,626,273	7.75% \$ 29,065,942	8.75% \$ 21,001,236	
OPERS	6.50% 38,437,774	7.50% 25,083,580	8.50% 13,960,661	
	\$ 77,064,047	\$ 54,149,522	\$ 34,961,897	

Sensitivity of the net OPEB liability to changes in the discount rate – The following presents the net OPEB liability of the University, calculated using the discount rate listed below, as well as what the University net OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

<u>Plan</u>	<u>2018</u>			
	<u>1.00 percent decrease</u>	<u>Current Discount Rate</u>	<u>1.00 percent increase</u>	
STRS	3.13% \$ 4,819,781	4.13% \$ 3,590,196	5.13% \$ 2,618,423	
OPERS	2.85% 17,828,887	3.85% 13,419,878	4.85% 9,853,033	
	\$ 22,648,668	\$ 17,010,074	\$ 12,471,456	

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Sensitivity of the net OPEB liability to changes in the health care cost trend rate – The following presents the net OPEB liability of the University, calculated using the healthcare cost trend rate listed below, as well as what the University’s net OPEB liability would be if it were calculated using a health care cost trend rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

<u>Plan</u>	2018		
	<u>1.00 percent decrease</u>	<u>Current Trend Rate</u>	<u>1.00 percent increase</u>
STRS	\$ 2,494,314	\$ 3,590,196	\$ 5,032,505
OPERS	12,839,962	13,419,878	14,018,915
	<u>\$ 15,334,276</u>	<u>\$ 17,010,074</u>	<u>\$ 19,051,420</u>

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

Assumption Changes – During the current measurement period, the STRS Board adopted certain assumption changes which impacted the annual actuarial valuations prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent.

Payable to the Pension Plan - At June 30, 2018 and 2017, the University reported a payable of \$331,093 and \$343,369, respectively, for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2018 and 2017.

9. OTHER POSTEMPLOYMENT 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.

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

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

For purposes of the June 30, 2018 measurement date, the number of plan participants consisted of the following:

	<u>2018</u>
Active employees	472
Retirees	145
Disabled	4
Retiree spouses and beneficiaries	38
Total plan participants	<u>659</u>

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Funding Policy - In 2011, NEOMED started charging the retirees a minimum monthly contribution to help offset the rising costs of the retiree spouses' and dependents' healthcare coverage and pays 100 percent of the retirees' life insurance. The University has chosen to fund the postemployment benefits on a pay-as-you-go basis. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Annual OPEB Cost and Net OPEB Obligation - The annual cost of other postemployment benefits (OPEB) 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 4 percent and amortizing the unfunded actuarial liability over 30 years. As discussed in Note 1, GASB 75 was adopted as of July 1, 2017, which superseded GASB 45. For comparative purposes, the GASB 45 disclosures related to the year ended June 30, 2017 are included below:

	<u>June 30, 2017</u>
Annual required contribution	\$ 255,634
Interest on net OPEB obligation	87,610
Adjustment to annual required contribution	<u>(100,075)</u>
Annual OPEB cost (expense)	243,169
Employer contribution (pay-as-you-go)	<u>(136,174)</u>
Increase in net OPEB obligation	106,995
Net OPEB obligation, beginning of year	1,460,165
Change in accounting assumption	-
Net OPEB obligation, end of year	<u>\$ 1,567,160</u>
Actuarial contribution rate	56.00%

For the year ended June 30, 2018, the University's reported liability for the Post-Retirement Welfare Plan is as follows:

	<u>June 30, 2018</u>
Balance, beginning of the year	\$ 1,567,160
Service cost	18,428
Interest cost	180,000
Changes in assumptions	2,989,480
Difference between expected and actual plan experience	-
Benefit payments	<u>(114,405)</u>
Balance, end of year	4,640,663
Less current portion	225,981
Noncurrent portion	<u>\$ 4,414,682</u>

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For the year ended June 30, 2018, the University estimated the cost of \$4,640,663 based on actuarial valuation as of June 30, 2018. The University did not have any deferred outflows or inflows of resources related to this OPEB plan.

Actuarial Methods and Assumptions - The total OPEB liability is based on results of an actuarial valuation were determined using the following actuarial assumptions for 2018:

Valuation date	July 1, 2018
Measurement date	June 30, 2018
Actuarial cost Method	Entry age normal - level of percent of salary
Discount Rate	4% AA Rated Municipal Bonds - 20 years
Health care costs	The monthly Company-paid costs of coverage valued per covered individual for 2018-2019 are \$637.47 prior to Medicare eligibility and \$361.20 after Medicare eligibility
Health care cost trend rate	Health Care Costs are assumed to increase as follows:
	2018 - 19 7.50%
	2019 - 20 7.00%
	2020 - 21 6.50%
	2021 - 22 6.00%
	2022 - 23 5.50%
	2023 - 24 and later 5.00%
Employee cost trend rate	2.00%
Mortality basis	Healthy: RP-2014 Mortality Tables (male and female) fully generational, projected by MP-2017 Disabled: RP-2014 Mortality Tables for disabled people (male and female) fully generational, projected by MP-2017

As part of the January 1 valuation, Mortality was updated from table RP-2014 adjusted to 2006 and projected using scale MP-2016 to table RP-2014 adjusted to 2006 and projected using scale MP-2017. No experience study has been completed.

Discount Rate – The discount rate used to measure the total OPEB liabilities at June 30, 2018 was 4.00%.

Sensitivity of OPEB Liability to Changes in the Discount Rate – The following represents the net OPEB liability calculated using the stated discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1.00 percent point lower or 1.00 percentage point higher than the current rate:

1.00 percent decrease	Current Rate	1.00 percent increase
\$ 5,501,304	\$ 4,640,663	\$ 4,007,561

Sensitivity of OPEB Liability to Changes in the Trend Rate – The following represents the net OPEB liability using the stated health care cost trend assumption, as well as what the OPEB liability

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would be if it were calculated using a health care cost trend rate that is 1.00 percentage point lower or 1.00 percentage point higher than the assumed trend rate for the year ended June 30, 2018:

1.00 percent decrease	Current Rate	1.00 percent increase
\$ 4,098,149	\$ 4,640,663	\$ 5,370,603

Assumption Changes – During the current measurement period, the University adopted certain assumption changes which impacted the annual actuarial valuations prepared as of June 30, 2018. The most significant change is a reduction in the discount rate from 6.00% to 4.00%

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 Receipt Bonds Series 2010 in the amount of \$15,000,000. On November 9, 2011, the remaining \$27,000,000 of General Receipt Bonds Series 2011 was issued. The proceeds were used for the construction, improvement, reconstruction, remodeling, renovation, and equipping of the University's facilities, primarily for the construction of a new research and graduate education complex consisting of medical research, laboratory, graduate education, and related purposes. The bonds are in various denominations, with fixed interest rates of 4.0 to 4.5 percent and a maturity of 30 years. The balance outstanding as of June 30, 2018 and 2017 was \$37,148,918 and \$38,057,730, respectively.

