

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

**Financial Report
with Supplemental Information
June 30, 2007**



Mary Taylor, CPA

Auditor of State

Board of Trustees
Lake County Community College District
7700 Clocktower Drive
Kirtland, Ohio 44094

We have reviewed the *Independent Auditor's Report* of the Lake County Community College District, Lake County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2006 through June 30, 2007. 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 14, 2008

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

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Lake County Community College District d/b/a Lakeland Community College as of and for the years ended June 30, 2007 and 2006, 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 audits. We did not audit the financial statements of The Lakeland Foundation, a discretely presented component unit of Lake County Community College District d/b/a Lakeland Community College, whose statements reflect total assets of \$2,832,609 and \$2,560,325 as of June 30, 2007 and 2006, respectively, and total revenue of \$1,203,089 and \$1,200,969 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 audits 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 audits 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 audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Lake County Community College District d/b/a Lakeland Community College and its discretely presented component unit as of June 30, 2007 and 2006 and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2007 on our consideration of Lake County Community College District d/b/a Lakeland Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended June 30, 2007. 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 that testing, and not to provide opinions on the internal control 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.

The management's discussion and analysis presented on pages 3 through 13 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.

The accompanying schedule of expenditures of federal awards is presented for the purpose 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. Such information has been subjected to the procedures applied in the audits 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

December 7, 2007

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

Management's Discussion and Analysis (Unaudited)

The discussion and analysis of Lake County Community College District d/b/a Lakeland Community College's (Lakeland Community College, Lakeland, or the "College") annual financial statements provide an overview of the College's financial activities for the year ended June 30, 2007. 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 on cash flows of the College as a whole.

One of the most important questions asked about the College's 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, statement of revenue, expenses, and changes in net assets, and 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 nonfinancial 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 the State of Ohio and local aid is recognized as nonoperating revenue under accounting principles generally accepted in the United States of America, a public college normally presents operating results as a deficit. The utilization of long-lived assets, primarily capital assets, is presented 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.

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

Management's Discussion and Analysis (Unaudited) (Continued)

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.

The College adheres to Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. In that regard, The Lakeland Foundation is recognized 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 18 and in Notes 1 and 13.

Condensed Statement of Revenue, Expenses, and Changes in Net Assets

| | Years Ended June 30 | | |
|---|----------------------|----------------------|----------------------|
| | 2007 | 2006 | 2005 |
| Operating Revenues | | | |
| Student tuition and fees - Net | \$ 19,277,421 | \$ 17,021,744 | \$ 16,225,303 |
| Grants, contracts, and other revenues | 4,244,167 | 2,570,673 | 3,045,964 |
| Auxiliary enterprises | 5,666,295 | 5,398,153 | 5,252,378 |
| Total operating revenues | 29,187,883 | 24,990,570 | 24,523,645 |
| Operating Expenses | 61,029,131 | 59,028,267 | 56,729,269 |
| Operating Loss | (31,841,248) | (34,037,697) | (32,205,624) |
| Nonoperating Revenues | | | |
| State appropriations | 18,325,787 | 17,913,905 | 17,789,047 |
| Local appropriations | 11,769,067 | 12,111,015 | 11,941,451 |
| Other nonoperating income and expenses - Net | 678,025 | 488,886 | 85,719 |
| Net nonoperating revenues | 30,772,879 | 30,513,806 | 29,816,217 |
| Loss - Before other changes | (1,068,369) | (3,523,891) | (2,389,407) |
| Other Changes | | | |
| Capital appropriations from the State of Ohio | 702,211 | 2,779,513 | 997,238 |
| Capital grants and gifts | - | 114,361 | 40,541 |
| Total other changes | 702,211 | 2,893,874 | 1,037,779 |
| Decrease in Net Assets | (366,158) | (630,017) | (1,351,628) |
| Net Assets - Beginning of year | 40,813,906 | 41,443,923 | 42,795,551 |
| Net Assets - End of year | \$ 40,447,748 | \$ 40,813,906 | \$ 41,443,923 |

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

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of Results of Operations

Total revenues for the years ended June 30, 2007 and 2006 were \$60.7 million and \$58.4 million, respectively, of which operating revenues amounted to \$29.2 million and \$25.0 million, respectively. Operating revenues increased \$4.2 million, or 16.8 percent. Total operating expenses for the years ended June 30, 2007 and 2006 were \$61.0 million and \$59.0 million, respectively. Operating expenses increased \$2.0 million, or 3.4 percent. The College's operating loss amounted to \$31.8 million during 2007 compared to \$34.0 million in 2006, which represented a decrease of \$2.2 million, or 6.5 percent.

