

**NEOMED FOUNDATION**

**FINANCIAL REPORT**

**JUNE 30, 2012**





# Dave Yost • Auditor of State

Board of Trustees  
NEOMED Foundation  
4209 State Route 44  
PO Box 95  
Rootstown, Ohio 44272

We have reviewed the *Independent Auditor's Report* of the NEOMED Foundation, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2011 through June 30, 2012. 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 NEOMED 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

January 7, 2013

**This page intentionally left blank.**

NEOMED FOUNDATION

CONTENTS

---

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Notes to financial statements	5-17
REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	18-19

**This page intentionally left blank.**

## Independent Auditor's Report

To the Board of Directors  
NEOMED Foundation

We have audited the accompanying statement of financial position of NEOMED Foundation (the "Foundation"), a discretely presented component unit of the Northeast Ohio Medical University (NEOMED), as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2011 financial statements and, in our report dated October 21, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NEOMED Foundation as of June 30, 2012 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 on our consideration of NEOMED Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 (included on pages 18 and 19 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

October 15, 2012  
Toledo, Ohio

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)  
STATEMENT OF FINANCIAL POSITION

June 30, 2012  
(With Comparative Totals at June 30, 2011)

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and equivalents	\$ 427,240	\$ 284,609
Prepaid expenses	-	480
Pledges receivable (Note 3)	<u>307,244</u>	<u>297,950</u>
Total current assets	734,484	583,039
LONG-TERM ASSETS		
Pledges receivable (Note 3)	978,287	1,128,367
Investments (Note 4)	10,589,000	12,224,559
Student notes receivable (Note 7)	303,037	324,434
Beneficial interest in trusts (Note 6)	<u>915,842</u>	<u>1,194,569</u>
Total long-term assets	<u>12,786,166</u>	<u>14,871,929</u>
Total assets	<u>\$ 13,520,650</u>	<u>\$ 15,454,968</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accrued liabilities	\$ 44,370	\$ 12,272
Annuity obligations (Note 8)	21,990	21,990
Deposits held in custody for others	<u>40,250</u>	<u>41,791</u>
Total current liabilities	106,610	76,053
LONG-TERM LIABILITIES		
Annuity obligations (Note 8)	<u>129,623</u>	<u>139,415</u>
Total liabilities	236,233	215,468
NET ASSETS		
Unrestricted		
Undesignated	(14,083)	(78,398)
Designated (Note 9)	<u>659,010</u>	<u>764,160</u>
Total unrestricted	644,927	685,762
Temporarily restricted (Note 10)	4,902,644	5,523,923
Permanently restricted (Note 12)		
Loan funds	799,553	787,753
Endowment funds	6,865,035	8,167,294
Annuity and life income funds	<u>72,258</u>	<u>74,768</u>
Total permanently restricted	<u>7,736,846</u>	<u>9,029,815</u>
Total net assets	<u>13,284,417</u>	<u>15,239,500</u>
Total liabilities and net assets	<u>\$ 13,520,650</u>	<u>\$ 15,454,968</u>

The accompanying notes are an integral part of these financial statements



**NEOMED FOUNDATION**  
(A Component Unit of Northeast Ohio Medical University)  
**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2012  
(With Comparative Totals at June 30, 2011)

