

NEOUCOM FOUNDATION

FINANCIAL REPORT

JUNE 30, 2011



Dave Yost • Auditor of State

Board of Directors
NEOUCOM Foundation
4209 SR 44
PO Box 95
Rootstown, Ohio 44272-0095

We have reviewed the *Independent Auditor's Report* of the NEOUCOM Foundation, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2010 through June 30, 2011. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 11, 2012

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NEOUCOM FOUNDATION

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Independent Auditor's Report

To the Board of Directors
NEOUCOM Foundation

We have audited the accompanying statement of financial position of NEOUCOM Foundation (the "Foundation"), a discretely presented component unit of the Northeast Ohio Medical University (NEOMED), as of June 30, 2011 and the related statements of activities and cash flows for the years 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.

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 NEOUCOM Foundation as of June 30, 2011 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 21, 2011 on our consideration of NEOUCOM 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 17 and 18 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 21, 2011
Toledo, Ohio

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

June 30, 2011
(With Comparative Totals at June 30, 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 284,609	\$ 221,340
Accounts receivable	-	16,000
Prepaid expenses	480	-
Pledges receivable (Note 3)	<u>297,950</u>	<u>205,125</u>
Total current assets	583,039	442,465
LONG-TERM ASSETS		
Pledges receivable (Note 3)	1,128,367	1,022,207
Investments (Note 4)	12,224,559	10,175,975
Student notes receivable (Note 7)	324,434	362,520
Beneficial interest in trusts (Note 6)	<u>1,194,569</u>	<u>1,258,377</u>
Total long-term assets	<u>14,871,929</u>	<u>12,819,079</u>
Total assets	<u>\$ 15,454,968</u>	<u>\$ 13,261,544</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued liabilities	\$ 12,272	\$ 168,912
Annuity obligations (Note 8)	21,990	21,990
Deposits held in custody for others	<u>41,791</u>	<u>44,349</u>
Total current liabilities	76,053	235,251
LONG-TERM LIABILITIES		
Annuity obligations (Note 8)	<u>139,415</u>	<u>153,382</u>
Total liabilities	215,468	388,633
NET ASSETS		
Unrestricted		
Undesignated	(78,398)	(773,499)
Designated (Note 9)	<u>764,160</u>	<u>675,723</u>
Total unrestricted	685,762	(97,776)
Temporarily restricted (Note 10)	5,523,923	4,559,744
Permanently restricted (Note 12)		
Loan funds	787,753	750,285
Endowment funds	8,167,294	7,604,340
Annuity and life income funds	<u>74,768</u>	<u>56,318</u>
Total permanently restricted	<u>9,029,815</u>	<u>8,410,943</u>
Total net assets	<u>15,239,500</u>	<u>12,872,911</u>
Total liabilities and net assets	<u>\$ 15,454,968</u>	<u>\$ 13,261,544</u>

