

NEOUCOM FOUNDATION
FINANCIAL REPORT
JUNE 30, 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
NEOUCOM Foundation
4209 State Route 44
PO Box 95
Rootstown, Ohio 44272-0095

We have reviewed the Independent Auditor's Report of the NEOUCOM Foundation, Portage County, prepared by Hausser + Taylor CPA's, for the audit period July 1, 2003 to June 30, 2004. 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

November 19, 2004

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NEOUCOM FOUNDATION

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Board of Trustees
NEOUCOM Foundation

Independent Auditors' Report

We have audited the accompanying statement of financial position of NEOUCOM Foundation ("Foundation") as of June 30, 2004, 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 2003 financial statements and, in our report dated August 25, 2003, 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, 2004, 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 31, 2004, 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 31, 2004

NEUCOM FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2004
With Comparative Totals at June 30, 2003

ASSETS	Total 2004	Total 2003
Assets		
Current assets		
Cash & equivalents	\$ 309,553	\$ 128,816
Accounts receivable	786	-
Pledges receivable (Note 2)	86,061	50,137
Student notes receivable (Note 5)	960	1,111
Prepaid expenses & deferred charges	-	800
Assets restricted for custodian funds	49,223	51,419
Total current assets	<u>446,583</u>	<u>232,283</u>
Long-term assets		
Pledges receivable (Note 2)	285,856	344,422
Investments (Note 3)	6,387,291	5,270,307
Student notes receivable (Note 5)	492,683	499,432
Funds held in trust (Note 4)	2,806,855	-
Total long-term assets	<u>9,972,685</u>	<u>6,114,161</u>
Total assets	\$ <u>10,419,268</u>	\$ <u>6,346,444</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accrued liabilities	\$ 686,244	\$ 278,337
Deposits held in custody for others	49,223	51,419
Total current liabilities	<u>735,467</u>	<u>329,756</u>
Long-term liabilities		
Annuity obligations (Note 6)	148,609	77,549
Total liabilities	<u>884,076</u>	<u>407,305</u>
Net assets		
Unrestricted		
Undesignated	(674,803)	(934,649)
Designated by the Board (Note 7)	440,758	477,227
Total unrestricted	<u>(234,045)</u>	<u>(457,422)</u>
Temporarily restricted (Note 8)	4,298,592	1,163,105
Permanently restricted (Note 9)		
Loan funds	628,712	588,735
Endowment funds	4,799,161	4,611,926
Annuity and life income funds	42,772	32,795
Total permanently restricted	<u>5,470,645</u>	<u>5,233,456</u>
Total net assets	<u>9,535,192</u>	<u>5,939,139</u>
Total liabilities and net assets	\$ <u>10,419,268</u>	\$ <u>6,346,444</u>

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, 2004
With Comparative Totals for June 30, 2003

	Operating Funds			Permanently Restricted	Total All Funds 2004	Total All Funds 2003
	Unrestricted	Temporarily Restricted	Total Operating			
CONTRIBUTIONS, GAINS, AND OTHER SUPPORT						
Contributions and bequests	\$ 766,082	\$ 2,742,394	\$ 3,508,476	\$ 186,338	\$ 3,694,814	\$ 1,073,912
In-kind support from NEOUCOM	363,406		363,406		363,406	342,697
Total contributions	<u>1,129,488</u>	<u>2,742,394</u>	<u>3,871,882</u>	<u>186,338</u>	<u>4,058,220</u>	<u>1,416,609</u>
Investment income						
Interest and dividend income	5,368	105,727	111,095	29,130	140,225	119,564
Realized gain/(loss) on sale of investments	180,493	(26,945)	153,548	83	153,631	20,556
Unrealized appreciation/(depreciation) of investments	(7,845)	460,590	452,745	21,174	473,919	119,993
Change in value of funds held in trust		254,754	254,754		254,754	-
Total investment income	<u>178,016</u>	<u>794,126</u>	<u>972,142</u>	<u>50,387</u>	<u>1,022,529</u>	<u>260,113</u>
Other income	46,099	5,097	51,196	464	51,660	23,350
Net assets released from restrictions	406,130	(406,130)	-		-	-
Total contributions, gains, and other support	<u>1,759,733</u>	<u>3,135,487</u>	<u>4,895,220</u>	<u>237,189</u>	<u>5,132,409</u>	<u>1,700,072</u>
EXPENDITURES						
Disbursed for charitable purposes						
Instructional	143,035		143,035		143,035	141,352
Research	84,940		84,940		84,940	168,080
Public services	16,545		16,545		16,545	19,262
Academic support	345,282		345,282		345,282	117,404
Institutional support	28,354		28,354		28,354	30,737
Plant operation & maintenance	24,215		24,215		24,215	10,652
Student financial assistance	<u>266,845</u>		<u>266,845</u>		<u>266,845</u>	<u>293,393</u>
Total disbursed for charitable purposes	<u>909,216</u>	<u>-</u>	<u>909,216</u>	<u>-</u>	<u>909,216</u>	<u>780,880</u>
Management and general	328,864		328,864		328,864	301,227
Fund raising	298,237		298,237		298,237	245,529
Insurance and annuity obligations	3,001		3,001		3,001	9,696
Allowance for uncollectible pledges	<u>(2,962)</u>		<u>(2,962)</u>		<u>(2,962)</u>	<u>21,000</u>
Total expenditures	<u>1,536,356</u>	<u>-</u>	<u>1,536,356</u>	<u>-</u>	<u>1,536,356</u>	<u>1,358,332</u>
CHANGE IN NET ASSETS	<u>223,377</u>	<u>3,135,487</u>	<u>3,358,864</u>	<u>237,189</u>	<u>3,596,053</u>	<u>341,740</u>
NET ASSETS - BEGINNING	<u>(457,422)</u>	<u>1,163,105</u>	<u>705,683</u>	<u>5,233,456</u>	<u>5,939,139</u>	<u>5,597,399</u>
NET ASSETS - ENDING	<u>\$ (234,045)</u>	<u>\$ 4,298,592</u>	<u>\$ 4,064,547</u>	<u>\$ 5,470,645</u>	<u>\$ 9,535,192</u>	<u>\$ 5,939,139</u>

