



NEOUCOM

FOUNDATION



Financial Report
for the year ended June 30, 2003



**Auditor of State
Betty Montgomery**

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 Hausser + Taylor LLC, for the audit period July 1, 2002 through June 30, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 15, 2003

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THE NEUCOM FOUNDATION
OF THE NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
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Associate Director and Director of
Development

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Legal Counsel
Managing Partner, Day Ketterer
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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, 2003, 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 2002 financial statements and, in our report dated October 3, 2002, 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, 2003 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 August 25, 2003, 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 LLC

Cleveland, Ohio
August 25, 2003

NEOUCOM FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2003

With Comparative Totals at June 30, 2002

ASSETS	Total 6-30-03	Total 6-30-02
Assets		
Current assets		
Cash & equivalents	\$ 128,816	\$ 164,444
Accrued interest receivable	0	645
Other receivables	0	16,857
Pledges receivable (Footnote 2)	50,137	125,478
Prepaid expenses & deferred charges	800	0
Assets restricted for custodian funds	51,419	50,388
Total current assets	231,172	357,812
Long-term assets		
Pledges receivable (Footnote 2)	344,422	92,206
Investments (Footnote 3)	5,270,307	5,114,072
Student notes receivable (Footnote 4)	500,543	465,339
Total long-term assets	6,115,272	5,671,617
Total assets	\$ 6,346,444	\$ 6,029,429
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accrued liabilities	\$ 278,337	\$ 332,624
Deposits held in custody for others	51,419	50,388
Total current liabilities	329,756	383,012
Long-term liabilities		
Annuity obligations (Footnote 5)	77,549	49,018
Total liabilities	407,305	432,030
Net assets		
Unrestricted		
Undesignated	(934,649)	(548,371)
Designated by the Board (Footnote 6)	477,227	268,995
Total unrestricted	(457,422)	(279,376)
Temporarily restricted (Footnote 7)	1,163,105	902,472
Permanently restricted (Footnote 8)		
Loan funds	588,735	560,138
Endowment funds	4,611,926	4,373,226
Annuity and life income funds	32,795	40,939
Total permanently restricted	5,233,456	4,974,303
Total net assets	5,939,139	5,597,399
Total liabilities and net assets	\$ 6,346,444	\$ 6,029,429

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

NEOUCOM FOUNDATION
STATEMENT OF ACTIVITIES-By Fund Group
For the Year Ended June 30, 2003

With Comparative Totals for the Year Ended June 30, 2002

	Operating Funds			Permanently Restricted	Total All Funds 2003	Total All Funds 2002
	Unrestricted	Temporarily Restricted	Total Operating			
CONTRIBUTIONS, GAINS, AND OTHER SUPPORT						
Contributions and bequests	\$ 419,729	398,188	817,917	255,995	\$ 1,073,912	\$ 1,111,908
In-kind support from NEOUCOM	342,697		342,697		342,697	380,235
Total contributions	762,426	398,188	1,160,614	255,995	1,416,609	1,492,143
Investment income						
Interest and dividend income	10,691	88,352	99,043	20,521	119,564	140,859
Realized gain/(loss) on sale of investments	0	21,900	21,900	(1,344)	20,556	(67,852)
Unrealized appreciation of investments	27,863	104,031	131,894	(11,901)	119,993	(730,850)
Total investment income	38,554	214,283	252,837	7,276	260,113	(657,843)
Other income/(loss)	25,667	1,801	27,468	(4,118)	23,350	49,606
Net assets released from restrictions	353,639	(353,639)	0		0	0
Total contributions, gains, and other support	1,180,286	260,633	1,440,919	259,153	1,700,072	883,906
EXPENDITURES						
Disbursed for charitable purposes						
Instructional	141,352		141,352		141,352	85,957
Research	168,080		168,080		168,080	165,258
Public services	19,262		19,262		19,262	20,348
Academic support	117,404		117,404		117,404	27,065
Institutional support	30,737		30,737		30,737	44,928
Plant operation & maintenance	10,652		10,652		10,652	185,883
Student financial assistance	293,393		293,393		293,393	237,507
Total disbursed for charitable purposes	780,880	0	780,880	0	780,880	766,946
Management and general	301,227		301,227		301,227	327,746
Fund raising	245,529		245,529		245,529	285,073
Insurance and annuity obligations	9,696		9,696		9,696	28,202
Allowance for uncollectible pledges	21,000		21,000		21,000	0
Total expenditures	1,358,332	0	1,358,332	0	1,358,332	1,407,967
CHANGE IN NET ASSETS	(178,046)	260,633	82,587	259,153	341,740	(524,061)
NET ASSETS - BEGINNING	\$ (279,376)	902,472	623,096	4,974,303	\$ 5,597,399	\$ 6,121,460
NET ASSETS - ENDING	\$ (457,422)	1,163,105	705,683	5,233,456	\$ 5,939,139	\$ 5,597,399

