Lake County Community College District d/b/a Lakeland Community College

Financial Report

Including Supplemental Information

June 30, 2004

Auditor of State
Betty Montgomery

Board of Trustees
Lakeland Community College
Kirtland, Ohio

We have reviewed the Independent Auditor's Report of the Lakeland Community College, Lake County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 4, 2005

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Lake County Community College District

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Independent Auditor's Report

Board of Trustees
Lake County Community College District

We have audited the accompanying basic financial statements of Lake County Community College District as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Lake County Community College District for the year ended 2003 were audited by other auditors, whose opinion dated August 29, 2003, was unqualified. We did not audit the financial statements of The Lakeland Foundation, a discretely presented component unit of the Lake County Community College District, whose statements reflect total assets of $2,243,264 and $2,149,279 as of June 30, 2004 and 2003, respectively, and total revenue of $580,344 and $494,703 for the years then ended, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Lakeland Foundation, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Lake County Community College District and its discretely presented component unit as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

For the year ended June 30, 2004, Lake County Community College District adopted Governmental Accounting Standards Board Statement No. 39 – *Determining Whether Certain Organizations Are Component Units*. The impact of this statement was to bring in The Lakeland Foundation as a discretely presented component unit. The Lakeland Foundation follows a different basis of accounting and therefore, is disclosed on a separate page to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2004, on our consideration of Lake County Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide opinions 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.

Board of Trustees
Lake County Community College District

The Management's Discussion and Analysis presented on pages 3 though 10 is not a required part of the basic financial statements but is supplemental 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 measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Lake County Community College District taken as a whole. The accompanying schedule 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 basic financial statements. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 9, 2004

The discussion and analysis of the Lake County Community College District (Lakeland Community College, Lakeland, or College) annual financial statements provide an overview of the College's financial activities for the year ended June 30, 2004. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College administration.

Using this 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*. The financial statements focus on the financial condition, the results of operations, and the impact to cash flows of the College as a whole.

One of the most important questions asked about the College finances is whether the College as a whole is better off, or worse off, as a result of the current year's activities. The keys to understanding this question are the Statement of Net Assets, the Statement of Revenue, 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 using 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 services, 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 that State and local appropriations, as well as gifts, are treated as nonoperating revenues. Since dependency on State of Ohio 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 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 less its current liabilities.

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

During 2004, the College adopted Governmental Accounting Standards Board Statement No. 39 – *Determining Whether Certain Organizations are Component Units*. The impact of implementing this statement brought in The Lakeland Foundation as a discretely presented component unit due to the significant operational and financial relationships maintained with the College. The Lakeland Foundation's purpose is to support and promote excellence at the College by fund raising via friend raising. It is a legally separate entity governed by its own Board of Directors. Discrete condensed financial information is presented on page 15 and in Notes 1 and 13.

Condensed Statements of Revenue, Expenses and Changes in Net Assets

	Years Ended June 30		Change	
	2004	2003	Dollars	Percentage
Operating revenues:				
Student tuition and fees, net	$ 15,558,338	$ 13,892,796	$ 1,665,542	12.0%
Grants, contracts and other revenues	2,500,768	2,425,183	75,585	3.1%
Auxiliary enterprises	5,060,703	5,150,435	(89,732)	(1.7%)
Total operating revenues	23,119,809	21,468,414	1,651,395	7.7%
Operating expenses	53,535,023	50,466,360	3,068,663	6.1%
Operating loss	(30,415,214)	(28,997,946)	(1,417,268)	(4.9%)
Nonoperating revenues (expenses):				
State appropriations	16,223,664	15,986,449	237,215	1.5%
Local appropriations	11,763,651	10,662,142	1,101,509	10.3%
Other nonoperating income and expenses, net	57,374	295,351	(237,977)	(80.6%)
Net nonoperating revenues	28,044,689	26,943,942	1,100,747	4.1%
Loss before other changes	(2,370,525)	(2,054,004)	(316,521)	(15.4%)
Other changes:				
Capital appropriations from the State of Ohio	579,478	198,194	381,284	192.4%
Capital grants and gift	3,675	8,176	(4,501)	(55.1%)
Total other changes	583,153	206,370	376,783	182.6%
Decrease in net assets	(1,787,372)	(1,847,634)	60,262	3.3%
Net Assets - Beginning of year	44,582,923	46,430,557	(1,847,634)	(4.0%)
Net Assets - End of year	**$ 42,795,551**	**$ 44,582,923**	**$ (1,787,372)**	**(4.0%)**

Analysis of Results of Operations

Total revenues for years ended 2004 and 2003, were $51.8 million and $48.6 million, respectively, of which operating revenues amounted to $23.1 million and $21.5 million, respectively. Operating revenues increased $1.6 million, or 7.7 percent. Total operating expenses for years ended 2004 and 2003 were $53.5 million and $50.5 million, respectively. Operating expenses increased $3.0 million, or 6.1 percent. The College's operating loss amounted to $30.4 million during 2004 compared to $29.0 million in 2003, which represented an increase of $1.4 million, or 4.9 percent.

