

**NEUCOM FOUNDATION**

**FINANCIAL REPORT**

**JUNE 30, 2005**





**Auditor of State  
Betty Montgomery**

Board of Directors  
NEOUCOM Foundation  
4209 State Route 44  
PO Box 95  
Rootstown, Ohio 44272

We have reviewed the *Independent Auditors' Report* of the NEOUCOM Foundation, Portage County, prepared by Hausser & Taylor LLC, for the audit period July 1, 2004 through June 30, 2005. 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 "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

June 29, 2006

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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, 2005, 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 2004 financial statements and, in our report dated August 31, 2004, 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, 2005, 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 14, 2005, 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 14, 2005

NEOUCOM FOUNDATION  
STATEMENT OF FINANCIAL POSITION

June 30, 2005  
(With Comparative Totals at June 30, 2004)

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 81,975	\$ 358,776
Accounts receivable	435	786
Pledges receivable (Note 3)	<u>54,919</u>	<u>86,061</u>
Total current assets	137,329	445,623
<b>LONG-TERM ASSETS</b>		
Pledges receivable (Note 3)	377,015	285,856
Investments (Note 4)	6,760,972	6,387,291
Student notes receivable (Note 7)	486,622	493,643
Beneficial interest in trusts (Note 5)	2,619,960	2,806,855
Funds held in trust (Note 6)	<u>50,000</u>	<u>-</u>
Total long-term assets	<u>10,294,569</u>	<u>9,973,645</u>
Total assets	<u>\$10,431,898</u>	<u>\$10,419,268</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accrued liabilities	\$ 286,360	\$ 686,244
Annuity obligations (Note 8)	22,104	4,930
Deposits held in custody for others	<u>48,551</u>	<u>49,223</u>
Total current liabilities	357,015	740,397
<b>LONG-TERM LIABILITIES</b>		
Annuity obligations (Note 8)	<u>187,916</u>	<u>143,679</u>
Total liabilities	544,931	884,076
<b>NET ASSETS</b>		
<b>Unrestricted</b>		
Undesignated	(512,652)	(674,803)
Designated (Note 9)	<u>328,689</u>	<u>440,758</u>
Total unrestricted	(183,963)	(234,045)
Temporarily restricted (Note 10)	4,300,558	4,298,592
<b>Permanently restricted (Note 11)</b>		
Loan funds	661,619	628,712
Endowment funds	5,017,189	4,799,161
Annuity and life income funds	<u>91,564</u>	<u>42,772</u>
Total permanently restricted	<u>5,770,372</u>	<u>5,470,645</u>
Total net assets	<u>9,886,967</u>	<u>9,535,192</u>
Total liabilities and net assets	<u>\$10,431,898</u>	<u>\$10,419,268</u>

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

NEOUCOM FOUNDATION  
STATEMENT OF ACTIVITIES

Year Ended June 30, 2005  
(With Comparative Totals for June 30, 2004)

	Operating Funds			Permanently Restricted	Total All Funds 2005	Total All Funds 2004
	Unrestricted	Temporarily Restricted	Total Operating			
<b>CONTRIBUTIONS, GAINS AND OTHER SUPPORT</b>						
Contributions and bequests	\$ 444,083	\$ 259,242	\$ 703,325	\$ 264,013	\$ 967,338	\$3,694,814
In-kind support from NEOUCOM	338,232		338,232		338,232	363,406
Total contributions	782,315	259,242	1,041,557	264,013	1,305,570	4,058,220
Investment income						
Interest and dividend income	20,347	141,016	161,363	24,844	186,207	140,225
Realized gain on sale of investments	2,889	56,897	59,786	1,007	60,793	153,631
Unrealized appreciation of investments	59,290	167,346	226,636	9,863	236,499	473,919
Change in value of beneficial interest in a trust		58,111	58,111		58,111	254,754
Total investment income	82,526	423,370	505,896	35,714	541,610	1,022,529
Other income	33,554	266	33,820		33,820	51,660
Net assets released from restrictions	680,912	(680,912)	-		-	-
Total contributions, gains and other support	1,579,307	1,966	1,581,273	299,727	1,881,000	5,132,409
<b>EXPENDITURES</b>						
Disbursed for charitable purposes						
Instructional	165,638		165,638		165,638	143,035
Research	73,747		73,747		73,747	84,940
Public services			-		-	16,545
Academic support	366,385		366,385		366,385	345,282
Institutional support	46,345		46,345		46,345	52,569
Student financial assistance	218,254		218,254		218,254	266,845
Total disbursed for charitable purposes	870,369		870,369		870,369	909,216
Management and general	325,660		325,660		325,660	328,864
Fund raising	263,767		263,767		263,767	298,237
Insurance and annuity obligations	14,774		14,774		14,774	3,001
Uncollectible pledges	54,655		54,655		54,655	(2,962)
Total expenditures	1,529,225		1,529,225		1,529,225	1,536,356
CHANGE IN NET ASSETS	50,082	1,966	52,048	299,727	351,775	3,596,053
NET ASSETS – BEGINNING	(234,045)	4,298,592	4,064,547	5,470,645	9,535,192	5,939,139
NET ASSETS – ENDING	\$ (183,963)	\$4,300,558	\$4,116,595	\$5,770,372	\$9,886,967	\$9,535,192