Total revenues for the years ended June 30, 2006 and 2005 were \$58.4 million and \$55.4 million, respectively, of which operating revenues amounted to \$25.0 million and \$24.5 million, respectively. Operating revenues increased \$0.5 million, or 1.9 percent. Total operating expenses for the years ended June 30, 2006 and 2005 were \$59.0 million and \$56.7 million, respectively. Operating expenses increased \$2.3 million, or 4.1 percent. The College's operating loss amounted to \$34.0 million during 2006 compared to \$32.2 million in 2005, which represented an increase of \$1.8 million, or 5.7 percent.

Student tuition and fees, net are comprised of credit and noncredit instruction revenues. A breakdown and comparison of these revenues are as follows:

Credit and Noncredit Instruction Revenues

| | Years Ended June 30 | | |
|-----------------------|-----------------------|----------------|----------------|
| | 2007 | 2006 | 2005 |
| | (dollars in millions) | | |
| Credit instruction | \$ 16.8 | \$ 15.0 | \$ 14.2 |
| Noncredit instruction | 1.7 | 1.4 | 1.4 |
| Other | 0.8 | 0.6 | 0.6 |
| Total | <u>\$ 19.3</u> | <u>\$ 17.0</u> | <u>\$ 16.2</u> |

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

Management's Discussion and Analysis (Unaudited) (Continued)

Student tuition and fees, net increased 13.3 percent during 2007 as compared to 2006. Credit instruction tuition and fees increased 12.2 percent during 2007 as compared to 2006. This increase is attributable to a 6.0 percent rate increase to credit instruction and general fees effective with fall term 2006, in addition to a 5.3 percent enrollment increase during 2007 as compared to 2006. The 2007 enrollment increase is due to delayed summer registrations in the prior year due to the College's system implementation, as well as successful enrollment efforts with Lakeland's distance learning courses, weekend college, and university partnerships. Noncredit instruction revenue increased by 25.8 percent during 2007 as compared to 2006 and was attributable to a strong summer kids camp as well as a very favorable increase in Center for Business and Industry training.

Student tuition and fees, net increased 4.9 percent during 2006 as compared to 2005. Credit instruction tuition and fees increased 5.3 percent during 2006 as compared to 2005. The increase reflects a 6.0 percent rate increase to credit instruction tuition and general fees effective with fall term 2005 partially offset by a slight enrollment decrease during 2006 as compared to 2005. Non-credit instruction revenue decreased by 3.8 percent during 2006 as compared to 2005 and was attributable to lower enrollments in senior citizen and professional development programs, partially offset by increases in health professional skills, computer and personal skills, youth and recreation programs, and economic development programs.

Grants, contracts, and other revenues increased by \$1.7 million during 2007 and are primarily attributable to an increase in the receipt of workforce development and outreach grants.

Auxiliary enterprises revenues are comprised primarily of bookstore and food service sales and facility rentals. Revenues increased by 5.0 percent for these operations during 2007 compared to 2006, primarily attributable to increased bookstore sales. Revenues increased by 2.8 percent for these operations during 2006 compared to 2005, also primarily attributable to increased bookstore sales.

The College's nonoperating revenues are comprised primarily of the State of Ohio (the "State") and local appropriations. State appropriations include the State's share of instructional support (SSIS) and access challenge funds, as well as replacement state taxes on property tax law changes.

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

Management's Discussion and Analysis (Unaudited) (Continued)

A breakdown and comparison of state appropriations revenues are as follows:

State Appropriations

| | Years Ended June 30 | | |
|---|-----------------------|----------------|----------------|
| | 2007 | 2006 | 2005 |
| | (dollars in millions) | | |
| SSIS and Access Challenge | \$ 16.7 | \$ 16.6 | \$ 16.6 |
| Replacement state taxes on property tax law changes | <u>1.6</u> | <u>1.3</u> | <u>1.2</u> |
| Total | <u>\$ 18.3</u> | <u>\$ 17.9</u> | <u>\$ 17.8</u> |

SSIS and Access Challenge funding is based on the Ohio board of regents' annual distribution schedules and the State of Ohio approved biennium budget. In that regard, SSIS and Access Challenge funding slightly increased from the prior year.

