

NEUCOM FOUNDATION

FINANCIAL REPORT

JUNE 30, 2008



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the NEOUCOM Foundation, Portage County, prepared by Maloney + Novotny LLC, for the audit period July 1, 2007 through June 30, 2008. 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 22, 2008

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NEOUCOM FOUNDATION

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Board of Directors
NEOUCOM Foundation
Rootstown, Ohio

Independent Auditors' Report

We have audited the accompanying statement of financial position of NEOUCOM Foundation ("Foundation") as of June 30, 2008, 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 2007 financial statements and, in our report dated October 31, 2007, 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, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2008, 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.

Maloney + Novotny LLC

Cleveland, Ohio
October 31, 2008

NEOUCOM FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2008

(With Comparative Totals at June 30, 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 424,276	\$ 330,074
Accounts receivable	5,607	-
Pledges receivable (Note 3)	<u>371,480</u>	<u>695,281</u>
Total current assets	801,363	1,025,355
LONG-TERM ASSETS		
Pledges receivable (Note 3)	1,476,581	1,711,139
Investments (Note 4)	10,930,585	11,869,349
Student notes receivable (Note 7)	415,787	466,224
Beneficial interest in trusts (Note 5)	<u>2,142,439</u>	<u>2,526,088</u>
Total long-term assets	<u>14,965,392</u>	<u>16,572,800</u>
Total assets	\$ <u>15,766,755</u>	\$ <u>17,598,155</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued liabilities	\$ 19,042	\$ 17,620
Annuity obligations (Note 7)	21,990	21,990
Deposits held in custody for others	<u>44,745</u>	<u>47,251</u>
Total current liabilities	85,777	86,861
LONG-TERM LIABILITIES		
Annuity obligations (Note 7)	<u>160,482</u>	<u>158,060</u>
Total liabilities	246,259	244,921
NET ASSETS		
Unrestricted		
Undesignated	(373,804)	(439,222)
Designated (Note 8)	<u>673,891</u>	<u>962,338</u>
Total unrestricted	300,087	523,116
Temporarily restricted (Note 9)	6,897,566	8,516,352
Permanently restricted (Note 10)		
Loan funds	730,642	725,594
Endowment funds	7,480,491	7,426,528
Annuity and life income funds	<u>111,710</u>	<u>161,644</u>
Total permanently restricted	<u>8,322,843</u>	<u>8,313,766</u>
Total net assets	<u>15,520,496</u>	<u>17,353,234</u>
Total liabilities and net assets	\$ <u>15,766,755</u>	\$ <u>17,598,155</u>

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

NEOUCOM FOUNDATION
STATEMENT OF ACTIVITIES

Year Ended June 30, 2008
(With Comparative Totals for June 30, 2007)

	Operating Funds			Permanently Restricted	Total All Funds 2008	Total All Funds 2007
	Unrestricted	Temporarily Restricted	Total Operating			
CONTRIBUTIONS, GAINS AND OTHER SUPPORT						
Contributions and bequests	\$ 394,987	\$ 561,627	\$ 956,614	\$ 95,642	\$ 1,052,256	\$ 2,265,964
In-kind support from NEOUCOM	423,475	-	423,475	-	423,475	339,625
Total contributions	818,462	561,627	1,380,089	95,642	1,475,731	2,605,589
Investment income						
Interest and dividend income	81,467	229,293	310,760	17,613	328,373	251,115
Realized gain on sale of investments	29,382	391,112	420,494	4,666	425,160	680,979
Unrealized (depreciation) appreciation of investments	(296,260)	(1,492,520)	(1,788,780)	(62,422)	(1,851,202)	403,877
Change in value of beneficial interest in a trust	-	(77,649)	(77,649)	-	(77,649)	332,488
Total investment income	(185,411)	(949,764)	(1,135,175)	(40,143)	(1,175,318)	1,668,459
Other income	57,632	1,434	59,066	(6,128)	52,938	63,932
Net assets released from restrictions	1,232,083	(1,232,083)	-	-	-	-
Total contributions, gains and other support	1,922,766	(1,618,786)	303,980	49,371	353,351	4,337,980
EXPENDITURES						
Disbursed for charitable purposes						
Instructional	101,402		101,402		101,402	131,640
Research	37,171		37,171		37,171	23,251
Public services	67,466		67,466		67,466	1,997
Academic support	810,651		810,651		810,651	313,442
Institutional support	194,111		194,111		194,111	114,519
Operations and maintenance	98,810		98,810		98,810	114,335
Student financial assistance	312,761		312,761		312,761	347,070
Total disbursed for charitable purposes	1,622,372		1,622,372		1,622,372	1,046,254
Management and general	328,138		328,138		328,138	288,201
Fund raising	235,579		235,579		235,579	199,623
Insurance and annuity obligations	-		-		-	34,902
Total expenditures	2,186,089		2,186,089		2,186,089	1,568,980
CHANGE IN NET ASSETS	(263,323)	(1,618,786)	(1,882,109)	49,371	(1,832,738)	2,769,000
NET ASSETS – BEGINNING	563,410	8,516,352	9,079,762	8,273,472	17,353,234	14,584,234
NET ASSETS – ENDING	\$ 300,087	\$ 6,897,566	\$ 7,197,653	\$ 8,322,843	\$ 15,520,496	\$ 17,353,234