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



NEOUCOM FOUNDATION  
STATEMENT OF CASH FLOWS

Year Ended June 30, 2005  
(With Comparative Totals for June 30, 2004)

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 351,775	\$ 3,596,053
Adjustments to reconcile increase in net assets to cash (used) provided by operating activities:		
Receipt of non-cash contribution	(54,993)	(2,852,100)
Net realized gain on investments	(60,793)	(153,631)
Net unrealized appreciation of investments	(236,499)	(473,919)
Increase in value of beneficial interest in a trust	(58,111)	(254,754)
Contributions restricted for endowment	(264,013)	-
Decrease (increase) in accounts receivable	351	(786)
(Increase) decrease in pledges receivable	(60,017)	22,642
Decrease in student notes receivable	7,021	6,900
Decrease in prepaid expenses and deferred charges	-	800
(Decrease) increase in accrued liabilities	(399,884)	407,907
Decrease in deposits held for others	(672)	(2,196)
Net cash (used) provided by operating activities	<u>(775,835)</u>	<u>296,916</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease in beneficial interest in trusts	300,000	300,000
Investment in funds held in trust	(50,000)	-
Net purchases of investments	<u>(76,390)</u>	<u>(438,016)</u>
Net cash provided (used) by investing activities	173,610	(138,016)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to beneficiaries of charitable gift annuities	(13,374)	(9,674)
Receipt of charitable gift annuity	59,164	68,194
Net change in value of annuity agreements	15,621	12,540
Contributions restricted for endowment	<u>264,013</u>	<u>-</u>
Net cash provided by financing activities	<u>325,424</u>	<u>71,060</u>
<b>NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS</b>	<b>(276,801)</b>	<b>229,960</b>
<b>CASH AND EQUIVALENTS – BEGINNING</b>	<u>358,776</u>	<u>128,816</u>
<b>CASH AND EQUIVALENTS – ENDING</b>	<u>\$ 81,975</u>	<u>\$ 358,776</u>

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

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

**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 serve as the gift receiving arm of 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. This category includes true endowment earnings, quasi-endowment principal and earnings, a property annuity and property assets.

**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, 2005

**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 2005 and 2004.

*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, 2004 from which the summarized information was derived. Certain prior year amounts have been reclassified to conform with current year presentation.

**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 between 2% and 5% as of June 30 is due as follows:

	<u>2005</u>	<u>2004</u>
Less than one year	\$ 58,966	\$ 89,752
One to five years	<u>450,000</u>	<u>318,000</u>
Total outstanding pledges	508,966	407,752
Less net present value discount	(54,299)	(18,261)
Less allowance for uncollectible pledges	<u>(22,733)</u>	<u>(17,574)</u>
Net outstanding pledges	<u>\$ 431,934</u>	<u>\$ 371,917</u>

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2005

**Note 4. Investments**

Following is a summary of investments at June 30:

	2005		2004	
	Cost	Market	Cost	Market
Money market funds	\$ 247,788	\$ 247,788	\$ 517,048	\$ 517,048
Cash surrender value of life insurance	145,041	145,041	119,371	119,371
Equities	3,773,866	4,039,709	3,647,130	3,709,904
Fixed income	<u>2,267,563</u>	<u>2,328,434</u>	<u>2,008,926</u>	<u>2,040,968</u>
Total long-term investments	<u>\$6,434,258</u>	<u>\$6,760,972</u>	<u>\$6,292,475</u>	<u>\$6,387,291</u>

The Foundation's investment policy specifies that 55%-65% of funds to be invested shall be held in equities while the remaining 35%-45% shall be placed in government or corporate investment grade instruments or cash equivalents. No investment will be made in tax exempt instruments with the exception of conditions placed upon the Foundation by a donor, making a charitable trust or annuity agreement with the Foundation.