As part of legislation that deregulated the electric and natural gas utilities (SB3 and SB287), commencing with calendar year 2002, the College received \$1,238,070 in replacement state taxes at a "100 percent guarantee" each year for a five-year period (to protect the College for lost public utility property taxes due to lowered valuations). The guarantee is reduced to an 80 percent level for years 6 through 10, and then proportionally reduced to zero in years 11 through 15. Effective with 2007, the amount received was \$1,114,263. Also included in replacement state taxes during 2007 is \$487,612 in "hold harmless" replacement taxes related to the State of Ohio phasing out the levying of tangible personal property taxes. This "hold harmless" replacement tax significantly increased during 2007 and the College will be fully protected for several years, and then will have a continuing reduction in that guarantee.

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 10-year levy. Local appropriations decreased by \$0.3 million, or 2.8 percent, during 2007 as compared to 2006 primarily due to the loss of tangible personal property tax revenues that the State of Ohio is phasing out, partially offset by the increase in collections of real estate tax revenues. Local appropriations increased by \$0.2 million, or 1.4 percent, during 2006 as compared to 2005. The slight increase is primarily attributable to increased real estate taxes, partially offset by the initial decline in the phase-out of tangible personal property taxes.

Other nonoperating income and expenses, net increased by \$0.2 million during 2007 as compared to 2006 and \$0.4 million during 2006 as compared to 2005, and was primarily attributable to an increase in investment income due to an increase in investment yields partially offset by lower funds available to invest.

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

Management's Discussion and Analysis (Unaudited) (Continued)

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

Operating Expense Summary

| | Years Ended June 30 | | |
|-------------------------------|-----------------------|----------------|----------------|
| | 2007 | 2006 | 2005 |
| | (dollars in millions) | | |
| Educational and general: | | | |
| Salaries and wages | \$ 32.7 | \$ 31.9 | \$ 30.8 |
| Benefits | 8.9 | 8.3 | 7.9 |
| Operating expenses | 10.8 | 10.5 | 10.0 |
| Total educational and general | 52.4 | 50.7 | 48.7 |
| Auxiliary enterprises | 5.6 | 5.3 | 5.2 |
| Depreciation | 3.0 | 3.0 | 2.8 |
| Total | <u>\$ 61.0</u> | <u>\$ 59.0</u> | <u>\$ 56.7</u> |

The increase in salary and wages during 2007 was primarily attributable to negotiated cost of living and scheduled salary increases for employees, and higher summer faculty pay attributable to increased enrollment, partially offset by savings from planned delays in filling open positions and along with new hires starting at the lower end of their salary scales.

Benefits include retirement and nonretirement benefits and increased \$0.6 million, or 7.1 percent during 2007. The increase is attributable to (a) the increase in wages and salary commensurate with the increase in retirement benefits, (b) new hires subject to Medicare replacing long-term employees not subject to this benefit cost, (c) a 4.0 percent net increase in the College's healthcare premium cost, and (d) the 2007 impact of the College's Early Retirement Incentive Program (ERIP) and Voluntary Separation Program (VSP).

The 4.0 percent net healthcare increase during 2007 reflects a 6.2 percent actual premium increase, an employee rebate offered as an incentive to contribute to the cost of health care, partially offset by employee contributions. The 6.2 percent actual healthcare premium increase reflects favorable rate pricing from the College's participation in a healthcare consortium, as well as a movement of covered employees from a more costly HMO plan to a less costly PPO plan.

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

Management's Discussion and Analysis (Unaudited) (Continued)

As part of its collective bargaining process, the College offered an ERIP to full-time faculty commencing in 2006 and continuing through 2008. During 2006 and 2007, the first and second years of eligibility, eight faculty elected the ERIP. During 2007 and 2006, the College recognized \$172,951 and \$161,087 in ERIP charges, respectively. The estimated total ERIP liability for 2006-2008 amounts to \$738,000. During 2007, a VSP was offered to eligible staff and management. A total of 20 employees elected the VSP and a charge of \$398,288 was recognized in 2007. Salary and wage savings associated with the ERIP and VSP are reflected subsequent to those employees' departures.

The increase in salaries and wages during 2006 was primarily attributable to negotiated cost of living and scheduled salary increases for employees and increased overtime and additional staff who were dedicated to the College's "Banner" integrated management information system's implementation, partially offset by savings attributable to delays in filling open positions.

Benefits increased during 2006 by \$0.4 million, or 4.8 percent, and were attributable to (a) increases in retirement benefits proportional to the increase in salaries and wages, (b) new hires subject to Medicare replacing long-term employees not subject to these employer costs, (c) health care benefit costs increasing by 3.7 percent, and (d) the 2006 impact of the College's ERIP.

