Single Audit Report

Lake County Community College District
Year ended June 30, 2002

Auditor of State
Betty Montgomery

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Board of Trustees
Lake County Community College District
Kirtland, Ohio

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 6, 2003

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Lake County Community College District

Single Audit Report

Year ended June 30, 2002

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Report of Independent Auditors

Board of Trustees
Lake County Community College District

We have audited the accompanying statements of net assets of Lake County Community College District as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Lake County Community College District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Lake County Community College District as of June 30, 2002 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the accompanying financial statements, Lake County Community College District implemented a new financial reporting model as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as of July 1, 2001.

Management's discussion and analysis on pages 2-7 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2002 on our consideration of the College'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.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Lake County Community College District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Ernst + Young LLP

August 27, 2002

Lake County Community College District

Management's Discussion and Analysis

Year ended June 30, 2002

This section of the Lake County Community College District (Lakeland Community College or College) annual financial report presents a discussion and analysis of the financial performance of the College during the fiscal year (FY) ended June 30, 2002. This discussion was prepared by management and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting changes, and current known facts. Since this is a transition year for this financial statement format, only one year of financial data is presented. In future years a comparative analysis will be presented. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

The College's annual report consists of a series of financial statements prepared in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments*, as amended by Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis—for Public Colleges and Universities*. These financial statements differ significantly, in both the form and the accounting principles utilized, from those presented in prior years. Prior years' financial statements drew attention to the accountability of funds, while these statements focus on the financial condition, the results of operations, and the impact to cash flows of the College as a whole. Major reconciling items to those financial statements were reclassifications of operating and nonoperating revenues, depreciation of capital assets, reduction in capital assets and net assets due to the College's change in capitalization policy, and reclassifying federal student loan fund balances to liabilities.

One of the most important questions asked about college finances is whether the college as a whole is better off, or worse off, as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The college's net assets are one indicator of its financial health. Over time, increases or decreases in net assets point out the improvement or erosion of the college's financial health when considered with non-financial facts (such as enrollment levels, State changes in funding, facility changes, etc.).

The Statement of Net Assets includes all assets and liabilities of the College. It is prepared under the accrual basis of accounting. Revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies State and local appropriations, as well as gifts, as nonoperating revenues. Since dependency on State and local aid is recognized as nonoperating revenue under generally accepted accounting principles, a public college normally presents operating results as a deficit. The utilization of long-lived assets, primarily capital assets, is reflected in the financial statements as depreciation.

Another important factor to consider when evaluating the College's financial viability is the College's ability to meet financial obligations as they mature. One measure of this factor is the College's working capital or the relationship of its current assets to its current liabilities.

The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital and noncapital financing and investing activities, and illustrates the College's sources and uses of cash.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2002

Operating revenues	
Tuition and fees, net	$ 11,906,957
Grants and contracts	1,627,138
Auxiliary enterprises	4,763,533
Other operating revenue	687,923
Total operating revenues	18,985,551
Operating expenses	49,874,532
Operating loss	(30,888,981)
Nonoperating revenues	
State appropriations	15,768,675
Local appropriations	9,894,022
Other nonoperating income	739,541
Net nonoperating revenues	26,402,238
Loss before other changes	(4,486,743)
Other changes	
Capital appropriations from the State of Ohio	706,208
Capital gifts and grants	296,089
Total other revenue	1,002,297
Decrease in net assets	(3,484,446)
Net assets	
Net assets at beginning of year, restated	49,963,389
Net assets at end of year	$ 46,478,943

Condensed Statement of Net Assets

June 30, 2002

Assets	
Current assets	$ 23,828,262
Noncurrent assets:	
Capital	35,094,142
Other	1,220,217
Total assets	60,142,621
Liabilities	
Current liabilities	10,971,188
Noncurrent liabilities	2,692,490
Total liabilities	13,663,678
Net assets	
Invested in capital assets	32,652,548
Restricted:	
Nonexpendable	323,564
Expendable	777,641
Unrestricted	12,725,190
Total net assets	$ 46,478,943

Analysis of Results of Operations

Total FY 2002 operating revenues amounted to $19.0 million. Tuition and fees comprised $11.9 million, net of tuition discounts of $0.2 million. Operating expenses, including depreciation, totaled $49.9 million.

Student tuition and fees reflect an 11.5 percent enrollment increase in credit instruction during FY 2002 as compared to FY 2001 (from 126,571 credit hours in FY 2001 to 141,157 credit hours in FY 2002). Additionally, the increase in credit instruction reflected a 7.5 percent rate increase to tuition and general fees effective with the Spring 2002 term. The significant increase in credit instruction tuition and fees was slightly offset by lower non-credit revenues. The reduction in non-credit revenues as compared to the prior year is attributable to lower enrollments in part due to local economic changes. Auxiliary enterprises revenues are primarily comprised of bookstore and food service sales, and facility rentals. Revenue increases occurred in these operations in FY 2002 as compared to FY 2001, with the largest growth attributable to bookstore textbook sales increases of 11.2 percent.

The College's nonoperating revenues are comprised primarily of State of Ohio (the State) and local appropriations. State appropriations include the State's share of instructional support and access challenge funds. Due to the economic recession, State budget cuts were enacted during FY 2002 and the College received $1.2 million less in its State share of instructional support and access challenge funds as compared to the previous year. Beginning in FY 2002, State appropriations included $619,035 from a replacement State excise tax. As part of the legislation that deregulated the electric and natural gas utilities, commencing with calendar year 2002, the College will receive a replacement State excise tax under various guarantee provisions that is intended to offset, over a period of time, the loss in public utility property taxes due to lowered valuations.

