

**NEOUCOM FOUNDATION**

**FINANCIAL REPORT**

**JUNE 30, 2010**





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
NEOUCOM Foundation  
4209 State Route 44  
P. O. 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, 2009 through June 30, 2010. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

December 7, 2010

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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 the NEOUCOM Foundation (the "Foundation"), a discretely presented component unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy, as of June 30, 2010 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. The financial statements of NEOUCOM Foundation as of and for the year ended June 30, 2009 were audited by other auditors, whose report dated November 12, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NEOUCOM Foundation as of June 30, 2010 and the results of its operations and cash flows for the years 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 27, 2010 on our consideration of the 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 18 and 19 herein) is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

October 27, 2010  
Toledo, Ohio

*Plante & Moran, PLLC*

NEUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)  
STATEMENT OF FINANCIAL POSITION

June 30, 2010  
(With Comparative Totals at June 30, 2009)

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and equivalents	\$ 221,340	\$ 171,202
Accounts receivable	16,000	-
Pledges receivable (Note 3)	<u>205,125</u>	<u>348,875</u>
Total current assets	442,465	520,077
LONG-TERM ASSETS		
Pledges receivable (Note 3)	1,022,207	1,181,617
Investments (Note 4)	10,175,975	8,828,706
Student notes receivable (Note 7)	362,520	393,135
Beneficial interest in trusts (Note 6)	<u>1,258,377</u>	<u>1,421,501</u>
Total long-term assets	<u>12,819,079</u>	<u>11,824,959</u>
Total assets	<u>\$ 13,261,544</u>	<u>\$ 12,345,036</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accrued liabilities	\$ 168,912	\$ 206,843
Annuity obligations (Note 8)	21,990	21,990
Deposits held in custody for others	<u>44,349</u>	<u>44,101</u>
Total current liabilities	235,251	272,934
LONG-TERM LIABILITIES		
Annuity obligations (Note 8)	<u>153,382</u>	<u>156,953</u>
Total liabilities	388,633	429,887
NET ASSETS		
Unrestricted		
Undesignated	(773,499)	(2,032,477)
Designated (Note 9)	<u>675,723</u>	<u>689,056</u>
Total unrestricted	(97,776)	(1,343,421)
Temporarily restricted (Note 10)	4,559,744	4,959,139
Permanently restricted (Note 12)		
Loan funds	750,285	719,251
Endowment funds	7,604,340	7,534,494
Annuity and life income funds	<u>56,318</u>	<u>45,686</u>
Total permanently restricted	<u>8,410,943</u>	<u>8,299,431</u>
Total net assets	<u>12,872,911</u>	<u>11,915,149</u>
Total liabilities and net assets	<u>\$ 13,261,544</u>	<u>\$ 12,345,036</u>

The accompanying notes are an integral part of these financial statements

NEUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)  
STATEMENT OF ACTIVITIES

Year Ended June 30, 2010  
(With Comparative Totals for June 30, 2009)

	Operating Funds			Permanently Restricted	Total	Total
	Unrestricted	Temporarily Restricted	Total Operating		All Funds 2010	All Funds 2009
<b>CONTRIBUTIONS, GAINS AND OTHER SUPPORT</b>						
Contributions and bequests	\$ 235,279	\$ 266,961	\$ 502,240	\$ 70,296	\$ 572,536	\$ 579,323
In-kind support from NEUCOM	444,443	-	444,443	-	444,443	457,157
Total contributions	679,722	266,961	946,683	70,296	1,016,979	1,036,480
Investment income						
Interest and dividend income	48,222	161,838	210,060	8,725	218,785	260,997
Realized gain on sale of investments	(225,716)	(902,630)	(1,128,346)	(6,579)	(1,134,925)	(1,222,145)
Unrealized (depreciation) appreciation of investments	1,325,176	890,566	2,215,742	25,595	2,241,337	(1,218,174)
Change in value of beneficial interest in a trust	-	136,876	136,876	-	136,876	(420,938)
Total investment income	1,147,682	286,650	1,434,332	27,741	1,462,073	(2,600,260)
Other income	133,477	10,023	143,500	13,925	157,425	125,270
Net assets released from restrictions	963,479	(963,029)	450	(450)	-	-
Total contributions, gains and other support	2,924,360	(399,395)	2,524,965	111,512	2,636,477	(1,438,510)
<b>EXPENDITURES</b>						
Disbursed for charitable purposes						
Instructional	25,351		25,351		25,351	80,620
Research	50,348		50,348		50,348	48,620
Public services	92,522		92,522		92,522	343,513
Academic support	549,062		549,062		549,062	578,840
Institutional support	146,077		146,077		146,077	110,488
Operations and maintenance	7,500		7,500		7,500	47,288
Student financial assistance	273,307		273,307		273,307	290,019
Total disbursed for charitable purposes	1,144,167		1,144,167		1,144,167	1,499,388
Management and general	329,480		329,480		329,480	352,119
Fund raising	205,068		205,068		205,068	315,330
Total expenditures	1,678,715	-	1,678,715	-	1,678,715	2,166,837
CHANGE IN NET ASSETS	1,245,645	(399,395)	846,250	111,512	957,762	(3,605,347)
NET ASSETS - BEGINNING	(1,343,421)	4,959,139	3,615,718	8,299,431	11,915,149	15,520,496
NET ASSETS - ENDING	\$ (97,776)	\$ 4,559,744	\$ 4,461,968	\$ 8,410,943	\$ 12,872,911	\$ 11,915,149