Student tuition and fees, net are comprised of credit and non-credit instruction revenues. A breakdown and comparison of these revenues follow:

Credit and Non-Credit Instruction Revenues

	Years Ended June 30		Change	
	2004	2003	Dollars	Percentage
	(Dollars in Millions)			
Credit Instruction	$ 13.3	$ 12.0	$ 1.3	10.8%
Non-credit Instruction	1.6	1.2	0.4	33.3%
Other	0.7	0.7	-	-
Total	$ 15.6	$ 13.9	$ 1.7	12.0%

Student tuition and fees, net, increased 12.0 percent during 2004 as compared to 2003. Credit instruction increased 10.8 percent during 2004 as compared to 2003. This reflects a 2.7 percent enrollment increase in credit instruction during 2004 compared to 2003 (from 156,085 credit hours in 2003 to 160,267 credit hours in 2004). Enrollment in credit instruction was higher than the prior year due to an increase in full-time students, more credit hours taken per student, and a reflection of local economic conditions. Additionally, the increase reflects a 7.5 percent rate increase to credit instruction tuition and general fees effective with spring term 2003 and a 4.5 percent increase effective with fall term 2004. Non-credit instruction revenue significantly increased during 2004 as compared to 2003 and was attributable to additional course offerings and enrollments, especially in campus recreation, driver training, and professional development courses.

Grants, contracts and other revenues increased slightly during 2004 and are primarily due to various increases in miscellaneous type revenues.

Auxiliary enterprises revenues are primarily comprised of bookstore and food service sales and facility rentals. Revenues decreased by 1.7 percent for these operations during 2004 compared to 2003, primarily attributable to a decrease in sales of new textbooks, that was partially offset by an increase in used textbook sales.

The College's nonoperating revenues are comprised primarily of State of Ohio (State) and local appropriations. State appropriations include the State's Share of Instructional Support (SSIS) and access challenge funds, as well as replacement state excise taxes.

A breakdown and comparison of State appropriations revenues follows:

State Appropriations

	Years Ended June 30		Change	
	2004	2003	Dollars	Percentage
	(Dollars in Millions)			
SSIS and Access Challenge	$ 15.0	$ 14.8	$ 0.2	1.6%
Replacement State Excise Taxes	1.2	1.2	-	-
Total	$ 16.2	$ 16.0	$ 0.2	1.5%

Although SSIS and Access Challenge funds increased by $0.2 million, or 1.6 percent, during 2004 as compared to 2003, the Ohio Board of Regents was required to enact budget cuts for 2004 reducing the College's Access Challenge funding for 2004 and 2005 by 4.2 percent and 6.0 percent, respectively. Originally, the College budgeted a 2.3 percent overall increase in state support during 2004 as compared to the preceding year. As a result of the cuts to Access Challenge funding, total SSIS and Access Challenge support was reduced to a 1.6 percent increase.

As part of the legislation that deregulated the electric and natural gas utilities, commencing with calendar year 2002, the College began receiving $1.2 million in Replacement State Excise taxes at a "100 percent guarantee" each year for a five-year period (to protect the College from lost public utility taxes due to lowered valuations). This amount is being received from the State in two equal semiannual installments. The guarantee will be reduced to an 80 percent level for years 6 through 10, and proportionately reduced to zero in years 11 through 15.

Local appropriations increased by $1.1 million, or 10.3 percent, during 2004 as compared to 2003. Local appropriations represent the receipt and collection of property taxes for operating and capital purposes from two levies approved by the Lake County voters: a 1.7 mill continuing levy, and a 1.5 mill ten year levy. Collections on an existing 1.5 mill ten year levy ceased December 31, 2002, and were replaced by a new 10 year levy approved by the Lake County voters during May 2002. Increased collections from the new 1.5 mill ten year replacement levy commenced January 1, 2003 and primarily account for the $1.1 million comparative increase.

Other nonoperating income and expenses, net decrease was primarily attributable to both a decrease in investment income and an increase in interest expense. The decline in investment income was primarily due to a shortening in the maturities of the investment portfolio as well as a lower interest rate market. The increase in interest expense was primarily attributable to issuance of the College's $4 million tax anticipation notes.

Operating expenses include educational and general, auxiliary enterprises, and depreciation. A breakdown and comparison of these expenses follows:

Operating Expense Summary

	Years Ended June 30		Change	
	2004	2003	Dollars	Percentage
	(Dollars in Millions)			
Educational and general:				
Salaries and wages	$ 29.5	$ 27.4	$ 2.1	7.7%
Benefits	7.2	6.6	0.6	9.1%
Operating expenses	9.3	8.8	0.5	5.7%
	46.0	42.8	3.2	7.5%
Auxiliary Enterprises	4.9	5.0	(0.1)	(2.0%)
Depreciation	2.6	2.7	(0.1)	(3.7%)
Total	$ 53.5	$ 50.5	$ 3.0	6.1%

The increase in salaries and wages during 2004 was primarily attributable to planned additional staffing needs for the implementation of various technology related activities (integrated management information system, network infrastructure upgrade, on-line course development) and negotiated cost of living and scheduled salary increases for employees.

Benefits increased during 2004 and were attributable to increases in retirement benefits proportional to the increase in salaries and wages, new hires subject to Medicare replacing long-term employees not subject to these employer costs, and an increase in the School Employees Retirement System annual surcharge. Additionally, non-retirement benefit costs increased by 18.7 percent and reflect health care benefit costs increasing by 16.9 percent, as well as an increase in the College's worker compensation premium charge. Although increases to these non-retirement programs occurred, the College still benefits from its participation in group buying efforts for healthcare and workers' compensation.

The increase in non labor related operating expenses was primarily attributable to higher printing, insurance, advertising, professional fees and non-capital equipment purchases, partially offset by lower postage, field trips, and maintenance costs.

Auxiliary enterprises expense decreased slightly by 2.0 percent during 2004. The decrease is primarily a result of various cost saving measures, and a change in mix of bookstore sales. The decrease in depreciation expenses during 2004 is attributable to various capital assets becoming fully depreciated.