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

NEOUCOM FOUNDATION
STATEMENT OF CASH FLOWS

Year Ended June 30, 2008
(With Comparative Totals for June 30, 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (1,832,738)	\$ 2,769,000
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Net realized gain on investments	(425,160)	(680,979)
Net unrealized depreciation (appreciation) of investments	1,851,202	(403,877)
Decrease (increase) in value of beneficial interest in a trust	77,649	(332,488)
Contributions restricted for endowment	(95,642)	(208,618)
(Increase) decrease in accounts receivable	(5,607)	4,440
Decrease (increase) in pledges receivable	558,359	(367,350)
Decrease in student notes receivable	50,437	70,762
Increase (decrease) in accrued liabilities	1,422	(196,054)
(Decrease) in deposits held for others	<u>(2,506)</u>	<u>(1,433)</u>
Net cash provided by operating activities	177,416	653,403
CASH FLOWS FROM INVESTING ACTIVITIES		
Distribution of principal from beneficial interest in trusts	300,000	300,000
Net purchases of investments	<u>(481,278)</u>	<u>(930,210)</u>
Net cash used by investing activities	(181,278)	(630,210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to beneficiaries of charitable gift annuities	(21,990)	(21,545)
Receipt of charitable gift annuity	-	8,319
Net change in value of annuity agreements	24,412	24,655
Contributions restricted for endowment	<u>95,642</u>	<u>208,618</u>
Net cash provided by financing activities	<u>98,064</u>	<u>220,047</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	94,202	243,240
CASH AND EQUIVALENTS – BEGINNING	<u>330,074</u>	<u>86,834</u>
CASH AND EQUIVALENTS – ENDING	\$ <u>424,276</u>	\$ <u>330,074</u>

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

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

Note 1. Organization

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

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

Note 2. Significant Accounting Policies

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

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

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

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

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

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

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

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

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2008

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 2008 or 2007.

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, 2007 from which the summarized information was derived.

Note 3. Pledges Receivable

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

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 376,000	\$ 737,665
More than one year	<u>1,780,000</u>	<u>2,154,500</u>
Total outstanding pledges	2,156,000	2,892,165
Less net present value discount	(287,386)	(455,074)
Less allowance for uncollectible pledges	<u>(20,553)</u>	<u>(30,671)</u>
Net outstanding pledges	\$ <u>1,848,061</u>	\$ <u>2,406,420</u>

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2008

Note 4. Investments

Following is a summary of investments at June 30:

	<u>Cost</u>	<u>2008</u> <u>Market</u>	<u>Cost</u>	<u>2007</u> <u>Market</u>
Money market funds	\$ 81,067	\$ 81,067	\$ 71,691	\$ 71,691
Cash surrender value of life insurance	226,873	226,873	198,593	198,593
Real estate	200,229	200,229	200,229	200,229
Equities	7,648,305	6,807,564	7,208,281	7,646,278
Fixed income	<u>4,088,948</u>	<u>3,614,852</u>	<u>3,654,191</u>	<u>3,752,558</u>
Total long-term investments	\$ <u>12,245,422</u>	\$ <u>10,930,585</u>	\$ <u>11,332,985</u>	\$ <u>11,869,349</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. The Foundation intends to donate the real estate to the College during the year ended June 30, 2009.

