

OHIO AUDITOR OF STATE
KEITH FABER



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October 11, 2022

Derek Conrad
Rea & Associates, Inc.
6300 Rockside Road
Independence, Ohio 44131

Dear Mr. Conrad:

A desk review of the audit report has been performed for the Northeast Ohio Medical University Foundation, Portage County, for the year ended June 30, 2022. Based on the desk review, this report is acceptable and requires no modifications.

We will certify this audit report. As a reminder, the final invoice for this project must be submitted to the Auditor of State for approval no later than 90 days after the release of the report. If you have any questions or concerns, please contact me at (614) 466-3597.

Sincerely,

KEITH FABER
Auditor of State

A handwritten signature in cursive script that reads 'Brad Blake'.

Brad Blake
Director of Quality Assurance

cc: Deborah Liddil, Chief Auditor
Jacalyn Kovach, Director of Accounting & Budget, Northeast Ohio Medical University Foundation

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION

**(A COMPONENT UNIT OF NORTHEAST OHIO
MEDICAL UNIVERSITY)**

PORTAGE COUNTY, OHIO

REGULAR AUDIT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2022**



Rea & associates

www.reacpa.com

**NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF NORTHEAST OHIO MEDICAL UNIVERSITY)**

**PORTAGE COUNTY, OHIO
JUNE 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Northeast Ohio Medical University Foundation (the Foundation), a component unit of Northeast Ohio Medical University, which comprise the statement of financial position as of June 30, 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2021 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated September 27, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 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 27, 2022 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, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Foundation's 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.

Rea & Associates, Inc.

Rea & Associates, Inc.
Independence, Ohio
September 27, 2022

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

June 30, 2022

(With Comparative Totals at June 30, 2021)

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 254,716	\$ 579,575
Prepaid expenses	24,330	71,419
Student notes receivable, net (Note 8)	20,484	20,484
Pledges receivable, net (Note 4)	607,066	230,465
Total current assets	906,596	901,943
NONCURRENT ASSETS		
Pledges receivable, net (Note 4)	1,077,462	155,058
Investments (Note 5 & 6)	25,938,818	31,160,670
Student notes receivable, net (Note 8)	528,283	443,751
Beneficial interest in trusts (Note 6 & 7)	71,486	88,681
Total long-term assets	27,616,049	31,848,160
Total assets	\$ 28,522,645	\$ 32,750,103
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued liabilities	\$ 8,824	\$ 23,227
Related party payable (Note 13)	251,789	481,651
Annuity obligations (Note 9)	18,100	19,532
Deposits held in custody for others	81,758	45,698
Total current liabilities	360,471	570,108
NONCURRENT LIABILITIES		
Annuity obligations (Note 9)	91,884	75,673
Total liabilities	452,355	645,781
NET ASSETS		
Without donor restrictions (Note 10)	3,391,692	6,014,336
With donor restrictions (Note 11)	24,678,598	26,089,986
Total net assets	28,070,290	32,104,322
Total liabilities and net assets	\$ 28,522,645	\$ 32,750,103