From a budgetary perspective, the College utilizes fund-based accounting to control unrestricted revenues, expenditures, and transfers. A summary for the year ended June 30, 2004 comparison of net changes to fund balance, budget versus actual, to the College's unrestricted funds follows:

Unrestricted Funds Budget to Actual Comparison

Changes to Fund Balance by Unrestricted Fund Type	FY 2004 Adopted Budget	FY 2004 Actual
	(Dollars in Millions)	
General Operating	$ 0.4	$ 0.4
Auxiliary	(0.1)	-
Plant	(0.9)	(0.9)
Total	$ (0.6)	$ (0.5)

Net Assets as of June 30, 2004

	Years Ended June 30		Change	
	2004	2003	Dollars	Percentage
Assets:				
Current assets	$ 28,500,508	$ 24,383,274	$ 4,117,234	16.9%
Noncurrent assets				
Capital	32,145,935	32,699,422	(553,487)	(1.7%)
Other	206,808	1,715,298	(1,508,490)	(87.9%)
Total assets	**$ 60,853,251**	**$ 58,797,994**	**$ 2,055,257**	**3.5%**
Liabilities				
Current liabilities	$ 11,615,336	$ 11,802,766	$ (187,430)	(1.6%)
Noncurrent liabilities	6,442,364	2,412,305	4,030,059	167.1%
Total liabilities	**18,057,700**	**14,215,071**	**3,842,629**	**27.0%**
Net assets:				
Invested in capital assets, net of related debt	29,241,235	30,722,444	(1,481,209)	(4.8%)
Restricted	1,042,840	999,991	42,849	4.3%
Unrestricted	12,511,476	12,860,488	(349,012)	(2.7%)
Total net assets	**42,795,551**	**44,582,923**	**(1,787,372)**	**(4.0%)**
Total liabilities and net assets	**$ 60,853,251**	**$ 58,797,994**	**$ 2,055,257**	**3.5%**

Analysis of Overall Financial Position

At June 30, 2004, current assets amounted to $28.5 million, as compared to $24.4 million at June 30, 2003, an increase of $4.1 million. Current liabilities at June 30, 2004, as compared to June 30, 2003 amounted to $11.6 million and $11.8 million, respectively, a decrease of $0.2 million. The College's working capital ratio at June 30, 2004 and 2003 was 2.45 and 2.07, respectively. The increase in current assets is primarily attributable to increases in (a) cash and short-term investments due to remaining available proceeds from issuance of $4 million in tax anticipation notes during the current year as well as the shortening of the College's investment portfolio, and (b) intergovernmental receivables due to the timing in collection of federal and state financial aid loans and grants. Current liabilities slightly decreased and primarily reflect the timing of disbursements. The College's working capital ratio increased relative to these changes.

Non current assets are comprised of capital assets, investments, and loans receivable. The decrease in the College's capital assets is associated with current year depreciation expense exceeding additions. The increase in other non current assets is primarily due to the shortening of maturities associated with the College's investment portfolio.

The increase in the College's non current liabilities is primarily due to increased debt associated with the issuance of the Series 2003 Tax Anticipation Notes for the purpose of paying the costs of technology, other equipment, and the construction and improvement of property, slightly offset by scheduled current year maturities of the Series 1999 Bonds and capital lease debt.

The College's net assets amounted to $42.8 million and $44.6 million at June 30, 2004 and 2003, respectively. The $1.8 million decrease in the College's net assets was primarily attributable to the budgeted and planned reductions against unrestricted net assets, as well as the planned net decrease to the College's investment in capital assets (depreciation and utilized debt partially offset by new additions).

Capital Assets and Long-Term Debt Activity

The College utilizes State capital appropriations, internal funds, debt proceeds, 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 2004, the College utilized $0.6 million in State capital appropriations and $1.4 million in debt proceeds and internal funds and purchased $2.0 million of capital assets.

The College's long-term debt is comprised of Series 1999 General Receipts Bonds, Series 2003 Tax Anticipation Notes, and capital lease obligations. During 2004, the College issued $4.0 million in new debt and paid $0.3 million in connection with debt maturities. The College is in compliance with all of its contractual long-term debt requirements and covenants.

More detailed information about the College's capital assets and long-term debt and lease obligations is presented in Notes 4 and 5 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 to levels 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 Lake County Community College 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 2012.

Statement of Net Assets

	June 30	
	2004	2003
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 9,960,662	$ 11,588,357
Restricted cash and cash equivalents (Note 2)	3,137,043	325,452
Short-term investments (Note 2)	1,498,440	1,000,420
Intergovernmental receivables, net (Note 3)	10,589,019	8,278,182
Loans and other receivables, net (Note 3)	1,422,118	1,112,382
Inventories	687,065	696,168
Prepaid assets	1,206,161	1,382,313
Total current assets	28,500,508	24,383,274
Noncurrent Assets		
Investments (Note 2)	-	1,502,865
Loans receivable, net (Note 3)	206,808	212,433
Capital assets, net (Note 4)	32,145,935	32,699,422
Total noncurrent assets	32,352,743	34,414,720
Total assets	60,853,251	58,797,994
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	2,466,943	2,609,790
Deferred revenues	7,978,722	7,872,553
Other liabilities	172,746	195,948
Debt payable (Note 5)	171,433	305,251
Compensated absences (Note 5)	825,492	819,224
Total current liabilities	11,615,336	11,802,766
Noncurrent Liabilities (Note 5)		
Other liabilities	200,000	125,000
Debt payable	5,543,225	1,671,727
Compensated absences	306,306	228,123
Refundable Federal student loans	392,833	387,455
Total noncurrent liabilities	6,442,364	2,412,305
Total liabilities	18,057,700	14,215,071
Net Assets		
Invested in capital assets, net of related debt	29,241,235	30,722,444
Restricted for:		
Nonexpendable for endowment purposes	327,083	325,452
Expendable for instructional purposes	715,757	674,539
Unrestricted (Note 1)	12,511,476	12,860,488
Total net assets	**$ 42,795,551**	**$ 44,582,923**