The accompanying notes are an integral part of these financial statements



NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)  
STATEMENT OF CASH FLOWS

Year Ended June 30, 2010  
(With Comparative Totals for June 30, 2009)

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 957,762	\$ (3,605,347)
Adjustments to reconcile increase (decrease) in net assets to cash provided by operating activities:		
Net realized loss on investments	1,134,925	1,222,145
Net unrealized (appreciation) depreciation of investments	(2,241,337)	1,218,174
(Increase) decrease in value of beneficial interest in a trust	(136,876)	420,938
Contributions restricted for endowment	(70,296)	(59,954)
(Increase) decrease in accounts receivable	(16,000)	5,607
Decrease in pledges receivable	303,160	317,569
Decrease in student notes receivable	30,615	22,652
(Decrease) increase in accrued liabilities	(37,931)	187,801
Increase (decrease) in deposits held for others	<u>248</u>	<u>(644)</u>
Net cash used in operating activities	(75,730)	(271,059)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Distribution of principal from beneficial interest in trusts	300,000	300,000
Total purchase of investments	(2,670,852)	(5,181,871)
Total sale of investments	<u>2,429,995</u>	<u>4,843,431</u>
Net cash provided by (used in) investing activities	59,143	(38,440)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to beneficiaries of charitable gift annuities	(21,990)	(21,990)
Net change in value of annuity agreements	18,419	18,461
Contributions restricted for endowment	<u>70,296</u>	<u>59,954</u>
Net cash provided by financing activities	<u>66,725</u>	<u>56,425</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	50,138	(253,074)
<b>CASH AND EQUIVALENTS - BEGINNING</b>	<u>171,202</u>	<u>424,276</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	\$ <u><u>221,340</u></u>	\$ <u><u>171,202</u></u>

The accompanying notes are an integral part of these financial statements

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

**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 Colleges of Medicine and Pharmacy (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. As of June 30, 2010 and 2009, the Foundation did not have any cash and cash equivalent balances that exceeded the \$250,000 of FDIC coverage.

*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.

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

**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.

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

**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.

*Functional Allocation of Expenses* - Total expenses consisted of expenses relating to program services, management and general, and fund-raising. 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 balance sheet.

*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.

*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 27, 2010 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, 2009 from which the summarized information was derived.

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

**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, 2010 and 2009.

Pledges receivable at June 30, 2010 and 2009 are expected to be realized in the following periods:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 207,500	\$ 352,500
Between one and five years	740,000	815,000
More than five years	<u>480,000</u>	<u>610,000</u>
Total outstanding pledges	1,427,500	1,777,500
Less net present value discount	(186,706)	(230,506)
Less allowance for uncollectible pledges	<u>(13,462)</u>	<u>(16,502)</u>
Net outstanding pledges	<u>\$ 1,227,332</u>	<u>\$ 1,530,492</u>

**Note 4. Investments**

Following is a summary of investments at June 30:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 70,175	\$ 70,175	\$ 55,979	\$ 55,979
Cash surrender value of life insurance	233,588	233,588	229,208	229,208
Real estate	200,229	200,229	200,229	200,229
Equities	5,014,003	5,297,302	5,561,838	4,943,615
Fixed income	<u>4,272,333</u>	<u>4,374,681</u>	<u>3,988,760</u>	<u>3,399,675</u>
Total long-term investments	<u>\$9,790,328</u>	<u>\$10,175,975</u>	<u>\$10,036,014</u>	<u>\$8,828,706</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 College in the future.

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

**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 carry value of the investments and beneficial interest in trusts approximates their fair value.

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, 2010 and 2009. 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.