The 3.7 percent net healthcare increase during 2006 reflects a 2.6 percent actual premium increase, an employee rebate offered as an incentive to contribute to the cost of health care, partially offset by newly established employee contributions. The 2.6 percent actual healthcare premium increase also reflects a significant movement of covered employees from a more costly HMO plan to a less costly PPO plan. These changes are primarily attributable to collective bargaining revisions.

Nonlabor-related operating expenses were higher by 2.9 percent in 2007 than 2006. The increase is primarily due to (a) establishing an additional allowance for bad debts based on a current increase in financial aid activity, partially offset by, (b) lower utilities due to a decrease in natural gas rates, and (c) the monitoring and control of other expenditures. Nonlabor-related operating expenses were 5.0 percent higher in 2006 than 2005. The increase is primarily due to planned additional advertising, printing, and higher utility costs, partially offset by reduced professional services, instructional supplies, and the monitoring of other expenditures.

Auxiliary enterprises expense increased by 5.3 percent during 2007 and by 2.1 percent during 2006. These changes were attributable to an increase in overall revenues and an improved contribution in bookstore operations for both years, more than offset by higher food service operating costs.

Depreciation expense is relatively unchanged during 2007. The increase in depreciation expense during 2006 is attributable to various capital assets acquired during 2006.

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

Management's Discussion and Analysis (Unaudited) (Continued)

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, 2007 comparison of net changes to fund balance, budget versus actual, to the College's unrestricted funds is as follows:

Unrestricted Funds Budget to Actual Comparison

| Changes to Fund Balances by Unrestricted Fund Type | 2007 | |
|--|-----------------------|-----------------|
| | Adopted Budget | Actual |
| | (dollars in millions) | |
| General operating | \$ (0.9) | \$ (0.1) |
| Auxiliary | (0.1) | (0.1) |
| Plant | (0.1) | 0.1 |
| Total | <u>\$ (1.1)</u> | <u>\$ (0.1)</u> |

Net Assets

| | Years Ended June 30 | | |
|--|----------------------|----------------------|----------------------|
| | 2007 | 2006 | 2005 |
| Assets | | | |
| Current assets | \$ 29,168,636 | \$ 27,760,998 | \$ 26,272,588 |
| Noncurrent assets: | | | |
| Capital | 31,297,267 | 32,833,626 | 32,443,296 |
| Other | 3,724,596 | 3,038,249 | 2,683,617 |
| Total assets | <u>\$ 64,190,499</u> | <u>\$ 63,632,873</u> | <u>\$ 61,399,501</u> |
| Liabilities | | | |
| Current liabilities | \$ 19,488,503 | \$ 17,856,232 | \$ 14,327,265 |
| Noncurrent liabilities | 4,254,248 | 4,962,735 | 5,628,313 |
| Total liabilities | 23,742,751 | 22,818,967 | 19,955,578 |
| Net Assets | | | |
| Invested in capital assets - Net of related debt | 27,252,572 | 28,384,013 | 27,727,811 |
| Restricted | 1,652,551 | 1,034,899 | 1,151,316 |
| Unrestricted | 11,542,625 | 11,394,994 | 12,564,796 |
| Total net assets | <u>40,447,748</u> | <u>40,813,906</u> | <u>41,443,923</u> |
| Total liabilities and net assets | <u>\$ 64,190,499</u> | <u>\$ 63,632,873</u> | <u>\$ 61,399,501</u> |

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

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of Overall Financial Position

At June 30, 2007, current assets amounted to \$29.2 million as compared to \$27.8 million at June 30, 2006, an increase of \$1.4 million. Current liabilities at June 30, 2007 amounted to \$19.5 million and current liabilities at June 30, 2006 amounted to \$17.9 million, an increase of \$1.6 million. The College's working capital ratio at June 30, 2007 and 2006 was 1.5 and 1.6, respectively. The increase in current assets is primarily attributable to an increase in receivables of \$2.1 million due to higher student accounts receivable and tuition loan plans attributable to the growth in enrollment and the 6 percent tuition increase (commenced fall 2006), as well as the timing and receipt of student federal financial aid draw downs, partially offset by a decrease in cash and short-term investments of \$0.5 million (resulting from a shift to longer-term investments as compared to prior year). The increase in current liabilities is primarily attributable to higher accounts payable and other liabilities of \$1.2 million resulting primarily from the timing of payments to vendors and the establishment of the ERIP and VSP liabilities, as well as the increase in deferred revenue of \$0.4 million due to the summer and fall 2007 enrollment growth.