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 5%. The value of the Foundation's interest in the trust at June 30, 2008 and 2007 totaled \$53,025 and \$59,025, 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, 2008 and 2007 the value totaled \$2,089,414 and \$2,467,063, respectively.

Note 6. Student Notes Receivable

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

NEUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2008

Note 7. Gift Annuity Obligations

The Foundation is obligated under various annuity contracts, whereby donors have contributed cash to the Foundation with agreement that the donor shall be the sole recipient of annual annuity payments. These annual payments, currently totaling \$21,990 per year, shall terminate on the last payment date preceding the death of the donor. The discount rate used to estimate the net present value of the obligations on June 30, 2008 and 2007 was 4.2% and 5.6%, respectively.

Note 8. Unrestricted - Designated

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

	<u>2008</u>	<u>2007</u>
Charitable purposes:		
Instruction and departmental research	\$ 32,876	\$ 63,017
Academic support	61,895	239,912
Student services	951	3,115
Institutional support	545,951	574,206
Plant operation and maintenance	8,543	8,543
Student scholarships and other student aid	5,573	55,250
Student loan funds	17,409	17,102
Management and general	<u>693</u>	<u>1,193</u>
Total designated net assets, June 30	\$ <u>673,891</u>	\$ <u>962,338</u>

Note 9. Temporarily Restricted Net Assets

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

	<u>2008</u>	<u>2007</u>
Instruction and departmental research	\$ 262,909	\$ 828,263
Separately budgeted research	134,836	166,682
Public service	1,299,858	1,106,739
Academic support	4,253,650	4,971,275
Institutional support	70,859	103,376
Plant operation and maintenance	88,653	183,654
Student scholarships and other student aid	576,777	983,922
Deferred gift annuity	226,873	198,593
Allowance for uncollectible pledges	<u>(16,849)</u>	<u>(26,152)</u>
Total temporarily restricted net assets, June 30	\$ <u>6,897,566</u>	\$ <u>8,516,352</u>

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2008

Note 10. Permanently Restricted Net Assets

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

	<u>2008</u>	<u>2007</u>
Student loans	\$ 730,642	\$ 725,594
Endowments requiring earnings only be made available for:		
Student scholarships and awards	2,596,951	2,544,817
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	284,537	283,523
Deferred gift annuity	111,710	161,644
Allowance for uncollectible pledges	<u>(3,704)</u>	<u>(4,519)</u>
Total permanently restricted net assets, June 30	<u>\$ 8,322,843</u>	<u>\$ 8,313,766</u>

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

Note 11. Related Party Transactions

For the years ended June 30, 2008 and 2007, the Foundation made disbursements of \$1,622,372 and \$1,046,254, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition, the Foundation granted loans of \$57,800 and \$77,900 to college students for the years ended June 30, 2008 and 2007, respectively.

The Foundation provided reimbursements of \$205,791 and \$111,027, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2008 and 2007. 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 \$423,475 and \$339,625 for the years ended June 30, 2008 and 2007, respectively.

NEOUCOM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30, 2008

Note 12. Subsequent Event

The Foundation holds investment securities which are exposed to various risks including 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 Foundation's investment account balances and the amounts reported in the Statements of Financial Position.

Subsequent to year end, the investment and credit markets in the United States and around the world have experienced significant challenges related to liquidity, extension of credit and valuation. The results of these challenges have significantly increased volatility in the trading prices of marketable securities. As of October 31, 2008, the major securities indices have declined more than 24% from their values at June 30, 2008.

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, 2008, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NEOUCOM Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NEOUCOM Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NEOUCOM Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects NEOUCOM Foundation's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of NEOUCOM Foundation's financial statements that is more than inconsequential will not be prevented or detected by NEOUCOM Foundation's internal control.

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

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

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With Government Auditing Standards (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NEOUCOM Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, management of NEOUCOM Foundation, and the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Maloney + Novotny LLC

Cleveland, Ohio
October 31, 2008



Mary Taylor, CPA
Auditor of State

**NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE 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 6, 2009**