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

**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	-	-
Life Insurance -Surrender Value	233,588	-	233,588	-
Money market	70,172	-	70,172	-
Real Estate	200,229	-	-	200,229

	Balance at June 30, 2009	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	\$ 3,399,675	\$ 3,399,675	\$ -	\$ -
Domestic Equities	3,349,422	3,349,422	-	-
International Equities	1,594,311	1,594,311	-	-
Life Insurance -Surrender Value	229,208	-	229,208	-
Money market	55,861	-	55,861	-
Real Estate	200,229	-	-	200,229

*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 historical cost at the time of purchase, which approximates market value. These are considered to be Level 3 inputs.

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

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

*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 for so it is considered to be Level 3 inputs.

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

	<u>Real Estate</u>
Balance at 06/30/09	\$200,229
Contributions	-
Payments	-
Change in Value	<u>-</u>
Balance as of 06/30/10	<u>\$200,229</u>

**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, 2010 and 2009 totaled \$45,975 and \$42,042, 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, 2010 and 2009 the value totaled \$1,212,402 and \$1,379,459, 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.



NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

**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, 2010 and 2009 was 4.2%.

**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>2010</u>	<u>2009</u>
Charitable purposes:		
Instruction and departmental research	\$ 19,915	\$ 26,725
Academic support	61,932	55,122
Student services	0	49
Institutional support	521,707	525,719
Plant operation and maintenance	0	49,772
Student scholarships and other student aid	54,119	13,738
Student loan funds	18,050	17,738
Management and general	<u>0</u>	<u>193</u>
Total designated net assets, June 30	<u>\$ 675,723</u>	<u>\$ 689,056</u>

**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 functional categories:

	<u>2010</u>	<u>2009</u>
Instruction and departmental research	\$ 39,603	\$ 32,096
Separately budgeted research	143,564	139,621
Public service	872,512	960,052
Academic support	2,780,600	3,257,122
Institutional support	54,645	46,551
Plant operation and maintenance	35,040	41,999
Student scholarships and other student aid	413,654	268,992
Deferred gift annuity	233,588	229,208
Allowance for uncollectible pledges	<u>(13,462)</u>	<u>(16,502)</u>
Total temporarily restricted net assets, June 30	<u>\$4,559,744</u>	<u>\$4,959,139</u>

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

**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 the 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:

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

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

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

Endowments as of June 30:	<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	-	-	-	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>

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NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2008	\$ -	\$ 631,948	\$7,480,491	\$8,112,439
Investment return:				
Investment Income		206,444		206,444
Net depreciation (realized and unrealized)	<u>(1,246,914)</u>	<u>(632,056)</u>	-	<u>(1,878,970)</u>
Total investment return	<u>(1,246,914)</u>	<u>(425,612)</u>	-	<u>(1,672,526)</u>
Contributions			60,398	60,398
Appropriations for expenditure	<u>-</u>	<u>(120,026)</u>	<u>(6,395)</u>	<u>(126,421)</u>
Endowment net assets As of June 30, 2009	<u><u>\$ (1,246,914)</u></u>	<u><u>\$ 86,310</u></u>	<u><u>\$7,534,494</u></u>	<u><u>\$6,373,890</u></u>

*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$254,285 as of June 30, 2010. 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.

NEOUCOM FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

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

*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). The 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>2010</u>	<u>2009</u>
Student loans	\$ 750,285	\$ 719,251
Endowments requiring earnings only be made available for:		
Student scholarships and awards	2,772,655	2,703,008
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	228,977	228,779
Deferred gift annuity	<u>56,319</u>	<u>45,686</u>
Total permanently restricted net assets, June 30	<u>\$ 8,410,943</u>	<u>\$ 8,299,431</u>

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2010

**Note 13. Related Party Transactions**

For the years ended June 30, 2010 and 2009, the Foundation made disbursements of \$1,144,167 and \$1,499,388, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition, the Foundation granted loans of \$67,213 and \$76,733 to college students for the years ended June 30, 2010 and 2009, respectively.

The Foundation provided reimbursements of \$56,186 and \$198,861, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2010 and 2009. 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 \$444,443 and \$457,157 for the years ended June 30, 2010 and 2009, respectively.

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 the NEOUCOM Foundation (the "Foundation"), a discretely presented component unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy, as of and for the year ended June 30, 2010 and have issued our report thereon dated October 27, 2010. 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 in order to determine 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 the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

*Plante & Moran, PLLC*

October 27, 2010  
Toledo, Ohio





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**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  
DECEMBER 21, 2010**