

NEOUCOM FOUNDATION

FINANCIAL REPORT

JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Directors
NEOUCOM Foundation
4209 St. Rt. 44
P.O. Box 95
Rootstown, Ohio 44272-0095

We have reviewed the *Independent Auditors' Report* of the NEOUCOM Foundation, Portage County, prepared by Hausser + Taylor LLC, for the audit period July 1, 2005 through June 30, 2006. 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

September 18, 2007

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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, 2006, 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 2005 financial statements and, in our report dated October 14, 2005, 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, 2006, 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 August 25, 2006, 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
August 25, 2006

NEOUCOM FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2006

(With Comparative Totals at June 30, 2005)

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 86,834	\$ 81,975
Accounts receivable	4,440	435
Pledges receivable (Note 3)	<u>152,655</u>	<u>54,919</u>
Total current assets	243,929	137,329
LONG-TERM ASSETS		
Pledges receivable (Note 3)	1,886,415	377,015
Investments (Note 4)	9,809,466	6,760,972
Student notes receivable (Note 7)	536,986	486,622
Beneficial interest in trusts (Note 5)	2,488,417	2,619,960
Funds held in trust (Note 6)	<u>50,000</u>	<u>50,000</u>
Total long-term assets	<u>14,771,284</u>	<u>10,294,569</u>
Total assets	<u>\$ 15,015,213</u>	<u>\$ 10,431,898</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued liabilities	\$ 213,674	\$ 286,360
Annuity obligations (Note 8)	17,505	22,104
Deposits held in custody for others	<u>48,684</u>	<u>48,551</u>
Total current liabilities	279,863	357,015
LONG-TERM LIABILITIES		
Annuity obligations (Note 8)	<u>151,116</u>	<u>187,916</u>
Total liabilities	430,979	544,931
NET ASSETS		
Unrestricted		
Undesignated	(382,153)	(512,652)
Designated (Note 9)	<u>619,864</u>	<u>328,689</u>
Total unrestricted	237,711	(183,963)
Temporarily restricted (Note 10)	6,329,971	4,300,558
Permanently restricted (Note 11)		
Loan funds	689,647	661,619
Endowment funds	7,220,098	5,017,189
Annuity and life income funds	<u>106,807</u>	<u>91,564</u>
Total permanently restricted	<u>8,016,552</u>	<u>5,770,372</u>
Total net assets	<u>14,584,234</u>	<u>9,886,967</u>
Total liabilities and net assets	<u>\$ 15,015,213</u>	<u>\$ 10,431,898</u>

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

NEOUCOM FOUNDATION
STATEMENT OF ACTIVITIES

Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	Operating Funds			Permanently Restricted	Total	Total
	Unrestricted	Temporarily Restricted	Total Operating		All Funds 2006	All Funds 2005
CONTRIBUTIONS, GAINS AND OTHER SUPPORT						
Contributions and bequests	\$ 773,527	\$2,295,546	\$3,069,073	\$2,203,114	\$ 5,272,187	\$ 967,338
In-kind support from NEOUCOM	356,144		356,144		356,144	338,232
Total contributions	1,129,671	2,295,546	3,425,217	2,203,114	5,628,331	1,305,570
Investment income						
Interest and dividend income	22,769	188,217	210,986	7,021	218,007	186,207
Realized gain on sale of investments	30,658	303,903	334,561	7,216	341,777	60,793
Unrealized (depreciation) appreciation of investments	3,438	(191,135)	(187,697)	2,012	(185,685)	236,499
Change in value of beneficial interest in a trust		169,608	169,608		169,608	58,111
Total investment income	56,865	470,593	527,458	16,249	543,707	541,610
Other income	37,154	(5,559)	31,595	26,817	58,412	33,820
Net assets released from restrictions	731,167	(731,167)	-	-	-	-
Total contributions, gains and other support	1,954,857	2,029,413	3,984,270	2,246,180	6,230,450	1,881,000
EXPENDITURES						
Disbursed for charitable purposes						
Instructional	189,006		189,006		189,006	165,638
Research	13,001		13,001		13,001	73,747
Public services	575		575		575	-
Academic support	265,056		265,056		265,056	366,385
Institutional support	106,849		106,849		106,849	46,345
Student financial assistance	346,968		346,968		346,968	218,254
Total disbursed for charitable purposes	921,455		921,455		921,455	870,369
Management and general	339,893		339,893		339,893	325,660
Fund raising	214,254		214,254		214,254	263,767
Insurance and annuity obligations	48,044		48,044		48,044	14,774
Uncollectible pledges	9,537		9,537		9,537	54,655
Total expenditures	1,533,183		1,533,183		1,533,183	1,529,225
CHANGE IN NET ASSETS	421,674	2,029,413	2,451,087	2,246,180	4,697,267	351,775
NET ASSETS – BEGINNING	(183,963)	4,300,558	4,116,595	5,770,372	9,886,967	9,535,192
NET ASSETS – ENDING	\$ 237,711	\$6,329,971	\$6,567,682	\$8,016,552	\$14,584,234	\$9,886,967

