

**NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION**  
**FINANCIAL REPORT**  
**JUNE 30, 2019**



OHIO AUDITOR OF STATE  
KEITH FABER



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Board of Directors  
Northeast Ohio Medical University Foundation  
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We have reviewed the *Independent Auditor's Report* of the Northeast Ohio Medical University Foundation, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2018 through June 30, 2019. 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 Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

October 14, 2019

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NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION

CONTENTS

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	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5-6
STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8-23
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	24-25

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## Independent Auditor's Report

To the Board of Directors  
Northeast Ohio Medical University Foundation

### Report on the Financial Statements

We have audited the accompanying financial statements of Northeast Ohio Medical University Foundation (a component unit of Northeast Ohio Medical University) (the "Foundation"), which comprise the statement of financial position as of June 30, 2019 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Ohio Medical University Foundation as of June 30, 2019 and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Emphasis of Matter**

As discussed in Note 2 to the basic financial statements, the Foundation adopted the provisions of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

To the Board of Directors  
Northeast Ohio Medical University Foundation

**Report on Summarized Comparative Information**

We have previously audited the Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2019 on our consideration of Northeast Ohio Medical University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeast Ohio Medical University Foundation's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

September 24, 2019



NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)  
STATEMENT OF FINANCIAL POSITION

June 30, 2019  
(With Comparative Totals at June 30, 2018)

	2019	2018
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and equivalents	\$ 3,957,444	\$ 502,049
Accounts receivable	11,714	4,300
Prepaid expenses	2,854	6,745
Student notes receivable (Note 8)	46,569	42,753
Pledges receivable (Note 4)	446,672	569,865
Total current assets	4,465,253	1,125,712
NONCURRENT ASSETS		
Pledges receivable (Note 4)	559,027	828,226
Investments (Note 5 & 6)	19,056,671	17,958,688
Student notes receivable (Note 8)	366,397	356,490
Beneficial interest in trusts (Note 6 & 7)	75,117	72,669
Total long-term assets	20,057,212	19,216,073
Total assets	<b>\$ 24,522,465</b>	<b>\$ 20,341,785</b>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accrued liabilities	\$ 22,434	\$ 12,944
Related party payable (Note 13)	566,091	385,437
Annuity obligations (Note 9)	19,532	20,370
Deposits held in custody for others	65,052	55,531
Total current liabilities	673,109	474,282
NONCURRENT LIABILITIES		
Annuity obligations (Note 9)	99,800	89,866
Total liabilities	772,909	564,148
NET ASSETS		
Without donor restrictions (Note 10)	5,045,528	1,774,986
With donor restrictions (Note 11)	18,704,028	18,002,651
Total net assets	23,749,556	19,777,637
Total liabilities and net assets	<b>\$ 24,522,465</b>	<b>\$ 20,341,785</b>

The accompanying notes are an integral party of these financial statements.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)  
STATEMENT OF ACTIVITIES