Lakeland Community College's operating expenses during FY 2002 reflected implementing a number of cost saving and efficiency efforts as a series of proactive measures that also addressed the reduction in State appropriations. As part of these efforts, during FY 2002 the College joined the Lake County Schools Council (LCSC). The LCSC is a council of governments whose purpose is to undertake a joint program to provide employee healthcare benefits at more favorable costs. As part of joining the LCSC, the College was required to pay a non-refundable assessment amounting to $680,239 in order to be considered an equal member of standing. This assessment was expensed by the College during FY 2002. However, the cost associated with entering the LCSC is expected to be more than offset by realized rate reductions that provide the College with significant compounded future savings.

From a budgetary perspective, the College's FY 2002 general operations budget reflected a planned reduction in net assets of $3.0 million. In light of measures taken in reaction to reduced State appropriations, as well as increases in student enrollment and related tuition and fees as compared to budget, the reduction in net assets amounted to $2.3 million during FY 2002, or $700,000 better than planned.

Analysis of Overall Financial Position

The College's net assets were $46.5 million and $50.0 million at June 30, 2002 and 2001, respectively. The $3.5 million decrease in net assets was attributable to *(a)* the College's budgeted decrease in unrestricted net assets and cash and investments and *(b)* depreciation expense.

Capital Assets and Long-Term Debt Activity

The College utilizes State capital appropriations, internal funds, and gifts and other grants for capital asset expenditures. State capital appropriations are on a biennium basis, and individual institutions' capital funding allocations are based largely on enrollment. During FY 2002, the College utilized $1,002,297 in State capital appropriations and grants and gifts, and purchased $993,044 of capital assets.

The College's long-term debt is comprised of its general receipts bonds and capital lease obligations. During FY 2002, the College issued $98,879 in new capital lease obligations and paid $557,532 in connection with debt maturities. The College is in full compliance with all of its contractual long-term debt requirements.

More detailed information about the College's capital assets and long-term debt and lease obligations is presented in Notes 8 and 12, respectively, of the financial statements.

Factors Impacting Future Periods

The level of State and local support, student tuition and fee increases, compensation, and other cost increases impact the College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

The College places significant reliance on State appropriations. State income and budget constraints may from time to time compel stabilization or reduction of a level of State assistance and support for higher education in general and the College in particular. In addition, the State's share of instructional support and access challenge appropriations are subject to subsequent limitations, which provide in part that if the Governor ascertains that the available revenue receipts and balances for the current fiscal year will in all probability be less than the appropriations for the year, he or she shall issue such orders to prevent their expenditure and incurred obligations from exceeding those revenue receipts and balances.

Local appropriations in the form of property taxes are another critical element of support. The electors within the County of Lake, Ohio (County) must approve any District property tax. The District collects property taxes for operating and capital purposes from two levies approved by the County voters: a 1.7 mill stated rate for a continuing period, and a 1.5 mill stated rate for ten years. The current 1.5 mill levy expires with the last collection in calendar year 2002. The Lake County voters approved a new ten-year 1.5 mill replacement levy in May 2002.

Lakeland Community College District

Statement of Net Assets

June 30, 2002

Assets	
Current assets:	
Cash and cash equivalents	$ 5,892,718
Restricted cash and cash equivalents	323,564
Short-term investments	7,039,063
Intergovernmental receivables, net	7,300,406
Loans and other receivables, net	1,432,170
Inventories	501,067
Prepaid assets	1,339,274
Total current assets	23,828,262
Noncurrent assets:	
Investments	1,001,629
Loans receivable, net	218,588
Capital assets, net	35,094,142
Total noncurrent assets	36,314,359
Total assets	60,142,621
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	2,490,699
Deferred revenue	7,034,233
Other liabilities	253,707
Capital lease obligations	407,751
Compensated absences	724,798
General receipts bonds	60,000
Total current liabilities	10,971,188
Noncurrent liabilities:	
Other liabilities	125,000
Capital lease obligations	398,843
Compensated absences	195,438
Refundable Federal student loans	398,209
General receipts bonds	1,575,000
Total noncurrent liabilities	2,692,490
Total liabilities	13,663,678
Net assets	
Invested in capital assets, net of related debt	32,652,548
Restricted for:	
Nonexpendable	323,564
Expendable	777,641
Unrestricted	12,725,190
Total net assets	$ 46,478,943

See accompanying notes.