No investments should be made in commodities, real estate, venture capital, or similar options without the express approval of the NEOUCOM Foundation's Board of Directors.

NEOUCOM Foundation is the owner and sole beneficiary of a life insurance policy in the amount of \$500,000, which insures the life of a Foundation contributor. The contributor has indicated his intention to make future contributions to the Foundation in the necessary amounts for payment of premiums for the policy. The agreement is not considered as a pledge, due to the fact that the contributor is under no obligation to make future contributions to the Foundation under the agreement. Upon death of the insured, the life insurance proceeds are to be used to further fund the endowed chair in anatomy or, if already fully funded, the proceeds may fund other Foundation projects at the Board of Directors' discretion.

**Note 5. Beneficial Interest in Trusts**

During fiscal year 2005, the Foundation was informed it was 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 has 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, 2005 equaled \$54,993.

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, 2005 and 2004, respectively, the value totaled \$2,564,967 and \$2,806,855.

**Note 6. Funds Held in Trust**

During fiscal year 2005, the Foundation signed an agreement with the Barberton Community Foundation through which the Foundation transferred funds in the amount of \$50,000 to the Barberton Community Foundation to establish a fund for the benefit of NEOUCOM students. The funds are to be held in perpetuity and have been recorded as funds held in trust.

NEUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2005

**Note 7. Student Notes Receivable**

The Foundation has established a revolving loan fund that disburses funds at a rate of 5%. The Foundation has experienced a zero default rate and, therefore, management has not recorded an allowance for doubtful loans.

**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 sole recipient of annual annuity payments. These annual payments, currently totaling \$22,104 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, 2005 and 2004 ranged from 3.6 to 6.0%.

**Note 9. 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>2005</u>	<u>2004</u>
Charitable purposes:		
Instruction and departmental research	\$ 595	\$ 1,757
Separately budgeted research	60,423	60,358
Academic support	9,303	9,303
Student services	435	-
Institutional support	29,476	67,601
Plant operation and maintenance	21,126	7,280
Student scholarships and other student aid	165,126	241,144
Student loan funds	16,806	16,600
Management and General	4,024	17,590
Fund Raising	<u>21,375</u>	<u>19,125</u>
Total designated net assets, June 30	<u>\$ 328,689</u>	<u>\$ 440,758</u>

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2005

**Note 10. 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 educational and general functional categories:

	<u>2005</u>	<u>2004</u>
Instruction and departmental research	\$ 269,381	\$ 279,277
Separately budgeted research	175,721	247,588
Public service	104	54
Academic support	2,909,587	3,179,232
Institutional support	60,184	(3,061)
Plant operation and maintenance	260,809	233,784
Student scholarships and other student aid	495,034	371,785
Deferred gift annuity	145,040	4,471
Allowance for uncollectible pledges	<u>(15,302)</u>	<u>(14,538)</u>
Total temporarily restricted net assets, June 30	<u>\$4,300,558</u>	<u>\$4,298,592</u>

**Note 11. Permanently Restricted Net Assets**

Permanently restricted net assets are restricted to:

	<u>2005</u>	<u>2004</u>
Student loans	\$ 661,619	\$ 628,712
Student scholarships and awards	2,058,453	1,975,999
Community health science professorship	1,500,000	1,500,000
Anatomy endowed chair	1,002,471	1,002,471
Student loans	100,236	99,186
General & other	363,460	224,541
Deferred gift annuity	91,564	42,772
Allowance for uncollectible pledges	<u>(7,431)</u>	<u>(3,036)</u>
Total permanently restricted net assets, June 30	<u>\$5,770,372</u>	<u>\$5,470,645</u>

The Foundation's distribution policy is to distribute up to 5.0 percent 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 made in the current fiscal year. All unspent funds distributed to temporarily restricted accounts will be reinvested in the endowment each year.

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2005

**Note 12. Related Party Transactions**

For the years ended June 30, 2005 and 2004, the Foundation made disbursements of \$870,369 and \$909,216, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition, the Foundation granted loans of \$100,740 and \$102,762 to college students for the years ended June 30, 2005 and 2004, respectively.

The Foundation provided reimbursements of \$106,053 and \$118,324, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2005 and 2004. 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 \$338,232 and \$363,406, respectively, for the years ended June 30, 2005 and 2004.

Certain Foundation Board Members have affiliations with financial institutions with which the Foundation has deposit and investment accounts.



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, 2005, and have issued our report thereon dated October 14, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 14, 2005





**Auditor of State  
Betty Montgomery**

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**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  
JULY 13, 2006**