The accompanying notes are an integral part of these financial statements

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

Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	Operating Funds			Permanently Restricted	Total All Funds 2011	Total All Funds 2010
	Unrestricted	Temporarily Restricted	Total Operating			
CONTRIBUTIONS, GAINS AND OTHER SUPPORT						
Contributions and bequests	\$ 223,355	\$ 369,894	\$ 593,249	\$ 561,832	\$ 1,155,081	\$ 572,536
In-kind support from NEOMED	704,280	-	704,280	-	704,280	444,443
Total contributions	927,635	369,894	1,297,529	561,832	1,859,361	1,016,979
Investment income						
Interest and dividend income	41,796	166,738	208,534	10,895	219,429	218,785
Realized gain (loss) on sale of investments	6,587	(335,237)	(328,650)	(4,476)	(333,126)	(1,134,925)
Unrealized appreciation of investments	600,002	1,395,457	1,995,459	38,175	2,033,634	2,241,337
Change in value of beneficial interest in a trust	-	236,192	236,192	-	236,192	136,876
Total investment income	648,385	1,463,150	2,111,535	44,594	2,156,129	1,462,073
Other income	64,690	26,265	90,955	12,446	103,401	157,425
Net assets released from restrictions	895,130	(895,130)	-	-	-	-
Total contributions, gains and other support	2,535,840	964,179	3,500,019	618,872	4,118,891	2,636,477
EXPENDITURES						
Disbursed for charitable purposes						
Instructional	41,914	-	41,914	-	41,914	25,351
Research	42,456	-	42,456	-	42,456	50,348
Public services	99,298	-	99,298	-	99,298	92,522
Academic support	344,028	-	344,028	-	344,028	549,062
Institutional support	102,240	-	102,240	-	102,240	146,077
Operations and maintenance	-	-	-	-	-	7,500
Student financial assistance	296,658	-	296,658	-	296,658	273,307
Total disbursed for charitable purposes	926,594	-	926,594	-	926,594	1,144,167
Management and general	425,292	-	425,292	-	425,292	329,480
Fundraising	400,416	-	400,416	-	400,416	205,068
Total expenditures	1,752,302	-	1,752,302	-	1,752,302	1,678,715
CHANGE IN NET ASSETS	783,538	964,179	1,747,717	618,872	2,366,589	957,762
NET ASSETS (DEFICIT) – BEGINNING	(97,776)	4,559,744	4,461,968	8,410,943	12,872,911	11,915,149
NET ASSETS – ENDING	\$ 685,762	\$ 5,523,923	\$ 6,209,685	\$ 9,029,815	\$ 15,239,500	\$ 12,872,911

The accompanying notes are an integral part of these financial statements

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

Year Ended June 30, 2011
(With Comparative Totals for June 30, 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 2,366,589	\$ 957,762
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Net realized loss on investments	333,126	1,134,925
Net unrealized appreciation of investments	(2,033,634)	(2,241,337)
Increase in value of beneficial interest in a trust	(236,192)	(136,876)
Contributions restricted for endowment	(561,832)	(70,296)
Decrease (increase) in accounts receivable	16,000	(16,000)
Increase in prepaid expenses	(480)	-
Increase (decrease) in pledges receivable	(198,985)	303,160
Decrease in student notes receivable	38,086	30,615
Decrease in accrued liabilities	(156,640)	(37,931)
(Decrease) increase in deposits held for others	<u>(2,558)</u>	<u>248</u>
Net cash used in operating activities	(436,520)	(75,730)
CASH FLOWS FROM INVESTING ACTIVITIES		
Distribution of principal from beneficial interest in trusts	300,000	300,000
Total purchase of investments	(2,325,634)	(2,670,852)
Total sale of investments	<u>1,977,558</u>	<u>2,429,995</u>
Net cash (used in) provided by investing activities	(48,076)	59,143
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to beneficiaries of charitable gift annuities	(21,990)	(21,990)
Receipt of charitable gift annuity	700	-
Net change in value of annuity agreements	7,323	18,419
Contributions restricted for endowment	<u>561,832</u>	<u>70,296</u>
Net cash provided by financing activities	<u>547,865</u>	<u>66,725</u>
NET INCREASE IN CASH AND EQUIVALENTS	63,269	50,138
CASH AND EQUIVALENTS – BEGINNING	<u>221,340</u>	<u>171,202</u>
CASH AND EQUIVALENTS – ENDING	\$ <u>284,609</u>	\$ <u>221,340</u>

The accompanying notes are an integral part of these financial statements

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

Note 1. Organization

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 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 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.

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.

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

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

Note 2. Significant Accounting Policies (Continued)

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.

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.

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, 2011 and 2010, 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 2008-2010.

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 21, 2011 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, 2010 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, 2011 and 2010.

Pledges receivable at June 30, 2011 and 2010 are expected to be realized in the following periods:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 305,000	\$ 207,500
Between one and five years	965,000	740,000
More than five years	<u>350,000</u>	<u>480,000</u>
Total outstanding pledges	1,620,000	1,427,500
Less net present value discount	(163,672)	(186,706)
Less allowance for uncollectible pledges	<u>(30,011)</u>	<u>(13,462)</u>
Net outstanding pledges	<u>\$ 1,426,317</u>	<u>\$ 1,227,332</u>

Note 4. Investments

Following is a summary of investments at June 30:

<u>Market</u>	<u>Cost</u>	<u>2011</u> <u>Market</u>	<u>Cost</u>	<u>2010</u>
Money market funds	\$ 67,007	\$ 67,007	\$ 70,175	\$ 70,175
Cash surrender value of life insurance	235,569	235,569	233,588	233,588
Real estate	200,229	200,229	200,229	200,229
Equities	5,645,169	6,893,669	5,014,003	5,297,302
Fixed income	<u>4,020,548</u>	<u>4,828,085</u>	<u>4,272,333</u>	<u>4,374,681</u>
Total long-term investments	<u>\$10,168,522</u>	<u>\$12,224,559</u>	<u>\$9,790,328</u>	<u>\$10,175,975</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 intends to donate the real estate to the University in the future.

