

**NEOUCOM FOUNDATION**  
**(A Component Unit of the Northeastern**  
**Ohio Universities Colleges of**  
**Medicine and Pharmacy)**

**FINANCIAL REPORT**

**JUNE 30, 2009**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the NEOUCOM Foundation, Portage County, prepared by Maloney + Novotny LLC, for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 4, 2010

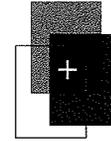
**This Page is Intentionally Left Blank.**

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

CONTENTS

---

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Notes to financial statements	5-13
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	14-15



Board of Directors  
NEOUCOM Foundation  
Rootstown, Ohio

Independent Auditors' Report

We have audited the accompanying statement of financial position of NEOUCOM Foundation ("Foundation"), (A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy), as of June 30, 2009, 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 2008 financial statements and, in our report dated October 31, 2008, 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, 2009, 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 November 12, 2009, on our consideration of NEOUCOM Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Maloney + Novotny LLC*

Cleveland, Ohio  
November 12, 2009

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

STATEMENT OF FINANCIAL POSITION

June 30, 2009  
(With Comparative Totals for June 30, 2008)

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 171,202	\$ 424,276
Accounts receivable	-	5,607
Pledges receivable (Note 3)	<u>348,875</u>	<u>371,480</u>
Total current assets	520,077	801,363
<b>LONG-TERM ASSETS</b>		
Pledges receivable (Note 3)	1,181,617	1,476,581
Investments (Note 4)	8,828,706	10,930,585
Student notes receivable (Note 7)	393,135	415,787
Beneficial interest in trusts (Note 6)	<u>1,421,501</u>	<u>2,142,439</u>
Total long-term assets	<u>11,824,959</u>	<u>14,965,392</u>
<b>Total assets</b>	<b>\$ <u>12,345,036</u></b>	<b>\$ <u>15,766,755</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accrued liabilities	\$ 206,843	\$ 19,042
Annuity obligations (Note 8)	21,990	21,990
Deposits held in custody for others	<u>44,101</u>	<u>44,745</u>
Total current liabilities	272,934	85,777
<b>LONG-TERM LIABILITIES</b>		
Annuity obligations (Note 8)	<u>156,953</u>	<u>160,482</u>
Total liabilities	429,887	246,259
<b>NET ASSETS</b>		
<b>Unrestricted</b>		
Undesignated	(2,032,477)	(373,804)
Designated (Note 9)	<u>689,056</u>	<u>673,891</u>
Total unrestricted	(1,343,421)	300,087
Temporarily restricted (Note 10)	4,959,139	6,897,566
<b>Permanently restricted (Note 12)</b>		
Loan funds	719,251	730,642
Endowment funds	7,534,494	7,480,491
Annuity and life income funds	<u>45,686</u>	<u>111,710</u>
Total permanently restricted	<u>8,299,431</u>	<u>8,322,843</u>
Total net assets	<u>11,915,149</u>	<u>15,520,496</u>
<b>Total liabilities and net assets</b>	<b>\$ <u>12,345,036</u></b>	<b>\$ <u>15,766,755</u></b>

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

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009  
(With Comparative Totals for June 30, 2008)