The bond discount on the November 2011 bonds totaled \$194,911 with an accumulated amortized balance of \$43,829 and \$37,641 as of June 30, 2018 and 2017, respectively. The discount is being amortized to interest expense over the life of the bonds on the interest method. There is no discount or premium on the 2010 bonds.

The University's bonds and notes payable as of June 30, 2018 are summarized as follows:

	<u>July 1, 2017</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2018</u>	<u>Current</u>
General receipts bond Series 2010	\$ 13,250,000	\$ -	\$ 370,000	\$ 12,880,000	\$ 375,000
General receipts bond Series 2011	24,965,000	-	545,000	24,420,000	565,000
General receipts bond Series 2011-Discount	<u>(157,270)</u>	<u>-</u>	<u>(6,188)</u>	<u>(151,082)</u>	<u>-</u>
Total bonds and notes payable	<u>\$ 38,057,730</u>	<u>\$ -</u>	<u>\$ 908,812</u>	<u>\$ 37,148,918</u>	<u>\$ 940,000</u>

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The University's bonds and notes payable as of June 30, 2017 are summarized as follows:

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

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

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

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2018 are summarized as follows:

Year Ending June 30	Principal	Interest	Interest Subsidy *	Net Interest	Total
2019	940,000	1,966,208	(378,442)	1,587,766	2,527,766
2020	975,000	1,924,617	(370,231)	1,554,386	2,529,386
2021	1,005,000	1,885,503	(361,411)	1,524,092	2,529,092
2022	1,040,000	1,842,222	(351,527)	1,490,695	2,530,695
2023	1,080,000	1,795,110	(340,631)	1,454,479	2,534,479
2024-2028	5,995,000	8,154,660	(1,523,506)	6,631,154	12,626,154
2029-2033	7,355,000	6,390,080	(1,024,036)	5,366,044	12,721,044
2034-2038	9,165,000	3,820,987	(656,396)	3,164,591	12,329,591
2039-2043	9,745,000	1,213,827	(115,572)	1,098,255	10,843,255
	<u>\$ 37,300,000</u>	<u>\$ 28,993,214</u>	<u>\$ (5,121,752)</u>	<u>\$ 23,871,462</u>	<u>\$ 61,171,462</u>

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
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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 healthcare and other benefits (including dental, life insurance, and long-term disability benefits), the University implemented a self-insurance program for its medical benefits and has utilized the IUC contracts for its dental, life, and disability benefits. The University's healthcare plan is a self-funded benefit plan with a specific stop loss of \$100,000. The plan offers two levels of coverage to employees: the Core Plan and the Enhanced Plan. All full-time NEOMED employees who work 40 hours or more per week are eligible for coverage. The U.S. Affordable Health Care Act (ACA) also allows any employee who works an average of 30 hours per week over a given measurement period of 12 months the option to choose to enroll in the medical coverage. The employee contributions vary depending upon the level of coverage elected.

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

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, 2018, 2017, and 2016, are summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Accrued claims liability - Beginning of year	\$ 824,359	\$ 514,860	\$ 516,384
Incurred claims - Net of favorable settlements	3,747,434	3,273,088	4,440,552
Claims paid	<u>(3,900,251)</u>	<u>(2,963,589)</u>	<u>(4,442,076)</u>
Accrued claims liability - End of year	<u>\$ 671,542</u>	<u>\$ 824,359</u>	<u>\$ 514,860</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
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12. RELATED PARTY TRANSACTIONS

NEOMED Foundation - For the years ended June 30, 2018 and 2017, the University has received distributions from the Foundation in the amount of \$1,716,728 and \$2,571,997, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted student loans of \$131,107 and \$106,461, respectively, for the years ended June 30, 2018 and 2017.

The University received reimbursements of \$187,085 and \$164,021, respectively, from the Foundation for management, fundraising, services, and office space during the years ended June 30, 2018 and 2017. The University will receive \$385,437 for the year ended June 30, 2018 and \$430,570 for the year ended June 30, 2017, related to unpaid reimbursements for similar purposes. Amounts for such services provided by the University, which are not reimbursed by the Foundation, are reported as in-kind contributions in the statements of revenue, expenses, and changes in net position. The University's in-kind support for these services was valued at \$1,219,754 and \$1,188,255, respectively, for the years ended June 30, 2018 and 2017.

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

For the years ended June 30, 2018 and 2017, NEOMED made payments to ERS HWMEC in the amount of \$5,748,363 and \$5,755,346, respectively, for the lease of the wellness center.

For the years ended June 30, 2018 and 2017, the University made payments on behalf of ERS in the amount of \$54,031 and \$42,147, respectively, for expenses. Reimbursements and payments for naming rights in the amount \$171,497 and \$595,483 were received in ERS Companies during fiscal years 2018 and 2017, respectively, and used to offset current and prior year expenses paid by NEOMED. For the years ended June 30, 2018 and 2017, \$14,946 and \$14,402, respectively, related to legal fees to attain property tax exemption and design tenant lease structures. Amounts for such services provided by the University which are not reimbursed by ERS are reported as in-kind contributions in the Statements of Revenue, Expenses, and Changes in Net Position. The University's in-kind support for these services was valued at \$317,916 and \$310,816, respectively, for the years ended June 30, 2018 and 2017.

For the years ending June 30, 2018 and 2017, the University had accounts payable to ERS totaling \$0 and \$6,625, respectively, for leased property and naming gifts.