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.

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 carrying values of cash and equivalents, accounts and other receivables, prepaid and other assets and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. The carrying value of the investments and beneficial interest in trusts approximates their fair value.

Note 5. Fair Value of Financial Instruments (Continued)

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, 2011 and 2010, 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, 2011 and 2010. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The table does not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

	Balance at June 30, 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	\$ 11,988,990	\$ 11,721,754	\$ 67,007	\$ 200,229
Assets- Beneficial Interest in Trusts				
Equity Investments	\$ 594,827	\$ 594,827	\$ -	\$ -
Fixed Income	402,742	402,742	-	-
Mutual Funds	49,947	49,947	-	-
Money Market Funds	92,758	92,758	-	-
Charitable Remainder Trust	54,295	-	-	54,295
Total Beneficial Interests in Trusts	\$ 1,194,569	\$ 1,140,274	\$ -	\$ 54,295
Total Fair Value Measurements	\$ 13,183,559	\$ 12,862,028	\$ 67,007	\$ 254,524

Note 5. Fair Value of Financial Instruments (Continued)

	Balance at June 30, 2010	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	\$ 3,507,013	\$ 3,507,013	\$ -	\$ -
International Fixed Income	867,669	867,669	-	-
Domestic Equities	3,667,483	3,667,483	-	-
International Equities	1,629,821	1,629,821	-	-
Money Market Funds	70,172	-	70,172	-
Real Estate	<u>200,229</u>	<u>-</u>	<u>-</u>	<u>200,229</u>
Total Investments	<u>\$ 9,942,387</u>	<u>\$ 9,671,986</u>	<u>\$ 70,172</u>	<u>\$ 200,229</u>
Assets- Beneficial Interest in Trusts				
Equity Investments	\$ 679,254	\$ 679,254	\$ -	\$ -
Fixed Income	353,122	353,122	-	-
Mutual Funds	-	-	-	-
Money Market Funds	180,026	180,026	-	-
Charitable Remainder Trust	<u>45,975</u>	<u>-</u>	<u>-</u>	<u>45,975</u>
Total Beneficial Interests in Trusts	<u>\$ 1,258,377</u>	<u>\$ 1,212,402</u>	<u>\$ -</u>	<u>\$ 45,975</u>
Total Fair Value Measurements	<u>\$ 11,200,764</u>	<u>\$ 10,884,388</u>	<u>\$ 70,172</u>	<u>\$ 246,204</u>

Investments - The Foundation invests in cash and equivalents, equities and bonds, with quoted prices in active markets, and are considered to be Level 1 inputs. The Foundation also holds land that is stated at the fair value at the time of purchase, which approximates market value, and is considered to be Level 3 inputs. The Foundation intends to donate the real estate to NEOMED in the future.

Note 5. Fair Value of Financial Instruments (Continued)

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

	Real Estate	Charitable Remainder Trust
	<u>Real Estate</u>	<u>Trust</u>
Balance at 6/30/10	\$ 200,229	\$ 45,975
Contributions	-	-
Payments	-	-
Change in Value	-	8,320
	<u> </u>	<u> </u>
Balance as of 6/30/11	<u>\$ 200,229</u>	<u>\$ 54,295</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, 2011 and 2010 totaled \$54,295 and \$45,975, respectively.

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 fair market value and at June 30, 2011 and 2010 the value totaled \$1,140,274 and \$1,212,402, 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 Foundation has experienced a zero default rate and, therefore, management does not believe an allowance for doubtful accounts is necessary.