Year Ended June 30, 2019  
(With Comparative Totals for June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total All Funds 2019	Total All Funds 2018
<b>CONTRIBUTIONS, GAINS AND OTHER SUPPORT</b>				
Contributions and bequests	\$ 3,347,710	\$ 1,757,887	\$ 5,105,597	\$ 1,954,521
In-kind support from NEOMED	1,198,894	-	1,198,894	1,219,754
Total contributions	4,546,604	1,757,887	6,304,491	3,174,275
Investment income				
Interest and dividend income	89,849	365,167	455,016	306,245
Realized gain on sale of investments	119,095	566,946	686,041	450,706
Unrealized (depreciation) / appreciation of investments	(39,850)	(187,257)	(227,107)	339,006
Change in value of beneficial interest in a trust	-	2,448	2,448	2,287
Total investment income	169,094	747,304	916,398	1,098,244
Other income	485	49,504	49,989	47,171
Net assets released from restrictions	1,853,318	(1,853,318)	-	-
Total contributions, gains and other support	6,569,501	701,377	7,270,878	4,319,690
<b>EXPENDITURES</b>				
Disbursed for charitable purposes				
Instructional	261,926	-	261,926	203,134
Research	338,801	-	338,801	571,111
Public services	32,392	-	32,392	41,548
Academic support	106,928	-	106,928	140,295
Institutional support	276,158	-	276,158	(99,037)
Operations and maintenance	15,140	-	15,140	5,000
Student financial assistance	921,174	-	921,174	854,677
Total disbursed for charitable purposes	1,952,519	-	1,952,519	1,716,728
Management and general	763,843	-	763,843	772,525
Fundraising	582,597	-	582,597	577,486
Total expenditures	3,298,959	-	3,298,959	3,066,739
CHANGE IN NET ASSETS	3,270,542	701,377	3,971,919	1,252,951
NET ASSETS – BEGINNING	1,774,986	18,002,651	19,777,637	18,524,686
NET ASSETS – ENDING	<u>\$ 5,045,528</u>	<u>\$18,704,028</u>	<u>\$ 23,749,556</u>	<u>\$ 19,777,637</u>

The accompanying notes are an integral party of these financial statements.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)  
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30

	2019			
	Program Services	Management and General	Fundraising	Total
<b>EXPENDITURES</b>				
Grants	\$ 851,288	\$ -	\$ 375	\$ 851,663
Assistance to individuals (Scholarship)	812,853	-	-	812,853
Salary and benefits - inkind	-	661,632	456,766	1,118,398
Accounting fees	-	19,224	-	19,224
Other professional fees	76,825	-	24,376	101,201
Other professional fees - inkind	-	20,167	6,915	27,082
Advertising	22,595	12	31,580	54,187
Office expenses	-	586	12,811	13,397
Office expenses - inkind	-	9,171	3,131	12,302
Information technology	1,491	735	-	2,226
Occupancy	-	7,530	22,924	30,454
Occupancy - inkind	-	14,234	87	14,321
Travel	23,473	-	2,312	25,785
Travel - inkind	-	14,331	12,193	26,524
Conferences	7,569	-	-	7,569
Insurance	-	12,613	-	12,613
Meals (not on travel status)	97,230	2,924	3,333	103,487
Research and lab supplies	35,289	-	-	35,289
Gifts	4,661	217	534	5,412
Miscellaneous	19,245	200	5,260	24,705
Miscellaneous - inkind	-	267	-	267
Total Expenses	<u>\$ 1,952,519</u>	<u>\$ 763,843</u>	<u>\$ 582,597</u>	<u>\$ 3,298,959</u>

The accompanying notes are an integral party of these financial statements.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)  
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30

	2018			
	Program Services	Management and General	Fundraising	Total
<b>EXPENDITURES</b>				
Grants	\$ 655,767	\$ -	\$ 1,015	\$ 656,782
Assistance to individuals (Scholarship)	770,898	-	-	770,898
Salary and benefits - inkind	-	654,309	456,123	1,110,432
Accounting fees	-	23,222	-	23,222
Other professional fees	26,620	1,500	9,348	37,468
Other professional fees - inkind	-	21,944	9,504	31,448
Advertising	1,580	426	30,308	32,314
Office expenses	7,321	2,436	5,651	15,408
Office expenses - inkind	-	19,023	7,691	26,714
Information technology	5,161	695	-	5,856
Occupancy - inkind	-	12,855	178	13,033
Travel	21,842	962	3,213	26,017
Travel - inkind	-	19,524	15,609	35,133
Conferences	10,250	-	756	11,006
Meals (not on travel status)	40,130	4,963	6,900	51,993
Research and lab supplies	79,411	-	-	79,411
Gifts	8,182	427	1,032	9,641
Miscellaneous	89,431	1,113	5,647	96,191
Miscellaneous - inkind	-	1,596	1,398	2,994
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Expenses	\$ 1,716,728	\$ 772,525	\$ 577,486	\$ 3,066,739