Lakeland Community College District

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2002

Revenues	
Operating revenues:	
Student tuition and fees, net of $248,300 in scholarship allowances	$ 11,906,957
Federal grants and contracts	407,763
State grants and contracts	1,061,972
Private grants and contracts	157,403
Sales and services	374,123
Auxiliary enterprises	4,763,533
Other operating revenues	313,800
Total operating revenues	18,985,551
Expenses	
Operating expenses:	
Educational and general:	
Instruction and departmental research	18,171,831
Public service	2,916,450
Academic support	1,736,799
Student services	5,845,332
Institutional support	7,710,355
Operation and maintenance of facilities	5,804,866
Total educational and general	42,185,633
Auxiliary enterprises	4,773,254
Depreciation	2,915,645
Total operating expenses	49,874,532
Operating loss	(30,888,981)
Nonoperating revenues (expenses)	
State appropriations	15,768,675
Local appropriations	9,894,022
Unrestricted investment income, net of investment expense	838,370
Restricted investment income, net of investment expense	7,780
Interest on capital asset-related debt	(128,929)
Other nonoperating revenues, net	22,320
Net nonoperating revenues	26,402,238
Loss before other changes	(4,486,743)
Other changes	
Capital appropriations from the State of Ohio	706,208
Capital grants and gifts	296,089
	1,002,297
Decrease in net assets	(3,484,446)
Net assets	
Net assets—beginning of year (*Restated - Note 2*)	49,963,389
Net assets—end of year	$ 46,478,943

See accompanying notes.

Lakeland Community College District

Statement of Cash Flows

Year ended June 30, 2002

Cash flows from operating activities	
Tuition and fees	$ 12,289,268
Grants and contracts	1,627,138
Payments to suppliers	(11,300,463)
Payments for utilities	(1,228,535)
Payments for compensation and benefits	(35,046,233)
Payments for early retirement incentive plan	(2,106,737)
Auxiliary sales and services	4,434,051
Other	290,227
Net cash used by operating activities	(31,041,284)
Cash flows from noncapital financing activities	
State appropriations	15,768,675
Local appropriations	9,785,728
Student organization agency transactions	(65,212)
Net cash provided by noncapital financing activities	25,489,191
Cash flows from capital financing activities	
Capital appropriations	706,208
Proceeds from sale of capital assets	23,428
Purchases of capital assets	(993,044)
Principal paid on capital debt and leases, net	(458,654)
Interest paid on capital debt and leases	(128,929)
Net cash used by capital financing activities	(850,991)
Cash flows from investing activities	
Proceeds from maturities of investments	10,500,000
Interest on investments	1,026,491
Purchase of investments	(2,559,736)
Net cash provided by investing activities	8,966,755
Net increase in cash and cash equivalents	2,563,671
Cash and cash equivalents—beginning of the year	3,652,611
Cash and cash equivalents—end of the year	$ 6,216,282
Reconciliation of net operating revenues (expenses) to net cash used by operating activities	
Operating loss	$ (30,888,981)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	2,915,645
Changes in assets and liabilities:	
Increase in accounts receivable, net	(292,444)
Decrease in inventories	247,705
Increase in other assets	(41,519)
Decrease in accounts payable and accrued liabilities	(810,652)
Increase in deferred revenue	80,244
Decrease in deposits held for others	(29,443)
Decrease in compensated absences	(189,197)
Increase in other liabilities	25,000
Decrease in early retirement incentive plan	(2,057,642)
Net cash used by operating activities	$ (31,041,284)

See accompanying notes.

1. Summary of Significant Accounting and Reporting Policies

Reporting Entity

Lake County Community College District (the College) is a two-year community college and a political subdivision of the State of Ohio (the State). The College is exempt from filing a federal tax return based upon the ruling it received from the Internal Revenue Service dated August 27, 1968.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, the College's financial statements are included as a discrete entity, on the State of Ohio's Consolidated Annual Financial Report. As defined by GASB Statement No. 14, the College is not financially accountable for any other entity nor are there any other entities for which the nature and significance of their relationship with the College are such that exclusion would cause the College's financial statements to be misleading or incomplete.

Basis of Accounting

The accompanying financial statements of the College were prepared in conformity with accounting principles generally accepted in the United States (GAAP) as prescribed by the GASB.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), statements and interpretations issued after November 30, 1989, which do not conflict or contradict GASB pronouncements.

Measurement Focus and Financial Statement Presentation

Operating revenues and expenses generally result from providing service in connection with the College's principal ongoing operations. The principal operating revenues include student tuition. The College also recognizes as operating revenue grants classified as exchange transactions and auxiliary activities. Operating expenses include educational costs, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition, including State and local appropriations, are reported as nonoperating revenues and expenses.

1. Summary of Significant Accounting and Reporting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased.

Inventories

Inventories primarily consist of books and supplies of the College's bookstore and are valued at the lower of cost (first-in, first-out) or market.

Investments

All investments are measured at fair value, based on quoted market prices, in the statement of net assets. Investments maturing in one year or less are categorized as short-term.

Capital Assets

The College's policy on capitalization and depreciation adheres to the requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Capital assets include: land, land improvements, infrastructure, buildings, building improvements, construction in progress, equipment, furniture, vehicles, software and library books.

Capital assets greater than $5,000 are capitalized at cost or, if acquired by donation, at appraised values as of the date received. When capital assets are sold, or otherwise disposed of, the carrying value of such assets and any accumulated depreciation are removed from the statement of net assets. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend the capital asset's life are expensed.

1. Summary of Significant Accounting and Reporting Policies (continued)

Capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land improvements	20-30 years
Infrastructure	20-25 years
Building and building improvements	5-40 years
Equipment, furniture and vehicles	3-15 years
Software and library books	3-5 years

Deferred Revenue

Deferred revenue includes tuition and fees for summer sessions, and local government revenues. Tuition and fee revenues received or expenses incurred for summer sessions completed and graded after June 30 of each year are deferred and recognized in the following fiscal year.