	Operating Funds			Permanently Restricted	Total All Funds 2012	Total All Funds 2011
	Unrestricted	Temporarily Restricted	Total Operating			
<b>CONTRIBUTIONS, GAINS AND OTHER SUPPORT</b>						
Contributions and bequests	\$ 234,167	\$ 509,027	\$ 743,194	\$ 207,784	\$ 950,978	\$ 1,155,081
In-kind support from NEOMED	<u>901,984</u>	<u>-</u>	<u>901,984</u>	<u>-</u>	<u>901,984</u>	<u>704,280</u>
Total contributions	1,136,151	509,027	1,645,178	207,784	1,852,962	1,859,361
Investment income						
Interest and dividend income	43,404	159,391	202,795	8,841	211,636	219,429
Realized gain (loss) on sale of investments	(31)	87,257	87,226	(12,188)	75,038	(333,126)
Unrealized (depreciation) appreciation of investments	72,042	(294,733)	(222,691)	(9,162)	(231,853)	2,033,634
Change in value of beneficial interest in a trust	<u>-</u>	<u>22,998</u>	<u>22,998</u>	<u>-</u>	<u>22,998</u>	<u>236,192</u>
Total investment income	115,415	(25,087)	90,328	(12,509)	77,819	2,156,129
Other income						
Endowment returned to donor (Note 14)	34,446	18,130	52,576	11,756	64,332	103,401
Net assets released from restrictions	<u>-</u>	<u>(235,945)</u>	<u>(235,945)</u>	<u>(1,500,000)</u>	<u>(1,735,945)</u>	<u>-</u>
Total contributions, gains and other support	887,404	(887,404)	-	-	-	-
	2,173,416	(621,279)	1,552,137	(1,292,969)	259,168	4,118,891
<b>EXPENDITURES</b>						
Disbursed for charitable purposes						
Instructional	41,866	-	41,866	-	41,866	41,914
Research	58,801	-	58,801	-	58,801	42,456
Public services	38,583	-	38,583	-	38,583	99,298
Academic support	457,611	-	457,611	-	457,611	344,028
Institutional support	280,384	-	280,384	-	280,384	102,240
Student financial assistance	<u>306,324</u>	<u>-</u>	<u>306,324</u>	<u>-</u>	<u>306,324</u>	<u>296,658</u>
Total disbursed for charitable purposes	1,183,569	-	1,183,569	-	1,183,569	926,594
Management and general						
Fundraising	491,917	-	491,917	-	491,917	425,292
Total expenditures	<u>538,765</u>	<u>-</u>	<u>538,765</u>	<u>-</u>	<u>538,765</u>	<u>400,416</u>
	2,214,251	-	2,214,251	-	2,214,251	1,752,302
CHANGE IN NET ASSETS	(40,835)	(621,279)	(662,114)	(1,292,969)	(1,955,083)	2,366,589
NET ASSETS – BEGINNING	<u>685,762</u>	<u>5,523,923</u>	<u>6,209,685</u>	<u>9,029,815</u>	<u>15,239,500</u>	<u>12,872,911</u>
NET ASSETS – ENDING	\$ <u>644,927</u>	\$ <u>4,902,644</u>	\$ <u>5,547,571</u>	\$ <u>7,736,846</u>	\$ <u>13,284,417</u>	\$ <u>15,239,500</u>

The accompanying notes are an integral part of these financial statements

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)  
STATEMENT OF CASH FLOWS

Year Ended June 30, 2012  
(With Comparative Totals for June 30, 2011)

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Decrease) Increase in net assets	\$ (1,955,083)	\$ 2,366,589
Adjustments to reconcile (decrease) increase in net assets to cash provided by operating activities:		
Noncash items:	-	-
Decrease in discount of pledge receivables	36,431	23,034
Decrease (increase) in allowance of pledge receivables	4,033	(13,462)
Net change in value of annuity agreements	12,198	7,323
Changes in current assets and liabilities:		
Net realized (gain) loss on investments	(75,038)	333,126
Net unrealized depreciation (appreciation) of investments	231,853	(2,033,634)
Increase in value of beneficial interest in a trust	(22,998)	(236,192)
Contributions restricted for endowment	(207,784)	(561,832)
Decrease in accounts receivable	-	16,000
Decrease (increase) in prepaid expenses	480	(480)
Decrease (increase) in pledges receivable	100,322	(208,557)
Increase (decrease) in accrued liabilities	32,098	(156,640)
(Decrease) in deposits held for others	<u>(1,541)</u>	<u>(2,558)</u>
Net cash used in operating activities	(1,845,029)	(467,283)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in student notes receivable	21,397	38,086
Total purchase of investments	(1,397,115)	(2,325,634)
Total sale of investments	<u>2,877,584</u>	<u>1,977,558</u>
Net cash provided by (used in) investing activities	1,501,866	(309,990)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to beneficiaries of charitable gift annuities	(21,990)	(21,990)
Distribution of principal from beneficial interest in trusts	300,000	300,000
Receipt of charitable gift annuity	-	700
Contributions restricted for endowment	<u>207,784</u>	<u>561,832</u>
Net cash provided by financing activities	<u>485,794</u>	<u>840,542</u>
<b>NET INCREASE IN CASH AND EQUIVALENTS</b>	142,631	63,269
<b>CASH AND EQUIVALENTS – BEGINNING</b>	<u>284,609</u>	<u>221,340</u>
<b>CASH AND EQUIVALENTS – ENDING</b>	\$ <u>427,240</u>	\$ <u>284,609</u>

The accompanying notes are an integral part of these financial statements

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 1. Organization**

NEOMED Foundation, a discretely presented component unit of NEOMED 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 the Northeast Ohio Medical University (hereinafter referred to as the "University") and to assist in developing and increasing its resources to provide broader educational opportunities and services for charitable, educational, and scientific purposes.