For the years ended June 30, 2018 and 2017, ERS had accounts payable to NEOMED totaling \$5,855,295 and \$5,972,761, respectively, for construction, equipment, consulting, and legal fees, which was paid by NEOMED on behalf of ERS.

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

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13. COMPONENT UNIT - THE NEOMED FOUNDATION

The NEOMED Foundation (hereinafter referred to as the “Foundation”) was incorporated on April 14, 1978 as a nonprofit tax-exempt corporation. The Foundation is a legally separate nonprofit entity organized for the purpose to serve as the gift-receiving arm of the Northeast Ohio Medical University (hereinafter referred to as the “University”), and to assist in developing and increasing its resources to provide broader educational opportunities and services for charitable, educational and scientific purposes. The Foundation is governed by a volunteer board of directors consisting of a maximum 42 members. The Foundation had no unrelated business income in fiscal years 2018 or 2017.

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

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

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

	2018		2017	
	Cost	Market	Cost	Market
Money Market Funds	\$ 361,437	\$ 361,437	\$ 254,306	\$ 254,306
Cash Surrender Value of Life insurance	218,248	218,248	226,482	226,482
Equities	8,721,975	10,279,616	8,048,474	9,371,961
Other	236,330	247,292	219,341	236,402
Fixed Income	5,927,751	6,852,095	5,453,662	6,255,869
Total long-term investments	<u>\$ 15,465,741</u>	<u>\$ 17,958,688</u>	<u>\$ 14,202,265</u>	<u>\$ 16,345,020</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.

As of July 1, 2017, the Foundation implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarch based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above and the information for 2017 has been adjusted to conform to the new disclosure requirements.

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Assets measured as of June 30, 2018:

	Balance at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Investments				
Domestic fixed income	\$ 5,111,988	\$ 5,111,988	\$ -	\$ -
International fixed income	1,740,107	1,740,107	-	-
Domestic equities	6,836,769	6,836,769	-	-
International equities	2,829,577	2,829,577	-	-
Money market	361,437	-	361,437	-
Emerging market equities	613,270	613,270	-	-
Other investments	243,759	243,759	-	-
Total Investments	<u>\$ 17,736,907</u>	<u>\$ 17,375,470</u>	<u>\$ 361,437</u>	<u>\$ -</u>
Assets - Beneficial Interest in Trust				
Total Beneficial Interest in Trust	\$ 72,669	\$ -	\$ -	\$ 72,669
Investments measured at NAV	\$ 3,533	\$ -	\$ -	\$ -
Total Fair Value Measurements	<u>\$ 17,813,109</u>	<u>\$ 17,375,470</u>	<u>\$ 361,437</u>	<u>\$ 72,669</u>

Assets measured as of June 30, 2017:

	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Investments				
Domestic fixed income	\$ 5,023,962	\$ 5,023,962	\$ -	\$ -
International fixed income	1,231,907	1,231,907	-	-
Domestic equities	6,081,485	6,081,485	-	-
International equities	3,290,476	3,290,476	-	-
Money market	254,306	-	254,306	-
Other investments	232,356	232,356	-	-
Total Investments	<u>\$ 16,114,492</u>	<u>\$ 15,860,186</u>	<u>\$ 254,306</u>	<u>\$ -</u>
Assets - Beneficial Interest in Trust				
Total Beneficial Interest in Trust	\$ 70,382	\$ -	\$ -	\$ 70,382
Investments measured at NAV	\$ 4,046	\$ -	\$ -	\$ -
Total Fair Value Measurements	<u>\$ 16,188,920</u>	<u>\$ 15,860,186</u>	<u>\$ 254,306</u>	<u>\$ 70,382</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
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Details of the Foundation's restricted net assets at June 30, 2018 and 2017 are as follows:

Temporarily restricted net assets as of June 30:

	<u>2018</u>	<u>2017</u>
Instruction and departmental research	\$2,054,321	\$1,760,488
Separately budgeted research	574,957	554,805
Public service	174,458	186,262
Academic support	824,243	950,691
Institutional support	772,115	1,042,349
Plant operation and maintenance	8,795	4,515
Student Services	18,372	-
Student scholarships and other student aid	3,343,660	2,799,787
Deferred gift annuity	<u>218,248</u>	<u>226,482</u>
 Total temporarily restricted net assets, June 30	 <u><u>\$7,989,169</u></u>	 <u><u>\$7,525,379</u></u>

Permanently restricted net assets as of June 30:

	<u>2018</u>	<u>2017</u>
Student loans	\$ 940,375	\$ 908,193
Endowments requiring earnings only be made available for:		
Student scholarships and awards	4,441,376	4,238,024
Student loans	100,236	100,236
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	1,504,217	1,297,883
Deferred gift annuity	40,974	49,822
Allowance for uncollectible pledges	<u>(16,167)</u>	<u>(18,251)</u>
 Total permanently restricted net assets, June 30	 <u><u>\$10,013,482</u></u>	 <u><u>\$9,578,378</u></u>

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

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

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

ERS Capital Assets

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

Capital asset activity for the year ended June 30, 2018 was as follows:

	July 1, 2017 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2018 Ending Balance
Land - Nondepreciable	\$ 169,349	\$ -	\$ -	\$ 169,349
Infrastructure	10,377,241	-	-	10,377,241
Buildings	110,485,715	33,920	-	110,519,635
Furnishings and movable equipment	126,421	-	-	126,421
Construction in progress - Nondepreciable	-	-	-	-
Total historical cost	<u>121,158,726</u>	<u>33,920</u>	<u>-</u>	<u>121,192,646</u>
Less accumulated depreciation				
Infrastructure	3,399,815	1,362,718	-	4,762,533
Buildings	7,935,276	2,832,033	-	10,767,309
Furnishings and movable equipment	93,482	22,507	-	115,989
Total accumulated depreciation	<u>11,428,573</u>	<u>4,217,258</u>	<u>-</u>	<u>15,645,831</u>
Total capital assets, net of depreciation	<u>\$ 109,730,153</u>	<u>\$ (4,183,338)</u>	<u>\$ -</u>	<u>\$ 105,546,815</u>

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

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

FUNDS HELD BY TRUSTEE

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

At June 30, 2018 and 2017, fund balances held by the Trustee were as follows:

<u>ERS HWMEC LLC</u>	2018	2017
Bond proceeds fund	\$ 1,464,047	\$ 1,452,093
<u>ERS Housing LLC</u>		
Revenue fund	7,641	22,895
Repair & Replace fund	249,990	207,818
Sinking Fund	184,534	176,385
Surplus Fund	-	77,077
	<u>442,165</u>	<u>484,175</u>
Total	<u>\$ 1,906,212</u>	<u>\$ 1,936,268</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
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BONDS PAYABLE

In 2012, ERS Housing LLC worked with the Portage County Port Authority to issue tax-exempt bonds in the amount of \$36,680,000. As of June 2012, when the bonds were issued, ERS did not yet have tax-exempt status, and ERS partnered with Portage County Port Authority to issue tax-exempt bonds. The proceeds from this issuance were used for the construction of NEOMED apartments. The bonds were assumed from the Portage County Port Authority by ERS in November 2012 when ERS received its tax-exempt status. The bonds are in various denominations, with fixed interest rates of 2.0 to 5.0 percent and a maturity date of June 1, 2044. The balance outstanding as of June 30, 2018 and 2017 was \$35,385,000 and \$35,815,000, respectively, and the principal payments started on December 1, 2014.

In November 2012, ERS HWMEC LLC issued a senior secured note in the amount of \$84,000,000. The proceeds from this issuance are being used for the construction of a health, wellness, and medical education building. The bonds are in various denominations, with a fixed interest rate of 4.89 percent (and an additional .042 percent if NEOMED's credit rating were downgraded) and a maturity date of November 8, 2044. The balance outstanding as of June 30, 2018 and 2017 was \$79,169,992 and \$80,603,915, respectively, and the principal payments stated on December 8, 2014.

The original bond discount for the ERS Housing bonds totaled \$633,830, with an unamortized balance of \$513,336 and \$533,143 as of June 30, 2018 and 2017, respectively. The discount is being amortized straight line over the life of the bonds and is included in interest expense in the accompanying Statements of Revenue, Expenses, and Changes in Net Position. There is no discount or premium on the ERS HWMEC bonds.

ERS Bonds payable as of June 30, 2018 are summarized as follows:

	<u>July 1, 2017</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2018</u>	<u>Current</u>
ERS Housing LLC	\$ 35,815,000	\$ -	\$ 430,000	\$ 35,385,000	\$ 505,000
ERS Housing LLC Discount	(533,143)		(19,807)	(513,336)	
ERS HWMEC LLC	<u>80,603,915</u>	<u>-</u>	<u>1,433,923</u>	<u>79,169,992</u>	<u>1,505,635</u>
Total bonds and notes payable	<u>\$ 115,885,772</u>	<u>\$ -</u>	<u>\$ 1,844,116</u>	<u>\$ 114,041,656</u>	<u>\$2,010,635</u>

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

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

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These obligations are secured by a gross pledge of and first lien on the General Receipts of NEOMED. The General Receipts include the full amount of every type and character of campus receipts, except for state appropriations and receipts previously pledged or otherwise restricted. NEOMED has complied with all covenants as of June 30, 2018 and 2017. Total bonds and notes payable in the chart above is not shown net of bond financing costs of \$2,272,324 and \$2,358,786 for the years ended June 30, 2018 and 2017, respectively.

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2018 are summarized as follows:

June 30	Principal	Interest	Total
2019	2,010,635	5,908,182	7,918,817
2020	2,165,934	5,810,060	7,975,994
2021	2,329,998	5,703,611	8,033,609
2022	2,508,016	5,588,855	8,096,871
2023	2,700,186	5,465,359	8,165,545
2024-2028	15,648,923	25,024,613	40,673,536
2029-2033	19,873,446	20,495,862	40,369,308
2034-2038	25,313,918	14,681,304	39,995,222
2039-2043	32,334,447	7,167,844	39,502,291
2044-2045	9,669,489	387,532	10,057,021
	\$ 114,554,992	\$ 96,233,222	\$ 210,788,214

Other Required Supplemental Information for GASB 68 and GASB 75

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

	2018	2017	2016	2015
District's proportion of the collective OPERS net pension liability: As a percentage	0.12044%	0.11078%	0.11033%	0.10406%
Amount	\$ 18,694,402	\$ 25,083,580	\$ 19,046,195	\$ 12,492,034
University's covered employee payroll	\$ 15,723,837	\$ 15,488,321	\$ 14,722,542	\$ 13,919,290
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered employee payroll	118.89%	161.95%	129.37%	89.75%
Plan fiduciary net position as a percentage of the total pension liability	84.85%	77.39%	81.19%	86.53%

	2018	2017	2016	2015
District's proportion of the collective STRS net pension liability: As a percentage	0.09202%	0.08683%	0.08185%	0.07478%
Amount	\$ 21,859,034	\$ 29,065,942	\$ 22,621,327	\$ 18,190,132
University's covered employee payroll	\$ 9,049,107	\$ 8,037,482	\$ 7,564,093	\$ 8,894,530
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered employee payroll	241.56%	361.63%	299.06%	204.51%
Plan fiduciary net position as a percentage of the total pension liability	75.29%	66.78%	72.10%	74.70%

Schedule of University's Pension Contributions OPERS:

	2018	2017	2016	2015
Statutorily required contribution	\$ 2,089,877	\$ 1,886,860	\$ 1,858,599	\$ 1,766,705
Contributions in relation to the actuarially determined contractually required contribution	\$ 2,089,877	\$ 1,886,860	\$ 1,858,599	\$ 1,766,705
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	\$ 17,415,640	\$ 15,723,837	\$ 15,488,321	\$ 14,722,542
contributions as a percentage of covered employee payroll	12.00%	12.00%	12.00%	12.00%

Schedule of University's Pension Contributions STRS:

	2018	2017	2016	2015
Statutorily required contribution	\$ 1,380,988	\$ 1,266,875	\$ 1,125,247	\$ 1,058,973
Contributions in relation to the actuarially determined contractually required contribution	\$ 1,380,988	\$ 1,266,875	\$ 1,125,247	\$ 1,058,973
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	\$ 9,864,200	\$ 9,049,107	\$ 8,037,482	\$ 7,564,093
contributions as a percentage of covered employee payroll	14.00%	14.00%	14.00%	14.00%

Notes to required supplemental information:

Changes of benefit terms. There were no changes in benefit terms affecting the STRS and OPERS plans.