Deferred revenue also includes certain local appropriations as discussed in Note 4.

Reserve for Compensated Absences

Compensated absences, including accumulated unpaid vacation benefits and unpaid sick leave, are accrued to conform with GASB Statement No. 16, *Accounting for Compensated Absences.*

Net Assets

Net assets are classified according to external donor restriction or availability of assets for satisfaction of College obligations. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes, funds used for capital projects and debt service.

1. Summary of Significant Accounting and Reporting Policies (continued)

Endowment and similar funds are subject to the restrictions of gift instruments or board designations and are accounted for accordingly.

Grants and Contracts

The College receives grants and contracts from federal, state and private agencies to fund education programs, research and other activities. Grants and contracts generally provide for the recovery of direct and indirect costs. The College recognizes revenues associated with grants and contracts as the related costs are incurred. Indirect costs recovery is recorded as a percentage of direct costs at negotiated fixed rates. Revenues received under grants and contracts are subject to the examination and retroactive adjustments by the awarding agency.

Intergovernmental Receivables and Revenue

Local government revenues are recorded as receivables and revenue when legal right to the funds has occurred. Other federal and State grants and assistance awards made on the basis of entitlement are recorded as intergovernmental receivables and revenue when entitlement occurs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosure in the footnotes. Actual results could differ from those estimates.

Accounting Standards

The GASB issued GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB Statement No. 39 establishes criteria to determine if organizations that are legally separate, tax-exempt entities should be discretely presented as component units. Application of this standard is required for fiscal 2004. The impact of GASB Statement No. 39 on the College’s financial reporting, operating results or financial position has not been determined.

2. GASB Statement No. 34 and 35

In fiscal year 2002, the College adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* effective July 1, 2001. The College follows the "business-type" activities approach which provides for the following components of the College's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements Including a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows, for the College as a whole
- Notes to the Financial Statements

GASB Statement No. 34 and No. 35 also require capitalization of assets and recording of depreciation, elimination of internal revenue and expense charges, recording scholarship credit to student accounts as tuition and fee allowances, and removal of capital related items from revenue and expenses. In addition, certain loan and scholarship funds have been reclassified from fund balance to liabilities at July 1, 2001.

In conjunction with the adoption of GASB Statement No. 34 and 35, the College reviewed its existing capital asset components, identified and separately reported "infrastructure" (e.g., roadways, water and drainage systems), and increased its capitalization threshold from $400 to $5,000. As a result of the change in the capitalization threshold from $400 to $5,000, the College reduced the historical cost valuation of equipment and software by $12,613,712 and reflected this as a prior period adjustment to fund balances at July 1, 2001.

As a result, changes in capitalization of assets, recognition of depreciation and reclassification of certain loan and scholarship fund balances to liabilities, the College's prior year fund balances were restated to reflect net assets as follows:

Total fund balances at July 1, 2001, as previously reported	$ 98,023,512
Asset adjustments due to capitalization policy change	(12,613,712)
Accumulated depreciation of capital assets	(34,857,537)
Refundable Federal student loan fund balance reclassified to a liability	(588,874)
Net assets at July 1, 2001, as restated	$ 49,963,389

3. State Appropriations

The College is a State-assisted institution of higher education, which receives a student-based subsidy from the State. This subsidy is determined annually based upon a formula devised by the State. In addition to the student subsidies, the State provides funding for the construction of major academic plant facilities on the College campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC) which, in turn, is used for the construction and subsequent transfer of the facility to the College.

College facilities are not pledged as collateral for the OPFC revenue bonds. Instead, these bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, the Ohio Board of Regents shall assess a special student fee uniformly applicable to students in State-assisted institutions of higher education throughout the State.

As a result of the above described financial assistance provided by the State to the College, outstanding debt issued by OPFC is not included on the College's statement of net assets. In addition, the appropriations by the General Assembly to the Ohio Board of Regents for payments of debt service are not reflected and the related debt service payments are not recorded in the College's accounts.

Due to enacted legislation related to deregulating public electric and natural gas utilities, the assessment percentage on various components of public utility tangible personal property was reduced starting with the College's calendar year 2002 tax receipts. The State Tax Commissioner's Office has certified that the annual loss to the College attributable to deregulation commencing with 2002 receipts will amount to $1,238,070, however, with deregulation the College will recover, under various guarantee provisions (SB3 and SB287) those lost collections through receipts of a replacement State excise tax, which is guaranteed at 100% for a five-year period to protect the College for lost public utility tangible personal property taxes; thereafter, the replacement tax will be phased out over an additional ten-year period. The replacement State excise taxes related to the current year operations will be collected in two separate payments during March and September of each year. The College has recognized one-half year of replacement State excise tax as an intergovernmental receivable in the current fiscal year. Replacement State excise taxes were measurable at June 30, 2002. However, since these revenue collections to be received during the available period are not intended to finance 2002 operations, the receivable amount is recorded as deferred revenue.

4. Local Appropriations

The College receives local appropriations in the form of property taxes levied against real, public utility, and tangible (used in business) personal property located in the County of Lake, Ohio (County). Real property taxes and public utility taxes are levied after October 1, on assessed value listed as of January 1, the lien date. Taxes collected on "real property" in one calendar year are levied in the preceding calendar year.