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

NEUCOM FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004
With Comparative Totals for June 30, 2003

	Total 2004	Total 2003
CASH FLOW FROM OPERATING ACTIVITIES		
Contributions	\$ 807,585	\$ 649,940
Interest and dividend income	111,559	99,688
Other income	51,196	27,468
Disbursed for charitable purposes	<u>(802,575)</u>	<u>(1,039,904)</u>
Net cash provided (used) by operating activities	167,765	(262,808)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale/maturity of investments	338,862	336,949
Repayment of student loans	136,661	110,930
Purchase of investments	(569,519)	(345,318)
Disbursements for loans to students	<u>(102,762)</u>	<u>(146,700)</u>
Net cash used by investing activities	(196,758)	(44,139)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investment in student loans	760	1,430
Investment in endowment	185,416	230,101
Investment subject to annuity agreements	(1,193)	24,088
Investment income restricted for reinvestment:		
Investment in student loans	28,749	25,638
Investment in endowment	464	(7,260)
Investment subject to annuity agreements	464	799
Payments to annuitants	<u>(4,930)</u>	<u>(3,477)</u>
Net cash provided by financing activities	<u>209,730</u>	<u>271,319</u>
Net increase (decrease) in cash and equivalents	180,737	(35,628)
CASH AND EQUIVALENTS - BEGINNING	<u>128,816</u>	<u>164,444</u>
CASH AND EQUIVALENTS - ENDING	<u>\$ 309,553</u>	<u>\$ 128,816</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO		
NET CASH FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,558,019	\$ 341,740
Changes in assets and liabilities		
Accrued interest receivable	-	645
Accounts receivable	(786)	16,857
Prepaid expense and deferred charges	800	(800)
Pledges receivable	61,567	(154,016)
Student notes receivable	826	-
Accrued liabilities	407,907	(54,287)
Increase in annuity obligations	89,304	-
Noncash contributions	(2,852,100)	-
Contributions restricted for long-term investment	(186,338)	(255,995)
Interest and dividends restricted for reinvestment	(29,130)	(16,403)
Realized gain on sale/maturity of investments	(153,631)	(20,556)
Unrealized gain on investments	(473,919)	(119,993)
Change in value of funds held in trust	<u>(254,754)</u>	<u>-</u>
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 167,765</u>	<u>\$ (262,808)</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, 2004

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 forty-two 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 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 2004 and 2003.