Changes of assumptions.

STRS: During the plan year ended June 30, 2017, there were changes to several assumptions. The cost-of-living adjustment dropped from 2.00 percent to 0.00 percent. The wage inflation dropped from 2.75 percent to 2.50 percent. The investment rate of return decreased from 7.75 percent to 7.45 percent. The mortality tables used changed from RP-2000 to RP-14.

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

Schedule of University's Proportionate Share of the Net OPEB liability:

	2018
District's proportion of the collective OPERS net pension liability: As a percentage	0.12358%
Amount	\$ 13,419,878
University's covered employee payroll	\$ 15,723,837
University's proportional share of the collective OPEB liability (amount), as a percentage of the University's covered employee payroll	85.35%
Plan fiduciary net position as a percentage of the total pension liability	77.25%

	2018
District's proportion of the collective STRS net pension liability: As a percentage	0.09202%
Amount	\$ 3,590,196
University's covered employee payroll	\$ 9,049,107
University's proportional share of the collective OPEB liability (amount), as a percentage of the University's covered employee payroll	39.67%
Plan fiduciary net position as a percentage of the total pension liability	47.11%

Schedule of University's OPEB contributions OPERS:

	2018
Statutorily required contribution	\$ 2,438,190
Contributions in relation to the actuarially determined contractually required contribution	\$ 2,438,190
Contribution deficiency (excess)	-
Covered employee payroll	\$ 17,415,640
contributions as a percentage of covered employee payroll	14.00%

Schedule of University's OPEB Contributions STRS:

	2018
Statutorily required contribution	\$ -
Contributions in relation to the actuarially determined contractually required contribution	\$ -
Contribution deficiency (excess)	-
Covered employee payroll	\$ 9,984,186
contributions as a percentage of covered employee payroll	0.00%

Schedule of changes in the University's total OPEB liability and related ratios

The historical reconciliation of the total reported liability for Post-retirement Welfare plan benefit obligations (Note 9) for the year ended June 30, 2018 is summarized as follows:

	<u>2018</u>
Service cost	18,428
Interest cost	180,000
Changes in assumptions	2,989,480
Difference between expected and actual plan experience	-
Benefit payments	<u>(114,405)</u>
Net Changes	<u>\$ 3,073,503</u>
Total liability, beginning of the year	\$ 1,567,160
Total liability, end of year	\$ 4,640,663
Covered employee payroll	\$ 1,492,279
Total liability as a percentage of covered employee payroll	311%

Discount rates used in determining the total reported liability for postemployment benefits obligations were 4% and 6% at the measurement dates of June 30, 2018 and 2017, respectively.

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

Independent Auditor's Report

To Management and the Board of Trustees
Northeast Ohio Medical University

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast Ohio Medical University and its discretely presented component units (the "University") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 9, 2018. As described in Note 1 to the financial statements, the Institution adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as of July 1, 2017. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

To Management and the Board of Trustees
Northeast Ohio Medical University

Purpose of this Report

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

Plante & Moran, PLLC

October 11, 2018

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

Independent Auditor's Report

To the Board of Trustees
Northeast Ohio Medical University

Report on Compliance for Each Major Federal Program

We have audited Northeast Ohio Medical University's (the "University") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the University's major federal program for the year ended June 30, 2018. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

To the Board of Trustees
Northeast Ohio Medical University

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2018-001 and 2018-002, that we consider to be significant deficiencies.

The University's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plans. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

October 11, 2018

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
STUDENT FINANCIAL AID CLUSTER				
Department of Education				
<i>Office of Student Financial Assistance Program:</i>				
William D Ford Federal Direct Loan Program	84.268	N/A	\$ 30,592,983	
Federal Perkins Loan Program	84.038	N/A		<u>1,416,138</u>
Total Department of Education				32,009,121
Department of Health and Human Services				
<i>Health Resources and Services Administration:</i>				
Health Prof Student Loan Prgm - Loans to Disadvantaged Students	93.342	N/A		2,967,459
Health Prof Student Loan Prgm - Primary Care Loans	93.342	N/A		<u>1,025,234</u>
Total Department of Health and Human Services				<u>3,992,693</u>
TOTAL STUDENT FINANCIAL AID CLUSTER				<u>\$ 36,001,814</u>
MEDICAID CLUSTER				
Department of Health and Human Services				
<i>Centers for Medicare and Medicaid Services:</i>				
<i>Passed through the Ohio Department of Medicaid -</i>				
<i>Passed through the Ohio State University:</i>				
DHHS - OSU - FY17 MEDTAPP Healthcare Access Initiative, Community Health Worker Expansion	93.778	60055249	\$ 27,660	\$ 27,660
DHHS - OSU - FY17 MEDTAPP Healthcare Access Initiative, Community Health Worker Expansion	93.778	60055249		206
<i>Passed through the Ohio Department of Medicaid -</i>				
<i>Passed through Ohio State University -</i>				
<i>Passed through University of Toledo -</i>				
DHHS - OSU - UT- MEDTAPP Healthcare Access	93.778	R-122988-05		158
<i>Passed through Ohio State University -</i>				
DHHS-OSU-Pharmacogenetic Testing for Adolescent and Adult Medicaid Beneficiaries Prescribed Psychotropic Medication	93.778	N/A	-	<u>2,989</u>
Total Department of Health and Human Services			<u>27,660</u>	<u>31,013</u>
TOTAL MEDICAID CLUSTER			<u>\$ 27,660</u>	<u>\$ 31,013</u>

