

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION
FINANCIAL REPORT
JUNE 30, 2020

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, 2019 through June 30, 2020. 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 23, 2020

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NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION

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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, 2020 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, 2020 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Northeast Ohio Medical University Foundation

Report on Summarized Comparative Information

We have previously audited the Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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, 2020 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, 2020

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

June 30, 2020
(With Comparative Totals at June 30, 2019)

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 413,095	\$ 3,957,444
Accounts receivable	500,000	11,714
Prepaid expenses	3,267	2,854
Student notes receivable (Note 8)	29,038	46,569
Pledges receivable (Note 4)	267,575	446,672
Total current assets	1,212,975	4,465,253
NONCURRENT ASSETS		
Pledges receivable (Note 4)	321,833	559,027
Investments (Note 5 & 6)	25,113,843	19,056,671
Student notes receivable (Note 8)	356,989	366,397
Beneficial interest in trusts (Note 6 & 7)	74,092	75,117
Total long-term assets	25,866,757	20,057,212
Total assets	\$ 27,079,732	\$ 24,522,465
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued liabilities	\$ 2,402	\$ 22,434
Related party payable (Note 13)	409,017	566,091
Annuity obligations (Note 9)	20,370	19,532
Deposits held in custody for others	67,678	65,052
Total current liabilities	499,467	673,109
NONCURRENT LIABILITIES		
Annuity obligations (Note 9)	95,289	99,800
Total liabilities	594,756	772,909
NET ASSETS		
Without donor restrictions (Note 10)	5,460,032	5,045,528
With donor restrictions (Note 11)	21,024,944	18,704,028
Total net assets	26,484,976	23,749,556
Total liabilities and net assets	\$ 27,079,732	\$ 24,522,465

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

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

Year Ended June 30, 2020
(With Comparative Totals for June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total All Funds 2020	Total All Funds 2019
CONTRIBUTIONS, GAINS AND OTHER SUPPORT				
Contributions and bequests	\$ 274,478	\$ 4,024,504	\$ 4,298,982	\$ 5,105,597
In-kind support from the University	1,236,105	-	1,236,105	1,198,894
Total contributions	1,510,583	4,024,504	5,535,087	6,304,491
Investment income				
Interest and dividend income	124,017	365,822	489,839	455,016
Realized gain on sale of investments	63,055	1,890,856	1,953,911	686,041
Unrealized (depreciation) / appreciation of investments	105,930	(1,851,701)	(1,745,771)	(227,107)
Change in value of beneficial interest in a trust	-	(1,025)	(1,025)	2,448
Total investment income	293,002	403,952	696,954	916,398
Other income	825	22,760	23,585	49,989
Net assets released from restrictions	2,130,300	(2,130,300)	-	-
Total contributions, gains and other support	3,934,710	2,320,916	6,255,626	7,270,878
EXPENDITURES				
Disbursed for charitable purposes				
Instructional	241,039	-	241,039	261,926
Research	296,444	-	296,444	338,801
Public services	17,100	-	17,100	32,392
Academic support	95,816	-	95,816	106,928
Institutional support	747,689	-	747,689	276,158
Operations and maintenance	-	-	-	15,140
Student financial assistance	734,712	-	734,712	921,174
Total disbursed for charitable purposes	2,132,800	-	2,132,800	1,952,519
Management and general	770,301	-	770,301	763,843
Fundraising	617,105	-	617,105	582,597
Total expenditures	3,520,206	-	3,520,206	3,298,959
CHANGE IN NET ASSETS	414,504	2,320,916	2,735,420	3,971,919
NET ASSETS – BEGINNING	5,045,528	18,704,028	23,749,556	19,777,637
NET ASSETS – ENDING	<u>\$ 5,460,032</u>	<u>\$ 21,024,944</u>	<u>\$ 26,484,976</u>	<u>\$ 23,749,556</u>

The accompanying notes are an integral part 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

	2020			
	Program Services	Management and General	Fundraising	Total
EXPENDITURES				
Grants	\$ 1,355,801	\$ -	\$ -	\$ 1,355,801
Assistance to individuals (scholarship)	643,473	-	-	643,473
Salary and benefits - in-kind	-	667,188	493,770	1,160,958
Accounting fees	-	22,237	-	22,237
Other professional fees	28,742	-	20,483	49,225
Other professional fees - in-kind	-	25,464	9,746	35,210
Advertising	2,543	14	38,209	40,766
Office expenses	4,502	725	5,504	10,731
Office expenses - in-kind	-	3,557	577	4,134
Information technology	335	735	2,913	3,983
Information technology - in-kind	-	7,996	3,280	11,276
Occupancy	-	7,530	26,878	34,408
Occupancy - in-kind	-	16,493	177	16,670
Travel	16,451	7	634	17,092
Travel - in-kind	-	4,745	2,350	7,095
Conferences	1,623	-	602	2,225
Insurance	-	6,306	-	6,306
Meals (not on travel status)	46,488	6,251	2,045	54,784
Research and lab supplies	15,793	-	-	15,793
Research and lab supplies - in-kind	-	6	-	6
Gifts	5,150	404	305	5,859
Miscellaneous	11,899	-	9,519	21,418
Miscellaneous - in-kind	-	643	113	756
Total expenses	\$ 2,132,800	\$ 770,301	\$ 617,105	\$ 3,520,206