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

NEOUCOM FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

With Comparative Totals for the Year Ended June 30, 2002

	Total 2003	Total 2002
CASH FLOW FROM OPERATIONS		
Contributions	\$ 649,940	\$ 648,031
Interest and dividend income	99,688	189,182
Other income	27,468	49,606
Disbursed for charitable purposes	<u>(1,039,904)</u>	<u>(1,093,212)</u>
Net cash from operating activities	<u>(262,808)</u>	<u>(206,393)</u>
CASH FLOW FROM INVESTMENTS		
Proceeds from sale/maturity of investments	336,949	33,370
Repayment of student loans	110,930	96,749
Purchase of investments	<u>(345,318)</u>	<u>(484,912)</u>
Disbursements for loans to students	<u>(146,700)</u>	<u>(111,360)</u>
Net cash from investing activities	<u>(44,139)</u>	<u>(466,153)</u>
CASH FLOW FROM FINANCING		
Proceeds from contributions restricted for:		
Investment in student loans	1,430	4,241
Investment in endowment	230,101	383,332
Investment subject to annuity agreements	24,088	0
Investment income restricted for reinvestment:		
Investment in student loans	25,638	24,891
Investment in endowment	<u>(7,260)</u>	184
Investment subject to annuity agreements	799	(155)
Payments to annuitants	<u>(3,477)</u>	<u>(740)</u>
Net cash from financing activities	<u>271,319</u>	<u>411,753</u>
Net decrease in cash and cash equivalents	(35,628)	(260,793)
CASH AND EQUIVALENTS - BEGINNING	\$ 164,444	\$ 425,237
CASH AND EQUIVALENTS - ENDING	\$ <u>128,816</u>	\$ <u>164,444</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 341,740	\$ (524,061)
Decrease in accrued interest receivable	645	21,354
Decrease/(increase) in accounts receivable	16,857	(11,939)
Increase in prepaid expense	<u>(800)</u>	0
Increase in pledges receivable	<u>(154,016)</u>	<u>(73,565)</u>
Decrease in accrued liabilities	<u>(54,287)</u>	<u>(56,280)</u>
Contributions restricted for long-term investment	<u>(255,995)</u>	<u>(387,573)</u>
Interest and dividends restricted for reinvestment	<u>(16,403)</u>	23,385
Realized (gain)/loss on sale/maturity of investments	<u>(20,556)</u>	67,852
Unrealized (gain)/loss on investments	<u>(119,993)</u>	730,850
Actuarial loss on annuity obligation		3,584
NET CASH FROM OPERATING ACTIVITIES	\$ <u>(262,808)</u>	\$ <u>(206,393)</u>

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

NEOUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2003

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 2003 and 2002.

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, 2002 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)
For the Year Ended June 30, 2003

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 two and one-half percent (2.5%) as of June 30, 2003 and at five percent (5%) in 2002 are due as follows:

	<u>Total 06-30-03</u>	<u>Total 06-30-02</u>
Less than one year	\$ 52,637	\$ 125,478
One to five years	<u>362,922</u>	<u>92,206</u>
Total outstanding pledges	415,559	217,684
Less allowance for uncollectible pledges	<u>(21,000)</u>	<u>0</u>
Net outstanding pledges	<u>\$ 394,559</u>	<u>\$ 217,684</u>

3. INVESTMENTS

Following is a summary of investments at June 30, 2003 and 2002:

	<u>2003</u>		<u>2002</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Long-term investments				
Permanently restricted cash and other current assets	\$ 0	\$ 0	\$ 286,055	\$ 286,055
Money market funds	524,720	524,720	332,525	332,525
Cash surrender value of life insurance	94,170	94,170	0	0
Mutual fund equities	4,710,128	3,261,957	4,435,917	2,917,570
Mutual fund fixed income	<u>1,292,288</u>	<u>1,389,460</u>	<u>1,558,951</u>	<u>1,577,922</u>
Total long-term investments	<u>\$ 6,621,306</u>	<u>\$ 5,270,307</u>	<u>\$ 6,613,448</u>	<u>\$ 5,114,072</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.

4. STUDENT NOTES RECEIVABLE

The Foundation has established a revolving loan fund that disburses funds at rates ranging from 5% to 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 \$3,477 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, 2003 and 2002 ranged from 3.6 to 6.0%.

NEOUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2003

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:

	2003	2002
Instruction and departmental research	\$ 3,000	\$ 0
Separately budgeted research	132,436	101,812
Public service	3,190	(30)
Academic support	10,803	18,294
Institutional support	80,995	32,072
Plant operation and maintenance	10,325	9,825
Student scholarships and other student aid	220,172	91,076
Student loan funds	16,306	15,946
Total board designated net assets, June 30	\$ 477,227	\$ 268,995

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:

	2003	2002
Instruction and departmental research	\$ 155,856	\$ (93,665)
Separately budgeted research	284,703	436,317
Public service	2,679	5,206
Academic support	400,917	485,196
Institutional support	(17,238)	3,148
Plant operation and maintenance	230,879	7,639
Student scholarships and other student aid	105,309	58,631
Total temporarily restricted net assets, June 30	\$ 1,163,105	\$ 902,472

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to:

	2003	2002
Student Loans	\$ 588,735	\$ 560,138
Endowments requiring earnings only be made available for:		
Community health science professorship	1,500,000	1,500,000
Student scholarships and awards	1,738,529	1,608,529
Anatomy endowed chair	1,002,471	1,002,471
Student loans	99,186	98,186
Separately budgeted research	82,169	16,450
General & other	189,571	147,590
Deferred gift annuity	32,795	40,939
Total permanently restricted net assets, June 30	\$ 5,233,456	\$ 4,974,303

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, 2003 and 2002, the Foundation made disbursements of \$780,879 and \$766,946, respectively, in direct support of charitable, educational, and scientific purposes benefitting the College and its students. In addition, the Foundation granted loans of \$146,700 and \$111,360 to college students for the years ended June 30, 2003 and 2002, respectively.

The Foundation provided reimbursements of \$70,903 and \$50,891, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2003 and 2002. 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 \$342,697 and \$380,235, respectively, for the years ended June 30, 2003 and 2002.

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, 2003, and have issued our report thereon dated August 25, 2003. 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 LLC

Cleveland, Ohio
August 25, 2003



**Auditor of State
Betty Montgomery**

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NEOUCOM FOUNDATION

PORTAGE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2003**