

NEOUCOM FOUNDATION

PORTAGE COUNTY

JULY 1, 2000 TO JUNE 30, 2001

PREPARED BY: HAUSSER+TAYLOR LLP



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

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, 2000 through June 30, 2001. 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.

JIM PETRO
Auditor of State

December 26, 2001

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THE NEOUCOM FOUNDATION
OF THE NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE
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Foundation Officers

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Vice President: Brian L. Cherkala
Treasurer: Jerry Welty
Secretary: James L. Pazol

Administrative Staff

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Executive Director and Vice President
for Institutional Advancement

Richard J. Eplawy
Assistant Treasurer and Vice President
for Administration and Finance

R. Scott Evans
Director of Development

Tracy Jensen
Associate, Institutional Advancement

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

Lisa Morris
Administrative Assistant
Institutional Advancement

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NEOUCOM Foundation

We have audited the accompanying statement of financial position of NEOUCOM Foundation as of June 30, 2001, 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 2000 financial statements and, in our report dated November 4, 2000, 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, 2001 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 9, 2001, 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 9, 2001

NEOUCOM FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2001

With Comparative Totals at June 30, 2000

ASSETS	Total 6-30-01	Total 6-30-00
Assets		
Current assets		
Cash & equivalents	\$ 425,237	\$ 1,149,141
Accrued interest receivable	21,999	56,180
Other receivables	4,918	15,410
Pledges receivable (Footnote 2)	100,700	174,732
Assets restricted for custodian funds	46,010	43,866
Total current assets	<u>598,864</u>	<u>1,439,329</u>
Long-term assets		
Pledges receivable (Footnote 2)	9,500	104,050
Investments (Footnote 3)	5,530,281	4,312,202
Student notes receivable (Footnote 4)	463,163	429,419
Total long-term assets	<u>6,002,944</u>	<u>4,845,671</u>
Total assets	<u>\$ 6,601,808</u>	<u>\$ 6,285,000</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accrued liabilities	\$ 388,904	\$ 253,445
Deposits held in custody for others	46,010	43,866
Total current liabilities	<u>434,914</u>	<u>297,311</u>
Long-term liabilities		
Annuity obligations (Footnote 5)	45,434	32,552
Total liabilities	<u>480,348</u>	<u>329,863</u>
Net assets		
Unrestricted		
Undesignated	70,137	769,848
Designated by the Board (Footnote 6)	153,648	91,559
Total unrestricted	<u>223,785</u>	<u>861,407</u>
Temporarily restricted (Footnote 7)	<u>1,304,625</u>	<u>2,155,325</u>
Permanently restricted (Footnote 8)		
Loan funds	539,170	519,970
Endowment funds	3,992,027	2,343,106
Annuity and life income funds	61,853	75,329
Total permanently restricted	<u>4,593,050</u>	<u>2,938,405</u>
Total net assets	<u>6,121,460</u>	<u>5,955,137</u>
Total liabilities and net assets	<u>\$ 6,601,808</u>	<u>\$ 6,285,000</u>

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

NEOUCOM FOUNDATION
STATEMENT OF ACTIVITIES-By Fund Group
For the Year Ended June 30, 2001
 With Comparative Totals for the Year Ended June 30, 2000

