

NORTHEAST OHIO MEDICAL UNIVERSITY

Financial Report
Including Supplemental Information
June 30, 2011



Dave Yost • Auditor of State

Board of Trustees
Northeast Ohio Medical University
4209 SR 44
PO Box 95
Rootstown, Ohio 44272-0095

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, 2010 through June 30, 2011. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

January 11, 2012

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NORTHEAST OHIO MEDICAL UNIVERSITY

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NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Northeast Ohio Medical University’s (“NEOMED” or “University”) annual financial report presents management’s discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2011, 2010 and 2009. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of University management.

Introduction

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

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

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Using the Annual Financial Report

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

Under the provision of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the NEOUCOM Foundation, Inc. (the "Foundation") has been determined to be a component unit of the University. Accordingly, the Foundation is discretely presented in the University's financial statements. The Foundation has been excluded from Management's Discussion and Analysis.

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

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

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

Noteworthy Financial Activity

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

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Beginning in 2008, due to declining revenue, the State elected to alter this format and distributed revenue as a percentage of existing revenue levels. Since this revised model failed to take into account our new Pharmacy program, no revenue was distributed. With no incremental state funding for the second consecutive year for the Pharmacy program, the ongoing operating expenses for this program resulted in an imbalance in the revenue and expenses. During fiscal year 2010, the University started receiving state funding for the students in the Pharmacy program. In fiscal year 2011, the University received increased funding for this program based on increased enrollment.

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2011 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$31.5 million. Current assets increased by \$14.4 million, while non-current assets increased \$17.1 million. The increase in current assets reflects the ongoing budgetary practice to allow departments to carryover unspent operating funds for future academic program, research, or project needs; the increase in state funding for the Pharmacy program; a fourth class of Pharmacy tuition; an upswing in the investment market; and a bond issuance of \$15 million.
- Cash, cash equivalents, and investments increased by \$29.3 million.
- The University's net assets increased by \$14.1 million to \$93.2 million, of which \$48.1 million is invested in capital assets or restricted. Of the remaining \$45.1 million in unrestricted assets, all but \$3.8 million is designated for specific purposes.
- Operating revenue increased by \$4.7 million compared to the prior year primarily due to an increase of \$2.5 million in student tuition and fees, which in part was attributable to incremental pharmacy program revenue and \$2.2 million of additional grants and contracts.
- The University's operating expenses increased by \$2.9 million primarily due to costs related to the PharmD program as it grew to include a fourth year class. In addition, operating expenses increased due to the increased cost of group insurance benefits.
- Net non-operating revenue increased by a net \$2.4 million primarily due to a \$1.5 million increase in investment income from the prior year, an increase of \$1.4 million in state and federal appropriations and an increase of \$.5 million in interest expense due to the bond issuance.
- Other revenue, expenses, gains or losses increased by approximately \$.6 million due to the timing of state appropriations for capital improvement projects.

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Ohio Medical University
Condensed Statements of Net Assets
as of June 30, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current assets	\$55,149,935	\$40,721,421	\$30,485,767
Noncurrent			
Capital	42,851,128	40,678,410	42,010,431
Other	<u>21,015,525</u>	<u>6,081,072</u>	<u>5,253,724</u>
Total assets	<u>119,016,588</u>	<u>87,480,903</u>	<u>77,749,922</u>
LIABILITIES			
Current liabilities	7,505,267	5,328,320	5,141,820
Noncurrent liabilities	<u>18,311,180</u>	<u>3,051,718</u>	<u>2,827,984</u>
Total liabilities	<u>25,816,447</u>	<u>8,380,038</u>	<u>7,969,804</u>
NET ASSETS			
Invested in capital assets, net of related debt	40,588,297	38,976,598	39,993,014
Restricted			
Nonexpendable	7,189,139	6,553,548	5,262,003
Expendable	321,697	304,515	354,317
Unrestricted	<u>45,101,008</u>	<u>33,266,204</u>	<u>24,170,784</u>
Total net assets	<u>\$93,200,141</u>	<u>\$79,100,865</u>	<u>\$69,780,118</u>

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

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2010 versus 2009 During the year ended June 30, 2010:

As of June 30, 2010, the University's current assets of \$40.7 million were sufficient to cover current liabilities of \$5.3 million (current ratio of 7.6:1). As of June 30, 2009, current assets of \$30.5 million were sufficient to cover current liabilities of \$5.1 million (current ratio of 5.9:1).

As of June 30, 2010, the University's capital assets decreased to \$40.7 million from \$42 million in fiscal 2009 while other non-current assets increased to \$6.1 million from \$5.2 million.

At June 30, 2010, total University assets were \$87.5 million, compared to \$77.7 million in fiscal 2009.

University liabilities total \$8.4 million at June 30, 2010 compared to \$8 million in fiscal 2009. Current liabilities total \$5.3 million and consist of accrued liabilities of \$2 million (\$799,000 owed to associated hospitals for clinical experiences, and \$544,000 owed to consortium universities for the collaborative academic programs) and approximately \$1.2 million in accrued employee compensation and benefits.

Total net assets increased by \$9.3 million to \$79.1 million. Unrestricted net assets total \$33.3 million; 63.9 percent of which (\$21.3 million) is designated for specific purposes, and 26.4 percent of which (\$8.8 million) is allocated to reserves for ongoing academic and research programs, capital projects and other initiatives.

