

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION

FINANCIAL REPORT

JUNE 30, 2017



Dave Yost • Auditor of State

Board of Directors
Northeast Ohio Medical University Foundation
4209 State Route 44
P.O. Box 95
Rootstown, Ohio 44272

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, 2016 through June 30, 2017. 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 "Dave Yost".

Dave Yost
Auditor of State

October 12, 2017

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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 (the "Foundation"), which comprise the statement of financial position as of June 30, 2017 and the related statements of activities 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 the Foundation as of June 30, 2017 and the changes in its net assets and its 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 15, 2017 on our consideration of the 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 the Foundation's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 15, 2017

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

June 30, 2017

(With Comparative Totals at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 606,238	\$ 522,614
Accounts receivable	38,959	36,646
Prepaid expenses	15,049	-
Student notes receivable (Note 7)	37,134	35,426
Pledges receivable (Note 3)	<u>642,120</u>	<u>594,690</u>
Total current assets	1,339,500	1,189,376
NONCURRENT ASSETS		
Pledges receivable (Note 3)	1,051,361	1,561,501
Investments (Note 4)	16,345,020	14,588,796
Student notes receivable (Note 7)	325,534	313,690
Beneficial interest in trusts (Note 6)	<u>70,382</u>	<u>65,504</u>
Total long-term assets	<u>17,792,297</u>	<u>16,529,491</u>
Total assets	<u>\$ 19,131,797</u>	<u>\$ 17,718,867</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued liabilities	\$ 13,147	\$ 6,159
Related party payable (Note 13)	430,570	336,557
Annuity obligations (Note 8)	18,695	16,152
Deposits held in custody for others	<u>46,500</u>	<u>74,436</u>
Total current liabilities	508,912	433,304
NONCURRENT LIABILITIES		
Annuity obligations (Note 8)	<u>98,199</u>	<u>105,165</u>
Total liabilities	607,111	538,469
NET ASSETS		
Unrestricted		
Undesignated	320,386	329,009
Designated (Note 9)	<u>1,100,543</u>	<u>859,460</u>
Total unrestricted	1,420,929	1,188,469
Temporarily restricted (Note 10)	7,525,379	6,787,088
Permanently restricted (Note 11)		
Loan funds	908,193	878,125
Endowment funds	8,620,363	8,265,882
Annuity and life income funds	<u>49,822</u>	<u>60,834</u>
Total permanently restricted	<u>9,578,378</u>	<u>9,204,841</u>
Total net assets	<u>18,524,686</u>	<u>17,180,398</u>
Total liabilities and net assets	<u>\$ 19,131,797</u>	<u>\$ 17,718,867</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 ACTIVITIES

Year Ended June 30, 2017
(With Comparative Totals for June 30, 2016)