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, 2003 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, 2004

2. 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 2% and 2.5% as of June 30, 2004 and 2003 are due as follows:

	2004	2003
Less than one year	\$ 89,752	\$ 53,283
One to five years	318,000	393,716
Total outstanding pledges	407,752	446,999
Less net present value discount	(18,261)	(31,440)
Less allowance for uncollectible pledges	(17,574)	(21,000)
Net outstanding pledges	\$ 371,917	\$ 394,559

3. INVESTMENTS

Following is a summary of investments at June 30, 2004 and 2003:

	2004		2003	
	Cost	Market	Cost	Market
Money market funds	\$ 517,048	\$ 517,048	\$ 524,720	\$ 524,720
Cash surrender value of life insurance	119,371	119,371	94,170	94,170
Mutual fund equities	3,647,130	3,709,904	4,710,128	3,261,957
Mutual fund fixed income	2,008,926	2,040,968	1,292,288	1,389,460
Total long-term investments	\$ 6,292,475	\$ 6,387,291	\$ 6,621,306	\$ 5,270,307

The Foundation's investment policy specifies that 55%-65% of funds to be invested shall be held in equities while the remaining 35%-45% 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. FUNDS HELD IN TRUST

During fiscal year 2004, the Foundation received the largest gift in its history. On March 5, 2004, the family of the late Chatrchai Watanakunakorn, M.D. notified the College and Foundation they were the sole beneficiary of an irrevocable grantor trust. The securities are held in trust by Sky Bank (formerly Second National Bank) which, according to the trust, is to distribute annually the sum of \$300,000 to the Foundation for its unrestricted use, until such time that the trust is fully liquidated. The gift will be used to advance medical education in northeast Ohio, create an endowed chair in microbiology and immunology in Dr. Watanakunakorn's name and provide a lectureship series for healthcare professionals throughout the region. The value of the Foundation's interest in the trust has been recorded at its fair market value at June 30, 2004 which totaled \$2,806,855.

5. STUDENT NOTES RECEIVABLE

The Foundation has established a revolving loan fund that disburses funds at a rate of 5%. The Foundation has experienced a zero default rate and, therefore, management has not recorded an allowance for doubtful loans.

6. 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 \$4,930 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, 2004 and 2003 ranged from 3.6 to 6.0%.

NEUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2004

7. UNRESTRICTED BOARD DESIGNATED FUNDS

The Foundation's Board of Trustees has designated 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>2004</u>	<u>2003</u>
Charitable Purposes:		
Instruction and departmental research	\$ 1,757	\$ 3,000
Separately budgeted research	60,358	132,436
Public service	0	3,190
Academic support	9,303	10,803
Institutional support	67,601	39,920
Plant operation and maintenance	7,280	10,325
Student scholarships and other student aid	241,144	220,172
Student loan funds	16,600	16,306
Management and General	17,590	19,250
Fund Raising	19,125	21,825
Total board designated net assets, June 30	<u>\$ 440,758</u>	<u>\$ 477,227</u>

8. 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 educational and general functional categories:

	<u>2004</u>	<u>2003</u>
Instruction and departmental research	\$ 279,277	\$ 155,856
Separately budgeted research	247,588	302,203
Public service	54	2,679
Academic support	3,179,232	400,917
Institutional support	(3,061)	(17,238)
Plant operation and maintenance	233,784	230,879
Student scholarships and other student aid	371,785	105,309
Deferred gift annuity	4,471	0
Allowance for uncollectible pledges	(14,538)	(17,500)
Total temporarily restricted net assets, June 30	<u>\$ 4,298,592</u>	<u>\$ 1,163,105</u>

9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to:

	<u>2004</u>	<u>2003</u>
Student Loans	\$ 628,712	\$ 588,735
Endowments requiring earnings only be made available for:		
Student scholarships and awards	1,975,999	1,742,029
Community health science professorship	1,500,000	1,500,000
Anatomy endowed chair	1,002,471	1,002,471
Student loans	99,186	99,186
General & other	224,541	271,740
Deferred gift annuity	42,772	32,795
Allowance for uncollectible pledges	(3,036)	(3,500)
Total permanently restricted net assets, June 30	<u>\$ 5,470,645</u>	<u>\$ 5,233,456</u>

The Foundation's distribution policy is to distribute all endowment income including interest, dividends, and realized capital gains in the range of 2.5 to 5.0 percent of the June 30 market value of the total endowment fund of the previous fiscal year end. 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 each year.

10. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2004 and 2003, the Foundation made disbursements of \$947,448 and \$780,880, respectively, in direct support of charitable, educational, and scientific purposes benefiting the College and its students. In addition, the Foundation granted loans of \$102,762 and \$146,700 to college students for the years ended June 30, 2004 and 2003, respectively.

The Foundation provided reimbursements of \$118,324 and \$70,903, respectively, to the College for management, fund raising, services, and office space during the years ended June 30, 2004 and 2003. 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 \$363,406 and \$342,697, respectively, for the years ended June 30, 2004 and 2003.

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 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, 2004, and have issued our report thereon dated August 31, 2004. 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 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 31, 2004



**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 7, 2004**