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER				
Department of Health and Human Services				
<i>National Institutes of Health:</i>				
NIH - Gene - Environment Interactions in Neurodegeneration	93.113	5R01ES021800-06	\$ 340,920	\$ 489,312
NIH - Gene - Environment Interactions in Neurodegeneration (Diversity Supplement)	93.113	3R01ES021800-04S1	37,532	37,532
NIH - Gene - Environment Interactions in Neurodegeneration (Diversity Supplement)	93.113	1TW1RD027481-01A1	27,242	221,658
NIH - Gene-Environment Interactions in Neurodegenerative Disease	93.113	1R15ES027998-01		109,325
<i>Passed through Duke University -</i>				
NIH - Duke - Translational Studies on the Role of Pesticides in Cognitive Aging and AD	93.113	2035470	3,900	110,644
Total CFDA #93.113			409,594	968,471
<i>National Institutes of Health:</i>				
NIH - Cellular Mechanisms of Binaural Hearing Neurons in an Avian Intermural Level Difference Circuit	93.173	1F31DC015707-02		5,933
NIH - Modulatory Circuits in the Auditory System	93.173	2R01DC004391-16A1		439,347
NIH - The effects of social context on the basolateral amygdalar processing	93.173	1F31DC015943-01		30,692
NIH - Amelioration of Presbycusis by Blocking T-type Calcium Channels with Antiepileptic	93.173	5R01DC011793-06		183,568
NIH - Auditory Information Processing in the Amygdala	93.173	R01DC000937-25		168,319
NIH - Auditory Processing Deficits in Early-Onset Conductive Hearing Loss	93.173	5R01DC013314-04		353,284
NIH - Neural Mechanism Underlying Sound-Evoked Suppression of Tinnitus - Residual Inhibition	93.173	4R01DC011330-05 REVISED		4,313
NIH - Metabotropic Glutamate Receptor-Mediated Neuromodulation in Sound Localization Circuits	93.173	R01DC016054		162,654
Total CFDA #93.173				1,348,110
<i>National Institutes of Health -</i>				
NIH - Suppression of SHH Expression in Arthritis by Butea monosperma	93.213	4R01AT007373-04		472,138
<i>National Institutes of Health:</i>				
NIH - Alcohol, Hedgehog Signal, and HSC Dysfunction in Host Defense Against Septicemia	93.273	5R01AA022816-05		335,381
NIH - Carboxylesterase 1 in Alcoholic Liver Disease	93.273	1R21AA024946-02		120,648
NIH - Effect of Ethanol on Lipid Metabolism	93.273	5R01AA013623-16		140,947
NIH - Ethanol Regulation of Adiponectin and its Signaling	93.273	5R01AA015951-12		396,012
<i>Passed through Cleveland Clinic Lerner College of Medicine -</i>				
NIH - CCLCM-Lipin-1 and the Development of Alcoholic Liver Disease	93.273	848-SUB		233,131
Total CFDA #93.273				1,226,119

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (Continued)				
Department of Health and Human Services (Continued)				
<i>National Institutes of Health -</i>				
NIH - Mechanism of Gene Environment Interactions in Alzheimer's Disease	93.311	5R01ES026057-03	\$ 65,053	\$ 345,356
<i>Passed through Summa Health Corporate Health -</i>				
HRSA - Summa - Practice, Quality, and Retention - Interprofessional Collaborative Practice	93.359	89330-A		21,907
<i>National Institutes of Health -</i>				
NIH - Integration of Mechanical and Soluble Signaling in Tumor Angiogenesis	93.396	1R15CA202847-01		117,519
<i>National Institutes of Health:</i>				
NIH - Mechanism of Impaired Coronary Collateral Growth	93.837	1R01HL137008		39,738
NIH - Mechanotransduction in Myocardial Adaption to Ischemia	93.837	5R01HL119705-04		317,507
NIH - Regulation of Lipid and Lipoprotein Metabolism by Nuclear Receptors	93.837	2R01HL103227-07		168,480
NIH - Regulation of Lipid and Lipoprotein Metabolism by Nuclear Receptors	93.837	2R01HL103227-07		121,697
NIH - The Critical Role of the Coronary Microcirculation in Heart Failure	93.837	5R01HL135024-02	10,295	273,404
NIH - What mechanisms underlie coronary collateral growth?	93.837	1R01HL135110-01		176,935
NIH - What mechanisms underlie coronary collateral growth?	93.837	1R01HL135110-01		99,570
NIH - Mechanisms of Coronary Vasomotor Control	93.837	5R01HL115114-04	17,336	17,346
NIH - Myocardial Injury Associated with Mitochondria-Derived Oxygen Free Radical (s)	93.837	4R01HL083237-09	(2,490)	307,953
NIH-NHLBI-Targeting Collagen 6 for Post-Infraction Recovery	93.837	1R15HL132312-01A1		120,720
<i>Passed through Temple University -</i>				
NIH - Temple - Follistatin - like protein 1 in cardiac and systemic metabolism	93.837	257816	-	43,187
Total CFDA #93.837			25,141	1,686,537
<i>National Institutes of Health -</i>				
NIH - Uridylation of miRNAs by ZCCHC6 Regulates IL-6 Expression in Arthritis	93.846	5R01AR067056-03		618,212
<i>National Institutes of Health:</i>				
NIH - Mechanisms Underlying the Pathogenesis of Non-alcoholic Fatty Liver Disease	93.847	5R01DK102619-04		268,586
NIH - Molecular Biology of Bile Acid Synthesis	93.847	5R01DK044442-20		244,005
NIH - Regulation of Bile Acid Synthesis by Nuclear Receptors	93.847	5R37DK058379-30		435,852
NIH-Hepatic Lipid Mobilization by Nuclear Hormone Receptors	93.847	5R01DK093774-05		194,253
NIH - Identification of Novel Genes/Pathways That Regulate Lipid and Glucose Metabolism	93.847	5R01DK095895-04		57,232
Total CFDA #93.847				1,199,928
<i>Passed through Rutgers, The State University of New Jersey -</i>				
NIH - Rutgers - Developing Drugs to Mitigate Parathion Intoxication	93.853	8348		296,322
<i>Passed through University of Texas Medical Branch -</i>				
NIH - U. of Texas - Data - Driven Models of the Dynamic Proteome in NAFLD	93.859	15-036	9,641	147,288
<i>Passed through University of Wisconsin - Madison -</i>				
NIH - UofW - Genetics of the Island Rule	93.859	740K294	-	3,673
Total CFDA #93.859			9,641	150,961
<i>National Institutes of Health -</i>				
NIH - The Effect of Preterm Birth and RLN Damage on Airway Protection and Maturation	93.865	1R01HD088561-01		591,813
<i>Passed through Case Western Reserve University -</i>				
NIH - Case - Aged rat heart mitochondrial dysfunction	93.866	RES510480		2,591
<i>National Institutes of Health:</i>				
NIH - Metabolic vulnerability as a disease target for glaucoma	93.867	5R01EY026662-03		352,170
NIH - Axonopathy in glaucoma	93.867	5R01EY022358-05	-	(9,135)
Total CFDA #93.867			-	343,035
Total Department of Health and Human Services			\$ 509,429	\$ 9,389,019