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Ohio Medical University
Condensed Statements of Revenue, Expenses and Changes in Net Assets
for the years ended June 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue			
Tuition and fees	\$23,495,419	\$21,003,047	\$18,370,782
Federal and state appropriations	19,948,639	18,538,878	16,546,813
Federal, state, local and private grants and contracts	11,564,451	9,300,772	6,560,868
Auxiliary activities	748,421	795,508	870,781
Other	<u>6,553,579</u>	<u>4,459,933</u>	<u>139,762</u>
Total revenue	<u>62,310,509</u>	<u>54,098,138</u>	<u>42,489,006</u>
Expenses			
Instruction	16,623,083	15,192,519	14,951,162
Research	6,548,679	6,099,504	4,639,976
Academic support	5,365,705	5,606,620	4,753,247
Institutional support	8,072,272	7,245,045	6,917,988
Scholarships and fellowships	30,042	41,568	110,363
Other	<u>11,571,452</u>	<u>10,592,135</u>	<u>10,800,725</u>
Total expenses	<u>48,211,233</u>	<u>44,777,391</u>	<u>42,173,461</u>
Increase in net assets	<u>\$14,099,276</u>	<u>\$ 9,320,747</u>	<u>\$ 315,545</u>

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

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

2010 versus 2009 During the year ended June 30, 2010:

The most significant sources of operating revenue for the University are tuition and fees, auxiliary services, and grants and contracts. Tuition and fee revenue grew during fiscal year 2010 as compared to 2009 by 14.3 percent. These increases were a result of a combination of increases in rates for tuition and student fees, and the addition of a third pharmacy class.

Operating expenditures, including depreciation of \$3.9 million, totaled \$44.7 million, an increase from the prior year of \$2.6 million, or 6.3 percent mostly due to the additional pharmacy class.

Non-capital state appropriations were the most significant non-operating revenue totaling \$16.5 million, a slight decrease from 2009 of .1 percent. In addition, we received federal appropriations of \$2 million from federal stimulus dollars to offset the decrease in state appropriations.

Northeast Ohio Medical University
Condensed Statements of Cash Flows
for the years ended June 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash provided by/(used in):			
Operating activities	\$(4,434,200)	\$(9,675,123)	\$(12,133,417)
Investing activities	(8,487,272)	(6,196,220)	(2,627,226)
Capital and related financing activities	9,277,717	(2,149,086)	(1,568,336)
Non-capital financing activities	<u>19,948,639</u>	<u>18,538,878</u>	<u>16,546,813</u>
Net increase in cash	16,304,884	518,449	217,834
Cash and cash equivalents, beginning of year	<u>6,895,614</u>	<u>6,377,165</u>	<u>6,159,331</u>
Cash and cash equivalents, end of year	<u>\$23,200,498</u>	<u>\$ 6,895,614</u>	<u>\$ 6,377,165</u>

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

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

2010 versus 2009 During the year ended June 30, 2010:

Major sources of cash included student tuition and fees (\$21.6 million), federal and state appropriations (\$18.5 million), auxiliary activities (\$.8 million) and grants and contracts (\$9 million). The largest payments were for suppliers (\$13.6 million) and employees (\$26 million).

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

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

At the end of 2010, the University had invested \$40.6 million in capital assets (net of accumulated depreciation of \$49.9 million); this amount represents a decrease of \$1.33 million, or 3.2 percent, less than last year, primarily due to depreciation.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 2,108,971	\$ 2,108,971	\$ 2,108,971
Equipment, furnishing, and library materials	32,102,386	28,495,915	26,992,121
Buildings, infrastructure, improvements, and construction in progress	<u>62,453,589</u>	<u>60,011,906</u>	<u>59,258,741</u>
Total	<u>\$ 96,664,946</u>	<u>\$ 90,616,792</u>	<u>\$ 88,359,833</u>

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

Long-term Debt

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

In addition, at June 30, 2011, the University had \$1,454,983 in outstanding capital lease obligations, which was a decrease of 13.2 percent over the prior year due to annual payments. At June 30, 2010, the University had \$1,676,808 in outstanding capital lease obligations, a decrease of 15.8 percent over the prior year due to annual payments. More detailed information about the University's long-term liabilities is presented in Notes 5 and 6 to the financial statements.

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.

NORTHEAST OHIO MEDICAL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

The University is cognizant to the fact that state support for higher education is certainly susceptible to declines during these tough economic downturns. Furthermore, in fiscal year 2011, approximately \$2.2 million of NEOMED's state share of instruction was comprised of Federal stimulus dollars and will be at risk for the State's next biennium budget, 2012-13. However, revised medical education funding model and the continual progression of the Pharmacy program will minimize the negative impact to NEOMED.

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Independent Auditor's Report

To the Board of Trustees
Northeast Ohio Medical University

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northeast Ohio Medical University (the "University"), a component unit of the State of Ohio, as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2011 and 2010 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2011 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 for the year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Northeast Ohio Medical University

The management's discussion and analysis presented on pages 1 through 9 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