At June 30, 2006, current assets amounted to \$27.8 million, as compared to \$26.3 million at June 30, 2005, an increase of \$1.5 million. Current liabilities at June 30, 2006, as compared to June 30, 2005, amounted to \$17.9 million and \$14.3 million, respectively, an increase of \$3.6 million. The College's working capital ratio at June 30, 2006 and 2005 was 1.6 and 1.8, respectively. The increase in current assets is primarily attributable to an increase in receivables of \$2.7 million due to the earlier summer and fall registration in 2006, as compared to 2005, partially offset by a decrease in cash and short-term investments of \$1.3 million resulting from capital purchases made with the proceeds from the College's issuance of \$4 million in tax anticipation notes in November 2003, as well the planned reduction in reserve positions. The increase in current liabilities is primarily attributable to an increase in deferred revenue of \$2.4 million due to the earlier summer and fall registration in 2006 as compared to 2005, partially offset by the recognition of revenue on state construction contracts in 2006 as compared to 2005 and higher accounts payable and other liabilities of \$1.0 million primarily resulting from the timing of payments to vendors.

Noncurrent assets are comprised of capital assets, investments, and loans receivable. The decrease (\$0.9 million) in noncurrent assets during 2007 is due to the decrease in the College's capital assets (\$1.5 million) primarily associated with current year capital additions more than offset by depreciation, partially offset by an increase in long-term investments with maturity dates beyond one year (\$0.8 million).

The growth in noncurrent assets during 2006 is due to the increase in the College's capital assets (\$0.7 million), primarily associated with current year capital additions exceeding depreciation expenses (\$0.4 million), as well as an increase in investments with maturity dates beyond one year (\$0.3 million).

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

Management's Discussion and Analysis (Unaudited) (Continued)

The decrease in the College's noncurrent liabilities during both 2007 and 2006 is primarily attributable to scheduled principal payments on its issued debt. Also, the College's capital lease debt was fully paid off during 2006. The College is in full compliance with all debt issuance provisions.

The College's net assets amounted to \$40.5 million, \$40.8 million, and \$41.4 million at June 30, 2007, 2006, and 2005, respectively. The \$0.3 million decrease in the College's net assets during 2007 was primarily attributable to the decrease in the College's net plant investment, partially offset by timing differences in the disbursement and receipt of federal financial aid. The \$0.6 million decrease in the College's net assets during 2006 was primarily attributable to the increase in the College's net plant investment, slightly more than offset by the planned reduction in reserve positions.

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 2007, the College utilized \$0.7 million in state capital appropriations and internal funds and purchased \$1.5 million of capital assets.

The College's long-term debt is comprised of Series 1999 General Receipts Bonds and Series 2003 Tax Anticipation Notes. During 2007 and 2006, the College did not issue any additional debt and paid \$0.7 million and \$0.8 million, respectively, 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.

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

Management's Discussion and Analysis (Unaudited) (Continued)

The College places significant reliance on state appropriations. The College is cautiously optimistic in the increased level of financial support in the State of Ohio's 2008-2009 biennium funding for SSIS and Access Challenge. 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 SSIS 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 (the "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 10 years. The current 1.5 mill levy expires with the last collection in calendar year 2012. As indicated earlier in this discussion and analysis, the College continues to closely monitor the shift in the continued erosion in "guarantees" funding associated with state laws that deregulated electric and natural gas utilities, and the phase-out of business tangible personal property taxes.

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

Statement of Net Assets

| | June 30 | |
|--|----------------------|----------------------|
| | 2007 | 2006 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | \$ 3,674,933 | \$ 1,808,499 |
| Restricted cash and cash equivalents (Note 2) | 345,564 | 664,365 |
| Short-term investments (Note 2) | 5,538,570 | 7,552,185 |
| Intergovernmental receivables - Net | 9,236,447 | 9,384,627 |
| Loans and other receivables - Net (Note 3) | 8,617,472 | 6,378,954 |
| Inventories | 518,326 | 660,752 |
| Prepaid assets | 1,237,324 | 1,311,616 |
| Total current assets | 29,168,636 | 27,760,998 |
| Noncurrent assets: | | |
| Investments (Note 2) | 3,649,945 | 2,805,201 |
| Loans receivable - Net (Note 3) | 74,651 | 233,048 |
| Capital assets - Net (Note 4) | 31,297,267 | 32,833,626 |
| Total noncurrent assets | 35,021,863 | 35,871,875 |
| Total assets | 64,190,499 | 63,632,873 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 4,863,383 | 3,655,816 |
| Deferred revenues | 12,606,804 | 12,162,222 |
| Other liabilities | 310,001 | 409,195 |
| Debt payable (Note 5) | 736,269 | 722,626 |
| Compensated absences (Note 5) | 972,046 | 906,373 |
| Total current liabilities | 19,488,503 | 17,856,232 |
| Noncurrent liabilities (Note 5): | | |
| Other liabilities | 125,000 | 125,000 |
| Debt payable | 3,308,426 | 4,044,695 |
| Compensated absences | 407,233 | 385,536 |
| Refundable federal student loans | 413,589 | 407,504 |
| Total noncurrent liabilities | 4,254,248 | 4,962,735 |
| Total liabilities | 23,742,751 | 22,818,967 |
| Net Assets | | |
| Invested in capital assets - Net of related debt | 27,252,572 | 28,384,013 |
| Restricted for: | | |
| Nonexpendable for endowment purposes | 345,564 | 335,737 |
| Expendable for instructional purposes | 1,306,987 | 699,162 |
| Unrestricted | 11,542,625 | 11,394,994 |
| Total net assets | \$ 40,447,748 | \$ 40,813,906 |