Lake County Community College District

Statement of Revenue, Expenses and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Revenue		
Operating revenue:		
Student tuition and fees (net of $245,461 and $260,693 in scholarship allowances in 2004 and 2003, respectively)	$ 15,558,338	$ 13,892,796
Federal grants and contracts	399,648	449,462
State grants and contracts	1,036,931	1,037,377
Private grants and contracts	195,767	187,116
Sales and services	534,360	471,265
Auxiliary enterprises	5,060,703	5,150,435
Other operating revenues	334,062	279,963
Total operating revenue	23,119,809	21,468,414
Expenses		
Operating expenses:		
Educational and general:		
Instruction and departmental research	20,455,067	18,932,996
Public service	3,238,910	3,058,495
Academic support	3,116,258	1,692,233
Student services	6,411,697	5,920,504
Institutional support	6,832,444	7,427,134
Operation and maintenance of facilities	5,975,501	5,682,328
Total educational and general	46,029,877	42,713,690
Auxiliary enterprises	4,939,883	5,019,324
Depreciation	2,565,263	2,733,346
Total operating expenses	53,535,023	50,466,360
Operating Loss	(30,415,214)	(28,997,946)
Nonoperating Revenues		
State appropriations (Note 7)	16,223,664	15,986,449
Local appropriations (Note 8)	11,763,651	10,662,142
Unrestricted investment income, net of investment expense	204,222	385,754
Restricted investment income, net of investment expense	3,874	5,566
Interest on capital asset - related debt	(155,062)	(96,330)
Other nonoperating revenues, net	4,340	361
Net nonoperating revenues	28,044,689	26,943,942
Loss before other changes	(2,370,525)	(2,054,004)
Other Changes		
Capital appropriations from the State of Ohio	579,478	198,194
Capital grants and gifts	3,675	8,176
Total other changes	583,153	206,370
Decrease in Net Assets	(1,787,372)	(1,847,634)
Net Assets - Beginning of year	44,582,923	46,430,557
Net Assets - End of year	**$ 42,795,551**	**$ 44,582,923**

The accompanying notes are an integral part of these statements.

Statement of Cash Flows - College

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Tuition and fees	$ 12,062,918	$ 13,798,572
Grants and contracts	1,456,174	1,721,130
Payments to suppliers and utilities	(13,058,968)	(12,018,613)
Payments for compensation and benefits	(37,891,604)	(35,950,729)
Federal Draw Downs	3,311,779	4,498,119
Federal Draw Downs applied to tuition, disbursed to students	(2,198,256)	(3,190,777)
Auxiliary sales and services	5,035,777	5,195,764
Other	869,331	(195,733)
Net cash used in operating activities	(30,412,849)	(26,142,267)
Cash Flows from Noncapital Financing Activities		
State appropriations	16,223,664	10,536,047
Local appropriations	11,650,845	15,986,449
Private grants and gifts	3,675	-
Net cash provided by noncapital financing activities	27,878,184	26,522,496
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	656,328	198,194
Proceeds from sale of capital assets	4,340	360
Proceeds from issuance of bonds	4,040,560	-
Purchases of capital assets	(1,733,394)	(330,450)
Principal paid on capital debt and leases, net	(302,480)	(464,616)
Bond issuance costs paid	(8,443)	-
Interest paid on capital debt and leases	(155,062)	(96,330)
Net cash provided by (used in) capital financing activities	2,501,849	(692,842)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,004,845	7,000,000
Purchase of investments	-	(1,504,063)
Interest on investments	211,867	514,203
Net cash provided by investing activities	1,216,712	6,010,140
Net Increase in Cash and Cash Equivalents	1,183,896	5,697,527
Cash and Cash Equivalents - Beginning of year	11,913,809	6,216,282
Cash and Cash Equivalents - End of year	**$ 13,097,705**	**$ 11,913,809**

	Year Ended June 30	
	2004	2003
Reconciliation of net operating revenues (expenses) to net cash from operating activities:		
Operating loss	$ (30,415,214)	$ (28,997,946)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	2,565,263	2,733,346
Net unrealized loss on investments	2,627	-
(Increase) decrease in assets:		
Accounts receivable	(2,615,381)	(158,583)
Inventories	9,103	(195,101)
Other assets	296,914	86,852
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(425,704)	169,043
Deferred revenue	27,917	155,714
Deposits held for others	5,378	(4,945)
Compensated absences	84,450	127,112
Other liabilities	51,798	(57,759)
	$ (30,412,849)	**$ (26,142,267)**

Balance Sheet and Condensed Statement of Activities – Component Unit – The Lakeland Foundation