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

NEOUCOM FOUNDATION
STATEMENT OF CASH FLOWS

Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
change in net assets	\$ 4,697,267	\$ 351,775
Adjustments to reconcile increase in net assets to cash provided (used) by operating activities:		
Receipt of non-cash contribution	-	(54,993)
Net realized gain on investments	(341,777)	(60,793)
Net unrealized depreciation (appreciation) of investments	185,685	(236,499)
Increase in value of beneficial interest in a trust	(169,608)	(58,111)
Contributions restricted for endowment	(2,203,114)	(264,013)
(Increase) decrease in accounts receivable	(4,005)	351
Increase in pledges receivable	(1,607,136)	(60,017)
(Increase) decrease in student notes receivable	(50,364)	7,021
Decrease in accrued liabilities	(72,686)	(399,884)
Increase (decrease) in deposits held for others	133	(672)
Net cash provided (used) by operating activities	<u>434,395</u>	<u>(775,835)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Distribution of principal from beneficial interest in trusts	300,000	300,000
Investment in funds held in trust	-	(50,000)
Net purchases of investments	<u>(2,891,251)</u>	<u>(76,390)</u>
Net cash (used) provided by investing activities	(2,591,251)	173,610
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to beneficiaries of charitable gift annuities	(17,938)	(13,374)
Receipt of charitable gift annuity	-	59,164
Net change in value of annuity agreements	(23,461)	15,621
Contributions restricted for endowment	<u>2,203,114</u>	<u>264,013</u>
Net cash provided by financing activities	<u>2,161,715</u>	<u>325,424</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	4,859	(276,801)
CASH AND EQUIVALENTS – BEGINNING	<u>81,975</u>	<u>358,776</u>
CASH AND EQUIVALENTS – ENDING	<u>\$ 86,834</u>	<u>\$ 81,975</u>

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

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

Note 1. Organization

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

The Foundation is governed by a volunteer Board of Directors consisting of a maximum of forty-two members.

Note 2. Significant Accounting Policies

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

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

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. This category includes unrestricted assets and uncollected pledges.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. This category includes annuity funds and true endowment principal.

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

Investments – Investments are carried at fair market value based on quoted market prices. Realized and unrealized gains and losses are reflected in the Statement of Activities.

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

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2006

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 2006 and 2005.

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, 2005 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>2006</u>	<u>2005</u>
Less than one year	\$ 169,000	\$ 58,966
One to five years	<u>2,177,000</u>	<u>450,000</u>
Total outstanding pledges	2,346,000	508,966
Less net present value discount	(274,518)	(54,299)
Less allowance for uncollectible pledges	<u>(32,412)</u>	<u>(22,733)</u>
Net outstanding pledges	<u>\$2,039,070</u>	<u>\$ 431,934</u>

The Foundation has classified \$678,453 as permanently restricted pledges which are expected to be received in one year or less as non-current assets on the statement of financial position as they are not available for current use.

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2006

Note 4. Investments

Following is a summary of investments at June 30:

	2006		2005	
	Cost	Market	Cost	Market
Money market funds	\$ 409,562	\$ 409,562	\$ 247,788	\$ 247,788
Cash surrender value of life insurance	144,891	144,891	145,041	145,041
Real estate	200,229	200,229	-	-
Equities	5,305,119	5,745,095	3,773,866	4,039,709
Fixed income	3,381,974	3,309,689	2,267,563	2,328,434
Total long-term investments	<u>\$9,441,775</u>	<u>\$9,809,466</u>	<u>\$6,434,258</u>	<u>\$6,760,972</u>

The Foundation's Board of Directors has adopted an investment policy which is reviewed and updated on an annual basis and is used to determine asset allocation. Investments in real estate are recorded at cost.