Tangible personal property taxes attach as a lien and are levied on January 1. Taxes collected on tangible personal property in one calendar year are levied in the same calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of the preceding calendar year and at the tax rates determined in the preceding year.

Public utility (real and tangible personal) taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31, of the second year preceding the tax collection year.

The electors within the County must approve any District property tax. The District collects property taxes for operating and capital purposes from two levies approved by the County voters: a 1.7 mill stated rate for a continuing period, and a 1.5 mill stated rate for ten years. The current 1.5 mill levy expires with the last collection in calendar year 2002. The Lake County voters approved a new ten-year 1.5 mill replacement levy in May 2002.

Revenue authorization is recognized based on the taxing authorities amounts to be distributed to the tax district and their certification of the College's annual budget. The taxing authority does not authorize the distribution of the tax assessment for calendar 2002 until October 2002, thus not legally making it available to the College until after the end of the College's fiscal year for that year's calendar assessment. The College has recognized one half year of its real property and public utility property tax receipts due as an intergovernmental receivable in the current fiscal year. Property taxes receivable represent outstanding real property, public utility and tangible personal property taxes, which were measurable at June 30, 2002. Total property tax collections for the next fiscal year are measurable amounts. However, since these revenue collections to be received during the available period are not intended to finance 2002 operations, the receivable amount is recorded as deferred revenue.

5. Deposits

Ohio law requires that deposits be placed in eligible financial institutions located in Ohio. Any public depository in which the College places deposits must pledge as collateral eligible securities of aggregate fair value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation. Further, Ohio law requires such collateral amounts to exceed deposits by two percent. Collateral that may be pledged is limited to obligations of the following entities: the United States and its agencies, the State of Ohio, the Ohio Student Loan Commission and any legally constituted taxing subdivision within the State of Ohio.

At June 30, 2002, the carrying amount of the College's deposits was $389,277. The bank balance totaled $1,652,093. The difference represents outstanding checks payable, repurchase agreements, and normal reconciling items. $100,000 of the bank balance was covered by federal depository insurance. The remainder was secured by collateral pools of the U.S. government and municipal securities and are thus a category (3) deposit risk.

6. Investments

The College records investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* which requires most investments to be recorded at fair value and the recognition of unrealized gains and losses in the statement of revenues, expenses and changes in net assets. Fixed income securities, which are held to maturity, are recorded at cost, which approximates fair value.

The College's investment policies are governed by State statutes, which authorize the College to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State obligations, certificates of deposit, U.S. Government money market funds and repurchase transactions. Such repurchase transactions must be purchased from financial institutions as discussed in "Deposits" above or with registered broker/dealers.

Investments are categorized to give an indication of the level of risk assumed by the College at year-end. The categorized investments include those, which are classified as cash and cash equivalents in accordance with the provisions of GASB Statement No. 9.

The College's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end.

6. Investments (continued)

At June 30, 2002, investments reported in cash and cash equivalents and investments include:

Type of Investment	Category (2)	Category (3)	Cost	Fair Value
Repurchase Agreements		$ 1,548,128		$ 1,548,128
U.S. Government T-Notes	$ 8,040,692		$ 8,040,692	8,040,692
	$ 8,040,692	$ 1,548,128	$ 8,040,692	
State Treasurer Asset Reserve Fund (Star Ohio)				5,809,105
Total investments				$ 15,397,925

Investments classified in category (2) are held in banks' trust departments due to legal restrictions required by trust indentures and codified ordinances. Assets held by these trust departments as custodial agents are considered legally separate from the assets of the commercial side of the bank and are held strictly on a fiduciary basis. These trust departments are authorized by and regulated under various state and federal laws. Investments classified in category (3) are uninsured and unregistered, with securities held by the counter-party, or its trust department or agent, but not in the College's name.

Star Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Star Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Star Ohio are valued at Star Ohio's share price, which is the price the investment could be sold for on June 30, 2002. The deposits invested with Star Ohio are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

7. Loans and Other Receivables

Loans and other receivables relate to several activities including tuition and fees, auxiliary sales, and miscellaneous sales and services.

Loans and other receivables are recorded net of allowances for uncollectible accounts of $730,956.

The following schedule is an analysis of loans and other receivables balances as of June 30, 2002:

	Current Portion, Net	Noncurrent Portion, Net
In-house student loans	$ 27,284	
Federal Perkins and Nursing student loans	34,058	$ 158,835
Employee computer financing	33,891	59,753
Tuition payment plan loans	386,481	-
Auxiliary receivables	175,355	-
Interest receivable	100,105	-
Sales and service receivables	674,996	-
Total	$ 1,432,170	$ 218,588

8. Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	July 1, 2001 Balance	Additions	Retirements	June 30, 2002 Balance
Nondepreciable assets:				
Land	$ 723,289			$ 723,289
Depreciable assets:				
Infrastructure	2,907,873			2,907,873
Land improvements	2,823,815	$ 200,000		3,023,815
Buildings and improvements	56,647,521	337,233		56,984,754
Equipment and vehicles	3,958,959	373,558	$ 146,101	4,186,416
Software and library books	4,771,207	124,967		4,896,174
Total capital assets	71,832,664	1,035,758	146,101	72,722,321
Less accumulated depreciation:				
Infrastructure	1,448,590	98,408		1,546,998
Land improvements	1,393,882	107,850		1,501,732
Buildings and improvements	25,871,933	1,716,650		27,588,583
Equipment and vehicles	2,460,017	458,320	145,003	2,773,334
Software and library books	3,683,115	534,417		4,217,532
Total accumulated depreciation	34,857,537	2,915,645	145,003	37,628,179
Capital assets, net	$ 36,975,127	$ (1,879,887)	$ 1,098	$ 35,094,142

9. Retirement Plans

All full-time employees of the College are covered by one of two state-administered retirement plans. Faculty and other qualified individuals participate in the State Teachers Retirement System of Ohio (STRS) and all other College employees participate in the School Employees Retirement System (SERS). The retirement programs are cost-sharing, multiple-employer defined benefit plans. STRS and SERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits for plan members and beneficiaries.