Balance Sheet	June 30 2004	June 30 2003
Assets		
Cash and cash equivalents	$ 390,551	$ 396,774
Investments	1,724,633	1,550,977
Receivables	126,114	194,347
Prepaid expenses	1,966	7,181
Total assets	**$ 2,243,264**	**$ 2,149,279**
Liabilities and Net Assets		
Liabilities		
Accounts payable	213,593	70,959
Net Assets		
Unrestricted	177,770	424,307
Temporarily restricted	658,680	643,924
Permanently restricted	1,193,221	1,010,089
Total net assets	2,029,671	2,078,320
Total liabilities and net assets	**$ 2,243,264**	**$ 2,149,279**

Statement of Activities	Year Ended June 30 2004	Year Ended June 30 2003
Support and Revenue		
Contributions and grants	$ 437,111	$ 458,574
Investment income, net	143,233	36,129
Total support and revenue	580,344	494,703
Program and Support Expenses		
Program services:		
Scholarships	359,577	407,293
Educational and related programs	146,423	112,360
Support services:		
Administration	122,993	73,287
Total program and support expenses	628,993	592,940
Decrease in Net Assets	(48,649)	(98,237)
Net Assets - Beginning of year	2,078,320	2,176,557
Net Assets - End of year	**$ 2,029,671**	**$ 2,078,320**

Note 1 - Basis of Presentation and Significant Accounting Policies

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 joint venture on the State of Ohio's Consolidated Annual Financial Report.

The accompanying financial statements have been prepared in accordance with criteria established by GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the College has one component unit. A component unit is a separate legal entity that is included in the College's reporting entity because of the significance of its operational financial relationships with the College.

The Lakeland Foundation (the "Foundation") is discretely reported as part of the College reporting entity (although it is legally separate and governed by its own Board of Directors) because its sole purpose is to provide support for the College. Separate financial statements of the Foundation may be obtained by contacting The Lakeland Foundation, 7700 Clocktower Drive, Kirtland, Ohio 44094-5198.

Basis of Accounting

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

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 revenue is student tuition. The College also recognizes as operating revenue grants and contracts classified as exchanges 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. When the College incurs an expense for which both unrestricted and restricted net assets are available, it is the College's policy to first apply restricted resources. Activity related to internal service funds is eliminated to avoid "doubling up" revenues and expenses.

Note 1 - Basis of Presentation and Significant Accounting 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.

Restricted Cash and Cash Equivalents – Restricted cash consists of $2,809,960 of unspent bond proceeds that will be spent in the next year as well as $327,083 for endowment purposes.

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 requirement 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.

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

Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)

Deferred Revenues – Deferred revenues include tuition and fees for summer sessions and local government revenue. Summer tuition and fee revenue received, and related expenses incurred, are deferred in their entirety to the next fiscal year. This is consistent with the State of Ohio reporting model.

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

Net Assets – Net assets are classified according to external donor restrictions 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 or granted for specific purposes, funds used for capital projects, and debt service.

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. 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 the 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 the estimates.

Reclassifications – Certain balances from the prior year were reclassified to be comparable with current year classifications.

Note 2 - Cash and Cash Equivalents and Investments

The College's deposits and investments are included on the statement of net assets under the following classifications:

	2004	2003
Cash and cash equivalents	$ 9,960,662	$ 11,588,357
Restricted cash and cash equivalents	3,137,043	325,452
Short-term investments	1,498,440	1,000,420
Investments	-	1,502,865
Total	$ 14,596,145	$ 14,417,094

The above amounts are classified by GASB Statement Number 3 in the following categories:

	2004	2003
Petty cash and cash on hand	$ 17,950	$ 18,942
Checks issued in excess of bank deposits	(1,615,163)	(1,051,307)
Fair value of investments	16,193,358	15,449,459
Total	$ 14,596,145	$ 14,417,094

Cash and Cash Equivalents

Ohio law requires that cash amounts 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, 2004 and 2003, the carrying amount of the College's cash balance was ($1,615,163) and ($1,051,307), respectively. The bank balance at June 30, 2004 and 2003 totaled $151,507 and $161,432, respectively. The difference represents outstanding checks payable, deposits in transit, and normal reconciling items. $100,000 of the bank balance was covered by the federal depository insurance. The remainder was secured by collateral pools of the U.S. government and municipal securities and is a category (3) deposit risk. The College also maintains a small on-hand cash balance to maintain day to day operations in the cashier's office, bookstore, and food service operations.

Note 2 - Cash and Cash Equivalents and Investments (Continued)

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 "Cash and Cash Equivalents" 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 provision 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.

At June 30, 2004 and 2003, amounts reported in cash, cash equivalents, and investments include:

June 30, 2004				
Type of Investment	Category (2)	Category (3)	Cost	Fair Value
Repurchase Agreements	$ -	$ 2,512,977	$ -	$ 2,512,977
U.S. Government T-Notes	1,502,930	-	1,502,930	1,498,440
	$ 1,502,930	$ 2,512,977	$ 1,502,930	
State Treasurer Asset				
Reserve Fund (Star Ohio)				12,181,941
Total investments				$ 16,193,358

Note 2 - Cash and Cash Equivalents and Investments (Continued)

June 30, 2003

Type of Investment	Category (2)	Category (3)	Cost	Fair Value
Repurchase Agreements	$ -	$ 1,013,423	$ -	$ 1,013,423
U.S. Government T-Notes	2,503,285	-	2,503,285	2,503,285
	$ 2,503,285	$ 1,013,423	$ 2,503,285	
State Treasurer Asset				
Reserve Fund (Star Ohio)				11,932,751
Total investments				$ 15,449,459

Investments classified in category (2) are held in bank 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 counterparty, or its trust department 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, 2004 and 2003. 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.