	Operating Funds			Permanently Restricted	Total All Funds 2009	Total All Funds 2008
	Unrestricted	Temporarily Restricted	Total Operating			
<b>CONTRIBUTIONS, INVESTMENT ACTIVITY AND OTHER SUPPORT</b>						
Contributions and bequests	\$ 254,705	\$ 264,664	\$ 519,369	\$ 59,954	\$ 579,323	\$ 1,052,256
In-kind support from NEOUCOM	<u>457,157</u>	<u>-</u>	<u>457,157</u>	<u>-</u>	<u>457,157</u>	<u>423,475</u>
Total contributions	711,862	264,664	976,526	59,954	1,036,480	1,475,731
Investment activity						
Interest and dividend income	59,836	188,354	248,190	12,807	260,997	328,373
Realized (loss) gain on sale of investments	(6,234)	(1,166,317)	(1,172,551)	(49,594)	(1,222,145)	425,160
Unrealized (depreciation) appreciation of investments	(1,716,552)	560,562	(1,155,990)	(62,184)	(1,218,174)	(1,851,202)
Change in value of beneficial interest in trusts	<u>-</u>	<u>(420,938)</u>	<u>(420,938)</u>	<u>-</u>	<u>(420,938)</u>	<u>(83,649)</u>
Total investment activity	(1,662,950)	(838,339)	(2,501,289)	(98,971)	(2,600,260)	(1,181,318)
Other income	107,592	2,073	109,665	15,605	125,270	52,938
Net assets released from restrictions	<u>1,366,825</u>	<u>(1,366,825)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total contributions, investment activity and other support	523,329	(1,938,427)	(1,415,098)	(23,412)	(1,438,510)	347,351
<b>EXPENDITURES</b>						
Disbursed for charitable purposes						
Instructional	80,620		80,620		80,620	101,402
Research	48,620		48,620		48,620	38,171
Public services	343,513		343,513		343,513	68,966
Academic support	578,840		578,840		578,840	817,161
Institutional support	110,488		110,488		110,488	181,751
Operations and maintenance	47,288		47,288		47,288	98,810
Student financial assistance	<u>290,019</u>		<u>290,019</u>		<u>290,019</u>	<u>310,111</u>
Total disbursed for charitable purposes	1,499,388		1,499,388		1,499,388	1,616,372
Management and general	352,119		352,119		352,119	328,138
Fund raising	<u>315,330</u>		<u>315,330</u>		<u>315,330</u>	<u>235,579</u>
Total expenditures	<u>2,166,837</u>		<u>2,166,837</u>		<u>2,166,837</u>	<u>2,180,089</u>
CHANGE IN NET ASSETS	(1,643,508)	(1,938,427)	(3,581,935)	(23,412)	(3,605,347)	(1,832,738)
NET ASSETS – BEGINNING	<u>300,087</u>	<u>6,897,566</u>	<u>7,197,653</u>	<u>8,322,843</u>	<u>15,520,496</u>	<u>17,353,234</u>
NET ASSETS – ENDING	\$ <u>(1,343,421)</u>	\$ <u>4,959,139</u>	\$ <u>3,615,718</u>	\$ <u>8,299,431</u>	\$ <u>11,915,149</u>	\$ <u>15,520,496</u>

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

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009  
(With Comparative Totals for June 30, 2008)

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Decrease) in net assets	\$ (3,605,347)	\$ (1,832,738)
Adjustments to reconcile (decrease) in net assets to net cash (used) provided by operating activities		
Net realized loss (gain) on sale of investments	1,222,145	(425,160)
Net unrealized depreciation of investments	1,218,174	1,851,202
Decrease in value of beneficial interest in trusts	420,938	83,649
Contributions restricted for endowment	(59,954)	(95,642)
Decrease (increase) in accounts receivable	5,607	(5,607)
Decrease in pledges receivable	317,569	558,359
Decrease in student notes receivable	22,652	50,437
Increase in accrued liabilities	187,801	1,422
(Decrease) in deposits held in custody for others	<u>(644)</u>	<u>(2,506)</u>
Net cash (used) provided by operating activities	(271,059)	183,416
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Distribution of principal from beneficial interest in trusts	300,000	300,000
Purchases of investments	(5,181,871)	(2,310,903)
Sales of investments	<u>4,843,431</u>	<u>1,823,625</u>
Net cash used by investing activities	(38,440)	(187,278)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to beneficiaries of charitable gift annuities	(21,990)	(21,990)
Net change in value of annuity obligations	18,461	24,412
Contributions restricted for endowment	<u>59,954</u>	<u>95,642</u>
Net cash provided by financing activities	<u>56,425</u>	<u>98,064</u>
<b>NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS</b>	(253,074)	94,202
<b>CASH AND EQUIVALENTS – BEGINNING</b>	<u>424,276</u>	<u>330,074</u>
<b>CASH AND EQUIVALENTS – ENDING</b>	\$ <u>171,202</u>	\$ <u>424,276</u>

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

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS

**Note 1. Organization**

The NEOUCOM Foundation (hereinafter referred to as the "Foundation"), (A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy), 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 Colleges of Medicine and Pharmacy (hereinafter referred to as the "University"), and to assist in developing and increasing its resources to provide broader educational opportunities and services for charitable, educational, and scientific purposes.