9. Retirement Plans (continued)

The State Teachers Retirement System of Ohio Comprehensive Annual Financial Report may be obtained by writing to The State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771. The School Employees Retirement System of Ohio Comprehensive Annual Financial Report may be obtained by writing to School Employees Retirement System of Ohio, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. The Ohio Revised Code (ORC) provides statutory authority for employee and employer contributions. The employee contribution rates are 9.3% and 9% for STRS and SERS, respectively, of covered payroll and the College is required to contribute 14% of covered payroll. The College's contributions to STRS for the years ended June 30, 2002 , 2001 and 2000 were $2,036,594, $2,084,103 and $1,991,653, respectively, equal to the required contributions for each year. The College's contributions to SERS for the years ended June 30, 2002, 2001 and 2000 were $1,562,794, $1,504,426 and $1,403,139, respectively, equal to the required contributions for each year.

Amended Substitute House Bill 586 requires all Ohio public colleges to offer at least three alternative retirement plans to certain new and existing full-time employees. For those employees electing to participate in an alternative retirement plan (ARP), the College will contribute 14% of covered payroll to the Plan for SERS eligible participants. For STRS eligible participants electing the alternative retirement plan the College will contribute 8.24% through September 30, 2001 and 10.5% after September 30, 2001 to the ARP. The difference from the 14% overall College distribution rate of STRS employee covered payroll is to be paid to STRS to mitigate any negative financial impact of ARPs on the State system.

10. Post Employment Benefit

State Teachers Retirement System

STRS provides comprehensive health care benefits to retired teachers and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the ORC, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The ORC grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll.

10. Post Employment Benefit (continued)

For the fiscal year ended June 30, 2001, the Board allocated employer contributions equal to 4.5% of covered payroll to the health care reserve fund. The balance in the health care reserve fund was $3.256 billion on June 30, 2001.

For the year ended June 30, 2001, the net health care costs paid by STRS Ohio were $300,772,000. There were 102,132 eligible benefit recipients.

School Employees Retirement System

SERS provides post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on and after August 1, 1989 with less than 25 years of qualified service credit pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2001, the allocation rate is 9.8%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2001, the minimum pay has been established as $12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. For the year ended June 30, 2001, the net health care costs paid by SERS were $161,439,934. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits was $315.7 million. The number of retirees and covered dependents currently receiving benefits is approximately 50,000.

11. Early Retirement Incentive Plan

During fiscal year 1998, the College entered into an agreement with the Lakeland Faculty Association, which included an early retirement incentive plan for the fiscal years 1999, 2000, and 2001. In accordance with the terms of the plan, members of STRS who meet certain eligibility requirements and choose to participate can take early retirement. The cost of retirement incentive credits for individuals participating in the plan is determined by STRS and is paid entirely by the College. The total cost of the early retirement incentive plan was $3,484,904; a final settlement of $49,095 was expensed in the fiscal year ended June 30, 2002.

12. Long-Term Debt and Lease Obligations

Long-term debt and lease obligation activity for the year ended June 30, 2002 was as follows:

	July 1, 2001 Balance	**Additions**	**Reductions**	**June 30, 2002 Balances**	**Amount Due/Payable Within One Year**
General receipts bonds	$ 1,695,000		$ 60,000	$ 1,635,000	$ 60,000
Capital lease obligations	1,205,247	$ 98,879	497,532	806,594	407,751
Total long-term debt and lease obligations	$ 2,900,247	$ 98,879	$ 557,532	$ 2,441,594	$ 467,751

Effective March 15, 1999 the College issued $1,740,000 of General Receipts Bonds, Series 1999 (Series 1999 Bonds) to pay part of the cost of renovating and adding to the College's Athletic Fitness Center (AFC). The proceeds and related indebtedness outstanding have been recorded as assets and liabilities of the College.

The Series 1999 Bonds were issued pursuant to a Master Trust Agreement dated March 15, 1999, acting by and through the College's Board of Trustees and the Bond Trustee. The Series 1999 Bonds are subject to mandatory or optional redemption, with stated interest rates ranging from 3.60% to 5.12%. The final maturity of the Series 1999 Bonds is December 1, 2019.

12. Long-Term Debt and Lease Obligations (continued)

The Series 1999 Bonds are special obligations of the College. Bondholders have no right to have excises or taxes levied by the State of Ohio General Assembly, or by the College, for their payment. Principal and interest on the bonds are payable solely from and secured by a pledge of the College's general receipts and bond proceeds. State appropriations, local ad valorem property tax receipts, and other restricted receipts are specifically excluded from general receipts. The College has covenanted that it will include in its budget for each fiscal year amounts of general receipts at least sufficient to pay debt service charges payable that fiscal year from general receipts, as well as to satisfy other requirements.