Foundation Investments – The Lakeland Foundation is not subject to State of Ohio Statute and therefore, follows an investment policy adopted by the Board of Directors of the Foundation. The Foundation had investments in the following at June 30, 2004 and 2003:

	2004	2003
Corporate Stocks	$ 767,772	$ 654,623
Corporate Bonds	73,326	25,550
U.S. Obligations	649,637	261,623
Money Market Funds	233,898	609,181
Total investments	$ 1,724,633	$ 1,550,977

Note 3 - 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 $903,495 and $812,884 at June 30, 2004 and 2003, respectively.

The following schedule is an analysis of loans and other receivable balances as of June 30, 2004 and 2003.

	2004		2003	
	Current Portion, Net	Noncurrent Portion, Net	Current Portion, Net	Noncurrent Portion, Net
In-house student loans	$ -	$ 1,500	$ 10,401	$ -
Federal Perkins and Nursing student loans	48,698	177,160	46,877	178,909
Employee computer financing	57,561	28,148	57,092	33,524
Tuition payment plan loans	673,099	-	536,540	-
Auxiliary receivables	228,026	-	168,138	-
Interest receivable	8,885	-	12,656	-
Sales and service receivables	405,849	-	280,678	-
Total	$ 1,422,118	$ 206,808	$ 1,112,382	$ 212,433

Note 4 - Capital Assets

Capital asset activity for the years ended June 30, 2004 and 2003 was as follows:

	July 1, 2003 Balance	Additions	Retirements	June 30, 2004 Balance
Nondepreciable assets:				
Land	$ 723,289	$ -	$ -	$ 723,289
Construction in progress	-	500,000	-	500,000
Depreciable assets:				
Land improvements	3,062,679	115,426	-	3,178,105
Infrastructure	2,907,873	-	-	2,907,873
Buildings and improvements	57,111,813	46,200	-	57,158,013
Equipment and vehicles	4,136,910	225,033	(432,603)	3,929,340
Software and library books	5,045,877	1,130,779	-	6,176,656
Total capital assets	72,988,441	2,017,438	(432,603)	74,573,276
Less accumulated depreciation:				
Land improvements	1,614,015	110,814	-	1,724,829
Infrastructure	1,645,406	97,824	-	1,743,230
Buildings and improvements	29,321,053	1,737,951	-	31,059,004
Equipment and vehicles	3,102,334	309,702	(426,936)	2,985,100
Software and library books	4,606,211	308,967	-	4,915,178
Total accumulated depreciation	40,289,019	2,565,258	(426,936)	42,427,341
Capital assets, net	$ 32,699,422			$ 32,145,935

	July 1, 2002 Balance	Additions	Retirements	June 30, 2003 Balance
Nondepreciable assets:				
Land	$ 723,289	$ -	$ -	$ 723,289
Construction in progress	-	-	-	-
Depreciable assets:				
Land improvements	3,023,815	38,864	-	3,062,679
Infrastructure	2,907,873	-	-	2,907,873
Buildings and improvements	56,984,754	127,059	-	57,111,813
Equipment and vehicles	4,186,416	23,000	(72,506)	4,136,910
Software and library books	4,896,174	149,703	-	5,045,877
Total capital assets	72,722,321	338,626	(72,506)	72,988,441
Less accumulated depreciation:				
Land improvements	1,501,732	112,283	-	1,614,015
Infrastructure	1,546,998	98,408	-	1,645,406
Buildings and improvements	27,588,583	1,732,470	-	29,321,053
Equipment and vehicles	2,773,334	401,506	(72,506)	3,102,334
Software and library books	4,217,532	388,679	-	4,606,211
Total accumulated depreciation	37,628,179	2,733,346	(72,506)	40,289,019
Capital assets, net	$ 35,094,142			$ 32,699,422

Note 5 - Non-Current Liabilities

Non-current liability activity for the years ended June 30, 2004 and 2003 was as follows:

2004	July 1, 2003 Balance	Additions	Reductions	June 30, 2004 Balance	Current Portion
Long-Term Debt and Lease Obligations:					
Tax Anticipation Note, Series 2003	$ -	$ 4,000,000	$ -	$ 4,000,000	$ -
Premium on Tax Anticipation Note	-	40,560	-	40,560	-
General Receipts Bonds, Series 1999	1,575,000	-	65,000	1,510,000	65,000
Capital lease obligations	401,978	-	237,879	164,099	106,433
Total	1,976,978	4,040,560	302,879	5,714,659	171,433
Other non-current obligations:					
Reserve for compensated absences	1,047,348	903,673	819,224	1,131,797	825,492
Reserve for Federal student loans	387,455	5,378	-	392,833	-
Other liabilities	125,000	75,000	-	200,000	-
Total non-current liabilities	$ 3,536,781	$ 5,024,611	$1,122,103	$ 7,439,289	$ 996,925

2003	July 1, 2002 Balance	Additions	Reductions	June 30, 2003 Balance	Current Portion
Long-Term Debt and Lease Obligations:					
General Receipts Bonds, Series 1999	$ 1,635,000	$ -	$ 60,000	$ 1,575,000	$ 65,000
Capital lease obligations	806,594	-	404,616	401,978	240,251
Total	2,441,594	-	464,616	1,976,978	305,251
Other non-current obligations:					
Reserve for compensated absences	920,236	209,030	81,918	1,047,348	819,224
Reserve for Federal student loans	398,209	4,599	15,353	387,455	-
Other liabilities	125,000	-	-	125,000	-
Total non-current liabilities	$ 3,885,039	$ 213,629	$ 561,887	$ 3,536,781	$1,124,475

Tax Anticipation Notes, Series 2003 and General Receipts Bonds, Series 1999

Effective November 13, 2003, the College issued $4,000,000 of Tax Anticipation Notes (Series 2003 Notes), in anticipation of the proceeds of a 1.5 mill tax levy that began in 2003 and ends in 2012. The proceeds are being used to pay for the costs of an integrated management information system, other technology projects, and other equipment and capital improvements.