The accompanying notes are an integral party of these financial statements.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)  
STATEMENT OF CASH FLOWS

Year Ended June 30, 2019  
(With Comparative Totals for June 30, 2018)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$3,971,919	\$ 1,252,951
Adjustments to reconcile (decrease) / increase in net assets to cash (used) / provided by operating activities:		
Noncash Items:		
Discount of pledges receivable	35,279	39,521
Allowance of pledges receivable	12,679	(148,711)
Net change in value of annuity agreements	28,628	13,712
Net change in value of beneficial interest in a trust	(2,448)	(2,287)
Net realized gain on investments	(686,041)	(450,706)
Net unrealized depreciation of investments	227,107	(339,006)
Contributions restricted for long-term purposes	(389,377)	(419,354)
Changes in current assets and liabilities:		
Accounts receivable	(7,414)	34,659
Prepaid expenses	3,891	8,304
Pledges receivable	344,434	404,580
Accrued liabilities	9,490	(203)
Deposits held for others	9,521	9,031
Net cash provided by operating activities	3,557,668	402,491
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Student notes receivable	(13,723)	(36,575)
Purchase of investments	(5,155,641)	(3,146,534)
Sale of investments	4,516,592	2,322,578
Net cash used in investing activities	(652,772)	(860,531)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to beneficiaries of charitable gift annuities	(19,532)	(20,370)
Related party payable	180,654	(45,133)
Contributions restricted for long-term purposes	389,377	419,354
Net cash provided by financing activities	550,499	353,851
<b>NET INCREASE / (DECREASE) IN CASH AND EQUIVALENTS</b>	3,455,395	(104,189)
<b>CASH AND EQUIVALENTS - BEGINNING</b>	502,049	606,238
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$3,957,444</b>	<b>\$ 502,049</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
In-kind support	<b>\$1,198,894</b>	<b>\$ 1,219,754</b>

The accompanying notes are an integral party of these financial statements.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 1. Organization**

Northeast Ohio Medical University Foundation, a discretely presented component unit of Northeast Ohio Medical University (hereinafter referred to as the "Foundation"), was incorporated on April 14, 1978 as a nonprofit tax-exempt corporation. The purpose of the Foundation is to raise funds for and make distributions to 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.

**Note 2. Significant Accounting Policies**

*Basis of Accounting* - The Foundation has adopted the accrual basis of accounting in accordance with not-for-profit accounting principles generally accepted in the United States of America.

*Basis of Presentation* - The Foundation reports net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions** – Net assets that are free of donor-imposed restrictions and include all revenue, expenses, gains, and losses that are not changes in donor restricted net assets. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

**Net Assets With Donor Restrictions** - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. The donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. This category includes loan funds, annuity funds restricted by the donor, and true endowment principal.

*Cash and Equivalents* - The Foundation considers highly liquid instruments such as cash, certificates of deposit, and investments with a maturity of three months or less when purchased to be cash equivalents.

The Foundation maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash in bank deposits.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 2. Significant Accounting Policies (continued)**

*Pledge Receivables* - The Foundation records pledges and unconditional promises to give as receivables and revenue in the year the pledge is made. Those that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met. Management's estimate of the allowance for doubtful pledges receivable is based on historical collectability.

*Investments* - Investments are carried at fair market value based on quoted market prices. Realized and unrealized gains and losses are reflected in the statement of activities.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. The fair values of investments are based on quoted market prices. Investments not publicly traded are stated at cost, which approximates market. Donated investments, including donated property, are recorded as contributions at fair value on the date received. Realized gains / (losses) on investments are the difference between the proceeds received and the average cost of investments sold. Net appreciation of the fair value of investments (including realized gains / (losses) and unrealized gains / (losses) and dividends and interest) is included in the Statement of Activities without donor restrictions, unless the net appreciation or investment income is restricted by the donor.