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

**Note 2. Significant Accounting Policies**

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

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

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

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

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

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

*Investments* – Investments are carried at fair market value (see Note 5). Realized and unrealized gains and losses are reflected in the Statement of Activities.

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

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Significant Accounting Policies (continued)**

*Revenue Recognition* – Unrestricted contributions of cash and other assets are recognized as revenue when they are received. All other material restricted contributions are recognized when pledged.

The Foundation receives donated services which are specialized skills that would need to be purchased if not provided by donation. Such in-kind donations are reported as contributions in the Statement of Activities.

*Federal Income Taxes* – The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, with the exception of taxable unrelated business income. The Foundation had no unrelated business income in the years ended June 30, 2009 and 2008.

The Foundation has deferred adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB statement No. 109* (“FIN 48”) as allowed under FASB Staff Position FIN 48-3 until the fiscal year beginning after December 15, 2008. The deferred adoption is intended to give the FASB additional time to develop guidance of FIN 48 to not-for-profit organizations. Until the Foundation adopts the provisions of FIN 48, it will continue to apply Statement of Accounting Financial Standards No. 5, *Accounting for Contingencies*.

*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, 2008 from which the summarized information was derived.

*Subsequent Events* – The Foundation has evaluated subsequent events through November 12, 2009, which is the date the financial statements were issued.

*Reclassification* – Certain information previously presented has been reclassified to conform to the current presentation.

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 3. Pledges Receivable**

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

	<u>2009</u>	<u>2008</u>
Less than one year	\$ 352,500	\$ 376,000
More than one year	<u>1,425,000</u>	<u>1,780,000</u>
Total outstanding pledges	1,777,500	2,156,000
Less net present value discount	(230,506)	(287,386)
Less allowance for uncollectible pledges	<u>(16,502)</u>	<u>(20,553)</u>
Net outstanding pledges	<u>\$ 1,530,492</u>	<u>\$ 1,848,061</u>

**Note 4. Investments**

Following is a summary of investments at June 30:

		<u>2009</u>		<u>2008</u>
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 55,979	\$ 55,979	\$ 81,067	\$ 81,067
Cash surrender value of life insurance	229,208	229,208	226,873	226,873
Real estate	200,229	200,229	200,229	200,229
Equities	5,561,838	4,943,615	7,648,305	6,807,564
Fixed income	<u>3,988,760</u>	<u>3,399,675</u>	<u>4,088,948</u>	<u>3,614,852</u>
Total long-term investments	<u>\$ 10,036,014</u>	<u>\$ 8,828,706</u>	<u>\$ 12,245,422</u>	<u>\$ 10,930,585</u>

The Foundation's Board of Directors has adopted an investment policy which is reviewed and updated on an annual basis and is used to determine asset allocation. Investments in real estate are recorded at cost, which approximates fair value. The Foundation intends to donate the real estate to the University in the future.

**Note 5. Fair Value of Financial Instruments**

The carrying values of cash and equivalents, accounts and other receivables, other assets and accrued expenses are reasonable estimates of fair value due to the short-term nature of these financial instruments. The carrying value of the investments and beneficial interest in trusts approximates their fair value in accordance with SFAS 157, "Fair Value Measurements."

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 5. Fair Value of Financial Instruments (continued)**

SFAS 157 establishes a three level hierarchy for disclosure to show the extent and the level of judgment used to estimate fair value measurements:

Level 1 – Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets or liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

Level 3 – Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which assumptions utilize management's estimates of market participant assumptions.