The Foundation is governed by a volunteer Board of Directors consisting of a maximum forty-two 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.

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**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 in 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 or by law.

*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 material 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. Such in-kind donations are reported as contributions in the Statement of Activities.

*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 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.

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

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

*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. As of June 30, 2012 and 2011, the Foundation's unrecognized tax benefits were not significant. There were no significant penalties or interest recognized during the year or accrued at year end. The Foundation files income tax returns in U.S. federal and various state jurisdictions and at year end, tax returns were open for examination for years 2009-2011.

Accounting principles generally accepted in the United States of America require management to evaluate certain tax positions taken by the Center and recognize a tax liability if the organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Center and has concluded that as of June 30, 2012 and 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2009.

*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.

*Subsequent Events* - The financial statements and related disclosures include evaluation of events up through and including October 15, 2012, which is the date the financial statements were available to be issued.

*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, 2011 from which the summarized information was derived.

**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 5 percent for the years ended June 30, 2012 and 2011.

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 3. Pledges Receivable (Continued)**

Pledges receivable at June 30, 2012 and 2011 are expected to be realized in the following periods:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 315,000	\$ 305,000
Between one and five years	903,750	965,000
More than five years	<u>220,000</u>	<u>350,000</u>
Total outstanding pledges	1,438,750	1,620,000
Less net present value discount	(127, 241)	(163,672)
Less allowance for uncollectible pledges	<u>(25,978)</u>	<u>(30,011)</u>
Net outstanding pledges	<u>\$ 1,285,531</u>	<u>\$ 1,426,317</u>

**Note 4. Investments**

Following is a summary of investments at June 30:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 95,307	\$ 95,307	\$ 67,007	\$ 67,007
Cash surrender value of life insurance	238,850	238,850	235,569	235,569
Real estate	-	-	200,229	200,229
Equities	4,407,620	5,725,378	5,645,169	6,893,669
Alternative	1,839	5,573	-	-
Fixed income	<u>4,002,311</u>	<u>4,523,892</u>	<u>4,020,548</u>	<u>4,828,085</u>
Total long-term investments	<u>\$ 8,745,927</u>	<u>\$10,589,000</u>	<u>\$10,168,522</u>	<u>\$12,224,559</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. Investments in real estate are recorded at cost, which approximates market value. The Foundation donated the real estate to the University in 2012.

**Note 5. Fair Value of Financial Instruments**

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.

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 5. Fair Value of Financial Instruments (Continued)**

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

Level 2 - Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets or liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities 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 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, 2012 and 2011, 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, 2012 and 2011. 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.

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 5. Fair Value of Financial Instruments (Continued)**

	Balance at June 30, 2012	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	\$ 3,698,368	\$ 3,698,368	\$ -	\$ -
International Fixed Income	825,524	825,524	-	-
Domestic Equities	4,057,221	4,057,221	-	-
International Equities	1,668,157	1,668,157	-	-
Money Market Funds	95,307	-	95,307	-
Alternative Investment	5,573	-	-	5,573
Total Investments	<u>\$ 10,350,150</u>	<u>\$ 10,249,270</u>	<u>\$ 95,307</u>	<u>\$ 5,573</u>
Assets- Beneficial Interest in Trusts				
Total Beneficial Interests in Trusts	<u>\$ 915,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 915,842</u>
Total Fair Value Measurements	<u>\$ 11,265,992</u>	<u>\$ 10,249,270</u>	<u>\$ 95,307</u>	<u>\$ 921,415</u>

	Balance at June 30, 2011	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	\$ 4,009,750	\$ 4,009,750	\$ -	\$ -
International Fixed Income	818,335	818,335	-	-
Domestic Equities	4,790,372	4,790,372	-	-
International Equities	2,103,297	2,103,297	-	-
Money Market Funds	67,007	-	67,007	-
Real Estate	200,229	-	-	200,229
Total Investments	<u>\$ 11,988,990</u>	<u>\$ 11,721,754</u>	<u>\$ 67,007</u>	<u>\$ 200,229</u>
Assets- Beneficial Interest in Trusts				
Total Beneficial Interests in Trusts	<u>\$ 1,194,569</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,194,569</u>
Total Fair Value Measurements	<u>\$ 13,183,559</u>	<u>\$ 11,721,754</u>	<u>\$ 67,007</u>	<u>\$ 1,394,798</u>



NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 5. Fair Value of Financial Instruments (Continued)**

*Investments* - The Foundation invests in cash and equivalents, equities and bonds with quoted prices in active markets, which are considered to be Level 1 inputs. In 2011, the Foundation held land stated at the fair value at the time of purchase, which approximated market value, and was considered to be Level 3 inputs. The Foundation donated the real estate to the University during 2012. See Note 13.

