

**NEOUCOM FOUNDATION**

**FINANCIAL REPORT**

**JUNE 30, 2007**





# Mary Taylor, CPA

Auditor of State

Board of Directors  
NEOUCOM Foundation  
4209 SR 44  
Rootstown, Ohio 44272-0095

We have reviewed the *Independent Auditors' Report* of the NEOUCOM Foundation, Portage County, prepared by Hausser + Taylor LLC, for the audit period July 1, 2006 through June 30, 2007. 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 NEOUCOM Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

March 13, 2008

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NEOUCOM FOUNDATION

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Board of Directors  
NEOUCOM Foundation

Independent Auditors' Report

We have audited the accompanying statement of financial position of NEOUCOM Foundation ("Foundation") as of June 30, 2007, 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 2006 financial statements and, in our report dated August 25, 2006, 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 the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 NEOUCOM Foundation as of June 30, 2007, and the changes in its net assets and its 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 31, 2007, on our consideration of NEOUCOM Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Hausser + Taylor LLC*

Cleveland, Ohio  
October 31, 2007

NEOUCOM FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2007

(With Comparative Totals at June 30, 2006)

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 330,074	\$ 86,834
Accounts receivable	-	4,440
Pledges receivable (Note 3)	695,281	152,655
Total current assets	<u>1,025,355</u>	<u>243,929</u>
<b>LONG-TERM ASSETS</b>		
Pledges receivable (Note 3)	1,711,139	1,886,415
Investments (Note 4)	11,869,349	9,809,466
Student notes receivable (Note 6)	466,224	536,986
Beneficial interest in trusts (Note 5)	2,526,088	2,538,417
Total long-term assets	<u>16,572,800</u>	<u>14,771,284</u>
Total assets	<u>\$17,598,155</u>	<u>\$15,015,213</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accrued liabilities	\$ 17,620	\$ 213,674
Annuity obligations (Note 7)	21,990	17,505
Deposits held in custody for others	47,251	48,684
Total current liabilities	<u>86,861</u>	<u>279,863</u>
<b>LONG-TERM LIABILITIES</b>		
Annuity obligations (Note 7)	<u>158,060</u>	<u>151,116</u>
Total liabilities	<u>244,921</u>	<u>430,979</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	(398,928)	(382,153)
Designated (Note 8)	962,338	619,864
Total unrestricted	<u>563,410</u>	<u>237,711</u>
Temporarily restricted (Note 9)	8,516,352	6,329,971
Permanently restricted (Note 10)		
Loan funds	725,594	689,647
Endowment funds	7,426,528	7,220,098
Annuity and life income funds	121,350	106,807
Total permanently restricted	<u>8,273,472</u>	<u>8,016,552</u>
Total net assets	<u>17,353,234</u>	<u>14,584,234</u>
Total liabilities and net assets	<u>\$17,598,155</u>	<u>\$15,015,213</u>

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

NEOUCOM FOUNDATION  
STATEMENT OF ACTIVITIES

Year Ended June 30, 2007  
(With Comparative Totals for June 30, 2006)

	Operating Funds			Permanently Restricted	Total All Funds 2007	Total All Funds 2006
	Unrestricted	Temporarily Restricted	Total Operating			
<b>CONTRIBUTIONS, GAINS AND OTHER SUPPORT</b>						
Contributions and bequests	\$ 342,080	\$ 1,715,266	\$ 2,057,346	\$ 208,618	\$ 2,265,964	\$ 5,272,187
In-kind support from NEOUCOM	339,625		339,625		339,625	356,144
Total contributions	681,705	1,715,266	2,396,971	208,618	2,605,589	5,628,331
Investment income						
Interest and dividend income	63,909	177,532	241,441	9,674	251,115	218,007
Net realized gain on sale of investments	150,450	501,906	652,356	28,623	680,979	341,777
Net unrealized appreciation (depreciation) of investments	37,242	357,066	394,308	9,569	403,877	(185,685)
Increase in value of beneficial interest in a trust		332,488	332,488		332,488	169,608
Total investment income	251,601	1,368,992	1,620,593	47,866	1,668,459	543,707
Other income	62,914	582	63,496	436	63,932	58,412
Net assets released from restrictions	898,459	(898,459)	-		-	-
Total contributions, gains and other support	1,894,679	2,186,381	4,081,060	256,920	4,337,980	6,230,450
<b>EXPENDITURES</b>						
Disbursed for charitable purposes						
Instructional	131,640		131,640		131,640	189,006
Research	23,251		23,251		23,251	13,001
Public services	1,997		1,997		1,997	575
Academic support	313,442		313,442		313,442	265,056
Institutional support	114,519		114,519		114,519	106,849
Operations and maintenance	114,335		114,335		114,335	-
Student financial assistance	347,070		347,070		347,070	346,968
Total disbursed for charitable purposes	1,046,254		1,046,254		1,046,254	921,455
Management and general	288,201		288,201		288,201	339,893
Fund raising	199,623		199,623		199,623	223,791
Insurance and annuity obligations	34,902		34,902		34,902	48,044
Total expenditures	1,568,980		1,568,980		1,568,980	1,533,183
CHANGE IN NET ASSETS	325,699	2,186,381	2,512,080	256,920	2,769,000	4,697,267
NET ASSETS – BEGINNING	237,711	6,329,971	6,567,682	8,016,552	14,584,234	9,886,967
NET ASSETS – ENDING	<u>\$ 563,410</u>	<u>\$ 8,516,352</u>	<u>\$ 9,079,762</u>	<u>\$ 8,273,472</u>	<u>\$ 17,353,234</u>	<u>\$ 14,584,234</u>