The following table sets forth by level within the fair value hierarchy the Foundation's financial assets that were accounted for at a fair value on a recurring basis as of June 30, 2009. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The table does not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

	<u>As of June 30, 2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market funds	\$ -	\$ 55,979	\$ -	\$ 55,979
Cash surrender value of life insurance	-	-	229,208	229,208
Real estate	-	-	200,229	200,229
Equities	4,943,615	-	-	4,943,615
Fixed income	<u>3,399,675</u>	<u>-</u>	<u>-</u>	<u>3,399,675</u>
Total investments	<u>\$ 8,343,290</u>	<u>\$ 55,979</u>	<u>\$ 429,437</u>	<u>\$ 8,828,706</u>
Beneficial interest in trusts	<u>\$ 1,379,459</u>	<u>\$ -</u>	<u>\$ 42,042</u>	<u>\$ 1,421,501</u>

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 5. Fair Value of Financial Instruments (continued)**

*Investments* – The Foundation invests in equities and fixed income instruments with quoted prices in active markets, which are considered to be Level 1 assets.

The Foundation invests in money market funds that are not quoted in active markets and are considered to be Level 2 assets.

In addition, the Foundation is the sole beneficiary of a life insurance policy and the amount stated is the cash surrender value of the policy. The Foundation also holds land that is stated at the historical cost, which approximates fair value. These are considered to be Level 3 assets.

*Beneficial Interest in Trusts* – The Foundation is the sole owner of equities and bonds that are held with a trustee. They have quoted prices in active markets and are considered to be Level 1 assets.

In addition, the Foundation is a partial owner of investments from a third party. These investments are part of a pool of funds and considered to be a Level 3 asset.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	<u>Life Insurance</u>	<u>Real Estate</u>	<u>Beneficial Interest in Trusts</u>
Balance at June 30, 2008	\$ 226,873	\$ 200,229	\$ 53,025
Contributions	-	-	-
Payments	-	-	-
Change in value	<u>2,335</u>	<u>-</u>	<u>(10,983)</u>
Balance at June 30, 2009	\$ <u>229,208</u>	\$ <u>200,229</u>	\$ <u>42,042</u>

**Note 6. Beneficial Interest in Trusts**

The Foundation is a beneficiary of a Charitable Remainder Trust. Upon the death of the donors, the Foundation will receive its share of the trust funds. The Foundation recorded an investment in this trust equal to the expected future distribution discounted at a rate of 5%. The value of the Foundation's interest in the trust at June 30, 2009 and 2008 totaled \$42,042 and \$53,025, respectively.

In addition, the Foundation is the sole beneficiary of an irrevocable grantor trust. According to the trust, the Foundation is to receive annually the sum of \$300,000 until such time that the trust is fully liquidated. The value of the Foundation's interest in the trust has been recorded at its fair market value and at June 30, 2009 and 2008 the value totaled \$1,379,459 and \$2,089,414, respectively.

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 7. Student Notes Receivable**

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

**Note 8. Gift Annuity Obligations**

The Foundation is obligated under various annuity contracts, whereby donors have contributed cash to the Foundation with agreement that the donor shall be the sole recipient of annual annuity payments. These annual payments, currently totaling \$21,990 per year, shall terminate on the last payment date preceding the death of the donor. The discount rates used to estimate the net present value of the obligations on June 30, 2009 and 2008 was 4.2%.

**Note 9. Unrestricted – Net Assets**

A. Undesignated

Undesignated net assets include \$1,246,914 of current year unrealized market losses for endowment funds that were in excess of that fund's cumulative investment appreciation. Future market application on these funds will be applied to this loss.

B. Designated

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

	<u>2009</u>	<u>2008</u>
Charitable purposes:		
Instruction and departmental research	\$ 26,725	\$ 32,876
Academic support	55,122	61,895
Student services	49	951
Institutional support	525,719	545,951
Plant operation and maintenance	49,772	8,543
Student scholarships and other student aid	13,738	5,573
Student loan funds	17,738	17,409
Management and general	<u>193</u>	<u>693</u>
 Total designated net assets, June 30	 \$ <u>689,056</u>	 \$ <u>673,891</u>

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 10. Temporarily Restricted Net Assets**

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

	<u>2009</u>	<u>2008</u>
Instruction and departmental research	\$ 32,096	\$ 234,045
Separately budgeted research	139,621	189,605
Public service	960,052	1,300,002
Academic support	3,257,122	4,257,224
Institutional support	46,551	67,094
Plant operation and maintenance	41,999	88,653
Student scholarships and other student aid	268,992	550,919
Donor life insurance	229,208	226,873
Allowance for uncollectible pledges	<u>(16,502)</u>	<u>(16,849)</u>
 Total temporarily restricted net assets, June 30	 \$ <u>4,959,139</u>	 \$ <u>6,897,566</u>

**Note 11. Endowment Funds**

During 2008, the Financial Accounting Standards Board released Staff Position 117-1 (FSP 117-1), providing guidance on the net asset classification of donor-restricted endowment funds. FSP 117-1 requires enhanced disclosure for endowment funds.