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 AND CHANGES IN NET ASSETS

Year Ended June 30, 2022
(With Comparative Totals for June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total All Funds 2022	Total All Funds 2021
CONTRIBUTIONS, GAINS AND OTHER SUPPORT				
Contributions and bequests	\$ 306,767	\$ 3,620,957	\$ 3,927,724	\$ 1,798,719
In-kind support from NEOMED	<u>636,721</u>	<u>-</u>	<u>636,721</u>	<u>971,507</u>
Total contributions	943,488	3,620,957	4,564,445	2,770,226
Investment income				
Interest and dividend income	244,314	826,642	1,070,956	521,462
Realized gain on sale of investments	141,973	262,298	404,271	2,244,351
Unrealized (depreciation) / appreciation of investments	(1,818,896)	(4,160,059)	(5,978,955)	4,191,379
Change in value of beneficial interest in a trust	<u>-</u>	<u>(17,195)</u>	<u>(17,195)</u>	<u>14,589</u>
Total investment income	(1,432,609)	(3,088,314)	(4,520,923)	6,971,781
Other income	(27)	25,859	25,832	19,244
Net assets released from restrictions	<u>1,969,890</u>	<u>(1,969,890)</u>	<u>-</u>	<u>-</u>
Total contributions, gains and other support	1,480,742	(1,411,388)	69,354	9,761,251
EXPENSES				
Disbursed for charitable purposes				
Instructional	229,235	-	229,235	200,820
Research	327,484	-	327,484	220,739
Public services	127,286	-	127,286	198,151
Academic support	717,685	-	717,685	147,553
Institutional support	944,504	-	944,504	1,433,645
Student financial assistance	<u>676,028</u>	<u>-</u>	<u>676,028</u>	<u>708,155</u>
Total disbursed for charitable purposes	3,022,222	-	3,022,222	2,909,063
Management and general	486,413	-	486,413	657,797
Fundraising	<u>594,751</u>	<u>-</u>	<u>594,751</u>	<u>575,045</u>
Total expenses	4,103,386	-	4,103,386	4,141,905
CHANGE IN NET ASSETS	(2,622,644)	(1,411,388)	(4,034,032)	5,619,346
NET ASSETS – BEGINNING	<u>6,014,336</u>	<u>26,089,986</u>	<u>32,104,322</u>	<u>26,484,976</u>
NET ASSETS – ENDING	<u>\$ 3,391,692</u>	<u>\$24,678,598</u>	<u>\$ 28,070,290</u>	<u>\$ 32,104,322</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

	2022			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Grants	\$ 2,167,447	\$ -	\$ -	\$ 2,167,447
Assistance to individuals (scholarship)	649,096	-	-	649,096
Salary and benefits	-	-	262,894	262,894
Salary and benefits - in-kind	-	410,543	197,419	607,962
Accounting fees	-	20,207	-	20,207
Other professional fees	85,422	-	5,459	90,881
Other professional fees - in-kind	-	13,356	-	13,356
Advertising	4,942	1,589	28,167	34,698
Office expenses	13,507	11,214	13,531	38,252
Office expenses - in-kind	-	1,591	-	1,591
Information technology	8,988	1,523	35,241	45,752
Information technology - in-kind	-	1,640	-	1,640
Occupancy	-	8,220	23,924	32,144
Occupancy - in-kind	-	11,768	-	11,768
Travel	7,453	90	7,218	14,761
Travel - in-kind	-	404	-	404
Conferences	6,860	280	-	7,140
Meals (not on travel status)	24,953	2,004	11,758	38,715
Research and lab supplies	36,889	-	-	36,889
Gifts	7,641	230	629	8,500
Miscellaneous	9,024	1,754	8,511	19,289
Total expenses	<u>\$ 3,022,222</u>	<u>\$ 486,413</u>	<u>\$ 594,751</u>	<u>\$ 4,103,386</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