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



NEOUCOM FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007  
(With Comparative Totals for June 30, 2006)

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,769,000	\$ 4,697,267
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Net realized gain on investments	(680,979)	(341,777)
Net unrealized (appreciation) depreciation of investments	(403,877)	185,685
Increase in value of beneficial interest in a trust	(332,488)	(169,608)
Contributions restricted for endowment	(208,618)	(2,203,114)
Decrease (increase) in accounts receivable	4,440	(4,005)
Increase in pledges receivable	(367,350)	(1,607,136)
Decrease (increase) in student notes receivable	70,762	(50,364)
Decrease in accrued liabilities	(196,054)	(72,686)
(Decrease) increase in deposits held for others	<u>(1,433)</u>	<u>133</u>
Net cash provided by operating activities	653,403	434,395
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Distribution of principal from beneficial interest in trusts	300,000	300,000
Net purchases of investments	<u>(930,210)</u>	<u>(2,891,251)</u>
Net cash used by investing activities	(630,210)	(2,591,251)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to beneficiaries of charitable gift annuities	(21,545)	(17,938)
Receipt of charitable gift annuity	8,319	-
Net change in value of annuity agreements	24,655	(23,461)
Contributions restricted for endowment	<u>208,618</u>	<u>2,203,114</u>
Net cash provided by financing activities	220,047	2,161,715
<b>NET INCREASE IN CASH AND EQUIVALENTS</b>	243,240	4,859
<b>CASH AND EQUIVALENTS – BEGINNING</b>	<u>86,834</u>	<u>81,975</u>
<b>CASH AND EQUIVALENTS – ENDING</b>	<u>\$ 330,074</u>	<u>\$ 86,834</u>

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

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2007

**Note 1. Organization**

The NEOUCOM Foundation (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 Northeastern Ohio Universities College of Medicine (hereinafter referred to as the "College"), 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 annuity funds and true endowment principal.

*Cash and Equivalents* – For financial statement purposes, cash, certificates of deposit, and investments with maturities of less than twelve months at date of purchase are combined. The Foundation has cash equivalents at financial institutions, which may, at times, exceed federally insured amounts.

*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.

*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.

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2007

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

*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.

*Federal Income Taxes* – The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, with the exception of taxable unrelated business income. The Foundation had no unrelated business income in fiscal 2007 and 2006.

*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, revenues, 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, 2006 from which the summarized information was derived.

**Note 3. Pledges Receivable**

Promises to give to the Foundation are recorded as an asset when the pledge is received. The net present value of outstanding pledges discounted at approximately 5% as of June 30 is due as follows:

	<u>2007</u>	<u>2006</u>
Less than one year	\$ 737,665	\$ 169,000
More than one year	<u>2,154,500</u>	<u>2,177,000</u>
Total outstanding pledges	2,892,165	2,346,000
Less net present value discount	(455,074)	(274,518)
Less allowance for uncollectible pledges	<u>(30,671)</u>	<u>(32,412)</u>
Net outstanding pledges	<u>\$2,406,420</u>	<u>\$2,039,070</u>

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2007

**Note 4. Investments**

Following is a summary of investments at June 30:

	2007		2006	
	Cost	Market	Cost	Market
Money market funds	\$ 71,691	\$ 71,691	\$ 409,562	\$ 409,562
Cash surrender value of life insurance	198,593	198,593	144,891	144,891
Real estate	200,229	200,229	200,229	200,229
Equities	7,208,281	7,646,278	5,305,119	5,745,095
Fixed income	3,654,191	3,752,558	3,381,974	3,309,689
Total long-term investments	<u>\$11,332,985</u>	<u>\$11,869,349</u>	<u>\$9,441,775</u>	<u>\$9,809,466</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.