The accompanying notes are an integral part 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
EXPENDITURES				
Grants	\$ 851,288	\$ -	\$ 375	\$ 851,663
Assistance to individuals (scholarship)	812,853	-	-	812,853
Salary and benefits - in-kind	-	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 - in-kind	-	20,167	6,915	27,082
Advertising	22,595	12	31,580	54,187
Office expenses	-	586	12,811	13,397
Office expenses - in-kind	-	9,171	3,131	12,302
Information technology	1,491	735	-	2,226
Occupancy	-	7,530	22,924	30,454
Occupancy - in-kind	-	14,234	87	14,321
Travel	23,473	-	2,312	25,785
Travel - in-kind	-	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 - in-kind	-	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 part 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, 2020
(With Comparative Totals for June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 2,735,420	\$ 3,971,919
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Noncash Items:		
Discount of pledges receivable	31,560	35,279
Allowance of pledges receivable	14,499	12,679
Net change in value of annuity agreements	16,697	28,628
Net change in value of beneficial interest in a trust	1,025	(2,448)
Net realized gain on investments	(1,953,911)	(686,041)
Net unrealized depreciation of investments	1,745,771	227,107
Contributions restricted for long-term purposes	(619,604)	(389,377)
Changes in current assets and liabilities:		
Accounts receivable	(488,286)	(7,414)
Prepaid expenses	(413)	3,891
Pledges receivable	370,232	344,434
Accrued liabilities	(20,032)	9,490
Deposits held for others	2,626	9,521
Net cash provided by operating activities	1,835,584	3,557,668
CASH FLOWS FROM INVESTING ACTIVITIES		
Student notes receivable	26,939	(13,723)
Purchase of investments	(80,024,070)	(5,155,641)
Sale of investments	74,175,038	4,516,592
Net cash used in investing activities	(5,822,093)	(652,772)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to beneficiaries of charitable gift annuities	(20,370)	(19,532)
Related party payable	(157,074)	180,654
Contributions restricted for long-term purposes	619,604	389,377
Net cash provided by financing activities	442,160	550,499
NET (DECREASE) / INCREASE IN CASH AND EQUIVALENTS	(3,544,349)	3,455,395
CASH AND EQUIVALENTS - BEGINNING	3,957,444	502,049
CASH AND EQUIVALENTS - ENDING	\$ 413,095	\$ 3,957,444
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
In-kind support	\$ 1,236,105	\$ 1,198,894

The accompanying notes are an integral part 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, 2020

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.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus "COVID-19" a global pandemic and recommended containment and mitigation measures worldwide. These recommendations have resulted in mandates from federal and state authorities which require the Foundation to refrain from traveling to attend conferences and holding in-person fundraising events which impacts the Foundation's expected revenue received and future fundraising plans. In March 2020, the Foundation had significant investment income losses because of the initial market fluctuations related to COVID-19. These losses were almost fully recovered as of June 30, 2020 with a rate of return of 2.8%.

In response to COVID-19, the Foundation Board, at a special meeting agreed to raise the annual Blue Fund campaign goal from \$400,000 to \$500,000, pre-committing a designation of \$100,000 in unrestricted funds to create a pandemic relief fund with the purpose of aiding the community during the pandemic. These funds may be used to replenish personal protective equipment "PPE" that the University donated to local health agencies; to support students with financial emergencies; and to provide free meals for impacted members of the community.

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.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

Note 2. Significant Accounting Policies (continued)

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.

Accounts Receivable – Accounts receivable consist of amounts due from a life insurance policy receivable as of June 30, 2020 and consist of amounts due from reimbursements and interest receivable as of June 30, 2019. All amounts are considered to be collectible as of June 30, 2020 and 2019; accordingly, no allowance for doubtful accounts has been recorded.

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.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

Note 2. Significant Accounting Policies (continued)

Revenue Recognition – Contributions of cash and other assets to the Foundation are reported at fair value on the date the promise is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets release from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

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.

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, 2019 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, 2020

Note 2. Significant Accounting Policies (continued)

Subsequent Events – The financial statements and related disclosures include evaluation of events up through and including September 24, 2020, which is the date the financial statements were available to be issued.

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.