	2021			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Grants	\$ 2,082,676	\$ -	\$ -	\$ 2,082,676
Assistance to individuals (scholarship)	706,655	-	-	706,655
Salary and benefits	7,500	-	103,227	110,727
Salary and benefits - in-kind	-	575,315	360,238	935,553
Accounting fees	-	23,296	-	23,296
Investment management fees	25,398	-	3,002	28,400
Other professional fees - in-kind	-	18,061	-	18,061
Advertising	490	1,705	43,281	45,476
Office expenses	5,233	10,670	7,217	23,120
Office expenses - in-kind	-	1,504	-	1,504
Information technology	7,141	999	27,407	35,547
Information technology - in-kind	-	3,206	-	3,206
Occupancy	6,158	7,530	22,794	36,482
Occupancy - in-kind	-	12,768	-	12,768
Travel	-	93	66	159
Travel - in-kind	-	154	-	154
Conferences	2,062	75	-	2,137
Insurance	6,306	-	-	6,306
Meals (not on travel status)	3,972	219	105	4,296
Research and lab supplies	42	-	-	42
Research and lab supplies - in-kind	30,693	-	-	30,693
Gifts	15,308	486	516	16,310
Miscellaneous	9,429	1,455	7,192	18,076
Miscellaneous - in-kind	-	261	-	261
	<u>-</u>	<u>261</u>	<u>-</u>	<u>261</u>
Total expenses	<u>\$ 2,909,063</u>	<u>\$ 657,797</u>	<u>\$ 575,045</u>	<u>\$ 4,141,905</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, 2022
(With Comparative Totals for June 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease)/Increase in net assets	\$ (4,034,032)	\$ 5,619,346
Adjustments to reconcile (decrease) / increase in net assets to cash (used) / provided by operating activities:		
Noncash Items:		
Discount of pledges receivable	(99,975)	16,675
Allowance of pledges receivable	(71,832)	7,440
Net change in value of annuity agreements	32,879	(922)
Net change in value of beneficial interest in a trust	17,195	(14,589)
Net realized gain on investments	(404,271)	(2,244,351)
Net unrealized depreciation / (appreciation) of investments	5,978,953	(4,191,379)
Contributions restricted for long-term purposes	(1,384,282)	(426,810)
Changes in current assets and liabilities:		
Accounts receivable	-	500,000
Prepaid expenses	47,089	(68,152)
Pledges receivable	(1,127,197)	179,770
Accrued liabilities	(14,403)	20,825
Deposits held for others	36,060	(21,980)
Net cash (used for) by operating activities	(1,023,816)	(624,127)
CASH FLOWS FROM INVESTING ACTIVITIES		
Student notes receivable	(84,532)	(78,208)
Purchase of investments	(5,529,750)	(17,117,255)
Sale of investments	5,176,919	17,506,158
Net cash (used for) / provided by investing activities	(437,363)	310,695
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to beneficiaries of charitable gift annuities	(18,100)	(19,532)
Related party payable	(229,862)	72,634
Contributions restricted for long-term purposes	1,384,282	426,810
Net cash provided by financing activities	1,136,320	479,912
NET (DECREASE) / INCREASE IN CASH AND EQUIVALENTS	(324,859)	166,480
CASH AND EQUIVALENTS - BEGINNING	579,575	413,095
CASH AND EQUIVALENTS - ENDING	\$ 254,716	\$ 579,575
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
In-kind support	\$ 636,721	\$ 971,507

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, 2022

Note 1. Organization

Northeast Ohio Medical University Foundation, a discretely-presented component unit of Northeast Ohio Medical University (hereinafter referred to as the "Foundation"), was incorporated on April 14, 1978 as a nonprofit tax-exempt corporation. The purpose of the Foundation is to raise funds for and make distributions to Northeast Ohio Medical University (hereinafter referred to as the "University") and to assist in developing and increasing its resources to provide broader educational opportunities and services for charitable, educational, and scientific purposes.

The Foundation is governed by a volunteer Board of Directors consisting of a maximum 42 members.

Note 2. Significant Accounting Policies

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

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

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

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

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

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

Accounts Receivable – Accounts receivable consists of amounts due as of fiscal year end. All amounts were collected as of June 30, 2022.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

Note 2. Significant Accounting Policies (continued)

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

Investments – Investments 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. Investment in alternative investments, which do not have readily determinable fair values, are carried at the Foundation's proportionate share of the fund's net asset value. Donated investments, including donated property, are recorded as contributions at fair value on the date received. Realized gains / (losses) on investments are the difference between the proceeds received and the average cost of investments sold. Net appreciation of the fair value of investments (including realized gains / (losses) and unrealized gains / (losses) and dividends and interest) is included in the Statement of Activities without donor restrictions, unless the net appreciation or investment income is restricted by the donor.

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

Revenue Recognition – 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.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

Note 2. Significant Accounting Policies (continued)

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

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

Income Taxes – The Foundation operates as a nonprofit corporation and has been determined to be exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. However, certain unrelated business activities may be subject to federal income taxes. The Foundation had no unrelated business activities and therefore, no provision for such taxes was necessary for the years ended June 30, 2022 and 2021.