*Annuity and Life Income Accounts* - The amount of the contribution recorded by the Foundation from annuity trust agreements is the fair value of the trust assets received less the present value of the estimated annuity payments. The liability is determined based on actuarial assumptions and is included in the liabilities section of the statement of financial position.

*Revenue Recognition* – Without donor restricted contributions of cash and other assets are recognized as revenue when they are received. All other restricted contributions are recognized when pledged.

The Foundation receives donated services from the University which are specialized skills that would need to be purchased if not provided by donation. Note 13 includes information for such services provided by the University. Such in-kind donations are reported as contributions in the statement of activities.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 2. Significant Accounting Policies (continued)**

*Functional Allocation of Expenses* - Costs of providing the program and support services have been reported on a functional basis in the Foundation Statement of Functional Expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated on a basis of function. Expenses deemed to be indirect to program services, such as some professional services, marketing, and supplies, are considered to be management and general expenses. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

*Risks and Uncertainties* - The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

*Income Taxes* - The Foundation operates as a nonprofit corporation and has been determined to be exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

*Use of Estimates* - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenue, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

*Comparative Financial Statements* - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018 from which the summarized information was derived.



NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 2. Significant Accounting Policies (continued)**

*Change in Accounting Principle* – For the year ended June 30, 2019, the Foundation adopted Accounting Standards Update No. 2016-14, Not-for-Profit Entities. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Foundation, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended June 30, 2018 has been restated as follows: net assets of \$7,989,169 previously reported as temporarily restricted net assets and net assets of \$10,013,482 previously reported as permanently restricted net assets have been combined into net assets with donor restrictions. The standard was retrospectively applied with the exception of Note 3, which is permitted under the new standard.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The Foundation adopted this standard as of June 30, 2019. The standard did not have a significant impact of the timing of revenue recognition as the Foundation does not receive government grants and contracts.

*Subsequent Events* - The financial statements and related disclosures include evaluation of events up through and including September 24, 2019, which is the date the financial statements were available to be issued.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 3. Availability and Liquidity**

The following reflects the financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Cash and equivalents	\$ 3,957,444
Accounts receivable	11,714
Student notes receivable	412,966
Pledges receivable	1,005,699
Investments	19,056,671
Beneficial interest in trusts	<u>75,117</u>
Financial assets, at year-end	\$ 24,519,611
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	20,344,381
Investments held in an annuity trust	<u>75,117</u>
Financial assets available to meet cash needs for general expenditures within one year:	\$ 4,100,113

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors.

The Foundation has a goal to maintain financial assets, which consists of cash and short-term investments, on hand to meet 30 days of normal operating expenses, which are, on average, approximately \$274,000. The Foundation has procedures to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. The Foundation also realizes there could be unanticipated liquidity needs.

The Foundations endowment funds consist of donor-restricted endowments of \$14,117,040. Income from donor-restricted endowments is restricted for specific purposes and, therefore, are not available for general expenditures. The endowment has a spending rate of 3.5% percent.

The Foundation has unrestricted funds in the amount of \$1,556,315 that have been board designated for specific purposes, and therefore, are not available for general expenditures.

There is an investment stabilization fund that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 4. Pledges Receivable**

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at their approximate present value. The future expected cash flows from pledges receivable have been discounted using a discount rate of five percent for the years ended June 30, 2019 and 2018.

Pledges receivable at June 30, 2019 and 2018 are expected to be realized in the following periods:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 462,350	\$ 587,100
Between one and five years	634,100	949,700
More than five years	<u>3,000</u>	<u>3,000</u>
Total outstanding pledges	1,099,450	1,539,800
Less net present value discount	(57,086)	(92,365)
Less allowance for uncollectible pledges	<u>(36,665)</u>	<u>(49,344)</u>
Net outstanding pledges	<u>\$ 1,005,699</u>	<u>\$ 1,398,091</u>