Note 5 - Non-Current Liabilities (Continued)

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 2003 Notes and 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 2003 Notes are subject to mandatory redemption, with stated interest rates ranging from 2.00 to 3.25 percent. The final maturity of the Series 2003 Notes is December 1, 2010. The Series 1999 Bonds are subject to mandatory or optional redemption, with stated interest rates ranging from 3.60 percent to 5.12 percent. The final maturity of the Series 1999 Bonds is December 1, 2019.

The Series 2003 Notes are special obligations of the College. Pursuant to authorizing legislation and the Ohio Revised Code, amounts necessary to pay debt service as it comes due shall be appropriated for that purpose from the proceeds of the 1.5 mill property tax levy approved by the Lake County, Ohio electors at the May 7, 2002 election.

The Series 1999 Bonds are also 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. According to bond covenants, the College includes in its budget for each fiscal year amounts from general receipts that are at least sufficient to pay debt service charges payable that fiscal year from general receipts, as well as to satisfy other requirements.

Capital Lease Obligations

Capital lease assets consist of computer hardware and software, implementation costs, and other equipment. During fiscal year 1998, the College entered into a bank qualified, tax exempt master lease agreement primarily to finance the acquisition of an integrated management information system. The total amount financed was $2,502,537. The principal balance at June 30, 2004 and 2003 was $164,099 and 418,978, respectively.

Note 5 - Non-Current Liabilities (Continued)

Scheduled principal maturities and total debt service on the Series 2003 Notes and Series 1999 Bonds, as well as the present value of net minimum capital lease payments, for fiscal years subsequent to June 30, 2004 are as follows:

	Bonds and Notes Payable			Capital
	Principal	Interest	Total	Leases
2005	$ 65,000	$ 175,603	$ 240,603	$ 103,800
2006	700,000	166,517	866,517	60,727
2007	715,000	150,810	865,810	7,954
2008	730,000	133,054	863,054	-
2009	750,000	112,243	862,243	-
2010-2014	1,850,000	270,651	2,120,651	-
2015-2019	570,000	109,416	679,416	-
2020	130,000	3,331	133,331	-
Total	$ 5,510,000	$ 1,121,625	$ 6,631,625	172,481
Less amounts representing interest				8,382
Total				$ 164,099

Note 6 - Operating Lease Obligations

The College has entered into various lease agreements, which are considered operating leases. Total rental expense under operating leases during the years ended June 30, 2004 and 2003 amounted to $239,891 and $232,089, respectively.

Future minimum lease payments as of June 30, 2004 under operating leases are as follows:

	Operating Leases
2005	$ 137,872
2006	150,021
2007	123,196
2008	123,196
2009	123,196
Thereafter	615,980
	$ 1,273,461

Note 7 - State Appropriations

The College is a State-assisted institution of higher education, and receives student-based support from the State. This support is determined annually based upon a formula devised by the State. In addition to this student support, 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 the 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 OPFS 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 annually amounts 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 both 2004 and 2003. Replacement State excise taxes were measurable at June 30, 2004 and 2003; however, since these revenue collections to be received during the available period are not intended to finance current year operations, the receivable amount is recorded as deferred revenue.

Note 8 - 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 2012.

Revenue authorization is recognized based on the taxing authority's 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 the calendar year 2004 until October 2004, 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, 2004. 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 2004 operations, the receivable amount is recorded as deferred revenue.

Note 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. In addition, effective July 1, 2001, STRS members have the additional options of a defined contribution plan and a combined plan. STRS and SERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits for plan members and beneficiaries.

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 10.0 percent for STRS and SERS of covered payroll and the College is required to contribute 14.0 percent of covered payroll. The STRS defined contribution plan allows members to invest all their member and employer contributions equal to 10.5 percent of earned compensation. The combined plan offers features of the defined benefit and defined contribution plan. The College's contributions to STRS for the years ended June 30, 2004 and 2003 were $2,279,322 and $2,036,594, respectively, equal to the required contributions for each year. The College's contribution to SERS for the years ended June 30, 2004 and 2003 was $1,723,290 and $1,562,794, respectively.

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 percent of covered payroll to the Plan for SERS eligible participants. For STRS eligible participants electing the alternative retirement plan, the College will contribute 10.5 percent to the ARP. The difference from the 14 percent 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.

Note 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. 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. All 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 percent of covered payroll.

The Retirement Board allocated employer contributions to the Health Care Stabilization Fund (the Fund) from which health care benefits are paid. For the fiscal year ended June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the health care reserve fund. Effective July 1, 2002, 1 percent of covered payroll will be allocated to the Fund. The balance in the health care reserve fund was approximately $2.8 billion on June 30, 2003.

For the year ended June 30, 2003, the net health care costs paid by STRS Ohio were approximately $352.3 million. There were 108,294 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 and 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 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2002, the allocation rate is 8.54 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay was established at $25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Note 10 - Post Employment Benefit (Continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. For the year ended June 30, 2003, the net health care costs paid by SERS were approximately $204.9 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits was approximately $303.6 million. The number of retirees and covered dependents currently receiving benefits is approximately 50,000.