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, 2021 from which the summarized information was derived.

Subsequent Events – The financial statements and related disclosures include evaluation of events up through and including September 27, 2022, which is the date the financial statements were available to be issued.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

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.

	2022	2021
Cash and equivalents	\$ 254,716	\$ 579,575
Student notes receivable	548,767	464,235
Pledges receivable	1,684,528	385,523
Investments	25,938,818	31,160,670
Beneficial interest in trusts	71,486	88,681
Financial assets, at year-end	\$ 28,498,315	\$ 32,678,684
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	24,078,829	25,557,554
Restricted by donor with time restrictions	528,283	443,751
Investments held in an annuity trust	71,486	88,681
Board designated	1,202,411	5,550,428
Financial assets available to meet cash needs for general expenditures within one year:	\$ 2,617,306	\$ 1,038,270

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 \$342,000 at June 30, 2022 and \$345,000 at June 30, 2021. 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 \$17,074,346 at June 30, 2022 and \$19,511,810 at June 30, 2021. 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 4.25% in 2022 and 4.0% percent in 2021.

The Foundation has unrestricted funds in the amount of \$1,202,411 at June 30, 2022 and \$5,550,428 at June 30, 2021 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, 2022

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, 2022 and 2021.

Pledges receivable at June 30, 2022 and 2021 are expected to be realized in the following periods:

	2022	2021
Less than one year	\$ 636,912	\$ 239,100
Between one and five years	1,243,000	170,000
Total outstanding pledges	1,879,912	409,100
Less net present value discount	(108,826)	(8,851)
Less allowance for uncollectible pledges	(86,558)	(14,726)
Net outstanding pledges	\$ 1,684,528	\$ 385,523

Note 5. Investments

The following is a summary of investments at June 30:

	2022		2021	
	Cost	Market	Cost	Market
Money market fund	\$ 605,724	\$ 605,724	\$ 1,522,264	\$ 1,522,758
Cash surrender value of life insurance	27,483	27,483	21,068	21,068
Equities	18,452,693	17,923,383	16,561,421	19,739,542
Alternative investment	1,297,845	1,205,785	1,119,776	1,277,478
Fixed income	6,819,220	6,176,443	7,111,031	8,599,824
Total long-term investments	\$ 27,202,965	\$ 25,938,818	\$ 26,335,560	\$ 31,160,670

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, 2022

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.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV if the NAV is determined in accordance with the fair value measurement principles provided by the FASB standards relevant to investment companies. Interest in investment funds with a NAV reported under an alternative basis or meet the intent to sell criteria are reflected as Level 3 investments.

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, 2022 and 2021, 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, 2022 and 2021. 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, 2022

Note 6. Fair Value Measurements (continued)

	Balance at June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value (NAV)
Assets - Investments					
Domestic fixed income	\$ 5,730,125	\$ 5,730,125	\$ -	\$ -	\$ -
International fixed income	446,318	446,318	-	-	-
Domestic equities	12,399,490	12,399,490	-	-	-
International equities	5,523,893	5,523,893	-	-	-
Money market	605,724	-	605,724	-	-
Other investments	1,205,785	-	-	-	1,205,785
Total Investments	\$ 25,911,335	\$ 24,099,826	\$ 605,724	\$ -	\$ 1,205,785
Assets - Beneficial Interest in Trust					
Total Beneficial Interest in Trust	\$ 71,486	\$ -	\$ -	\$ 71,486	\$ 71,486
Total Fair Value Measurements	\$ 25,982,821	\$ 24,099,826	\$ 605,724	\$ 71,486	\$ 1,277,271
	Balance at June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value (NAV)
Assets - Investments					
Domestic fixed income	\$ 7,777,155	\$ 7,777,155	\$ -	\$ -	\$ -
International fixed income	822,669	822,669	-	-	-
Domestic equities	14,306,812	14,306,812	-	-	-
International equities	5,432,730	5,432,730	-	-	-
Money market	1,522,757	-	1,522,757	-	-
Other investments	1,277,478	-	-	-	1,277,478
Total Investments	\$ 31,139,601	\$ 28,339,366	\$ 1,522,757	\$ -	\$ 1,277,478
Assets - Beneficial Interest in Trust					
Total Beneficial Interest in Trust	\$ 88,681	\$ -	\$ -	\$ 88,681	\$ 88,681
Total Fair Value Measurements	\$ 31,228,282	\$ 28,339,366	\$ 1,522,757	\$ 88,681	\$ 1,366,159