Toledo, Ohio
October 21, 2011

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010

	NEOMED		Component Unit NEUCOM Foundation	
	2011	2010	2011	2010
ASSETS				
Current assets				
Cash and cash equivalents (Note 2)	\$ 8,095,261	\$ 6,081,858	\$ 284,609	\$ 221,340
Investments (Note 2)	43,055,650	30,737,655		
Accounts receivable (Note 3)	2,808,130	2,573,291	-	16,000
Inventories	138,643	157,064		
Prepaid expenses and deferred charges	688,079	919,149	480	
Pledges receivable			297,950	205,125
Notes receivable (Note 3)	364,172	252,404		
Total current assets	<u>55,149,935</u>	<u>40,721,421</u>	<u>583,039</u>	<u>442,465</u>
Noncurrent assets				
Cash-restricted (Note 2)	15,105,237	813,756		
Long-term investments (Note 2)	1,929,058	1,298,809	12,224,559	10,175,975
Funds held in trust			1,194,569	1,258,377
Pledges receivable			1,128,367	1,022,207
Notes receivable (Note 3)	3,767,282	3,968,507	324,434	362,520
Deferred bond issue costs, net	213,948	-		
Capital assets, net (Note 4)	42,851,128	40,678,410		
Total noncurrent assets	<u>63,866,653</u>	<u>46,759,482</u>	<u>14,871,929</u>	<u>12,819,079</u>
Total assets	<u>119,016,588</u>	<u>87,480,903</u>	<u>15,454,968</u>	<u>13,261,544</u>
LIABILITIES				
Current liabilities				
Accounts payable	1,177,296	616,358		
Accrued compensation and benefits (Note 6)	1,557,954	1,206,493		
Deferred revenue	1,541,923	1,274,643		
Other accrued liabilities	3,108,813	2,009,001	76,053	235,251
Capital lease obligations (Notes 5 & 6)	119,281	221,825		
Total current liabilities	<u>7,505,267</u>	<u>5,328,320</u>	<u>76,053</u>	<u>235,251</u>
Noncurrent liabilities				
Compensated absences (Note 6)	1,368,320	1,393,519		
Annuity obligations			139,415	153,382
Post-employment benefits (Notes 6 & 8)	607,158	203,216		
Capital lease obligations (Notes 5 & 6)	1,335,702	1,454,983		
Bonds payable (Note 10)	15,000,000	-		
Total noncurrent liabilities	<u>18,311,180</u>	<u>3,051,718</u>	<u>139,415</u>	<u>153,382</u>
Total liabilities	<u>25,816,447</u>	<u>8,380,038</u>	<u>215,468</u>	<u>388,633</u>
NET ASSETS				
Invested in capital assets, net of related debt	40,588,297	38,976,598		
Restricted				
Nonexpendable				
Student loans	5,060,639	5,034,667	787,753	750,285
Endowments	2,128,500	1,518,881	8,167,294	7,604,340
Annuity and life income			74,768	56,318
Expendable				
Current operations	321,697	304,515	5,523,923	4,559,744
Unrestricted	45,101,008	33,266,204	685,762	(97,776)
Total net assets	<u>93,200,141</u>	<u>79,100,865</u>	<u>15,239,500</u>	<u>12,872,911</u>
Total liabilities and net assets	<u>\$ 119,016,588</u>	<u>\$ 87,480,903</u>	<u>\$ 15,454,968</u>	<u>\$ 13,261,544</u>

The accompanying notes are an integral part of the financial statements

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011 AND 2010

	NEOMED		Component Unit NEOUCOM Foundation	
	2011	2010	2011	2010
OPERATING REVENUE				
Student tuition and fees (net of scholarship allowances of \$214,080 and \$166,990, respectively)	\$ 23,495,419	\$ 21,003,047	\$ -	\$ -
Federal grants and contracts	5,328,269	5,436,292		
State grants and contracts	3,780,658	2,134,762		
Local grants and contracts	30,758			
Private grants and contracts	2,424,766	1,729,718		
Contributions and bequests			593,249	502,240
In-kind contributions from NEOMED			704,280	444,443
Sales and services of departments	481,903	529,408		
Sales and services of auxiliary enterprises	748,421	795,508		
Other	133,194	110,046	103,401	157,425
Total operating revenue	<u>36,423,388</u>	<u>31,738,781</u>	<u>1,400,930</u>	<u>1,104,108</u>
OPERATING EXPENSES				
Educational and general				
Instruction and departmental research	16,623,083	15,192,519	41,914	25,351
Separately budgeted research	6,548,679	6,099,504	42,456	50,348
Public service	474,445	405,112	99,298	92,522
Academic support	5,365,705	5,606,620	344,028	549,062
Student services	1,393,773	1,668,727		
Institutional support	8,072,272	7,245,045	927,948	680,625
Operation and maintenance of plant	3,961,153	3,516,458	-	7,500
Scholarships and fellowships	30,042	41,568	296,658	273,307
Auxiliary enterprises	990,604	1,015,580		
Depreciation	4,116,207	3,902,160		
Total operating expenses	<u>47,575,963</u>	<u>44,693,293</u>	<u>1,752,302</u>	<u>1,678,715</u>
Operating loss	(11,152,575)	(12,954,512)	(351,372)	(574,607)
NONOPERATING REVENUE (EXPENSES)				
State appropriations	17,708,016	16,535,635		
Federal appropriations	2,240,623	2,003,243		
Investment income	4,460,972	2,910,399	2,156,129	1,467,950
Interest (loss)	(634,177)	(86,627)		
(Loss) gain on disposal of assets	(1,093)	2,529		
Net nonoperating revenue/(expenses)	<u>23,774,341</u>	<u>21,365,179</u>	<u>2,156,129</u>	<u>1,467,950</u>
GAIN BEFORE OTHER REVENUE, EXPENSES, GAINS OR LOSSES	12,621,766	8,410,667	1,804,757	893,343
OTHER REVENUE, EXPENSES, GAINS OR LOSSES				
Capital appropriations and grants	1,197,510	620,080		
Contributions permanently restricted	280,000	290,000	561,832	64,419
Total other revenue, expenses, gains or losses	<u>1,477,510</u>	<u>910,080</u>	<u>561,832</u>	<u>64,419</u>
INCREASE IN NET ASSETS	14,099,276	9,320,747	2,366,589	957,762
NET ASSETS AT BEGINNING OF YEAR	79,100,865	69,780,118	12,872,911	11,915,149
NET ASSETS AT END OF YEAR	<u>\$ 93,200,141</u>	<u>\$ 79,100,865</u>	<u>\$ 15,239,500</u>	<u>\$ 12,872,911</u>