	Operating Funds			Permanently Restricted	Total All Funds 2017	Total All Funds 2016
	Unrestricted	Temporarily Restricted	Total Operating			
CONTRIBUTIONS, GAINS, AND OTHER SUPPORT						
Contributions and bequests	\$ 451,220	\$ 1,607,101	\$ 2,058,321	\$ 350,731	\$ 2,409,052	\$ 2,490,325
In-kind support from NEOMED	<u>1,188,255</u>	<u>-</u>	<u>1,188,255</u>	<u>-</u>	<u>1,188,255</u>	<u>1,231,128</u>
Total contributions	1,639,475	1,607,101	3,246,576	350,731	3,597,307	3,721,453
Investment income						
Interest and dividend income	49,137	189,199	238,336	6,849	245,185	225,565
Realized gain on sale of investments	83,031	996,476	1,079,507	14,197	1,093,704	662,561
Unrealized appreciation (depreciation) of investments	60,460	211,794	272,254	(7,038)	265,216	(1,113,485)
Change in value of beneficial interest in a trust	<u>-</u>	<u>4,903</u>	<u>4,903</u>	<u>-</u>	<u>4,903</u>	<u>(5,402)</u>
Total investment income	192,628	1,402,372	1,595,000	14,008	1,609,008	(230,761)
Other income	110	16,011	16,121	8,798	24,919	53,716
Net assets released from restrictions	<u>2,287,193</u>	<u>(2,287,193)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total contributions, gains, and other support	4,119,406	738,291	4,857,697	373,537	5,231,234	3,544,408
EXPENDITURES						
Disbursed for charitable purposes						
Instructional	199,580	-	199,580	-	199,580	187,057
Research	488,713	-	488,713	-	488,713	444,362
Public services	404,149	-	404,149	-	404,149	74,125
Academic support	90,603	-	90,603	-	90,603	117,922
Institutional support	654,510	-	654,510	-	654,510	1,245,824
Operations and maintenance	13,408	-	13,408	-	13,408	3,769
Student financial assistance	<u>721,034</u>	<u>-</u>	<u>721,034</u>	<u>-</u>	<u>721,034</u>	<u>639,562</u>
Total disbursed for charitable purposes	2,571,997	-	2,571,997	-	2,571,997	2,712,621
Management and general	751,213	-	751,213	-	751,213	781,089
Fundraising	<u>563,736</u>	<u>-</u>	<u>563,736</u>	<u>-</u>	<u>563,736</u>	<u>573,611</u>
Total expenditures	<u>3,886,946</u>	<u>-</u>	<u>3,886,946</u>	<u>-</u>	<u>3,886,946</u>	<u>4,067,321</u>
CHANGE IN NET ASSETS	232,460	738,291	970,751	373,537	1,344,288	(522,913)
NET ASSETS – BEGINNING	<u>1,188,469</u>	<u>6,787,088</u>	<u>7,975,557</u>	<u>9,204,841</u>	<u>17,180,398</u>	<u>17,703,311</u>
NET ASSETS – ENDING	<u>\$ 1,420,929</u>	<u>\$ 7,525,379</u>	<u>\$ 8,946,308</u>	<u>\$ 9,578,378</u>	<u>\$ 18,524,686</u>	<u>\$ 17,180,398</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, 2017
(With Comparative Totals for June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 1,344,288	\$ (522,913)
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used in) operating activities:		
Noncash Items:		
Discount of pledges receivable	74,294	(11,068)
Allowance of pledges receivable	9,629	(16,430)
Net change in value of annuity agreements	18,831	41,295
Net change in value of beneficial interest in a trust	(4,903)	5,402
Net realized gain on investments	(1,093,704)	(662,561)
Net unrealized (appreciation) depreciation of investments	(265,216)	1,113,485
Contributions restricted for long-term purposes	(350,731)	(861,484)
Changes in current assets and liabilities:		
Accounts receivable	(2,313)	(36,646)
Prepaid expenses	(15,049)	600
Pledges receivable	378,787	(240,369)
Accrued liabilities	6,988	(1,011)
Deposits held for others	<u>(27,936)</u>	<u>6,368</u>
Net cash provided by (used in) operating activities	72,965	(1,185,332)
CASH FLOWS FROM INVESTING ACTIVITIES		
Student notes receivable	(13,552)	(64,327)
Purchase of investments	(18,740,230)	(3,479,725)
Sale of investments	<u>18,342,926</u>	<u>3,332,624</u>
Net cash used in investing activities	(410,856)	(211,428)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to beneficiaries of charitable gift annuities	(23,254)	(16,152)
Distribution of principal from beneficial interest in trusts	25	137,738
Related party payable	94,013	119,337
Contributions restricted for long-term purposes	<u>350,731</u>	<u>861,484</u>
Net cash provided by financing activities	<u>421,515</u>	<u>1,102,407</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	83,624	(294,353)
CASH AND EQUIVALENTS - BEGINNING	<u>522,614</u>	<u>816,967</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>606,238</u>	\$ <u>522,614</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
In-kind support	\$ <u>1,188,255</u>	\$ <u>1,231,128</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)

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

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 method 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:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. This category includes unrestricted assets and uncollected pledges.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be maintained permanently by the Foundation. 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.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

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 collectibility.

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 revenue, gains, and other income of unrestricted net assets, 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 - Unrestricted 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, which are specialized skills that would need to be purchased if not provided by donation. See Note 13 for further information for amounts 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, 2017

Note 2. Significant Accounting Policies (Continued)

Functional Allocation of Expenses - Total expenses consisted of expenses relating to program services, management and general, and fundraising. Costs are allocated between the various programs and support services on an actual basis, where available, or based upon reasonable methods. Although the methods of allocation 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, 2016 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, 2017

Note 2. Significant Accounting Policies (Continued)

Upcoming Pronouncements - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The Foundation is currently evaluating the impact of the standard and will present the two classes of net assets and add the liquidity footnote, expense matrix, and required disclosures. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including September 15, 2017, which is the date the financial statements were available to be issued.

Note 3. 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, 2017 and 2016.