Investments – The Foundation invests in cash and cash equivalents, equities and bonds, with quoted prices in active markets, which are considered to be Level 1 inputs. The Foundation also invests in money market mutual funds which are considered Level 2 inputs and are valued based upon quoted prices for similar assets in active markets.

Net Asset Value per Share – The Foundation holds shares or interest in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or equivalent) of the investment companies as a practical expedient.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

Note 6. Fair Value Measurements (continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds	1,205,785	-	Monthly	N/A

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. These are considered Level 3 inputs.

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

	Beneficial Interest in Trust
Balance at June 30, 2021	\$ 88,681
Payments	-
Change in Value	(17,195)
Balance as of June 30, 2022	\$ 71,486

	Beneficial Interest in Trust
Balance at June 30, 2020	\$ 74,092
Payments	-
Change in Value	14,589
Balance as of June 30, 2021	\$ 88,681

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 \$71,486 at June 30, 2022 and \$88,681 at June 30, 2021.

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

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 \$22,534 of student notes receivable to be uncollectible at June 30, 2022 and \$24,621 to be uncollectible as of June 30, 2021.

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 \$18,100 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, 2022 and 2021, 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 \$107,082 as of June 30, 2021 and \$140,661 as of June 30, 2021.

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:

	2022	2021
Charitable purposes:		
Instruction and departmental research	\$ 2,720	\$ 4,616
Public Service	76,434	76,434
Academic support	28,581	17,848
Institutional support	1,055,461	5,425,870
Student scholarships and other student aid	19,583	6,001
Student loan funds	19,632	19,659
Total designated Net Assets, June 30	\$ 1,202,411	\$ 5,550,428

The value of the Foundation undesignated net assets without donor restrictions was \$2,189,281 at June 30, 2022 and \$463,908 at June 30, 2021.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

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:

	2022	2021
Instruction and departmental research	\$ 2,258,757	\$ 3,544,480
Separately budgeted research	2,319,148	2,658,677
Public service	144,458	201,958
Academic support	2,224,206	1,057,423
Institutional support	499,839	282,552
Plant operation and maintenance	16,863	7,277
Student services	42,186	65,115
Student scholarships and other student aid	12,035,136	13,095,363
Deferred gift annuity	24,581	570,864
Anatomy endowed chair	1,506,812	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	1,614,742	1,611,291
Allowance for uncollectible pledges	(8,130)	(7,485)
Total with donor restrictions net assets, June 30	\$ 24,678,598	\$ 26,089,986

Total net assets with donor restrictions include \$12,866,780 as of June 30, 2022 and \$11,567,825 as of June 30, 2021 of assets held in perpetuity. The remainder of the funds are either purpose or time restricted. The assets are held for the following purpose:

	2022	2021
Student loans	\$ 1,056,197	\$ 1,021,996
Endowments requiring earnings only to be made available for:		
Student scholarships and awards	6,599,824	5,793,860
Student loans	100,236	100,236
Anatomy endowed chair	1,506,812	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	1,614,743	1,611,291
Deferred gift annuity	(2,902)	45,456
Allowance for uncollectible pledges	(8,130)	(7,485)
Total net assets with donor restrictions to be held in perpetuity, June 30	\$ 12,866,780	\$ 11,567,825

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

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
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NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

Note 12. Endowments with Donor Restrictions (continued)