The accompanying notes are an integral part of the financial statements

NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 23,850,693	\$ 21,592,270
Grants and contracts	11,146,554	8,950,636
Employee compensation	(26,893,991)	(26,056,205)
Payments to suppliers	(12,811,883)	(13,572,505)
Payments for utilities	(1,207,374)	(1,412,754)
Payments for student financial aid	-	(13,873)
Student loan advances	(459,189)	(1,061,917)
Student loan repayments	444,346	345,431
Sales and services of auxiliary enterprises	776,333	802,066
Sales and services of departments	458,023	595,104
Other operating receipts	262,288	156,624
Net cash and cash equivalents used in operating activities	(4,434,200)	(9,675,123)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	17,708,016	16,535,635
Federal appropriations	2,240,623	2,003,243
Net cash and cash equivalents provided by financing activities	19,948,639	18,538,878
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	1,288,542	482,029
Capital gifts and grants	280,000	338,730
Bond issue costs paid	(213,948)	-
Purchases of capital assets	(6,299,269)	(2,571,660)
Principal paid on capital leases	(221,825)	(315,605)
Interest paid on capital leases	(565,034)	(86,627)
Proceeds from capital debt	15,000,000	-
Proceeds from sale of capital assets	9,251	4,047
Net cash and cash equivalents provided by (used in) capital financing activities	9,277,717	(2,149,086)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	4,265,992	2,939,411
Sale of investments	61,744,140	1,732,029
Purchase of investments	(74,497,404)	(10,867,660)
Net cash and cash equivalents used in investing activities	(8,487,272)	(6,196,220)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	16,304,884	518,449
 CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	6,895,614	6,377,165
 CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 23,200,498	\$ 6,895,614

The accompanying notes are an integral part of the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010**

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

	2011	2010
Operating loss	\$ (11,152,575)	\$ (12,954,512)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities		
Depreciation	4,116,207	3,902,160
Changes in assets and liabilities		
Receivables	(325,871)	(210,546)
Inventories	18,421	(252)
Prepaid expenses and deferred charges	231,070	(449,021)
Notes receivable	89,457	(688,791)
Accounts payable	540,379	(463,806)
Accrued compensation	730,204	403,479
Deferred revenue	267,280	521,889
Other accrued liabilities	1,051,228	264,277
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	\$ (4,434,200)	\$ (9,675,123)

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

	2011	2010
Cash and Cash Equivalents	\$ 8,095,261	\$ 6,081,858
Cash-Restricted	15,105,237	813,756
Total cash and equivalents at end of the year	\$ 23,200,498	\$ 6,895,614

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, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

The associated community hospitals and health department are:

Major Teaching Hospitals and Health Department:

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

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

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

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010

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 NEOUCOM Foundation (“Foundation”). The Foundation, which is a discretely presented component unit of the University as determined in accordance with the provisions of the Governmental Accounting Standards Board (“GASB”) Statement 39, is described more fully in Note 13. The Foundation is exempt from Federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

Furthermore, in accordance with GASB Statement No. 39, the Foundation is reported in a separate column on the University’s financial statements to emphasize that it is legally separate from the University. The Foundation is a not-for-profit organization supporting the University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, it is considered a component unit of the University. Financial statements for the Foundation may be obtained by writing to NEOUCOM Foundation, PO Box 95, Rootstown, Ohio 44272.

Basis of Presentation

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

Management’s Discussion and Analysis

Basic financial statements:

Statements of Net Assets

Statements of Revenue, Expenses, and Changes in Net Assets

Statements of Cash Flows

Notes to the financial statements

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

Basis of Accounting

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

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

Cash and Cash Equivalents

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

Restricted Cash and Cash Equivalents

As of June 30, 2011 restricted cash and cash equivalents consists of \$14,176,052 of unspent proceeds of the General Receipt Bonds issued on November 10, 2010 and \$929,185 of cash restricted for endowment purposes. As of June 30, 2010, restricted cash consists of \$813,756 for endowment purposes.

Investments

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

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

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 (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

Deferred Bond Issuance Costs

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

Capital Assets

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

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

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

Compensated Absences

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

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

Operating Revenue

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

Deferred Revenue

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

Net Asset Classifications

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

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

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

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

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

Use of Estimates

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

Reclassification

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Upcoming Accounting Standards

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses issues related to service concession arrangements which are a type of public-private or public-public partnership.

In November 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The requirements of Statements 60, 62, and 63 are effective for financial statements for periods beginning after December 15, 2011.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2012.

University management has not yet determined the impact that implementation of these GASB Statements will have on the University's financial statements.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

The University’s bank deposits and cash on hand for all fund groups at June 30, 2011 and 2010 are summarized as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
University’s book value	\$23,200,498	\$6,813,091
Cash on hand	9,209	9,373
Bank balances	24,141,524	7,464,233

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, 2011 and 2010, \$250,000 and \$250,000, respectively, were covered by federal depository insurance and \$23,641,524 and \$7,214,233, respectively, were uncollateralized as defined by GASB.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

The University's investments, at fair value, at June 30, 2011 and 2010 are summarized as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Money market funds	\$ 1,091,874	\$ 49,427
U.S. government obligations	4,323,649	90,156
U.S. government agency obligations	3,304,558	4,528
Corporate bonds and notes	7,365,367	147,397
Fixed income mutual funds	9,067,814	20,494,297
Equities	19,819,219	11,240,517
State Treasury Asset Reserve of Ohio	<u>12,227</u>	<u>10,142</u>
Total Investments	<u>\$44,984,708</u>	<u>\$32,036,464</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, 2011 are as follows:

	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. government obligations	\$4,323,649	\$4,238,602	\$ 43,439	\$ 20,560	\$ 21,048
U.S. government agency obligations	3,304,558	1,762,719	5,866	-	1,535,973
Corporate bonds and notes	<u>7,365,367</u>	<u>7,187,043</u>	<u>98,950</u>	<u>39,205</u>	<u>40,169</u>
Total	<u>\$14,993,574</u>	<u>\$13,188,364</u>	<u>\$148,255</u>	<u>\$59,765</u>	<u>\$1,597,190</u>

The maturities of the University's interest-bearing investments at June 30, 2010 are as follows:

	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. government obligations	\$90,156	\$ -	\$ 47,780	\$ 15,785	\$26,591
U.S. government agency obligations	4,528	-	-	4,528	-
Corporate bonds and notes	<u>147,397</u>	<u>6,351</u>	<u>53,434</u>	<u>60,268</u>	<u>27,344</u>
Total	<u>\$242,081</u>	<u>\$6,351</u>	<u>\$101,214</u>	<u>\$80,581</u>	<u>\$53,935</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