	2020	2019
Cash and equivalents	\$ 413,095	\$ 3,957,444
Accounts receivable	500,000	11,714
Student notes receivable	386,027	412,966
Pledges receivable	589,408	1,005,699
Investments	25,113,843	19,056,671
Beneficial interest in trusts	74,092	75,117
Financial assets, at year-end	\$27,076,465	\$ 24,519,611
Less those unavailable for general expenditures within one year, due to:		
Contractual, time or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	20,593,863	18,262,514
Restricted by time restrictions	356,989	366,397
Investments in beneficial interest in trust	74,092	75,117
Board designated	4,948,447	1,556,315
Financial assets available to meet cash needs for general expenditures within one year:	\$ 1,103,074	\$ 4,259,268

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 were, on average, approximately \$293,000 at June 30, 2020 and \$274,000 at June 30, 2019. 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 Foundation's endowment funds consist of donor-restricted endowments of \$14,700,497 at June 30, 2020 and \$14,117,040 at June 30, 2019. 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 for both years.

The Foundation has unrestricted funds in the amount of \$4,948,447 at June 30, 2020 and \$1,556,315 at June 30, 2019 that have been board designated for specific purposes, and therefore, are not available for general expenditures.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

Note 3. Availability and Liquidity (continued)

There is an investment stabilization fund of \$1,405,389 for the years ended June 30, 2020 and 2019 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.

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, 2020 and 2019.

Pledges receivable at June 30, 2020 and 2019 are expected to be realized in the following periods:

	2020	2019
Less than one year	\$ 278,100	\$ 462,350
Between one and five years	359,000	634,100
More than five years	-	3,000
Total outstanding pledges	637,100	1,099,450
Less net present value discount	(25,526)	(57,086)
Less allowance for uncollectible pledges	(22,166)	(36,665)
Net outstanding pledges	\$ 589,408	\$ 1,005,699

Note 5. Investments

The following is a summary of investments at June 30:

	2020		2019	
	Cost	Market	Cost	Market
Money market fund	\$ 183,314	\$ 183,314	\$ 271,441	\$ 271,441
Cash surrender value of life insurance	14,948	14,948	216,790	216,790
Equities	18,311,906	18,758,013	9,432,225	10,857,356
Other	-	-	250,394	252,934
Fixed income	6,037,836	6,157,568	6,589,959	7,458,150
Total long-term investments	\$ 24,548,004	\$ 25,113,843	\$ 16,760,809	\$ 19,056,671

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, 2020

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, 2020 and 2019, 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, 2020 and 2019. 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, 2020

Note 6. Fair Value Measurements (continued)

	Balance at June 30, 2020	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	\$ 5,705,082	\$ 5,705,082	\$ -	\$ -
International fixed income	452,486	452,486	-	-
Domestic equities	13,101,220	13,101,220	-	-
International equities	5,656,793	5,656,793	-	-
Money market	183,314	-	183,314	-
Total Investments	\$ 25,098,895	\$ 24,915,581	\$ 183,314	\$ -
Assets - Beneficial Interest in Trust				
Total Beneficial Interest in Trust	\$ 74,092	\$ -	\$ -	\$ 74,092
Total Fair Value Measurements	\$ 25,172,987	\$ 24,915,581	\$ 183,314	\$ 74,092
	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	\$ 18,836,963	\$ 18,565,522	\$ 271,441	\$ -
Assets - Beneficial Interest in Trust				
Total Beneficial Interest in Trust	\$ 75,117	\$ -	\$ -	\$ 75,117
Investments measured at net asset value (NAV)	\$ 2,918	\$ -	\$ -	\$ -
Total Fair Value Measurements	\$ 18,914,998	\$ 18,565,522	\$ 271,441	\$ 75,117

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

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.

Beneficial interests in trusts are valued using the discounted cash-flow model using significant unobservable inputs including discount rate, life expectancy of the beneficiaries, the fair value of the trust assets and the expected investment return.

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

	Beneficial Interest in Trust
Balance at June 30, 2019	\$ 75,117
Payments	-
Change in Value	(1,025)
Balance as of June 30, 2020	\$ 74,092

	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

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 \$74,092 at June 30, 2020 and \$75,117 at June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

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. During the year, the Foundation determined \$25,905 of student notes receivable to be uncollectible. The Foundation did not have any notes receivable considered to be impaired or uncollectible as of June 30, 2019.

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, totaling \$20,370 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, 2020 and 2019, the discount rate is determined using the risk-free rate of return as of the date of the initial contract. The value of the investments related to these annuities is \$130,121 as of June 30, 2020 and \$141,044 as of June 30, 2019.