Pledges receivable at June 30, 2017 and 2016 are expected to be realized in the following periods:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 658,000	\$ 608,364
Between one and five years	1,069,500	1,290,769
More than five years	<u>148,500</u>	<u>523,500</u>
Total outstanding pledges	1,876,000	2,422,633
Less net present value discount	(131,886)	(206,180)
Less allowance for uncollectible pledges	<u>(50,633)</u>	<u>(60,262)</u>
Net outstanding pledges	<u>\$ 1,693,481</u>	<u>\$ 2,156,191</u>

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

Note 4. Investments

The following is a summary of investments at June 30:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market fund	\$ 254,306	\$ 254,306	\$ 253,048	\$ 253,048
Cash surrender value of life insurance	226,482	226,482	232,508	232,508
Equities	8,048,474	9,371,961	6,169,489	7,631,528
Other	219,341	236,402	282,058	296,847
Fixed income	<u>5,453,662</u>	<u>6,255,869</u>	<u>5,777,056</u>	<u>6,174,865</u>
Total long-term investments	<u>\$14,202,265</u>	<u>\$16,345,020</u>	<u>\$12,714,159</u>	<u>\$14,588,796</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.

Note 5. 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.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

Note 5. Fair Value Measurements (Continued)

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, 2017 and 2016, 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, 2017 and 2016. 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 table does not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Investments				
Domestic fixed income	\$ 5,023,962	\$ 5,023,962	\$ -	\$ -
International fixed income	1,231,907	1,231,907	-	-
Domestic equities	6,081,485	6,081,485	-	-
International equities	3,290,476	3,290,476	-	-
Money market	254,306	-	254,306	-
Other investments	236,402	232,356	-	4,046
Total investments	16,118,538	15,860,186	254,306	4,046
Assets - Beneficial interest in trusts				
	70,382	-	-	70,382
Total fair value measurements	<u>\$ 16,188,920</u>	<u>\$ 15,860,186</u>	<u>\$ 254,306</u>	<u>\$ 74,428</u>

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

Note 5. Fair Value Measurements (Continued)

	Balance at June 30, 2016	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	\$ 4,774,642	\$ 4,774,642	\$ -	\$ -
International fixed income	1,400,223	1,400,223	-	-
Domestic equities	5,420,030	5,420,030	-	-
International equities	2,211,498	2,211,498	-	-
Money market	253,048	-	253,048	-
Other investments	<u>296,847</u>	<u>291,034</u>	<u>-</u>	<u>5,813</u>
Total investments	14,356,288	14,097,427	253,048	5,813
Assets - Beneficial interest in trusts				
	<u>65,504</u>	<u>-</u>	<u>-</u>	<u>65,504</u>
Total fair value measurements	<u>\$ 14,421,792</u>	<u>\$ 14,097,427</u>	<u>\$ 253,048</u>	<u>\$ 71,317</u>

Investments - The Foundation invests in 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 committee for calibration and review of the Level 3 investments monthly or quarterly fund manager statements and annual audited financial statements. The Foundation cannot independently assess the value of these 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.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

Note 5. Fair Value Measurements (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	Beneficial Interest in Trust	Alternative Investments
Balance at 6/30/16	\$ 65,504	\$ 5,813
Payments	(25)	-
Change in Value	4,903	(1,767)
Balance as of 6/30/17	\$ 70,382	\$ 4,046

	Beneficial Interest in Trust	Alternative Investments
Balance at 6/30/15	\$ 208,644	\$ 8,401
Payments	(137,738)	-
Change in Value	(5,402)	(2,588)
Balance as of 6/30/16	\$ 65,504	\$ 5,813

Beneficial Interest in Trusts - The Foundation is the sole owner of equities and bonds that are held with a trustee. They have quoted prices in active markets and are considered to be Level 1 inputs. In addition, the Foundation is part owner of investments from a third party. Not all investment information is available, and it is considered to be Level 3 inputs.

	2017 Fair Value	2016 Fair Value	Valuation Technique	Significant Unobservable Input
Beneficial interest in trusts	\$70,382	\$ 65,504	Fair value of interest in underlying assets of the trusts and expected future distribution discounted at a rate of 5 percent	Values of underlying securities

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

Note 6. 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 at June 30, 2017 and 2016 totaled \$70,382 and \$65,504, respectively.

Note 7. Student Notes Receivable

The Foundation has 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, 2017 or 2016.

Note 8. 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 \$18,695 per 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, 2017 and 2016, the discount rate is determined using the risk-free rate of return as of the date of the initial contract.