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, 2011 were as follows:

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

The credit ratings for the University's interest-bearing investments, as rated by Standard & Poor's, at June 30, 2010 were as follows:

Credit Rating (S&P)	<u>Total</u>	U.S. Government <u>Obligations</u>	U.S. Agency <u>Obligations</u>	Corporate Bonds and <u>Notes</u>
AAA	\$94,684	\$90,156	\$4,528	\$ -
AA	14,819	-	-	14,819
A	62,851	-	-	62,851
BBB	<u>69,727</u>	<u>-</u>	<u>-</u>	<u>69,727</u>
Total	<u>\$242,081</u>	<u>\$90,156</u>	<u>\$4,528</u>	<u>\$147,397</u>

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

Foreign currency risk. Foreign currency risk is that risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2011 and 2010, the University had no exposure to foreign currency risk.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

3. ACCOUNTS AND NOTES RECEIVABLE

The following is a summary of accounts and student notes receivable at June 30, 2011 and 2010:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Student notes	\$4,131,454	\$4,220,911
Grants and contracts	2,714,041	1,920,645
Sales and services	27,362	615,680
Tuition and fees	<u>66,727</u>	<u>36,966</u>
Total	<u>\$6,939,584</u>	<u>\$6,794,202</u>

Federal Direct Loans Program processed for students by the University during the year ended June 30, 2011 totaled \$25,202,523 and the year ended June 30, 2010 totaled \$21,999,751. 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.

4. CAPITAL ASSETS

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

Capital asset activity for the year ended June 30, 2010 was as follows:

	July 1, 2009 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2010 Ending Balance
Land - Non-depreciable	\$ 2,108,971	\$ -	\$ -	\$ 2,108,971
Infrastructure	1,637,836	-	-	1,637,836
Buildings	57,368,095	673,529	116,232	58,157,856
Furnishings and movable equipment	14,386,053	1,090,522	(184,272)	15,292,303
Library materials	12,606,068	597,544	-	13,203,612
Construction in progress - Non-depreciable	252,810	210,065	(246,661)	216,214
Total historical cost	88,359,833	2,571,660	(314,701)	90,616,792
Less: Total accumulated depreciation	46,349,402	3,902,160	(313,180)	49,938,382
Total capital assets, net of depreciation	<u>\$ 42,010,431</u>	<u>\$ (1,330,500)</u>	<u>\$ (1,521)</u>	<u>\$ 40,678,410</u>

5. CAPITAL LEASE OBLIGATIONS

The University has entered into various non-cancelable equipment and land lease agreements. These leases are accounted for as capital leases (total net book value at June 30, 2011 and 2010 of \$2,569,734 and \$2,639,947, respectively) and principal payments of \$221,825 were made under the agreements during the year ended June 30, 2011.

Future minimum lease payments subsequent to June 30, 2011 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 119,281	\$ 65,815	\$ 185,096
2013	124,851	60,245	185,096
2014	130,682	54,414	185,096
2015	136,785	48,311	185,096
2016	143,173	41,923	185,096
2017-2020	<u>800,211</u>	<u>97,622</u>	<u>897,833</u>
Total	<u>\$ 1,454,983</u>	<u>\$ 368,330</u>	<u>\$ 1,823,313</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

6. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2011 and June 30, 2010 are as follows:

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

	Balance July 1, <u>2009</u>	<u>Additions</u>	<u>Reduction</u>	Balance June 30, <u>2010</u>	Current <u>Portion</u>	Non-current <u>Portion</u>
Compensated absences	\$1,582,606	\$556,656	\$218,379	\$1,920,883	\$527,364	\$1,393,519
Post-employment	63,935	139,281	-	203,216	-	203,216
Capital lease obligations	1,992,413	-	315,605	1,676,808	221,825	1,454,983
Total long-term	<u>\$3,638,954</u>	<u>\$695,937</u>	<u>\$533,984</u>	<u>\$3,800,907</u>	<u>\$749,189</u>	<u>\$3,051,718</u>

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

7. COMMITMENTS AND CONTINGENCIES

The University has entered into various contractual service agreements with its consortium universities, associated hospitals and health department primarily for clinical instruction, research and other services. For fiscal years ended June 30, 2011 and 2010, these instructional expenses relating to contracts totaled \$4,546,273 and \$3,959,844, respectively. At June 30, 2011 and 2010, the University had recorded accrued liabilities of \$2,411,702 and \$826,174, respectively, which represented unbilled services rendered by the related organizations under these contracts.

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

8. OTHER POST-EMPLOYMENT BENEFITS

Background

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

Plan Description

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

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

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Annual required contribution	\$ 468,957	\$ 409,881
Interest on net OPEB obligation	12,193	3,836
Adjustment to annual required contribution	<u>(13,928)</u>	<u>(4,382)</u>
Annual OPEB cost (expense)	467,222	409,335
Employer contribution (pay-as-you-go)	63,280	270,054
Net cash contribution	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	403,942	139,281
Net OPEB obligation, beginning of year	<u>203,216</u>	<u>63,935</u>
Net OPEB obligation, end of year	<u>\$ 607,158</u>	<u>\$ 203,216</u>
Actuarial Contribution rate	13.54%	65.97%

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

Actuarial Methods and Assumptions

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

The valuation of the liability as of June 30, 2011 is based only on the spouses and legal dependents of employees and retirees hired prior to January 1, 1992, with at least 10 years of service at NEOMED for healthcare benefits and all retirees and active employees for life insurance. Using the actuarial assumptions, the number of retired participants is projected each year in the future. Costs are projected for each year at each age using the trend and aging assumptions. Retiree post employment benefit expenses are determined under the Projected Unit Credit actuarial cost method. Under this method, benefits are projected for life and their present value is determined.

