



NEOUCOM
FOUNDATION



Outside view of Ralph Regula Conference Center

Financial Report
for the year ended June 30, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P. O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490
www.auditor.state.oh.us

Board of Trustees
NEOUCOM Foundation
Rootstown, Ohio

We have reviewed the Independent Auditor's Report of the NEOUCOM Foundation, Portage County, prepared by Hausser + Taylor LLP, for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The NEOUCOM Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

December 4, 2002

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THE NEUCOM FOUNDATION
OF THE NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
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Vice President: Brian L. Cherkala
Treasurer: Jerry Welty
Secretary: James L. Pazol

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for Institutional Advancement

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Assistant Treasurer and Vice President
for Administration and Finance

R. Scott Evans
Associate Director and Director of
Development

Tracy Jensen
Associate, Institutional Advancement

Sheila Markley
Legal Counsel
Managing Partner, Day Ketterer
Canton, Ohio

Lisa Morris
Administrative Assistant
Institutional Advancement

Independent Auditors' Report

Board of Trustees
NEOUCOM Foundation

We have audited the accompanying statement of financial position of NEOUCOM Foundation as of June 30, 2002, 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 2001 financial statements and, in our report dated October 9, 2001, 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 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, 2002 and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 3, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Hausser + Taylor LLP

Cleveland, Ohio
October 3, 2002

NEUCOM FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2002

With Comparative Totals at June 30, 2001

ASSETS	Total 6-30-02	Total 6-30-01
Assets		
Current assets		
Cash & equivalents	\$ 164,444	\$ 425,237
Accrued interest receivable	645	21,999
Other receivables	16,857	4,918
Pledges receivable (Footnote 2)	125,478	100,700
Assets restricted for custodian funds	50,388	46,010
Total current assets	<u>357,812</u>	<u>598,864</u>
Long-term assets		
Pledges receivable (Footnote 2)	58,287	9,500
Investments (Footnote 3)	5,147,991	5,530,281
Student notes receivable (Footnote 4)	465,339	463,163
Total long-term assets	<u>5,671,617</u>	<u>6,002,944</u>
Total assets	\$ <u>6,029,429</u>	\$ <u>6,601,808</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accrued liabilities	\$ 332,624	\$ 388,904
Deposits held in custody for others	50,388	46,010
Total current liabilities	<u>383,012</u>	<u>434,914</u>
Long-term liabilities		
Annuity obligations (Footnote 5)	49,018	45,434
Total liabilities	<u>432,030</u>	<u>480,348</u>
Net assets		
Unrestricted		
Undesignated	(548,371)	70,137
Designated by the Board (Footnote 6)	268,995	153,648
Total unrestricted	<u>(279,376)</u>	<u>223,785</u>
Temporarily restricted (Footnote 7)	<u>902,472</u>	<u>1,304,625</u>
Permanently restricted (Footnote 8)		
Loan funds	560,138	539,170
Endowment funds	4,373,226	3,992,027
Annuity and life income funds	40,939	61,853
Total permanently restricted	<u>4,974,303</u>	<u>4,593,050</u>
Total net assets	<u>5,597,399</u>	<u>6,121,460</u>
Total liabilities and net assets	\$ <u>6,029,429</u>	\$ <u>6,601,808</u>

The accompanying notes to the financial statements are integral part of this statement.

NEOUCOM FOUNDATION
STATEMENT OF ACTIVITIES-By Fund Group
For the Year Ended June 30, 2002
With Comparative Totals for the Year Ended June 30, 2001