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

Statement of Revenue, Expenses and Changes in Net Assets

| | Year Ended June 30 | |
|---|----------------------|----------------------|
| | 2007 | 2006 |
| Operating Revenue | | |
| Student tuition and fees - Net of \$171,171 and \$176,842 in scholarship allowances in 2007 and 2006, respectively | \$ 19,277,421 | \$ 17,021,744 |
| Federal grants and contracts | 503,009 | 429,514 |
| State grants and contracts | 1,875,721 | 768,280 |
| Private grants and contracts | 393,452 | 342,018 |
| Sales and services | 796,879 | 645,654 |
| Auxiliary enterprises | 5,666,295 | 5,398,153 |
| Other operating revenues | 675,106 | 385,207 |
| Total operating revenue | 29,187,883 | 24,990,570 |
| Operating Expenses | | |
| Educational and general: | | |
| Instruction and departmental research | 23,694,474 | 22,611,693 |
| Public service | 3,565,415 | 2,925,259 |
| Academic support | 3,145,920 | 3,398,550 |
| Student services | 7,165,289 | 7,213,149 |
| Institutional support | 8,524,018 | 7,894,966 |
| Operation and maintenance of facilities | 6,353,524 | 6,687,958 |
| Total educational and general | 52,448,640 | 50,731,575 |
| Auxiliary enterprises | 5,564,185 | 5,285,444 |
| Depreciation | 3,016,306 | 3,011,248 |
| Total operating expenses | 61,029,131 | 59,028,267 |
| Operating Loss | (31,841,248) | (34,037,697) |
| Nonoperating Revenue (Expense) | | |
| State appropriations (Note 7) | 18,325,787 | 17,913,905 |
| Local appropriations (Note 8) | 11,769,067 | 12,111,015 |
| Unrestricted investment income - Net of investment expense | 816,436 | 651,297 |
| Restricted investment income - Net of investment expense | 18,403 | 14,261 |
| Interest on capital asset - Related debt | (153,461) | (178,822) |
| Other nonoperating revenues (expenses) - Net | (3,353) | 2,150 |
| Net nonoperating revenue | 30,772,879 | 30,513,806 |
| Loss - Before other changes | (1,068,369) | (3,523,891) |
| Other Changes | | |
| Capital appropriations from the State of Ohio | 702,211 | 2,779,513 |
| Capital grants and gifts | - | 114,361 |
| Total other changes | 702,211 | 2,893,874 |
| Decrease in Net Assets | (366,158) | (630,017) |
| Net Assets - Beginning of year | 40,813,906 | 41,443,923 |
| Net Assets - End of year | \$ 40,447,748 | \$ 40,813,906 |