**Note 5. Investments**

The following is a summary of investments at June 30:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market fund	\$ 271,441	\$ 271,441	\$ 361,437	\$ 361,437
Cash surrender value of life insurance	216,790	216,790	218,248	218,248
Equities	9,432,225	10,857,356	8,721,975	10,279,616
Other	250,394	252,934	236,330	247,292
Fixed income	<u>6,589,959</u>	<u>7,458,150</u>	<u>5,927,751</u>	<u>6,852,095</u>
Total long-term investments	<u>\$ 16,760,809</u>	<u>\$ 19,056,671</u>	<u>\$ 15,465,741</u>	<u>\$ 17,958,688</u>

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

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 6. Fair Value Measurements**

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Level 1 - Uses unadjusted quoted prices that are available in active markets for identical assets as of the reporting date. Active markets are those in which transactions for the asset occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Uses inputs other than Level 1 inputs that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets in active markets and quoted prices in markets that are not active. Level 2 also includes assets that are valued using models or other pricing methodologies that do not require significant judgment since input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

Level 3 - Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models and fund manager statements for which assumptions utilize management's estimates of market participant assumptions.

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2019 and 2018, there were no transfers between levels of the fair value hierarchy.

The following tables set forth by level within the fair value hierarchy the Foundation's financial assets that were accounted for at a fair value on a recurring basis as of June 30, 2019 and 2018. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The tables do not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

	Balance at June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Investments				
Domestic Fixed Income	\$ 5,587,837	\$ 5,587,837	\$ -	\$ -
International Fixed Income	1,870,313	1,870,313	-	-
Domestic Equities	7,288,743	7,288,743	-	-
International Equities	2,567,359	2,567,359	-	-
Money market	271,441	-	271,441	-
Emerging Market Equities	1,001,254	1,001,254	-	-
Other investments	250,016	250,016	-	-
Total Investments	<u>\$ 18,836,963</u>	<u>\$ 18,565,522</u>	<u>\$ 271,441</u>	<u>\$ -</u>

Assets - Beneficial Interest in Trusts				
Total Beneficial Interests in Trusts	\$ 75,117	\$ -	\$ -	\$ 75,117
Investments measured at NAV	\$ 2,918	\$ -	\$ -	\$ -
Total Fair Value Measurements	<u>\$ 18,914,998</u>	<u>\$ 18,565,521</u>	<u>\$ 271,440</u>	<u>\$ 75,117</u>

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

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 6. Fair Value Measurements (continued)**

*Investments* - The Foundation invests in cash and cash equivalents, equities and bonds, with quoted prices in active markets, which are considered to be Level 1 inputs.

The Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include quarterly meetings with the Foundation's Investment and Finance committee for calibration and review of the Level 3 investment monthly or quarterly fund manager statements and annual audited financial statements. The Foundation cannot independently assess the value of these Level 3 underlying positions through a public exchange or over-the-counter market. The Foundation utilizes a third-party investment manager to monitor, participate in fund manager calls, and obtain underlying financial information on the Level 3 investments.

Assets measured at fair value on a recurring basis using significant unobservable inputs are as follows:

	Beneficial Interest in Trust
Balance at June 30, 2018	\$ 72,669
Payments	-
Change in Value	2,448
Balance as of June 30, 2019	\$ 75,117

	Beneficial Interest in Trust
Balance at June 30, 2017	\$ 70,382
Payments	-
Change in Value	2,287
Balance as of June 30, 2018	\$ 72,669

**Note 7. Beneficial Interest in Trusts**

The Foundation is a beneficiary of a charitable remainder trust. Upon the death of the donors, the Foundation will receive its share of the trust funds. The Foundation recorded an investment in this trust equal to the expected future distribution discounted at a rate of five percent. The value of the Foundation's interest in the trust was \$75,117 at June 30, 2019 and \$72,669 at June 30, 2018.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 8. Student Notes Receivable**

Donors have established a revolving loan fund that disburses funds with an interest rate of five percent. The note receivable is reported at the original issue amount less principal repaid. Interest is recognized according to the terms of the specific note.