Ohio has adopted the Uniform Prudent Management of Institutional Funds Act. The law was signed January 6, 2009, and it became effective June 1, 2009.

The Board of Directors of the Foundation has approved an investment policy detailing the long term goals, asset allocation, guidelines for security selection, measurable objectives, and on-going communication. The basic philosophy of the investment policy is that administration and management of the investment are to be implemented through a limited number of investment pools designed to recognize income needs for ongoing operations and reimbursement risk, as well as committed spending and capital-growth needs to meet expansion goals and costs increased by future inflation. Endowment funds are subject to the investment policy approved by the Board of Directors.

The Foundation's endowment consists of permanently restricted endowment funds which are restricted as to use in perpetuity. As of June 30, 2009, the Foundation continues to record permanent endowment gifts at historic dollar value. The income from these funds is to be used for their donor-restricted purpose and is recorded as temporarily restricted until spent.

The Foundation's distribution policy is to distribute up to 5% of the average of the June 30 market values of the endowment fund of the previous three years. Distributions, based on this budgeted amount, will be awarded in the following fiscal year. All unspent funds distributed to temporarily restricted accounts will be reinvested.

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 11. Endowment Funds (continued)**

Donor-restricted endowment activity is as follows for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2008	\$ -	\$ 631,948	\$ 7,480,491	\$ 8,112,439
Investment return:				
Investment income	-	206,444	-	206,444
Net depreciation (realized and unrealized)	(1,246,914)	(632,056)	-	(1,878,970)
Total investment return	(1,246,914)	(425,612)	-	(1,672,526)
Contributions	-	-	60,398	60,398
Appropriations for expenditure	-	(120,026)	(6,395)	(126,421)
Endowment net assets as of June 30, 2009	\$ (1,246,914)	\$ 86,310	\$ 7,534,494	\$ 6,373,890

**Note 12. Permanently Restricted Net Assets**

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

	<u>2009</u>	<u>2008</u>
Student loans	\$ 719,251	\$ 730,642
Endowments requiring earnings only be made available for:		
Student scholarships and awards	2,703,008	2,653,110
Student loans	100,236	100,236
Community health science professorship	1,500,000	1,500,000
Anatomy endowed chair	1,002,471	1,002,471
Psychiatry endowed chair	2,000,000	2,000,000
General and other	228,779	228,378
Deferred gift annuity	45,686	111,710
Allowance for uncollectible pledges	-	(3,704)
Total permanently restricted net assets, June 30	\$ 8,299,431	\$ 8,322,843

NEOUCOM FOUNDATION  
(A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 13. Related Party Transactions**

For the years ended June 30, 2009 and 2008, the Foundation made disbursements of \$1,510,371 and \$1,622,372, respectively, in direct support of charitable, educational, and scientific purposes benefiting the University and its students. In addition, the Foundation granted loans of \$76,733 and \$57,800 to university students for the years ended June 30, 2009 and 2008, respectively.

The Foundation provided reimbursements of \$198,861 and \$205,791, respectively, to the University for management, fund raising, services, and office space during the years ended June 30, 2009 and 2008. Amounts for such services provided by the University which are not reimbursed by the Foundation are reported as in-kind contributions in the Statement of Activities. The University's in-kind support for these services was valued at \$457,157 and \$423,475 for the years ended June 30, 2009 and 2008, respectively.

Board of Directors  
NEOUCOM Foundation

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

We have audited the financial statements of NEOUCOM Foundation, (A Component Unit of the Northeastern Ohio Universities Colleges of Medicine and Pharmacy), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

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

*Meloney + Novotny LLC*

Cleveland, Ohio  
November 12, 2009



Mary Taylor, CPA  
Auditor of State

**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 14, 2010**