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

Statement of Cash Flows - College

| | Year Ended June 30 | |
|---|---------------------|---------------------|
| | 2007 | 2006 |
| Cash Flows from Operating Activities | | |
| Tuition and fees | \$ 13,773,522 | \$ 13,554,479 |
| Grants and contracts | 2,316,595 | 1,408,575 |
| Payments to suppliers and utilities | (13,094,156) | (13,550,047) |
| Payments for compensation and benefits | (43,516,105) | (41,517,096) |
| Federal draw-downs | 17,626,644 | 14,853,645 |
| Federal draw-downs applied to tuition - Disbursed to students | (13,301,252) | (11,300,282) |
| Auxiliary sales and services | 5,596,039 | 5,508,098 |
| Other | 1,800,300 | 796,228 |
| Net cash used in operating activities | (28,798,413) | (30,246,400) |
| Cash Flows from Noncapital Financing Activities | | |
| State appropriations | 18,325,787 | 17,913,905 |
| Local appropriations | 11,764,009 | 12,121,709 |
| Private grants and gifts | - | 114,361 |
| Net cash provided by noncapital financing activities | 30,089,796 | 30,149,975 |
| Cash Flows from Capital and Related Financing Activities | | |
| Capital appropriations | 42,348 | 38,218 |
| Purchases of capital assets | (800,589) | (573,231) |
| Principal paid on capital debt and leases - Net | (722,626) | (768,676) |
| Interest paid on capital debt and leases | (149,734) | (178,822) |
| Net cash used in capital financing activities | (1,630,601) | (1,482,511) |
| Cash Flows from Investing Activities | | |
| Proceeds from sales and maturities of investments | 11,120,000 | 10,013,182 |
| Purchase of investments | (9,800,515) | (10,344,795) |
| Interest on investments | 567,366 | 430,064 |
| Net cash provided by investing activities | 1,886,851 | 98,451 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,547,633 | (1,480,485) |
| Cash and Cash Equivalents - Beginning of year | 2,472,864 | 3,953,349 |
| Cash and Cash Equivalents - End of year | \$ 4,020,497 | \$ 2,472,864 |
| Classification of Cash and Cash Equivalents | | |
| Cash and cash equivalents | \$ 3,674,933 | \$ 1,808,499 |
| Restricted cash and cash equivalents | 345,564 | 664,365 |
| Total cash and cash equivalents | \$ 4,020,497 | \$ 2,472,864 |

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

Statement of Cash Flows - College (Continued)

| | Year Ended June 30 | |
|--|------------------------|------------------------|
| | 2007 | 2006 |
| Reconciliation of operating loss to net cash from operating activities: | | |
| Operating loss | \$ (31,841,248) | \$ (34,037,697) |
| Adjustments to reconcile operating loss to net cash from operating activities: | | |
| Depreciation expense | 3,016,306 | 3,011,248 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (1,855,449) | (4,507,463) |
| Inventories | 142,426 | (12,093) |
| Other assets | 6,372 | (20,391) |
| Increase in liabilities: | | |
| Accounts payable and accrued liabilities | 1,009,370 | 850,694 |
| Deferred revenue | 630,355 | 4,395,733 |
| Deposits held for others | 6,085 | 4,831 |
| Compensated absences | 87,370 | 68,738 |
| Net cash used in operating activities | <u>\$ (28,798,413)</u> | <u>\$ (30,246,400)</u> |

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

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

Balance Sheet

| | | June 30 | |
|-----------------------------------|----------------------------------|---------------------|---------------------|
| | | 2007 | 2006 |
| Assets | | | |
| Cash and cash equivalents | | \$ 248,904 | \$ 292,247 |
| Cash held for others | | 26,768 | 19,114 |
| Investments | | 2,362,805 | 1,968,660 |
| Receivables | | 193,974 | 280,304 |
| Prepaid expenses | | 159 | - |
| | Total assets | <u>\$ 2,832,610</u> | <u>\$ 2,560,325</u> |
| Liabilities and Net Assets | | | |
| Liabilities | | | |
| Accounts payable | | \$ 62,319 | \$ 62,734 |
| Due to custodial funds | | 26,768 | 19,114 |
| Contingent liability | | 25,000 | 50,000 |
| | Total liabilities | 114,087 | 131,848 |
| Net Assets | | | |
| Unrestricted | | 169,296 | 240,994 |
| Temporarily restricted | | 760,899 | 690,230 |
| Permanently restricted | | 1,788,328 | 1,497,253 |
| | Total net assets | 2,718,523 | 2,428,477 |
| | Total liabilities and net assets | <u>\$ 2,832,610</u> | <u>\$ 2,560,325</u> |

Statement of Activities

| | | Year Ended June 30 | |
|-------------------------------------|------------------------------------|---------------------|---------------------|
| | | 2007 | 2006 |
| Support and Revenue | | | |
| Contributions and grants | | \$ 935,308 | \$ 1,107,780 |
| Investment income - Net | | 267,781 | 93,189 |
| | Total support and revenue | 1,203,089 | 1,200,969 |
| Program and Support Services | | | |
| Program services: | | | |
| Scholarships | | 378,302 | 361,712 |
| Educational and related programs | | 273,794 | 391,218 |
| Support services - Administration | | 260,947 | 252,153 |
| | Total program and support expenses | 913,043 | 1,005,083 |
| | Increase in Net Assets | 290,046 | 195,886 |
| | Net Assets - Beginning of year | 2,428,477 | 2,232,591 |
| | Net Assets - End of year | <u>\$ 2,718,523</u> | <u>\$ 2,428,477</u> |

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

Notes to Financial Statements June 30, 2007 and 2006

Note I - Basis of Presentation and Significant Accounting Policies

Lake County Community College District d/b/a Lakeland Community College (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's 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 of America (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 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. 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.