Note 9. Unrestricted Net Assets - Designated

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

	<u>2017</u>	<u>2016</u>
Charitable purposes:		
Instruction and departmental research	\$ 1,249	\$ 2,426
Academic support	54,420	54,652
Institutional support	1,019,232	777,400
Student scholarships and other student aid	18,842	18,732
Student loan funds	<u>6,800</u>	<u>6,250</u>
Total designated net assets, June 30	<u>\$1,100,543</u>	<u>\$ 859,460</u>

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

Note 10. Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Instruction and departmental research	\$1,760,488	\$ 1,277,159
Separately budgeted research	554,805	583,588
Public service	186,262	410,150
Academic support	950,691	837,803
Institutional support	1,042,349	1,233,845
Plant operation and maintenance	4,515	10,882
Student scholarships and other student aid	2,799,787	2,201,153
Deferred gift annuity	<u>226,482</u>	<u>232,508</u>
Total temporarily restricted net assets, June 30	<u>\$7,525,379</u>	<u>\$ 6,787,088</u>

Note 11. Permanently Restricted Net Assets

Permanently restricted net assets are held in perpetuity for the following functional purposes:

	<u>2017</u>	<u>2016</u>
Student loans	\$ 908,193	\$ 878,125
Endowments requiring earnings only be made available for:		
Student scholarships and awards	4,238,024	3,956,943
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	1,297,883	1,229,950
Deferred gift annuity	49,822	60,834
Allowance for uncollectible pledges	<u>(18,251)</u>	<u>(23,718)</u>
Total permanently restricted net assets, June 30	<u>\$ 9,578,378</u>	<u>\$ 9,204,841</u>

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

Note 12. Endowment Funds

Northeast Ohio Medical University Foundation's endowment includes donor-restricted endowment funds. 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 donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (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 donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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 donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (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
- (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, 2017

Note 12. Endowment Funds (Continued)

Endowments as of June 30:	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2016	\$ -	\$2,674,307	\$8,265,882	\$ 10,940,189
Investment return:				
Investment income	-	170,775	-	170,775
Net appreciation (realized and unrealized)	<u>-</u>	<u>1,232,720</u>	<u>-</u>	<u>1,232,720</u>
Total investment return	-	1,403,495	-	1,403,495
Contributions	-	-	428,751	428,751
Appropriations for expenditures	<u>-</u>	<u>(240,074)</u>	<u>(74,270)</u>	<u>(314,344)</u>
Endowment net assets as of June 30, 2017	<u>\$ -</u>	<u>\$3,837,728</u>	<u>\$8,620,363</u>	<u>\$12,458,091</u>
Endowments as of June 30:	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2015	\$ -	\$3,219,329	\$7,410,273	\$10,629,602
Investment return:				
Investment income	-	136,566	-	136,566
Net depreciation (realized and unrealized)	<u>-</u>	<u>(448,226)</u>	<u>-</u>	<u>(448,226)</u>
Total investment return	-	(311,660)	-	(311,660)
Contributions	-	-	876,419	876,419
Appropriations for expenditures	<u>-</u>	<u>(233,362)</u>	<u>(20,810)</u>	<u>(254,172)</u>
Endowment net assets as of June 30, 2016	<u>\$ -</u>	<u>\$2,674,307</u>	<u>\$8,265,882</u>	<u>\$10,940,189</u>

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

Note 12. Endowment Funds (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 unrestricted net assets as of June 30, 2017 and 2016.

Return Objectives and Risk Parameters

Northeast Ohio Medical University 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. Northeast Ohio Medical University 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, Northeast Ohio Medical University 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). Northeast Ohio Medical University 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

Northeast Ohio Medical University 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, Northeast Ohio Medical University 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, up to one percent, on all June 30 endowment balances. This fee will begin to be assessed in fiscal year 2018 and calculated on audited fiscal year 2017 endowment balances.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

Note 13. Related Party Transactions

For the years ended June 30, 2017 and 2016, the Foundation made disbursements of \$2,571,997 and \$2,712,621, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted loans of \$106,461 and \$123,245 to students for the years ended June 30, 2017 and 2016, respectively.

The Foundation provided reimbursements of \$164,021 and \$218,225 to the University for management, fundraising, services, and office space during the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, the Foundation had accounts payable to the University totaling \$430,570 and \$336,557, respectively, 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 \$1,188,255 and \$1,231,128 for the years ended June 30, 2017 and 2016, respectively.

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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 the 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 statement of financial position as of June 30, 2017 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast Ohio Medical University 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Ohio Medical University 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*.

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.

Alente & Morse, PLLC

September 15, 2017



Dave Yost • Auditor of State

NORTHEAST OHIO MEDICAL UNIVERSITY 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
OCTOBER 24, 2017**