	Operating Funds			Permanently Restricted	Total All Funds 2002	Total All Funds 2001
	Unrestricted	Temporarily Restricted	Total Operating			
CONTRIBUTIONS, GAINS, AND OTHER SUPPORT						
Contributions and bequests	\$ 491,099	233,236	724,335	387,573	\$ 1,111,908	\$ 2,522,618
In-kind support from NEOUCOM	380,235		380,235		380,235	374,669
Total contributions	871,334	233,236	1,104,570	387,573	1,492,143	2,897,287
Investment income						
Interest and dividend income	29,484	79,849	109,333	31,526	140,859	192,192
Realized gain/(loss) on sale of investments	0	(61,246)	(61,246)	(6,606)	(67,852)	31,550
Unrealized depreciation of investments	(402,540)	(297,070)	(699,610)	(31,240)	(730,850)	(1,010,817)
Total investment income	(373,056)	(278,467)	(651,523)	(6,320)	(657,843)	(787,075)
Other income	42,440	7,166	49,606		49,606	29,258
Net assets released from restrictions	364,088	(364,088)	0	0	0	0
Total contributions, gains, and other support	904,806	(402,153)	502,653	381,253	883,906	2,139,470
EXPENDITURES						
Disbursed for charitable purposes						
Instructional	85,957		85,957		85,957	37,810
Research	165,258		165,258		165,258	726,350
Public services	20,348		20,348		20,348	17,763
Academic support	27,065		27,065		27,065	73,042
Institutional support	44,928		44,928		44,928	42,904
Plant operation & maintenance	185,883		185,883		185,883	282,013
Student financial assistance	237,507		237,507		237,507	173,319
Total disbursed for charitable purposes	766,946	0	766,946	0	766,946	1,353,201
Management and general	327,746		327,746		327,746	315,198
Fund raising	285,073		285,073		285,073	264,855
Insurance and annuity obligations	28,202		28,202		28,202	39,893
Total expenditures	1,407,967	0	1,407,967	0	1,407,967	1,973,147
CHANGE IN NET ASSETS	(503,161)	(402,153)	(905,314)	381,253	(524,061)	166,323
NET ASSETS - BEGINNING	\$ 223,785	1,304,625	1,528,410	4,593,050	\$ 6,121,460	\$ 5,955,137
NET ASSETS - ENDING	\$ (279,376)	902,472	623,096	4,974,303	\$ 5,597,399	\$ 6,121,460

The accompanying notes to the financial statements are integral part of this statement.

NEUCOM FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

With Comparative Totals for the Year Ended June 30, 2001

	Total 2002	Total 2001
CASH FLOW FROM OPERATIONS		
Contributions	\$ 648,031	\$ 1,042,006
Interest and dividend income	189,182	214,411
Other income	49,606	29,298
Disbursed for charitable purposes	(1,093,212)	(1,463,019)
Net cash from operating activities	(206,393)	(177,304)
CASH FLOW FROM INVESTMENTS		
Proceeds from sale/maturity of investments	33,370	31,550
Repayment of student loans	96,749	71,894
Purchase of investments	(484,912)	(2,242,465)
Disbursements for loans to students	(111,360)	(106,898)
Net cash from investing activities	(466,153)	(2,245,909)
CASH FLOW FROM FINANCING		
Proceeds from contributions restricted for:		
Investment in student loans	4,241	4,662
Investment in endowment	383,332	1,651,077
Investment subject to annuity agreements	0	1,907
Investment income restricted for reinvestment:		
Investment in student loans	24,891	28,398
Investment in endowment	184	1,237
Investment subject to annuity agreements	(155)	12,693
Payments to annuitants	(740)	(665)
Net cash from financing activities	411,753	1,699,309
Net decrease in cash and cash equivalents	(260,793)	(723,904)
CASH AND EQUIVALENTS - BEGINNING	\$ 425,237	\$ 1,149,141
CASH AND EQUIVALENTS - ENDING	\$ 164,444	\$ 425,237
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (524,061)	\$ 166,323
Decrease in accrued interest receivable	21,354	34,181
Decrease/(increase) in accounts receivable	(11,939)	10,492
Decrease/(increase) in pledges receivable	(73,565)	168,582
Increase/(decrease) in accrued liabilities	(56,280)	135,459
Contributions restricted for long-term investment	(387,573)	(1,657,646)
Non-cash contribution	0	2,927
Interest and dividends restricted for reinvestment	23,385	(16,889)
Realized gain/(loss) on sale/maturity of investments	67,852	(31,550)
Unrealized loss on investments	730,850	1,010,817
Actuarial loss on annuity obligation	3,584	0
NET CASH FROM OPERATING ACTIVITIES	\$ (206,393)	\$ (177,304)

The accompanying notes to the financial statements are integral part of this statement.

NEOUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2002

1. **SIGNIFICANT ACCOUNTING POLICIES**

THE 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 Trustees consisting of a maximum thirty-six members.

The Foundation has adopted the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

BASIS OF PRESENTATION

The financial statements of the Foundation are presented in the following classifications:

Unrestricted Net Assets are the results of contributions, gains, and other support, the use of which is at the sole discretion of the Foundation's Board of Trustees. *Temporarily Restricted Net Assets* are the results of contributions, gains, and other support which are temporarily restricted to specific purposes by the donor or grantor. *Permanently Restricted Net Assets* are the results of contributions which are permanently restricted by the donor, the principal of which must remain unexpended in perpetuity.

CASH AND CASH 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. 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.

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 2002 and 2001.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2001 from which the summarized information was derived. Certain prior year amounts have been reclassified to conform with current year presentation.

**NEOUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. PLEDGES

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 five percent (5%), as of June 30, 2002 and 2001 are due as follows:

	<u>Total</u> <u>06-30-02</u>	<u>Total</u> <u>06-30-01</u>
Less than one year	\$ 125,478	\$ 100,700
One to five years	<u>58,287</u>	<u>9,500</u>
Total outstanding pledges with no allowance for uncollectible pledges	<u>\$ 183,765</u>	<u>\$ 110,200</u>

Based on actual collections experience for pledges, the Foundation's management has determined that no provision for uncollectible pledges is needed.

3. INVESTMENTS

Following is a summary of investments at June 30, 2002 and 2001:

	<u>2002</u>		<u>2001</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Long-term investments				
Permanently restricted cash and other current assets	\$ 319,974	\$ 319,974	\$ 416,485	\$ 416,485
Money market funds	332,525	332,525	942,420	942,420
Mutual fund equities	4,435,917	2,917,570	3,710,078	2,948,648
Mutual fund U.S. government obligation	654,868	662,818	301,563	302,372
Mutual fund foreign government securities	212,529	217,659	508,285	514,121
Mutual fund corporate bonds	691,554	697,445	404,618	406,235
Total long-term investments	<u>\$ 6,647,367</u>	<u>\$ 5,147,991</u>	<u>\$ 6,283,449</u>	<u>\$ 5,530,281</u>

The Foundation's investment policy specifies that 60% of funds to be invested shall be held in equities while the remaining 40% 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 Trustees.

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 Trustees' discretion. At June 30, 2002 and 2001, the life insurance policy had a cash value of \$26,765, and \$22,792, with a cash surrender value of \$7,746, and \$2,875, respectively.

4. STUDENT NOTES RECEIVABLE

The Foundation has established a revolving loan fund that disburses funds at a rate of 8%. The Foundation has experienced a zero default rate and therefore, management has not recorded an allowance for doubtful loans.

5. 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 \$2,585 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, 2002 and 2001 was 8%.

**NEUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

6. UNRESTRICTED BOARD DESIGNATED FUNDS

The Foundation's Board of Trustees has designated the following net assets to be available for charitable purposes benefitting the College's faculty, staff and students in the following educational and general functional categories:

	2002	2001
Instruction and departmental research	\$ 0	\$ 24,565
Separately budgeted research	101,812	63,300
Public service	(30)	0
Academic support	18,294	23,564
Institutional support	32,072	5,000
Plant operation and maintenance	9,825	15,000
Student scholarships and other student aid	91,076	6,669
Student loan funds	15,946	15,550
Total board designated net assets, June 30	\$ 268,995	\$ 153,648

7. TEMPORARILY RESTRICTED NET ASSETS

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

	2002	2001
Instruction and departmental research	\$ (93,665)	\$ (27,715)
Separately budgeted research	436,317	550,971
Public service	5,206	6,609
Academic support	485,196	496,183
Institutional support	3,148	6,963
Plant operation and maintenance	7,639	33,696
Student scholarships and other student aid	58,631	237,918
Total temporarily restricted net assets, June 30	\$ 902,472	\$ 1,304,625

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to:

	2002	2001
Student Loans	\$ 560,138	\$ 539,170
Endowments requiring earnings only be made available for:		
Community health science professorship	1,500,000	1,500,000
Student scholarships and awards	1,608,529	1,316,235
Anatomy endowed chair	1,002,471	1,002,471
Student loans	98,186	98,186
Separately budgeted research	16,450	16,450
General & other	147,590	58,685
Deferred gift annuity	40,939	61,853
Total permanently restricted net assets, June 30	\$ 4,974,303	\$ 4,593,050

The Foundation's distribution policy is to distribute all endowment income including interest, dividends, and realized capital gains up to a maximum of 5 percent of the June 30 market value of the total endowment fund of the previous calendar year. 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 after April 15 of every year.

9. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2002 and 2001, the Foundation made disbursements of \$766,946 and \$1,353,201 respectively, in direct support of charitable, educational, and scientific purposes benefitting the College and its students. In addition, the Foundation granted loans of \$111,360 and \$106,888 to college students for the years ended June 30, 2002 and 2001, respectively.

The Foundation provided reimbursements of \$50,891 and \$69,545, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2002 and 2001. 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 \$380,235 and \$374,669, respectively, for the years ended June 30, 2002 and 2001.

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



Board of Trustees
NEOUCOM Foundation

**Report on Compliance and on Internal Control Over Financial
Reporting 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, 2002, and have issued our report thereon dated October 3, 2002. 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.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

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 assurance 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 over financial reporting 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 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.

This report is intended solely for the information and use of the Board of Trustees, 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 LLP

Cleveland, Ohio
October 3, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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 17, 2002**