Note 11 - 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 its 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 (November 1, 2001), 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 was 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.

Note 11 - Lake County School's Health Care Consortium (Continued)

Under its agreements and bylaws, the Consortium's fiscal year ends each June 30th, and the Treasurer of the LCSC is a position appointed by the Board of Directors of the LCSC. 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.

LCSC funds held at July 1, 2003 amounted to $6.0 million. LCSC member contributions and other income for the year ended June 30, 2004 amounted to $24.7 million, health care program and related costs amounted to $24.1 million, leaving $6.6 million as funds held in agency accounts at June 30, 2004.

Note 12 - 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 coverage. The College also maintains a comprehensive property insurance program. The College did not have any insurance settlements during fiscal 2004 or 2003 that exceeded the coverage outlined in its insurance program.

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.

Note 13 - Foundation

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.

Supplemental Information

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Lake County Community College District d/b/a Lakeland Community College

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Agency/Pass-through Agency /Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures
Student Financial Aid Cluster:			
U.S. Department of Education -			
Direct Program			
Federal Pell Grant Program	84.063		$ 4,666,934
Federal Work Study Program	84.033		203,940
Federal Supplemental Educational			
Opportunity Grant Program	84.007		168,496
Federal Perkins Loan Program (Note 2)	84.038		35,740
Federal Family Education Loan Program	84.032		3,419,837
Total U.S. Department of Education			8,494,947
U.S. Department of Health and Human Services -			
Direct Program			
Nursing Student Loan Program (Note 2)	93.364		9,600
Total Student Financial Aid Cluster			8,504,547
WIA Cluster:			
U.S. Department of Labor			
Pass-through Program			
Workforce Investment Act -			
Higher Skills Partnership Initiative	17.258		24,819
Pass-through Program			
Workforce Investment Act -			
Geauga County	17.258		234
Cuyahoga County	17.258		6,167
Lake County II	17.258		6,560
Ashtabula County	17.258		6,529
Total WIA Cluster			44,309

See Notes to Schedule of Expenditures of Federal Awards.

Other Programs:		
National Science Foundation -		
Pass-through Program		
Paragon Tech/NASA	47.076	64,811
Connecting Mathematics, Science & Technology	47.076	32,293
Consortium for the Advance of System Security and Information Assurance	47.076	54,511
Total National Science Foundation		151,615
U.S. Department of Education -		
Pass-through Program		
Two-year College Perkins	84.048	79,254
Technical Preparatory	84.243	158,062
Paraprofessionals in Education	84.367A	-
Globalizing Vocational Training Program for the Electrical Industry to World Class Standards	84.116J	499
Total U.S. Department of Education		237,815
Federal Emergency Management Agency -		
Pass-through Program		
Power System Failure Costs - Region V	97.036	2,229
Homeland Security 2002 Supplement	83.562	232
Total Federal Emergency Management Agency		2,461
Total Expenditures of Federal Awards		**$ 8,940,747**

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lake County Community College District and is presented on the same basis of accounting as the basic financial statements. 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 basic financial statements.

Note 2 - Loans Outstanding

The institution had the following loan balances outstanding at June 30, 2004. These loan balances are not included in the federal expenditures presented in the schedule.

Cluster/Program Title	CFDA Number	Amount Outstanding
Federal Perkins Loan Program	84.038	$ 182,724
Nursing Student Loan Program	93.364	101,309
Total Student Loans Outstanding		$ 284,033

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Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements

Board of Trustees
Lake County Community College District d/b/a Lakeland Community College

We have audited the financial statements of the Lake County Community College District as of and for the year ended June 30, 2004 and have issued our report thereon dated September 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. For the year ended June 30, 2004, Lake County Community College District adopted Governmental Accounting Standards Board Statement No. 39 – *Determining Whether Certain Organizations Are Component Units.* The impact of this statement was to bring in The Lakeland Foundation as a discretely presented component unit.

Compliance

As part of obtaining reasonable assurance about whether the Lake County Community College District'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 Lake County Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, 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.

Plante & Moran, PLLC

September 9, 2004

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Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards

Board of Trustees
Lake County Community College District d/b/a Lakeland Community College

Compliance

We have audited the compliance of the Lake County Community College District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The major federal program of the Lake County Community College District 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 is the responsibility of the Lake County Community College District's management. Our responsibility is to express an opinion on the Lake County Community College District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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, *Audits 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 Lake County Community College District'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 Lake County Community College District's compliance with those requirements.

In our opinion, the Lake County Community College District 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, 2004.

Board of Trustees
Lake County Community College District d/b/a Lakeland Community College

Internal Control Over Compliance

The management of the Lake County Community College District 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 Lake County Community College District'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, 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.

Plante & Moran, PLLC

September 20, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Noncompliance material to financial statements noted? ____ Yes __X__ No

Federal Awards

Internal control over major program:

- Material weakness(es) identified? ____ Yes __X__ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Type of auditor's report issued on compliance for major program(s): **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ____ Yes __X__ No

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.063, 84.033, 84.007, 84.038, 84.032 and 93.364	Student Financial Aid Cluster

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low risk auditee? __X__ Yes ____ N

Section II - Financial Statement Audit Findings

Reference Number	Findings
	None

Section III - Federal Program Audit Findings

Reference Number	Findings
	None

Auditor of State
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LAKELAND COMMUNITY COLLEGE

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
JANUARY 18, 2005