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. The discount rate used to estimate the net present value of the obligations on June 30, 2011 and 2010 was 4.2%. 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>2011</u>	<u>2010</u>
Charitable purposes:		
Instruction and departmental research	\$ 18,302	\$ 19,915
Academic support	54,717	61,932
Institutional support	642,009	521,707
Student scholarships and other student aid	30,917	54,119
Student loan funds	<u>18,215</u>	<u>18,050</u>
Total designated net assets, June 30	<u>\$ 764,160</u>	<u>\$ 675,723</u>

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>2011</u>	<u>2010</u>
Instruction and departmental research	\$ 740,878	\$ 39,603
Separately budgeted research	204,503	143,564
Public service	829,258	872,512
Academic support	2,562,917	2,780,600
Institutional support	81,847	54,645
Plant operation and maintenance	8,674	35,040
Student scholarships and other student aid	870,979	413,654
Deferred gift annuity	235,569	233,588
Allowance for uncollectible pledges	<u>(10,702)</u>	<u>(13,462)</u>
Total temporarily restricted net assets, June 30	<u>\$5,523,923</u>	<u>\$4,559,744</u>

Note 11. Endowment Funds

NEOUCOM 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 NEOUCOM Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Note 11. Endowment Funds (Continued)

Endowments as of June 30:	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2010	(\$254,285)	\$236,201	\$7,604,340	\$7,586,256
Investment return:				
Investment Income		203,926	1,121	205,047
Net appreciation (depreciation) (realized and unrealized)	<u>254,285</u>	<u>1,171,663</u>	<u>-</u>	<u>1,425,948</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>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2009	\$(1,246,914)	\$ 86,310	\$7,534,494	\$6,373,890
Investment return:				
Investment Income	-	185,284	-	185,284
Net appreciation (depreciation) (realized and unrealized)	<u>992,629</u>	<u>(8,761)</u>	<u>-</u>	<u>983,868</u>
Total investment return	992,629	176,523	-	1,169,152
Contributions	-	-	70,296	70,296
Appropriations for expenditure	<u>-</u>	<u>(26,632)</u>	<u>(450)</u>	<u>(27,082)</u>
Endowment net assets As of June 30, 2010	<u>\$ (254,285)</u>	<u>\$ 236,201</u>	<u>\$7,604,340</u>	<u>\$7,586,256</u>

Note 11. Endowment Funds (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$254,285 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

NEOUCOM 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. NEOUCOM 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, NEOUCOM 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). NEOUCOM 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

NEOUCOM 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, NEOUCOM 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>2011</u>	<u>2010</u>
Student loans	\$ 787,753	\$ 750,285
Endowments requiring earnings only be made available for:		
Student scholarships and awards	2,887,564	2,772,655
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	696,331	228,977
Deferred gift annuity	74,769	56,319
Allowance for uncollectible pledges	<u>(19,309)</u>	<u>—</u>
Total permanently restricted net assets, June 30	<u>\$9,029,815</u>	<u>\$ 8,410,943</u>

Note 13. Related Party Transactions

For the years ended June 30, 2011 and 2010, the Foundation made disbursements of \$926,594 and \$1,144,167, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted loans of \$59,650 and \$67,213 to college students for the years ended June 30, 2011 and 2010, respectively.

The Foundation provided reimbursements of \$49,293 and \$56,186, respectively, to the University for management, fund raising, services, and office space during the years ended June 30, 2011 and 2010. 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 \$704,280 and \$444,443 for the years ended June 30, 2011 and 2010, respectively.

Note 14. Subsequent Events

In 2001, the Foundation received a \$1,500,000 million 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. Subsequent to June 30, 2011, the donor has requested full reimbursement of their charitable gift. As a result, the Foundation will be returning funds of approximately \$1,600,000 to the donor in November 2011.

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
NEOUCOM Foundation

We have audited the financial statements of NEOUCOM Foundation (the “Foundation”), a discretely presented component unit of the Northeast Ohio Medical University, as of and for the year ended June 30, 2011 and have issued our report thereon dated October 21, 2011. 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 the Foundation’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 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.

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 material weaknesses, 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 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.

October 21, 2011
Toledo, Ohio

Alente & Morse, PLLC



Dave Yost • 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
JANUARY 24, 2012**