Note 5. Beneficial Interest in Trusts

During fiscal year 2005, the Foundation became the beneficiary of a Charitable Remainder Trust. Upon the death of the donors, the Foundation will receive its share of the trust funds. The Foundation recorded an investment in this trust equal to the expected future distribution discounted at a rate of five percent. The value of the Foundation's interest in the trust at June 30, 2006 and 2005 totaled \$53,842 and \$54,993, respectively.

During fiscal year 2004, the Foundation was informed that it was the sole beneficiary of an irrevocable grantor trust. According to the trust, the Foundation is to receive annually the sum of \$300,000 for its unrestricted use until such time that the trust is fully liquidated. The value of the Foundation's interest in the trust has been recorded at its fair market value and at June 30, 2006 and 2005, respectively, the value totaled \$2,434,575 and \$2,564,967.

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.

Note 7. Student Notes Receivable

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

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2006

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 \$17,505 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, 2006 and 2005 ranged from 3.6 to 6.0%.

Note 9. Unrestricted - Designated

The Foundation's Board of Directors has approved the designation of the following net assets to be available primarily for charitable purposes benefiting the College's faculty, staff, and students in the following functional categories:

	<u>2006</u>	<u>2005</u>
Charitable purposes:		
Instruction and departmental research	\$ 84,818	\$ 595
Separately budgeted research	-	60,423
Academic support	72,530	9,303
Student services	115	435
Institutional support	358,584	29,476
Plant operation and maintenance	8,543	21,126
Student scholarships and other student aid	76,627	165,126
Student loan funds	16,953	16,806
Management and General	1,694	4,024
Fund Raising	-	21,375
	<u> </u>	<u> </u>
Total designated net assets, June 30	<u>\$ 619,864</u>	<u>\$ 328,689</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>2006</u>	<u>2005</u>
Instruction and departmental research	\$ 319,240	\$ 269,381
Separately budgeted research	163,038	175,721
Public service	1,006,805	104
Academic support	3,625,445	2,909,587
Institutional support	14,001	60,184
Plant operation and maintenance	410,181	260,809
Student scholarships and other student aid	660,044	495,034
Deferred gift annuity	144,891	145,040
Allowance for uncollectible pledges	(13,674)	(15,302)
	<u> </u>	<u> </u>
Total temporarily restricted net assets, June 30	<u>\$6,329,971</u>	<u>\$4,300,558</u>

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2006

Note 11. Permanently Restricted Net Assets

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

	<u>2006</u>	<u>2005</u>
Student loans	\$ 689,647	\$ 661,619
Endowments requiring earnings only be made available for:		
Student scholarships and awards	2,360,470	2,058,453
Student loans	100,236	100,236
Community health science professorship	1,500,007	1,500,000
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	1,983,810	-
General & other	279,742	363,460
Deferred gift annuity	106,807	91,564
Allowance for uncollectible pledges	<u>(6,638)</u>	<u>(7,431)</u>
Total permanently restricted net assets, June 30	<u>\$8,016,552</u>	<u>\$5,770,372</u>

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

Note 12. Related Party Transactions

For the years ended June 30, 2006 and 2005, the Foundation made disbursements of \$921,455 and \$870,369, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition, the Foundation granted loans of \$175,150 and \$100,740 to college students for the years ended June 30, 2006 and 2005, respectively.

The Foundation provided reimbursements of \$174,056 and \$106,053, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2006 and 2005. 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 \$356,144 and \$338,232, respectively, for the years ended June 30, 2006 and 2005.

Certain Foundation board members have affiliations with financial institutions with which the Foundation has deposit and investment accounts. In addition, certain Foundation board members have affiliations with community foundations with which the Foundation has placed funds held in trust.



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, 2006, and have issued our report thereon dated August 25, 2006. 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
August 25, 2006



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
OCTOBER 2, 2007**