**Note 5. Beneficial Interest in Trusts**

During fiscal year 2005, the Foundation became the beneficiary of a Charitable Remainder Trust. Upon the death of the donors, the Foundation will receive its share of the trust funds. The Foundation recorded an investment in this trust equal to the expected future distribution discounted at a rate of five percent. The value of the Foundation's interest in the trust at June 30, 2007 and 2006 totaled \$59,025 and \$53,842, respectively.

During fiscal year 2004, the Foundation was informed that it was the sole beneficiary of an irrevocable grantor trust. According to the trust, the Foundation is to receive annually the sum of \$300,000 for its unrestricted use until such time that the trust is fully liquidated. The value of the Foundation's interest in the trust has been recorded at its fair market value and at June 30, 2007 and 2006 the value totaled \$2,467,063 and \$2,484,575, respectively.

**Note 6. Student Notes Receivable**

The Foundation has established a revolving loan fund that disburses funds with an interest rate of 5%. The Foundation has experienced a zero default rate and, therefore, management does not believe an allowance for doubtful accounts is necessary.

**Note 7. 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. The discount rates used to estimate the net present value of the obligations on June 30, 2007 and 2006 ranged from 3.6 to 6.0%.

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2007

**Note 8. Unrestricted - Designated**

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

	<u>2007</u>	<u>2006</u>
Charitable purposes:		
Instruction and departmental research	\$ 63,017	\$ 84,818
Academic support	239,912	72,530
Student services	3,115	115
Institutional support	574,206	358,584
Plant operation and maintenance	8,543	8,543
Student scholarships and other student aid	55,250	76,627
Student loan funds	17,102	16,953
Management and general	<u>1,193</u>	<u>1,694</u>
 Total designated net assets, June 30	 <u>\$ 962,338</u>	 <u>\$ 619,864</u>

**Note 9. Temporarily Restricted Net Assets**

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

	<u>2007</u>	<u>2006</u>
Instruction and departmental research	\$ 828,263	\$ 319,240
Separately budgeted research	166,682	163,038
Public service	1,106,739	1,006,805
Academic support	4,971,275	3,625,445
Institutional support	100,603	14,001
Plant operation and maintenance	183,654	410,181
Student scholarships and other student aid	983,922	660,044
Deferred gift annuity	198,593	144,891
Allowance for uncollectible pledges	<u>(23,379)</u>	<u>(13,674)</u>
 Total temporarily restricted net assets, June 30	 <u>\$8,516,352</u>	 <u>\$6,329,971</u>

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2007

**Note 10. Permanently Restricted Net Assets**

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

	<u>2007</u>	<u>2006</u>
Student loans	\$ 725,594	\$ 689,647
Endowments requiring earnings only be made available for:		
Student scholarships and awards	2,544,817	2,344,287
Student loans	100,236	100,236
Community health science professorship	1,500,000	1,500,000
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	283,523	279,742
Deferred gift annuity	121,350	106,807
Allowance for uncollectible pledges	<u>(4,519)</u>	<u>(6,638)</u>
 Total permanently restricted net assets, June 30	 <u>\$8,273,472</u>	 <u>\$8,016,552</u>

The Foundation's distribution policy is to distribute up to 5.0% of the average of the June 30 market values of the endowment fund of the previous three years. Distributions, based on this budgeted amount, will be awarded in the following fiscal year. All unspent funds distributed to temporarily restricted accounts will be reinvested.

**Note 11. Related Party Transactions**

For the years ended June 30, 2007 and 2006, the Foundation made disbursements of \$996,254 and \$921,455, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition, the Foundation granted loans of \$77,900 and \$175,150 to college students for the years ended June 30, 2007 and 2006, respectively.

The Foundation provided reimbursements of \$111,027 and \$174,056, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2007 and 2006. Amounts for such services provided by the College which are not reimbursed by the Foundation are reported as in-kind contributions in the Statement of Activities. The College's in-kind support for these services was valued at \$339,625 and \$356,144 for the years ended June 30, 2007 and 2006, respectively.



Board of Directors  
NEOUCOM Foundation

**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**

We have audited the financial statements of NEOUCOM Foundation as of and for the year ended June 30, 2007, and have issued our report thereon dated October 31, 2007. 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**

In planning and performing our audit, we considered NEOUCOM 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 NEOUCOM Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NEOUCOM Foundation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects NEOUCOM Foundation's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of NEOUCOM Foundation's financial statements that is more than inconsequential will not be prevented or detected by NEOUCOM Foundation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by NEOUCOM Foundation's internal control.

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

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 (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NEOUCOM 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 Board of Directors, management of NEOUCOM Foundation, and the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

*Hausser + Taylor LLC*

Cleveland, Ohio  
October 31, 2007





**Mary Taylor, CPA**  
Auditor of State

**NEOUCOM 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  
MARCH 27, 2008**