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

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

9. EMPLOYEE BENEFIT PLANS

Retirement Plans

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

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

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

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

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

The University's contributions, including employer contributions for pensions and other postretirement benefits, for the year ended June 30, 2011 and for each of the two preceding years are:

Year Ended June 30	OPERS Contributions	STRS Contributions	ARP Contributions
2011	\$ 1,371,615	\$ 653,094	\$ 599,484
2010	1,403,651	626,888	529,838
2009	1,384,253	556,629	512,699

Post-Retirement Health Care Benefits (in whole numbers)

OPERS provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying State service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS. The employer contribution rates allocated for health care for members in the Traditional Plan were 5.5% of covered payroll from January 1 through February 28 and 5.0% of covered payroll from March 1 through December 31, 2010. For employees in the Combined Plan, the employer contribution rates allocated to health care were 4.73% from January 1 through February 28 and 4.23% from March 1 through December 31, 2010.

OPERS benefits are advance-funded on an actuarially determined basis. As of December 31, 2009, OPERS reported the actuarially accrued liability and the unfunded actuarial accrued liability for Other Post Employment Benefits (OPEB) at \$31.5 billion and \$20.6 billion, respectively. Significant actuarial assumptions include a 6.5% investment return, a 4% individual pay increase, and a .5 to 3% increase in healthcare costs. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. As of December 31, 2009, the actuarial value of the retirement system's net assets available for other post-employment benefits was \$10.9 billion. The number of active contributing participants in the traditional and combined plans was 356,734 as of December 31, 2010.

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

The Ohio Revised Code grants authority to STRS Ohio to provide healthcare coverage to eligible benefit recipients, spouses, and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The State Teachers Retirement Board currently allocates employer contributions, which equals 1% of covered payroll, to a health care stabilization fund from which health care benefits are paid. The balance in the healthcare reserve fund was \$2.8 billion at June 30, 2010.

For the year ended June 30, 2010 (latest information available), net healthcare costs paid by STRS were \$592 million. There were 133,103 eligible benefit recipients on June 30, 2010.

10. BONDS PAYABLE

The University has been approved to issue an amount not to exceed \$42,000,000 in General Receipt Bonds. On November 10, 2010, the University issued General Receipts Bonds Series 2010 in the amount of \$15,000,000. The proceeds are being used for the construction, improvement, reconstruction, remodeling, renovation and equipping of the University facilities primarily for construction of a new research and graduate education complex consisting of medical research, laboratory, graduate education and related purposes. The Bonds are in the various denominations, with an interest rate of 4.0 to 4.5 percent and a maturity of 30 years. The balance outstanding as of June 30, 2011 was \$15,000,000.

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

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

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

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2011 are summarized as follows:

Year Ending June 30	Principal	Interest	Interest Subsidy *	Net Interest	Total
2012	\$ -	\$ 913,162	\$ (410,923)	\$ 502,239	\$ 502,239
2013	340,000	910,000	(409,500)	500,500	840,500
2014	345,000	902,836	(406,276)	496,560	841,560
2015	350,000	893,881	(402,246)	491,635	841,635
2016	355,000	883,195	(397,438)	485,757	840,757
2017-2021	1,885,000	4,194,938	(1,887,722)	2,307,216	4,192,216
2022-2026	2,185,000	3,656,315	(1,645,342)	2,010,973	4,195,973
2027-2031	2,600,000	2,907,670	(1,308,452)	1,599,218	4,199,218
2032-2036	3,130,000	1,919,742	(863,884)	1,055,858	4,185,858
2037-2041	3,810,000	695,610	(313,025)	382,585	4,192,585
	<u>\$ 15,000,000</u>	<u>\$ 17,877,349</u>	<u>\$ (8,044,808)</u>	<u>\$ 9,832,541</u>	<u>\$ 24,832,541</u>

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

11. RISK MANAGEMENT

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

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.

**NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

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 year ended June 30, 2011 are summarized as follows:

	2011
Accrued claims liability - Beginning of year	\$ -
Incurred claims - Net of favorable settlements	1,399,749
Claims paid	(1,008,387)
Accrued claims liability - End of year	\$ 391,362

NORTHEAST OHIO MEDICAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 and 2010

12. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2011 and 2010, the University has received distributions from the Foundation in the amount of \$926,594 and \$1,144,167, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted loans of \$59,650 and \$67,213, respectively, for the years ended June 30, 2011 and 2010.

The University received reimbursements of \$49,293 and \$56,186, respectively, from the Foundation for management, fundraising, services, and office space during the years ended June 30, 2011 and 2010. Amounts for such services provided by the College which are not reimbursed by the Foundation are reported as in-kind contributions in the Statement of Revenues, Expenses, and Changes in Net Assets. The College's in-kind support for these services was valued at \$704,280 and \$444,443, respectively, for the years ended June 30, 2011 and 2010.

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

13. COMPONENT UNIT - THE NEOUCOM FOUNDATION

The NEOUCOM 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 2011 or 2010.

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

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

Supplemental Information

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

To the Board of Trustees
Northeast Ohio Medical University

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of Northeast Ohio Medical University (the "University") as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 21, 2011. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees
Northeast Ohio Medical University

Compliance and Other Matters

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

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

Plante & Moran, PLLC

October 21, 2011

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

To the Board of Trustees
Northeast Ohio Medical University

Compliance

We have audited the compliance of Northeast Ohio Medical University (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The major federal programs of Northeast Ohio Medical University are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northeast Ohio Medical University's management. Our responsibility is to express an opinion on Northeast Ohio Medical University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northeast Ohio Medical University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northeast Ohio Medical University's compliance with those requirements.

In our opinion, Northeast Ohio Medical University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

To the Board of Trustees
Northeast Ohio Medical University

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as Finding 2011-1. 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

Northeast Ohio Medical University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Northeast Ohio Medical University's response and, accordingly, we express no opinion on it.