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

	<u>Real Estate</u>	<u>Beneficial Interest in Trust</u>	<u>Alternative Investments</u>
Balance at 6/30/11	\$ 200,229	\$ 1,194,569	\$ -
Contributions	-	-	5,573
Payments	-	-	-
Gift to University	(40,500)	-	-
Change in Value	<u>(159,729)</u>	<u>(278,727)</u>	<u>-</u>
Balance as of 6/30/12	<u>\$ -</u>	<u>\$ 915,842</u>	<u>\$ 5,573</u>

  

	<u>Real Estate</u>	<u>Beneficial Interest in Trust</u>
Balance at 6/30/10	\$ 200,229	\$ 1,258,377
Contributions	-	-
Payments	-	-
Gift to University	-	-
Change in Value	<u>-</u>	<u>(63,808)</u>
Balance as of 6/30/11	<u>\$ 200,229</u>	<u>\$ 1,194,569</u>

*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.

**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 5 percent. The value of the Foundation's interest in the trust at June 30, 2012 and 2011 totaled \$52,570 and \$54,295, respectively.

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 6. Beneficial Interest in Trusts (Continued)**

In addition, the Foundation is the sole beneficiary of an irrevocable grantor trust. According to the trust, the Foundation is to receive annually the sum of \$300,000 until such time that the trust is fully liquidated. The value of the Foundation's interest in the trust has been recorded at its net present value of future cash flows and at June 30, 2012 and 2011 the value totaled \$863,272 and \$1,140,274, respectively.

**Note 7. Student Notes Receivable**

The Foundation has established a revolving loan fund that disburses funds with an interest rate of 5 percent. The note receivable is reported at the original issue amount plus accrued interest, less principal repaid. Interest is recognized 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, 2012 or 2011. There were no amounts that were considered past due as of June 30, 2012 and 2011.

**Note 8. Gift Annuity Obligations**

The Foundation is obligated under various annuity contracts, whereby donors have contributed cash to the Foundation with agreement that the donor shall be the sole recipient of annual annuity payments. These annual payments, currently totaling \$21,990 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, 2012 and 2011, the Foundation utilized life expectancy tables and a discount rate of 1.2% and 2.8%, respectively. The discount rate is determined using the risk free rate of return as of the date of the initial contract.

**Note 9. Unrestricted - 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>2012</u>	<u>2011</u>
Charitable purposes:		
Instruction and departmental research	\$ 16,017	\$ 18,302
Academic support	55,682	54,717
Institutional support	547,566	642,009
Student scholarships and other student aid	21,425	30,917
Student loan funds	<u>18,320</u>	<u>18,215</u>
Total designated net assets, June 30	<u>\$ 659,010</u>	<u>\$ 764,160</u>

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**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>2012</u>	<u>2011</u>
Instruction and departmental research	\$ 424,693	\$ 740,878
Separately budgeted research	223,489	204,503
Public service	904,516	829,258
Academic support	2,092,544	2,562,917
Institutional support	69,042	81,847
Plant operation and maintenance	8,674	8,674
Student scholarships and other student aid	950,738	870,979
Deferred gift annuity	238,850	235,569
Allowance for uncollectible pledges	<u>(9,902)</u>	<u>(10,702)</u>
 Total temporarily restricted net assets, June 30	 <u>\$4,902,644</u>	 <u>\$5,523,923</u>

**Note 11. Endowment Funds**

NEOMED 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 NEOMED 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:

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 11. Endowment Funds (Continued)**

- (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

Endowments as of June 30:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets				
as of June 30, 2011	\$ -	\$ 1,531,838	\$ 8,167,294	\$ 9,699,132
Investment return:				
Investment Income	-	147,221	-	147,221
Net appreciation (depreciation) (realized and unrealized)	-	(196,862)	-	(196,862)
Total investment return	-	(49,641)	-	(49,641)
Contributions	-	-	194,908	194,908
Endowment returned to donor	-	(235,945)	(1,500,000)	(1,735,945)
Appropriations for expenditures	-	(167,299)	-	(167,299)
Other changes	-	-	2,833	2,833
Endowment net assets				
As of June 30, 2012	\$ -	\$ 1,078,953	\$ 6,865,035	\$ 7,943,988