Endowments as of June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets as of June 30, 2021	\$ -	\$ 19,511,810	\$ 19,511,810
Investment return:			
Investment Income	-	860,670	860,670
Net appreciation (realized and unrealized)	-	(3,851,537)	(3,851,537)
Total investment return	-	(2,990,867)	(2,990,867)
Contributions	-	661,876	661,876
Appropriations for expenditures	-	(108,473)	(108,473)
Endowment net assets As of June 30, 2022	<u>\$ -</u>	<u>\$ 17,074,346</u>	<u>\$ 17,074,346</u>

Endowment Net Asset Composition by Type of fund as of June 30, 2022:

	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	-	11,813,484	11,813,484
Accumulated investment gains (losses)	-	5,260,862	5,260,862
Total donor-restricted endowment funds	-	17,074,346	17,074,346
Total	<u>\$ -</u>	<u>\$ 17,074,346</u>	<u>\$ 17,074,346</u>

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

Note 12. Endowments with Donor Restrictions (continued)

Endowments as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets as of June 30, 2020	\$ -	\$ 14,700,497	\$ 14,700,497
Investment return:			
Investment Income	-	320,031	320,031
Net appreciation (realized and unrealized)	-	4,541,424	4,541,424
Total investment return	-	4,861,455	4,861,455
Contributions	-	478,506	478,506
Appropriations for expenditures	-	(528,648)	(528,648)
Endowment net assets As of June 30, 2021	<u>\$ -</u>	<u>\$ 19,511,810</u>	<u>\$ 19,511,810</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2021:

	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	-	10,500,373	10,500,373
Accumulated investment gains (losses)	-	9,011,437	9,011,437
Total donor-restricted endowment funds	-	19,511,810	19,511,810
Total	<u>\$ -</u>	<u>\$ 19,511,810</u>	<u>\$ 19,511,810</u>

NORTHEAST OHIO MEDICAL UNIVERSITY FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

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 significant deficiencies of this nature to report in donor restricted net assets as of June 30, 2022 and 2021.

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 4.25% for the year ended June 30, 2022 and 4% for the year ended June 30, 2021. The Foundation will utilize a distribution rate of 4.25% for the year ending June 30, 2023.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

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. Prior to fiscal year 2021, this fee was assessed and calculated at one percent on the average year-end endowment balances for the prior three fiscal years, and was administered only if the combined annual endowment investment returns exceeded the spending rate by 1%.

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 thereby removing the condition that the investment returns must exceed the spending rate by 1%. If the three-year average does not exceed the endowment corpus, or the value that the donor contributed, no fee will be assessed. The total fee assessed on endowments was \$159,999 for the year ended June 30, 2022 and \$137,701 for the year ended June 30, 2021, thereby releasing these funds from restrictions.

Note 13. Related Party Transactions

The Foundation made disbursements of \$3,022,222 for the year ended June 30, 2022 and \$2,909,063 for the year ended June 30, 2021, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted loans to students of \$148,047 for the year ended June 30, 2022 and \$169,073 for the year ended June 30, 2021.

The Foundation provided reimbursements to the University for management, fundraising, services, office space, payroll and payroll benefits which totaled \$326,251 for the year ended June 30, 2022 and \$154,871 for the year ended June 30, 2021. The Foundation had accounts payable to the University totaling \$251,789 for the year ended June 30, 2022 and \$481,651 for the year ended June 30, 2021, 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 \$636,721 for the year ended June 30, 2022 and \$971,507 for the year ended June 30, 2021.

INDEPENDENT AUDITOR’S 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*

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

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 (*Government Auditing Standards*), the financial statements of Northeast Ohio Medical University Foundation (the “Foundation”), a component unit of Northeast Ohio Medical University, which comprise the statement of financial position as of June 30, 2022, and the related statement 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, and have issued our report thereon dated September 27, 2022.

Report on 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) as a basis for designing 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 entity’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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Rea & Associates, Inc.
Independence, Ohio
September 27, 2022