Scheduled principal maturities and total debt service of the Series 1999 Bonds for fiscal years subsequent to June 30, 2002 are as follows:

Year ending June 30	Principal	Interest	Total Principal and Interest
2003	$ 60,000	$ 76,615	$ 136,615
2004	65,000	74,145	139,145
2005	65,000	71,528	136,528
2006	70,000	68,742	138,742
2007	70,000	65,785	135,785
2008-2012	410,000	277,179	687,179
2013-2017	520,000	165,148	685,148
2018-2022	375,000	29,339	404,339
	$ 1,635,000	$ 828,481	$ 2,463,481

The College has entered into various lease agreements, which are considered operating leases. Total rental expense under operating leases during the year ended June 30, 2002 amounted to $222,228.

12. Long-Term Debt and Lease Obligations (continued)

Capital leased assets consist of computer hardware and software, implementation costs, and other equipment. Capital leased assets recorded on the statement of net assets at June 30, 2002 amounted to $1,695,943.

Future minimum lease payments as of June 30, 2002 under all capital and operating leases, along with the present value of net minimum capital ease payments are as follows:

Year Ended June 30	Capital Leases	Operating Leases
2003	$ 424,731	$ 232,089
2004	253,011	239,891
2005	103,800	28,919
2006	60,727	26,825
2007	7,954	-
Total minimum lease payments	850,223	$ 527,724
Less amount representing interest	43,629	
Present value of net minimum capital lease payments	$ 806,594	

13. Noncurrent Liabilities

The following is the detail activity for noncurrent liabilities for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amount Due/Payable Within One Year
Reserve for compensated absences	$ 1,109,433	$ 197,868	$ 387,065	$ 920,236	$ 724,798
Other liabilities	100,000	25,000		125,000	
Total noncurrent liabilities	$ 1,209,433	$ 222,868	$ 387,065	$ 1,045,236	$ 724,798

14. Lake County School's Health Care Consortium

Effective November 1, 2001, the College joined the Lake County Schools Council (LCSC). Under state law, the LCSC was formed as a council of governments and includes a number of the boards of education in Lake County. The purposes of the LCSC are to undertake a joint program for the provision of health care benefits to the employees of those districts and their eligible dependents, as well as fostering cooperation among districts, from time to time, in other areas of educational services. As a related but separate agreement, the LCSC maintains a health care benefits consortium (the Consortium).

The Consortium allows each political district to maintain their current plan designs (through selected providers), and allows efficiencies and economic benefits to occur through the group's buying power. The College, as well as the other LCSC members, utilizes the LCSC as its health care benefits provider. The LCSC in turn manages various health care benefit organizations to deliver those services.

Since its inception, LCSC has built up its reserves, and at the time of the College's application for membership, the reserve balance approximated $4.7 million. LCSC members are responsible for the funding and setting aside reserves to pay its various health care benefit obligations. As part of joining the LCSC, the College's Board of Trustees authorized payment to the Council in the amount of $680,239 as the College's assessment for inclusion in the LCSC's Health Care Benefits Program as a member of equal standing. The assessment is to be paid in two equal installments (at inception on November 1, 2001 and at November 1, 2002). The entire assessment was expensed in fiscal 2002 since the assessment is not guaranteed to be refunded to the College should the College at any time voluntarily withdraw from the LCSC.

Under its agreements and bylaws, the Consortium's fiscal year ends each June 30th, and the Treasurer of the LCSC, a position appointed by the Board of Directors of the LCSC, also serves as the Treasurer of the Consortium. The Treasurer of the Mentor Village Exempted School District (Mentor School District) currently serves as the LCSC Treasurer, and LCSC and Consortium fiscal record keeping and reporting are incorporated through an agency relationship with the Mentor School District. Prior to the beginning of each fiscal year, health care program and related costs and adjustments (program costs) are estimated and allocated to each member as a required contribution for that fiscal year. If contributions are insufficient to pay actual program costs during any fiscal year, members may be required to share in those additional costs or deficiencies during that fiscal year.

14. Lake County School's Health Care Consortium (continued)

LCSC funds held in agency by the Mentor School District at July 1, 2001 amounted to $4.7 million, LCSC member contributions and other income for the year ended June 30, 2002 amounted to $19.6 million, health care program and related costs amounted to $18.6 million, leaving $5.7 million as funds held in agency accounts at June 30, 2002.

15. Risk Management

Lake County Community College District maintains a broad-based insurance program underwritten by A+ and A++ Superior-rated insurance companies. The College engages the services of an insurance consulting/risk management firm to review and maintain its insurance program. This program includes commercial and umbrella liability, law enforcement liability, school leaders errors and omissions liability, consultants' professional liability, and medical professional liability coverages. The College also maintains a comprehensive property insurance program.

16. Legal Action

Through the normal course of operations, the College is occasionally named as a defendant in legal actions and claims. In the opinion of management and legal counsel, any liability, which may ultimately be incurred, will not have a material adverse effect on the financial condition of the College. The College purchases commercial insurance to cover general liability losses.