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:

	2020	2019
Charitable purposes:		
Instruction and departmental research	\$ 5,080	\$ 353
Public Service	97,280	-
Academic support	62,543	64,093
Institutional support	4,750,929	1,463,642
Student scholarships and other student aid	13,138	8,956
Student loan funds	19,477	19,271
Total designated Net Assets, June 30	\$ 4,948,447	\$ 1,556,315

The value of the Foundation undesignated net assets without donor restrictions was \$511,585 at June 30, 2020 and \$3,489,213 at June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

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:

	2020	2019
Instruction and departmental research	\$ 2,092,882	\$ 2,156,263
Separately budgeted research	352,545	446,714
Public service	159,808	159,708
Academic support	712,930	832,452
Institutional support	2,456,491	950,507
Plant operation and maintenance	(2,211)	(5,205)
Student services	27,626	25,354
Student scholarships and other student aid	10,101,433	9,317,925
Deferred gift annuity	529,409	237,502
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	1,603,527	1,595,054
Allowance for uncollectible pledges	(11,967)	(14,717)
Total with donor restrictions net assets, June 30	\$ 21,024,944	\$ 18,704,028

Total net assets with donor restrictions include \$11,033,432 as of June 30, 2020 and \$10,404,696 as of June 30, 2019 of assets held in perpetuity. The remainder of the funds are either purpose or time restricted. The assets are held for the following purpose:

	2020	2019
Student loans	\$ 947,042	\$ 959,510
Endowments requiring earnings only to be made available for:		
Student scholarships and awards	5,377,661	4,740,430
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	1,603,527	1,595,054
Deferred gift annuity	14,462	21,712
Allowance for uncollectible pledges	(11,967)	(14,717)
Total net assets with donor restrictions to be held in perpetuity, June 30	\$ 11,033,432	\$ 10,404,696

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

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, 2020

Note 12. Endowments with Donor Restrictions (continued)

Endowments as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, as of June 30, 2019	\$ -	\$ 14,117,040	\$ 14,117,040
Investment return:			
Investment Income	-	356,406	356,406
Net appreciation (realized and unrealized)	-	59,372	59,372
Total investment return	-	415,778	415,778
Contributions	-	511,123	511,123
Appropriations for expenditures	-	(343,444)	(343,444)
Endowment net assets, as of June 30, 2020	\$ -	\$ 14,700,497	\$ 14,700,497

Endowment Net Asset Composition by Type of fund as of June 30, 2020:

	Endowment Net Asset Composition by Type of Fund as of June 30, 2020		
	Without	With	Total
	Donor Restrictions	Donor Restrictions	
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds			
Original donor restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	10,071,928	10,071,928
Accumulated investment gains (losses)	-	4,628,569	4,628,569
Total donor-restricted endowment funds	-	14,700,497	14,700,497
Total	\$ -	\$ 14,700,497	\$ 14,700,497

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

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:

	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	-	14,117,040	14,117,040
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, 2020

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, 2020 and 2019.

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 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. The Foundation utilized a distribution rate of 3.5% for the years ended June 30, 2020 and June 30, 2019. The Foundation will utilize a distribution rate of 4% for the year ending June 30, 2021.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

Note 12. Endowments with Donor Restrictions (continued)

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 is assessed and calculated at one percent on the average year-end endowment balances for the prior three fiscal years (June 30, 2019, 2018, and 2017), only if the combined annual endowment investment returns exceeded the spending rate, which was 3.5% in 2020 and 2019, by 1%. For both June 30, 2020 and June 30, 2019, the combined annual endowment investment returns exceeded the spending rate by 1%. The total fee assessed on endowments was \$132,548 for the year ended June 30, 2020 and \$120,303 for the year ended June 30, 2019, thereby releasing these funds from restrictions.

In fiscal year 2020, the Board approved calculating this fee in fiscal year 2021 at 1% on the average year-end endowment balances for the prior three fiscal-years. If the three-year average does not exceed the endowment corpus, or the value that the donor contributed, no fee will be assessed.

Note 13. Related Party Transactions

The Foundation made disbursements of \$2,132,800 for the year ended June 30, 2020 and \$1,952,519 for the year ended June 30, 2019, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted loans to students of \$103,617 for the year ended June 30, 2020 and \$116,364 for the year ended June 30, 2019.

The Foundation provided reimbursements to the University for management, fundraising, services, and office space of \$79,537 for the year ended June 30, 2020 and \$125,839 for the year ended June 30, 2019. The Foundation had accounts payable to the University totaling \$409,017 for the year ended June 30, 2020 and \$566,091 for the year ended June 30, 2019, 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 \$1,236,105 for the year ended June 30, 2020 and \$1,198,894 for the year ended June 30, 2019.

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, 2020, and the related notes to the financial statements and have issued our report thereon dated September 24, 2020.

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, 2020

OHIO AUDITOR OF STATE KEITH FABER



NORTHEAST OHIO MEDICAL UNIVERSITY (NEOMED) FOUNDATION

PORTAGE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 11/5/2020

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This report is a matter of public record and is available online at
www.ohioauditor.gov