The Foundation considers a student receivable to be impaired when, based upon current information and events, it believes it is probable that the Foundation will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Foundation did not have any notes receivable considered to be impaired or uncollectible as of June 30, 2019 or 2018.

**Note 9. Gift Annuity Obligations**

The Foundation is obligated under various annuity contracts, whereby donors have contributed cash to the Foundation with an agreement that the donor shall be the sole recipient of annual annuity payments. These annual payments, currently totaling \$19,532 this year, shall terminate on the last payment date preceding the death of the donor. In determining the net present value of the obligations as of June 30, 2019 and 2018, the discount rate is determined using the risk-free rate of return as of the date of the initial contract.

**Note 10. Net Assets Without Donor Restrictions**

The following net assets have been designated by the Board to be available primarily for charitable purposes benefiting the Foundation's faculty, staff, and students in the following functional categories:

	2019	2018
Charitable purposes:		
Instruction and departmental research	\$ 353	\$ 2,224
Academic support	64,093	54,420
Institutional support	1,463,642	1,252,461
Student scholarships and other student aid	8,956	9,643
Student loan funds	19,271	19,035
Total designated Net Assets, June 30	\$ 1,556,315	\$ 1,337,783

The value of the Foundation undesignated net assets without donor restrictions was \$3,489,213 at June 30, 2019 and \$437,203 at June 30, 2018.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 11. Net Assets with Donor Restrictions**

All net assets with donor restrictions are available for charitable purposes benefiting the Foundation's faculty, staff, and students in the following functional categories:

	2019	2018
Instruction and departmental research	\$ 2,156,263	\$ 2,054,321
Separately budgeted research	446,714	574,957
Public service	159,708	174,458
Academic support	832,452	824,243
Institutional support	950,507	772,115
Plant operation and maintenance	(5,205)	8,795
Student services	25,354	18,372
Student scholarships and other student aid	9,317,925	8,825,647
Deferred gift annuity	237,502	259,222
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	1,595,054	1,504,217
Allowance for uncollectible pledges	(14,717)	(16,167)
Total with donor restrictions net assets, June 30	\$ 18,704,028	\$ 18,002,651

Total net assets with donor restrictions include \$10,404,696 and 10,013,482 of assets held in perpetuity as of June 30, 2019 and 2018, respectively. The remainder of the funds are either purpose or time restricted. The assets are held for the following purpose:

	2019	2018
Student loans	\$ 959,510	\$ 940,375
Endowments requiring earnings only to be made available for:		
Student scholarships and awards	4,740,430	4,441,376
Student loans	100,236	100,236
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	1,595,054	1,504,217
Deferred gift annuity	21,712	40,974
Allowance for uncollectible pledges	(14,717)	(16,167)
Total net assets with donor restrictions to be held in perpetuity June 30	\$ 10,404,696	\$ 10,013,482



NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 12. Endowments with Donor Restrictions**

The Foundation's endowment includes endowment funds with donor restrictions. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

*Interpretation of Relevant Law*

The Board of Directors of Northeast Ohio Medical University Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds with donor restrictions absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund with donor restrictions that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds with donor restrictions:

- (1) The duration and preservation of the fund,
- (2) The purposes of the Foundation and the endowment fund with donor restrictions,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the Foundation, and
- (7) The investment policies of the Foundation.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 12. Endowments with Donor Restrictions (continued)**

Endowments as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets as of June 30, 2018	\$ -	\$ 13,417,226	\$ 13,417,226
Investment return:			
Investment Income	-	351,647	351,647
Net appreciation (realized and unrealized)	-	403,521	403,521
Total investment return	-	755,168	755,168
Contributions	-	380,432	380,432
Appropriations for expenditures	-	(435,786)	(435,786)
Endowment net assets As of June 30, 2019	<u>\$ -</u>	<u>\$ 14,117,040</u>	<u>\$ 14,117,040</u>