17. Foundation (Unaudited)

The Lakeland Foundation (Foundation) was formed in 1981 to obtain private financing support for the promotion of excellence at the College. The Foundation provides scholarships to financially disadvantaged students and merit scholarships to those students demonstrating excellent academic abilities. The Foundation also provides support to specific educational departments and programs of the College. The accounting records for the Foundation are maintained at the College in Kirtland, Ohio. Certain administrative expenses of the Foundation are borne directly by the College. The Foundation has total assets and net assets of $2,245,785 and $2,176,557 at June 30, 2002, respectively, and revenues of $354,573 for the year then ended.

Lake County Community College District

Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

Federal Grantor/Program Title	CFDA Number	Federal Expenditures
Student Financial Aid Cluster		
Department of Education:		
Direct Programs:		
Federal Pell Grant Program	84.063	$ 2,907,606
Federal Work-Study Program	84.003	155,460
Federal Supplemental Educational Opportunity Grant Program	84.007	226,704
Federal Perkins Loan Program (*Note 2)*	84.038	27,668
Federal Family Loan Program (*Note 3)*	84.032	1,271,728
		4,589,166
Department of Health and Human Services:		
Direct Program:		
Nursing Student Loan Program (*Note 4)*	93.364	24,150
Total Student Financial Aid Cluster		4,613,316
Other Programs		
Department of Education:		
Direct Programs:		
Two Year College Perkins Grant	84.048	66,887
Business and International Education	84.153	43,230
		110,117
Pass-Through Program:		
Technical Preparatory Grant	84.243	194,295
Institute of Museum and Library Services:		
Pass-Through Program:		
Library Services and Technology Act:		
State Library of Ohio	45.310	6,131
Department of Justice:		
Direct Program:		
Public Safety Partnership and Community Policing Grant	16.710	23,961

Lake County Community College District

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title	CFDA Number	Federal Expenditures
Department of Labor:		
Pass-Through Program:		
Job Training Partnership Act:		
Geauga County	17.246	3,816
Cuyahoga County	17.246	3,420
Lake County II	17.246	15,509
Ashtabula County	17.246	4,376
		27,121
National Science Foundation:		
Pass-Through Programs:		
Cleveland State University	47.076	23,482
Paragon Tech / NASA	47.076	151,190
		174,672
Total Expenditures of Federal Awards		$ 5,149,613

1. Summary of Significant Account Policies

Basis of Presentation

The schedule of expenditures of federal awards includes federal grant transactions of the Lake County Community College District (the College) on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. Federal Perkins Loan Program

The College administers the following loan program:

	CFDA Number	Outstanding Balance at June 30, 2002
Federal Perkins Loan Program	84.038	$156,758

Total loan expenditures and disbursements of the Department of Education student financial assistance program for the fiscal year are identified below:

	CFDA Number	Disbursements
Federal Perkins Loan Program	84.038	$ 27,668

The above expenditures for the Federal Perkins Loan Program include disbursements and expenditures such as loans to students and administrative expenditures.

3. Federal Family Loan Program

During the fiscal year ending June 30, 2002, the College processed the following amount of new loans under the Federal Family Loan Program (which includes Stafford Loans and Parents' Loans for Undergraduate Students):

	CFDA Number	Loans Processed
Federal Family Loan Program	84.032	$ 1,271,728

4. Nursing Student Loan Program

The College administers the following federal loan program:

	CFDA Number	Outstanding Balance at June 30, 2002
Nursing Student Loan Program	93.364	$ 94,309

Total loan expenditures and disbursements of the Department of Health and Human Services student financial assistance programs for the fiscal year are identified below:

	CFDA Number	Disbursement s
Nursing Student Loan Program	93.364	$ 24,150

The above expenditures for the Nursing Student Loan Program include disbursements and expenditures such as loans to students and administrative expenditures.

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance with *Government Auditing Standards*

Board of Trustees
Lake County Community College District

We have audited the financial statements of the Lake County Community College District (the College) as of and for the year ended June 30, 2002 and have issued our report thereon dated August 27, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 the College'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 the College'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 that we have reported to management in a separate letter dated August 27, 2002.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

August 27, 2002

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Report on Compliance and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Lake County Community College District

Compliance

We have audited the compliance of Lake County Community College District (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that is applicable to its major federal program for the year ended June 30, 2002. The College's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program are the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

0209-0348753

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

August 27, 2002

Lake County Community College District

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Part I—Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued:	Unqualified Opinion			
Internal control over financial reporting:				
Material weakness(es) identified?		yes	✓	no
Reportable condition(s) identified not considered to be material weaknesses?		yes	✓	none noted
Noncompliance material to financial statements noted?		yes	✓	no

Federal Awards Section

Dollar threshold used to determine Type A programs:	$300,000			
Auditee qualified as low-risk auditee?	✓	yes		no
Type of auditor's report on compliance for major programs:	Unqualified Opinion			

0209-0348753

Part I—Summary of Auditor's Results (continued)

Internal Control over compliance:

Material weakness(es) identified?	______	yes	✓	no
Were reportable condition(s) identified not considered to be material weakness(es)?	______	yes	✓	none noted
Any audit findings disclosed that are required to be reported in accordance with Circular A-133?	______	yes	✓	no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.063	Student Financial Aid Cluster
84.003	
84.007	
84.038	
84.032	
93.364	

Part II—Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

None.

Part III—Schedule of Federal Award Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 Section .510.

None.

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LAKE COUNTY COMMUNITY COLLEGE DISTRICT

LAKE 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
FEBRUARY 18, 2003