	Operating Funds			Permanently Restricted	Total All Funds 2001	Total All Funds 2000
	Unrestricted	Temporarily Restricted	Total Operating			
CONTRIBUTIONS, GAINS, AND OTHER SUPPORT						
Contributions and bequests	\$ 688,607	176,365	864,972	1,657,646	\$ 2,522,618	\$ 1,333,479
In-kind support from NEOUCOM	374,669		374,669		374,669	341,206
Total contributions	1,063,276	176,365	1,239,641	1,657,646	2,897,287	1,674,685
Investment income						
Interest and dividend income	89,085	62,663	151,748	40,444	192,192	194,920
Realized gain on sale of investments	0	29,666	29,666	1,884	31,550	84,808
Unrealized (depreciation)/appreciation of investments	(721,216)	(255,963)	(977,179)	(33,638)	(1,010,817)	115,562
Total investment income	(632,131)	(163,634)	(795,765)	8,690	(787,075)	395,290
Other income	29,258	0	29,258		29,258	0
Net assets released from restrictions	875,122	(863,431)	11,691	(11,691)	0	0
Net assets reclassified by donors		0	0	0	0	0
Total contributions, gains, and other support	1,335,525	(850,700)	484,825	1,654,645	2,139,470	2,069,975
EXPENDITURES						
Disbursed for charitable purposes						
Instructional	37,810		37,810		37,810	18,716
Research	726,350		726,350		726,350	613,973
Public services	17,763		17,763		17,763	3,681
Academic support	69,121		69,121		69,121	64,364
Student services	3,921		3,921		3,921	0
Institutional support	42,904		42,904		42,904	60,204
Plant operation & maintenance	282,013		282,013		282,013	0
Student financial assistance	173,319		173,319		173,319	123,547
Total disbursed for charitable purposes	1,353,201	0	1,353,201	0	1,353,201	884,485
Management and general	315,198		315,198		315,198	252,658
Fund raising	264,855		264,855		264,855	256,729
Insurance and annuity obligations	38,656		38,656		38,656	58,795
Loan cancellation & administrative costs	1,237		1,237		1,237	0
Total expenditures	1,973,147	0	1,973,147	0	1,973,147	1,452,667
INCREASE IN NET ASSETS	(637,622)	(850,700)	(1,488,322)	1,654,645	166,323	617,308
NET ASSETS - BEGINNING	\$ 861,407	2,155,325	3,016,732	2,938,405	\$ 5,955,137	\$ 5,337,829
NET ASSETS - ENDING	\$ 223,785	1,304,625	1,528,410	4,593,050	\$ 6,121,460	\$ 5,955,137

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

NEOUCOM FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2001

With Comparative Totals for the Year Ended June 30, 2000

	Total 2001	Total 2000
CASH FLOW FROM OPERATIONS		
Contributions	\$ 1,042,006	\$ 1,146,090
Interest and dividend income	214,411	131,590
Other income	29,258	0
Net travel advances	40	106
Disbursed for charitable purposes	(1,463,019)	(914,954)
Net cash from operating activities	(177,304)	362,832
CASH FLOW FROM INVESTMENTS		
Proceeds from sale/maturity of investments	31,550	105,944
Repayment of student loans	71,894	65,290
Purchase of investments	(2,242,465)	(2,339,333)
Disbursements for loans to students	(106,888)	(119,450)
Payments to annuitants	(665)	0
Net cash from investing activities	(2,246,574)	(2,287,549)
CASH FLOW FROM FINANCING		
Proceeds from contributions restricted for:		
Investment in student loans	4,662	11,609
Investment in endowment	1,651,077	759,136
Investment subject to annuity agreements	1,907	5,000
Investment income restricted for reinvestment:		
Investment in student loans	28,398	28,329
Investment in endowment	1,237	64,877
Investment subject to annuity agreements	12,693	10,831
Net cash from financing activities	1,699,974	879,782
Net decrease in cash and cash equivalents	(723,904)	(1,044,935)
CASH AND CASH EQUIVALENTS - BEGINNING	\$ 1,149,141	\$ 2,194,076
CASH AND CASH EQUIVALENTS - ENDING	\$ 425,237	\$ 1,149,141
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 166,323	\$ 617,308
Decrease/(increase) in accrued interest receivable	34,181	(12,184)
Decrease in accounts receivable	10,492	7,684
Decrease in pledges receivable	168,582	580,778
Increase in accrued liabilities	135,459	194,116
Contributions restricted for long-term investment	(1,657,646)	(775,745)
Non-cash contribution	2,927	0
Interest and dividends restricted for reinvestment	(16,889)	(51,146)
Realized gain on sale/maturity of investments	(31,550)	(84,808)
Unrealized loss on investments	1,010,817	(115,562)
Actuarial loss on annuity obligation	0	2,391
Loan cancellation & administrative costs	0	0
NET CASH FROM OPERATING ACTIVITIES	\$ (177,304)	\$ 362,832

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

NEOUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2001

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 generally accepted accounting principles for not-for-profit organizations.

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 2001 and 2000.

USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles 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, 2000 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, 2001 and 2000 are due as follows:

	<u>Total</u> <u>06-30-01</u>	<u>Total</u> <u>06-30-00</u>
Less than one year	\$100,700	\$174,732
One to five years	<u>9,500</u>	<u>104,050</u>
Total outstanding pledges with no allowance for uncollectible pledges	<u>\$110,200</u>	<u>\$278,782</u>

The temporarily restricted outstanding pledges are primarily for the Foundation's Campaign for Medical Research which started in 1995. The purpose of the Campaign for Research was to raise funds for the purchase of research equipment, demonstration research, and administrative support for collaborative research. At June 30, 2001, the sum of \$2,667,201 had been collected toward the goal, with a sum of \$81,700 remaining in outstanding pledges.

Based on actual collections experience for the Campaign for Medical Research and Read Distance Education Center, 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, 2001 and 2000:

	<u>2001</u>		<u>2000</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Long-term investments				
Permanently restricted cash and other current assets	\$ 416,485	\$ 416,485	\$ 208,396	\$ 208,396
Money market funds	942,420	942,420	244,352	244,352
Mutual fund equities	3,710,078	2,948,648	2,695,597	2,959,119
Mutual fund U.S. government obligation	301,563	302,372	415,948	409,277
Mutual fund foreign government securities	508,285	514,121	119,014	123,055
Mutual fund corporate bonds	<u>404,618</u>	<u>406,235</u>	<u>371,246</u>	<u>368,003</u>
Total long-term investments	<u>\$ 6,283,449</u>	<u>\$ 5,530,281</u>	<u>\$ 4,054,553</u>	<u>\$ 4,312,202</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, 2001 and 2000, the life insurance policy had a cash value of \$22,792, and \$16,957, with a cash surrender value of \$2,875, and zero dollars, 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 \$1,105 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, 2001 and 2000 was 8%.

**NEOUCOM 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:

	<u>2001</u>	<u>2000</u>
Instruction and departmental research	\$ 24,565	\$ 8,675
Separately budgeted research	63,300	30,594
Public service	0	29
Academic support	23,564	576
Institutional support	5,000	14,606
Plant operation and maintenance	15,000	0
Student scholarships and other student aid	6,669	22,054
Student loan funds	15,550	15,025
Total board designated net assets, June 30	<u>\$ 153,648</u>	<u>\$91,559</u>

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:

	<u>2001</u>	<u>2000</u>
Instruction and departmental research	\$ (27,715)	\$87,368
Separately budgeted research	550,971	1,150,768
Public service	6,609	490
Academic support	496,183	510,894
Institutional support	6,963	13,591
Plant operation and maintenance	33,696	0
Student scholarships and other student aid	237,918	392,214
Total temporarily restricted net assets, June 30	<u>\$ 1,304,625</u>	<u>\$2,155,325</u>

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to:

	<u>2001</u>	<u>2000</u>
Student Loans	\$ 539,170	\$519,970
Endowments requiring earnings only be made available for:		
Community health science professorship	1,500,000	0
Student scholarships and awards	1,316,235	1,218,614
Anatomy endowed chair	1,002,471	922,486
Student loans	98,186	98,186
Separately budgeted research	16,450	79,197
College employee awards & other	58,685	24,623
Deferred gift annuity	61,853	75,329
Total permanently restricted net assets, June 30	<u>\$ 4,593,050</u>	<u>\$2,938,405</u>

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, 2001 and 2000, the Foundation made disbursements of \$1,353,201 and \$884,485, respectively, in direct support of charitable, educational, and scientific purposes benefitting the College and its students. In addition, the Foundation granted loans of \$106,888 and \$119,450 to college students for the years ended June 30, 2001 and 2000, respectively.

The Foundation provided reimbursements of \$69,545 and \$76,020, respectively, to the College for management, fund raising, and accounting services support during the years ended June 30, 2001 and 2000. 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 \$374,669 and \$341,206, respectively, for the years ended June 30, 2001 and 2000.

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

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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, 2001, and have issued our report thereon dated October 9, 2001. 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. However, we noted other matters involving the internal control over financial reporting, which we have communicated to management of NEOUCOM Foundation in a separate letter dated October 9, 2001.

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 9, 2001



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
JANUARY 8, 2002**