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 11. Endowment Funds (Continued)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2010	\$ (254,285)	\$ 236,201	\$ 7,604,340	\$ 7,586,256
Investment return:				
Investment Income	-	203,927	1,121	205,048
Net appreciation (depreciation) (realized and unrealized)	<u>254,285</u>	<u>1,171,662</u>	<u>-</u>	<u>1,425,947</u>
Total investment return	254,285	1,375,589	1,121	1,630,995
Contributions	-		561,833	561,833
Appropriations for expenditures	<u>-</u>	<u>(79,952)</u>	<u>-</u>	<u>(79,952)</u>
Endowment net assets As of June 30, 2011	<u>\$ -</u>	<u>\$ 1,531,838</u>	<u>\$ 8,167,294</u>	<u>\$ 9,699,132</u>

*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 GAAP, there were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2012 and 2011.

*Return Objectives and Risk Parameters*

NEOMED 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(s). 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. NEOMED Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8 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, NEOMED 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). NEOMED 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.

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 11. Endowment Funds (Continued)**

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

NEOMED Foundation has a policy of appropriating for distribution each year up to 5 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, NEOMED Foundation expects the current spending policy to allow its endowment to grow at an average of 3 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 return.

**Note 12. Permanently Restricted Net Assets**

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

	<u>2012</u>	<u>2011</u>
Student loans	\$ 799,553	\$ 787,753
Endowments requiring earnings only be made available for:		
Student scholarships and awards	3,129,730	2,887,564
Student loans	100,236	100,236
Community health science professorship	-	1,500,000
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	648,674	696,331
Deferred gift annuity	72,258	74,769
Allowance for uncollectible pledges	<u>(16,076)</u>	<u>(19,309)</u>
 Total permanently restricted net assets, June 30	 <u>\$7,736,846</u>	 <u>\$ 9,029,815</u>

**Note 13. Related Party Transactions**

For the years ended June 30, 2012 and 2011, the Foundation made disbursements of \$1,183,569 and \$926,594, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted loans of \$72,833 and \$59,650 to college students for the years ended June 30, 2012 and 2011, respectively.

The Foundation provided reimbursements of \$66,661 and \$49,293, respectively, to the University for management, fundraising, services, and office space during the years ended June 30, 2012 and 2011. 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 \$901,984 and \$704,280 for the years ended June 30, 2012 and 2011, respectively.

NEOMED FOUNDATION  
(A Component Unit of Northeast Ohio Medical University)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2012

**Note 13. Related Party Transactions (Continued)**

During 2012, the Foundation transferred real estate with a fair value of \$40,500 to the University. The Foundation reviews the recoverability of long lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long lived assets, as well as other fair value determinations.

During 2012, real estate was deemed to be impaired and written down to its fair value. The carrying value of the assets exceeded their fair value, which was determined by reference to the present value of the estimated future cash inflows, by \$159,729. An impairment loss of that amount (included in other expenses) has been charged to operations in 2012.

**Note 14. Endowment Returned to Donor**

In 2001, the Foundation received a \$1,500,000 endowment to establish the donor's Endowed Professorship in Community and Public Health, to be used to support expenses for the Foundation's academic chair faculty position. The purpose of this endowment was to support an academic chairperson to provide academic, research and community public health services. The individual left the University and no replacement was identified, therefore the donor has requested full reimbursement of their charitable gift. As a result, the Foundation returned funds of \$1,735,945 during the year ended June 30, 2012.

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

To the Board of Directors  
NEOMED Foundation

We have audited the financial statements of Northeast Ohio Medical University Foundation (the "Foundation"), a discretely presented component unit of the Northeast Ohio Medical University, as of and for the year ended June 30, 2012 and have issued our report thereon dated October 15, 2012. 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.

**Internal Control Over Financial Reporting**

Management of the Foundation is responsible for establishing and maintaining an effective internal control over financial reporting. In planning and performing our audits, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Foundation's internal control over financial reporting.

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

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



## Compliance and Other Matters

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

This report is intended solely for the information and use of the Foundation's board of directors, management of the Foundation and Northeast Ohio Medical University, and the Auditor of the State of Ohio and is not intended to be used and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 15, 2012  
Toledo, Ohio

**This page intentionally left blank.**



# Dave Yost • Auditor of State

**NEOMED FOUNDATION**

**PORTAGE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 17, 2013**