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

Plante & Moran, PLLC

October 21, 2011

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA	Agency or Pass-Through Grant Number	Expenditures
STUDENT FINANCIAL AID CLUSTER			
Scholarships:			
Department of Health and Human Services:			
<i>Health Resources and Services Administration:</i>			
Scholarships for Disadvantaged Students	93.925	T08HP18830	\$ 96,701
ARRA-Scholarships for Disadvantaged Students	93.407	TOAHP18526	63,874
<i>Total Health Resources and Services Administration:</i>			<u>160,575</u>
Total Department of Health and Human Services:			160,575
Loans:			
Department of Education:			
<i>Office of Student Financial Assistance Programs:</i>			
William D. Ford Federal Direct Loan Program	84.268	N/A	25,202,523
Federal Perkins Loan Program*	84.038	N/A	2,222,387
<i>Total Office of Student Financial Assistance Programs:</i>			<u>27,424,910</u>
Total Department of Education:			27,424,910
Department of Health and Human Services:			
<i>Health Resources and Services Administration:</i>			
Health Professions Student Loans - Disadvantaged Students*	93.342	N/A	1,794,119
Health Professions Student Loans - Primary Care Loans*	93.342	N/A	1,305,533
Total CFDA #93.342			<u>3,099,652</u>
<i>Total Health Resources and Services Administration:</i>			<u>3,099,652</u>
Total Department of Health and Human Services:			3,099,652
TOTAL STUDENT FINANCIAL AID CLUSTER			\$ 30,685,137
RESEARCH AND DEVELOPMENT CLUSTER			
Department of Health and Human Services:			
<i>National Institutes of Health:</i>			
Auditory Information Processing in Midbrain	93.173	R01DC000937	\$ 210,625
Functional Anatomy of the Auditory Pathways	93.173	R01DC004391	219,675
G-protein-coupled Receptors in Hearing Physiology	93.173	R01DC008984	295,711
Regulation of Excitability in a Sensory System	93.173	R01DC008120	144,364
Anatomical Analysis - Cortical Projections to the Auditory Midbrain	93.173	F32DC010958	61,481
Cholinergic Circuitry in Auditory Brainstem	93.173	F31DC008463	123,489
Total CFDA #93.173			<u>1,055,345</u>

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA	Agency or Pass-Through Grant Number	Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (continued)			
ARRA - Auditory Information Processing in the Midbrain	93.701	3R01DC000937	\$ 7,416
ARRA - Hepatocyte Nuclear Factor 4alpha and Lipid Homeostasis	93.701	1R15DK088733	139,689
ARRA - Myocardial Injury-Mitochondria-derived Oxygen Free Radicals	93.701	3R01HL083237	24,103
ARRA - Real time imaging of the aqueous outflow pathway by two-photon endoscopy	93.701	3R21EY018318	12,939
ARRA - Regulation of Excitability in a Sensory System by Cellular and Network Components	93.701	3R01DC008120	81,841
ARRA - Stem Cell Induction of Coronary Arteriogenesis	93.701	1RC1HL100828	<u>344,523</u>
Total CFDA #93.701			610,511
Synthetic Triterpenoid in Breast Cancer Chemoprevention	93.392	R03CA136014	47,472
Passed through the University of California, San Diego:			
Molecular Biology of the Cardiac Interstitium	93.837	R01HL043617	(431)
Myocardial Injury - Mitochondria-derived Oxygen Free Radicals	93.837	R01HL083237	305,350
Reactive oxygen species in coronary collateral growth	93.837	R01HL083366	492,848
Microcirculatory Dynamics in the Coronary Circulation	93.837	R01HL032788	45,934
Regulation of Lipid and Lipoprotein Metabolism	93.837	R01HL103227	<u>55,272</u>
Total CFDA #93.837			898,973
Molecular Biology of Bile Acid Synthesis	93.847	2R56DK044442	359,354
Regulation of Bile Acid Synthesis by Nuclear Receptor	93.847	2R01DK058379	<u>55,489</u>
Total CFDA #93.847			414,843
Regulation of Bile Acid Synthesis by Nuclear Receptor	93.848	R01DK58379	194,453
Microglia in Retrovirus-Induced Neurodegeneration	93.853	R01NS037614	4,797
Role of Bag - 1 Proteins in Chondrocyte Aging and Disease	93.866	R15AG029659	301
Real Time Imaging of the Aqueous Outflow Pathway by Two-Photon Endoscopy	93.867	R21EY018318	69,513
Passed through the University of Illinois at Chicago:			
Assessing Mental Health Information Needs of Clergy of Portage County	93.879	R01HL043617	<u>2,280</u>
Total National Institutes of Health:			<u>3,298,488</u>
<i>Substance Abuse and Mental Health Services Admin:</i>			
Passed through Ohio Department of Mental Health:			
TSIG: Campus Safety in a Mental Health Context	93.243	TSG1-10-033-08001	27,947
Assessing the Impact of CIT in Ohio	93.243	TSG1-10-TE7-16-001	<u>48,948</u>
Total CFDA #93.243			76,895
Total Substance Abuse and Mental Health Services Admin:			<u>76,895</u>