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
RESEARCH AND DEVELOPMENT CLUSTER (Continued)				
National Science Foundation				
<i>National Science Foundation -</i>				
NSF - Mechanobiology of a Resilient Bone Extracellular Matrix - How Bats Achieve Exceptional Mechanical Properties in their Wings	47.041	1537745	\$	82,487
<i>National Science Foundation -</i>				
NSF - Kinematics of Quadrupedal Locomotion in Free Ranging Primates	47.075	BCS-1640552		<u>108,081</u>
Total National Science Foundation				190,568
Department of Commerce				
<i>Department of Commerce -</i>				
EDA - Accelerating Pharmaceutical Commercialization	11.020	FED16HDQ0200015		101,388
U.S. Department of Agriculture				
<i>Passed through North Carolina State University -</i>				
USDA - NC State - A Comprehensive Understanding of the Role of Flavor and Texture in the Eating Experience and Satiety	10.310	2013-1755-01		42,414
Department of Defense				
<i>Passed through The Cleveland Clinic Foundation -</i>				
DOD - CC - Wake - Re-Establishing Homing to Regenerate an Injured Anal Sphincter to Aid Continence	12.420	428-SUB		9,191
Department of Justice				
<i>Passed through Ohio Office of Criminal Justice Services -</i>				
DOJ-OCJS-Mental Illness and First Episode Incarceration	16.738	2017-JG-E01-6026	-	<u>888</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			\$ 509,429	\$ 9,733,468
TOTAL CLUSTERS			<u>\$ 537,089</u>	<u>\$ 45,766,295</u>
OTHER PROGRAMS				
Department of Justice				
<i>Passed through Ohio Office of Criminal Justice Services -</i>				
DOJ - OCJS - CCoE Expansion	16.745	2015-CP-JMH-604	\$	53,736
<i>Passed through Ohio Office of Criminal Justice Services -</i>				
DOJ - OCJS - CCoE Expansion	16.745	2017-CO-JMH-604		28,975
<i>Passed through Mental Health & Recovery Board of Union County -</i>				
USDOJ-MHRBUC-Union Cty Sequential Intercept Mapping	16.745	2017-MO-BX-0022		<u>1,462</u>
Total Department of Justice				<u>\$ 84,173</u>

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
OTHER PROGRAMS (Continued)				
Department of Health and Human Services				
<i>Passed through The University of Toledo - HRSA - UT - AHEC FY2017</i>	93.107	F2017-105	\$ 118,126	\$ 132,466
<i>Passed through The University of Toledo - HRSA - UT - AHEC Point of Service Maintenance & Enhancement Award FY 18</i>	93.107	F-2018-17	<u>152,576</u>	<u>224,550</u>
Total CFDA #93.107			270,702	357,016
<i>Passed through Ohio Suicide Prevention Foundation - SAMHSA - OSPF - Incorporating Evidence - Based Suicide Prevention in Undergraduate Medical Education</i>	93.243	N/A		8,318
<i>Passed through Ohio Suicide Prevention Foundation - SAMHSA-OSPF-Incorporating Evidence-based Suicide Prevention in Undergraduate Medical Education</i>	93.243	N/A		<u>3,315</u>
Total CFDA #93.243				11,633
<i>Passed through Ohio Department of Mental Health - SAMHSA-OMHAS-ECHO Training Model</i>	93.788	1800498	34,150	126,073
<i>Passed through Ohio Department of Mental Health - SAMHSA-OMHAS-ECHO Training Model</i>	93.788	1800498		6,982
<i>Passed through Ohio Department of Mental Health - SAMHSA-OMHAS-Opiate Mapping</i>	93.788	1900466		2,567
<i>Passed through Ohio Department of Mental Health - SAMHSA-OMHAS-Opiate Mapping</i>	93.788	N/A	-	<u>116,289</u>
Total CFDA #93.788			34,150	251,911
<i>National Institutes of Health - HRSA - The Health Careers Opportunity Program (HCOP) of the Ohio Alliance</i>	93.822	6 D18HP29040-02-01	120,102	761,898
<i>National Institutes of Health - HRSA - Primary Care Training and Enhancement</i>	93.884	1 T0BHP30006-03-00	144,511	532,993
<i>National Institutes of Health - SAMHSA - ADM - FY18 CCoE</i>	93.958	N/A		168,779
<i>Passed through Allwell Behavioral Health Services - SAMHSA - ABHS - Evidence Based Programs to Address First Episode Psychosis</i>	93.958	N/A		18,772
<i>Passed through The Thresholds - SAMHSA-ILDHS-Training, Consultation and Technical Assistance</i>	93.958	N/A		48,878
<i>Passed through Ohio Department of Mental Health - Passed through Greater Cincinnati Behavioral Health - SAMHSA-OMHAS-GCBH-Evidence-based Programs to Address First Episode Psychosis</i>	93.958	N/A		4,260
<i>Passed through Coleman Professional Services Inc - SAMHSA - CPS -Evidence-Based Practice for First Episode Psychosis</i>	93.958	N/A		19,400
<i>Passed through Ohio Department of Mental Health - SAMHSA-OMHAS-First Episode Psychosis: Curriculum Development and Technical Assistance Events</i>	93.958	1800494		148,516
<i>Passed through TCN Behavioral Health - SAMHSA-TCNBH-Evidence-based Programs to Address First Episode Psychosis</i>	93.958	N/A	-	<u>52,470</u>
Total CFDA #93.958				461,075
<i>Passed through Summa Health Corporate Health - HRSA - Summa - Geriatric Workforce Development through Interdisciplinary Team Learning</i>	93.969	89335-A	-	<u>44,908</u>
Total Department of Health and Human Services			\$ 569,465	\$ 2,421,434