Endowment Net Asset Composition by Type of Fund as of  
June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds			
Original donor restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	9,423,475	9,423,475
Accumulated investment gains (losses)	-	4,693,565	4,693,565
Total donor-restricted endowment funds	<u>-</u>	<u>14,117,040</u>	<u>14,117,040</u>
Total	<u>\$ -</u>	<u>\$ 14,117,040</u>	<u>\$ 14,117,040</u>

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 12. Endowments with Donor Restrictions (continued)**

Endowments as of June 30, 2018:

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u>
Endowment net assets as of June 30, 2017	\$ -	\$ 12,458,091	\$ 12,458,091
Investment return:			
Investment Income	-	243,260	243,260
Net appreciation (realized and unrealized)	-	681,031	681,031
Total investment return	-	924,291	924,291
Contributions	-	406,145	406,145
Appropriations for expenditures	-	(371,301)	(371,301)
Endowment net assets As of June 30, 2018	<u>\$ -</u>	<u>\$ 13,417,226</u>	<u>\$ 13,417,226</u>

Endowment Net Asset Composition by Type of Fund as of  
June 30, 2018

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds			
Original donor restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	9,032,133	9,032,133
Accumulated investment gains (losses)	-	4,385,093	4,385,093
Total donor-restricted endowment funds	-	13,417,226	13,417,226
Total	<u>\$ -</u>	<u>\$ 13,417,226</u>	<u>\$ 13,417,226</u>

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 12. Endowments with Donor Restrictions (continued)**

*Funds with Deficiencies*

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, there were no deficiencies of this nature that are reported in without donor restricted net assets as of June 30, 2019 and 2018.

*Return Objectives and Risk Parameters*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount.

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Foundation has a policy of appropriating for distribution each year up to five percent of its endowment fund's average fair value over the prior three years through the preceding fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of three percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

*Endowment Administrative Fee*

In fiscal year 2017, the Board approved the adoption of an annual administrative fee on all June 30 endowment balances. This fee was assessed in fiscal year 2019 and calculated at one percent on the average year end endowment balances for the prior three fiscal years (June 30, 2018, 2017, and 2016). The fee assessed on endowments was \$120,303 for the year ended June 30, 2019 and \$114,011 for the year ended June 30, 2018, thereby releasing these funds from restrictions.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2019

**Note 13. Related Party Transactions**

The Foundation made disbursements of \$1,952,519 for the year ended June 30, 2019 and \$1,716,728 for the year ended June 30, 2018, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted loans to students of \$116,364 for the year ended June 30, 2019 and \$131,107 for the year ended June 30, 2018.

The Foundation provided reimbursements to the University for management, fundraising, services, and office space of \$125,839 for the year ended June 30, 2019 and \$187,085 for the year ended June 30, 2018. The Foundation had accounts payable to the University totaling \$566,091 for the year ended June 30, 2019 and \$385,437 for the year ended June 30, 2018, related to the unpaid reimbursements for similar purposes. Amounts for such services provided by the University which are not reimbursed by the Foundation are reported as in-kind contributions in the statement of activities. The University's in-kind support for these services was valued at \$1,198,894 for the year ended June 30, 2019 and \$1,219,754 for the year ended June 30, 2018.

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

**Independent Auditor's Report**

To Management and the Board of Directors  
Northeast Ohio Medical University Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast Ohio Medical University Foundation (the "Foundation"), which comprise the statements of financial position, activities and changes in net assets, functional expenses, and cash flows as of and for the year ended June 30, 2019, and the related notes to the financial statements and have issued our report thereon dated September 24, 2019.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

To Management and the Board of Directors  
Northeast Ohio Medical University Foundation

**Purpose of this Report**

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

*Plante & Moran, PLLC*

September 24, 2019



# OHIO AUDITOR OF STATE KEITH FABER



**NORTHEAST OHIO MEDICAL UNIVERSITY (NEOMED) FOUNDATION**

**PORTAGE COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 7, 2019**