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA	Agency or Pass-Through Grant Number	Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (continued)			
<i>Office of the Secretary:</i>			
Passed through The University of Findlay: NECO Region Hosp Training & Education	93.889	U3RHS05592	\$ 30
<i>Total Office of the Secretary:</i>			<u>30</u>
<i>Centers of Medicare and Medicaid Services:</i>			
Passed through Ohio Board of Regents and Ohio State University Research Foundation: Effective Access to Health Care Providers and Services in Ohio	93.778	60024076	41,426
<i>Total Centers of Medicare and Medicaid Services:</i>			<u>41,426</u>
Total Department of Health and Human Services:			3,416,839
Department of Justice:			
Passed through Ohio Office of Criminal Justice Services: Multi-Site Comparison of CIT Effect	16.738	2009-JG-E0R-6697	45,080
ARRA - Mental Health Courts: For whom does it work and why?	16.803	2009-RA-E0R-2227	63,453
Total Department of Justice:			108,533
National Science Foundation:			
Diet in Early Whales	47.050	EAR0745543	53,754
Jaw Muscle Biomechanics in Primates	47.075	BCS0552285	17,827
Morphology of feeding in free-ranging mantled howling monkeys	47.075	BCS0720028	16,252
Total CFDA #47.075			34,079
ARRA - Core Facility for the Hierarchical Analysis of Bone	47.082	BCS-0959438	445,354
Total National Science Foundation:			533,187
Environmental Protection Agency:			
Selective multiplexed real-time detection of Bacteria	66.469	GL-00E00563	10,378
Total Environmental Protection Agency:			10,378
Department of Defense:			
Passed through Texas Tech University Health Sciences Center: Cationic Chemotherapeutics to Penetrate Breast Cancer Cells	12.420	10API00008FNV	14,189
Total Department of Defense:			14,189
TOTAL RESEARCH AND DEVELOPMENT CLUSTER:			4,083,126

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA	Agency or Pass-Through Grant Number	Expenditures
STATE FISCAL STABILIZATION FUND (SFSF) CLUSTER			
Department of Education:			
Passed through the State of Ohio & the Ohio Board of Regents ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	S394A090036	\$ 1,952,568
Total Department of Education:			<u>1,952,568</u>
Department of Government Services:			
Passed through the State of Ohio & the Ohio Board of Regents ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.397	S397A090036	288,055
Total Department of Government Services:			<u>288,055</u>
TOTAL STATE FISCAL STABILIZATION FUND (SFSF) CLUSTER:			<u>2,240,623</u>
TOTAL CLUSTERS			<u>\$ 37,008,886</u>
OTHER PROGRAMS			
Department of Health and Human Services:			
Passed through The Ohio State University: Long Term Care Direct Care Workforce Project	93.791	60028121	\$ 8,823
<i>Health Resources and Services Administration:</i>			
Physician Faculty Development in Primary Care	93.884	I D55HP20645-01-00	250,412
Renovation and Expansion of Gross Anatomy Teaching Lab	93.887	IC76HF19842-01-00	155,766
Passed through the Ohio Department of Health: Women's Health Month 2011	93.994	ADMIN-20454	6,711
Passed through Ohio State University Research Foundation: Ohio Public Health Training Center	93.249	I UB6HP20203-01-00	6,308
Passed through The University of Toledo: Area Health Education Program	93.107	F2010-30	253,182
Passed through Case Western Reserve University: Western Reserve Geriatric Education Center	93.969	D31HP08841-01-00	9,014
<i>Total Health Resources and Services Administration:</i>			<u>681,393</u>
<i>Center for Disease Control:</i>			
Passed through the Friends of the Congressional Glaucoma Caucus Foundation: Student Sight Savers Program	93.988	Grant #29	20
<i>Total Center for Disease Control:</i>			<u>20</u>

Northeast Ohio Medical University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA	Agency or Pass-Through Grant Number	Expenditures
OTHER PROGRAMS (continued)			
<i>Admin for Children and Families:</i>			
Passed through the Cleveland Clinic Foundation: Hard Wired for Health	93.630	4059937	\$ 12,164
<i>Total Admin for Children and Families:</i>			<u>12,164</u>
Substance Abuse and Mental Health Services Admin:			
Passed through Ohio Department of Mental Health: Criminal Justice - CCoE	93.243	TSG1-10-034-08-002	28,995
Passed through Ohio Department of Mental Health and Summit County ADM Board: Criminal Justice - CCoE	93.958	N/A	164,222
<i>Total Substance Abuse and Mental Health Services Admin:</i>			<u>193,217</u>
Total Department of Health and Human Services:			895,617
Department of Justice:			
Passed through the Ohio Office of Criminal Justice Services and the National Alliance on Mental Illness of Ohio: Ohio Crisis Intervention Training	16.738	2007-DG-B01-6317A	4,896
Total Department of Justice:			<u>4,896</u>
TOTAL OTHER PROGRAMS:			<u>\$ 900,513</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 37,909,399</u>

* Expenditure amounts shown for Financial Aid loans include both FY11 disbursements and year-end fund balances.

Northeast Ohio Medical University

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Note - Basis of Presentation and Significant Accounting Policies

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

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

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

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

Northeast Ohio Medical University

Schedule of Findings and Questioned Costs Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.038, 84.268, 93.342, 93.407, 93.925 Various 84.394, 84.397	Student Financial Aid Research and Development State Fiscal Stabilization Fund

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

Auditee qualified as low-risk auditee? Yes No

Northeast Ohio Medical University

Schedule of Findings and Questioned Costs Year Ended June 30, 2011

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Finding
2011-1	<p>Program Name - Student Financial Aid Cluster - Federal Direct Loan Program - CFDA #84.268</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency</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 timeframe.</p> <p>Questioned Costs - None</p> <p>Context - Of the 22 students tested for status change testing, three did not have status changes reported in a timely manner.</p> <p>Cause and Effect - The University transmits student enrollment data to the Federal Clearinghouse from September through June, but not during July and August. As a result, students graduating after the last submission in June did not have status changes updated with the Federal Clearinghouse or the NSLDS within the required timeframe.</p> <p>Recommendation - The University should monitor student status changes during the summer months to identify any changes and either upload information on an individual basis when the full enrollment reports are not submitted, or consider uploading the enrollment reports each month throughout the year.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Office of Enrollment Services reports enrollment monthly (September through June) for all registered students to the National Student Clearinghouse. We have implemented that all enrollment status changes will be reported by student to the National Student Clearinghouse at the time the Office of Enrollment Services is notified of the status change.</p>



Dave Yost • Auditor of State

NORTHEAST OHIO MEDICAL UNIVERSITY

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 24, 2012**