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	CFDA	Agency or Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenses
OTHER PROGRAMS (Continued)				
Corporation for National and Community Service:				
<i>Passed through Ohio Commission on Service and Volunteerism - CNCS - Ohio - Americorps FY17</i>	94.006	15AFH-1502-17-OC115	\$ 24,071	
<i>Passed through Ohio Commission on Service and Volunteerism - CNCS - Ohio - AmeriCorps FY18</i>	94.006	15AFH-1502-18-OC115		<u>402,124</u>
Total Corporation for National and Community Service				\$ <u>426,195</u>
Department of Education				
<i>Passed through Ohio Department of Education - ODE - Community Connectors 360 Mentoring</i>	84.184	N/A	\$ 25,128	\$ 85,031
<i>Passed through Ohio Department of Education USDE - ODE - 21st Century Brown Local Schools FY2017</i>	84.287	7055	(15,167)	(15,167)
<i>Passed through Ohio Department of Education - USDE - ODE - 21st Century Community Learning Center - FY18</i>	84.287	7055	<u>45,097</u>	<u>54,300</u>
Total CFDA #84.287			<u>29,930</u>	<u>39,133</u>
Total Department of Education			<u>55,058</u>	<u>124,164</u>
TOTAL OTHER PROGRAMS			<u>624,523</u>	<u>3,055,966</u>
TOTAL EXPENDITURES OF FEDERAL PROGRAMS			\$ <u>1,161,612</u>	\$ <u>48,822,261</u>

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Northeast Ohio Medical University (the "University") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position, or cash flows of the University.

Note 2 - Summary of Significant Accounting Policies

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

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

Note 3 - Loans Balances

Loans outstanding at the beginning of the year and loans made during the year for campus-based programs are included in the federal expenditures presented in the schedule of expenditures of federal awards. The balances of loans outstanding at June 30, 2018 consist of the following:

Cluster/Program Title	CFDA Number	Loan Balances
Federal Perkins Loan Program	84.038	\$ 1,062,951
Health Prof Student Loan Prgm - Loans to Disadvantaged Students	93.342	2,531,113
Health Prof Student Loan Prgm - Primary Care Loan	93.342	878,114
	Total	\$ 4,472,178

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes None reported

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs: \$1,464,668

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Audit Findings

Reference Number	Finding
Current Year	None

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
2018-001	<p>CFDA Number, Federal Agency, and Program Name - 84.268 and 84.038, Department of Education, Federal Direct Student Loans, and Federal Perkins Loans</p> <p>Federal Award Identification Number and Year - N/A</p> <p>Pass-through Entity - None</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - No</p> <p>Criteria - Changes in student status are required to be reported to the National Student Loan Data System (NSLDS) within 30 days of the change or included in a Student Status Confirmation Report (SSCR) sent to the NSLDS within 60 days of the status change (34 CFR Section 682.610).</p> <p>Condition - The University did not report status changes within the required time frame.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - Of the 25 students testing for status change testing, six did not have status changes reported in a timely manner and one student was reported as withdrawn rather than the correct status of graduated.</p> <p>Cause and Effect - During the July and August reporting periods, the registrar's office failed to update the status of three individuals from full time to graduated. In addition, the University communicated status changes to the Clearinghouse; however, status change was not updated in NSLDS in the required time frame for three students.</p> <p>During the December reporting period, the student was incorrectly reported as withdrawn rather than graduated. The correct status was not reported until the June reporting period, which is not within the required timeframe.</p> <p>Recommendation - The University should implement controls to ensure all student status changes are reported timely.</p>	None

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Reference Number	Finding	Questioned Costs
2018-001 (Continued)	<p>Views of Responsible Officials and Corrective Action Plan - Due to staffing changes, three late graduates were not reported as such in a timely manner, and the University did not correct an incorrect student status during the required time frame for one individual. New staff have now been trained with the correct procedures for both situations and have captured updates to our staff manual and operational timeline to ensure this does not happen again. In addition, it was noted that there were three students who had status changes that were reported to the Clearinghouse; however, the transfer of information from the Clearinghouse to NSLDS was not completed within the time frame required by the Compliance Supplement. Staff members within the Registrar and Financial Aid Offices will review file transfers to ensure timely submission from the Clearinghouse to NSLDS, as well as research submitting enrollment data directly to NSLDS, not through the Clearinghouse.</p>	

Reference Number	Finding	Questioned Costs
2018-002	<p>CFDA Number, Federal Agency, and Program Name - 84.268, Department of Education, Federal Direct Student Loans</p> <p>Federal Award Identification Number and Year - N/A</p> <p>Pass-through Entity - None</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - No</p> <p>Criteria - If a student account is credited with FDL, the institution must notify student or parent of date and amount as well as the right to cancel all or portion of loan and the procedure and time by which the student must notify the institution, no earlier than 30 days before and no later than 30 days after crediting student’s account, if using an affirmative confirmation process (34 CFR Section 68.165). Institutions not using an affirmative confirmation process must notify the student no earlier than 30 days before and no later than 7 days after and must give the students 30 days to cancel all or part of the loan.</p> <p>Condition - The University did not notify students within the required time frame.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - Of the 25 students tested for notification, 14 students were not notified of their disbursement in the required timeframe.</p> <p>Cause and Effect - Students who received their disbursement outside of the initial disbursement date were not notified.</p> <p>Recommendation - We recommend the University implement controls to ensure students are notified each time they receive a disbursement.</p>	None

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Reference Number	Finding	Questioned Costs
2018-002 (Continued)	Views of Responsible Officials and Planned Corrective Actions - It was the belief that multiple forms of notification sent to the students by the Financial Aid and Accounting Offices was sufficient to satisfy this requirement. Upon confirmation that it was not, the financial aid staff worked collaboratively with the Information Technology Department at NEOMED to develop an extract of all funds disbursed on a specific date. This data is then merged into a document and sent as an email to students showing the Direct Loans disbursed, date of disbursement, and academic year with instructions of their rights to cancel and instructions on how to do so. In addition, instructions are also provided that the student has 120 days from the date of disbursement to return without penalty of interest. Disclosure notifications are coded in banner to the student's record the day they are sent to the student by email.	



Dave Yost • Auditor of State

NORTHEAST OHIO MEDICAL UNIVERSITY (NEOMED)

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 8, 2018**