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

Notes to Financial Statements June 30, 2007 and 2006

Note I - 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 - As of June 30, 2007, restricted cash consists of \$345,564 for endowment purposes. As of June 30, 2006, restricted cash consisted of \$328,628 of unspent Tax Anticipation Note proceeds as well as \$335,737 for endowment purposes.

Inventories - Inventories consist primarily 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:

| | |
|------------------------------------|-------------|
| 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 |

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

Notes to Financial Statements June 30, 2007 and 2006

Note I - 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 of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures 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.

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

Notes to Financial Statements June 30, 2007 and 2006

Note 2 - Cash and Cash Equivalents and Investments

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 2 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, 2007 and 2006, the carrying amount of the College's cash balance was \$311,309 and (\$693,686), respectively. The bank balance at June 30, 2007 and 2006 totaled \$1,920,728 and \$518,490, respectively. The difference represents outstanding checks payable, deposits in transit, and normal reconciling items.

A total of \$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. 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.

Investments - The College's investment policy approved by the board of trustees establishes priorities and guidelines regarding the investment management of the College funds. These priorities and guidelines are based upon Chapters 3354.10, 3345.05, and 135.14 of the Ohio Revised Code (ORC) and prudent money management principles.

The investment objectives of the College, in priority order, include compliance with all federal and state laws, safety of principal, liquidity, and yield. Market risks (including interest rate risk and liquidity risk) and credit risk are managed by board policies as described below.

Interest Rate Risk - The market value of securities in the College's portfolio will increase or decrease based upon changes in the general level of interest rates. The effects of market value fluctuations will be minimized by maintaining adequate liquidity to pay current obligations, diversification of maturities, and diversification of assets.

Lake County Community College District

d/b/a Lakeland Community College

Notes to Financial Statements

June 30, 2007 and 2006

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

Liquidity Risk - The portfolio remains sufficiently liquid to meet all current obligations of the College. Minimum liquidity levels are established in order to meet all current obligations without having to sell securities. The College forecasts its cash needs and maintains cash balances (related to daily receipts or for immediate expenditure needs) in an overnight "sweep" bank account (that earns interest in overnight repurchase agreements). In addition, funds are also invested in the State of Ohio treasurer's STAR investment program fund. The remaining portfolio at June 30, 2007 and 2006 is made up of Treasury bills, Treasury notes, and federal agency issues. These investments are structured so that securities mature concurrently with cash needs.

Credit Risk - Credit risk is the risk of loss due to the failure of a security issuer to pay principal or interest or the failure of the issuer to make timely payments of principal. Eligible investments affected by credit risk include certificates of deposit, commercial paper, and bankers' acceptances. The College did not invest in any of these instruments in 2007 or 2006. In the event the College invests in these instruments in the future, credit risk will be minimized by (1) diversifying assets by issuer, (2) ensuring that required minimum credit ratings exist prior to the purchase of commercial paper and bankers' acceptances, and (3) maintaining adequate collateralization of certificates of deposits.

At June 30, 2007 and 2006, the College's investment portfolio and credit ratings consisted of the following:

| 2007 | Fair Market Value | Less than One Year | 1-2 years | NRSRO Rating |
|--|----------------------|-----------------------|---------------------|-----------------|
| Repurchase agreements | \$ 1,631,489 | \$ 1,631,489 | \$ - | AAA |
| State Treasurer Asset Reserve Fund (Star Ohio) | 1,082,122 | 1,082,122 | - | AAA |
| Money market | 1,740,248 | 1,740,248 | - | AAA |
| U.S. government agency | <u>9,188,515</u> | <u>5,538,570</u> | <u>3,649,945</u> | AAA |
| Total investments | <u>\$ 13,642,374</u> | <u>\$ 9,992,429</u> | <u>\$ 3,649,945</u> | |
| 2006 | Fair Market Value | Less than One Year | 1-2 years | NRSRO Rating |
| Repurchase agreements | \$ 1,301,606 | \$ 1,301,606 | \$ - | AAA |
| State Treasurer Asset Reserve Fund (Star Ohio) | 1,800,922 | 1,800,922 | - | AAA |
| Money market | 64,022 | 64,022 | - | AAA |
| U.S. government treasuries | 2,486,406 | 2,486,406 | - | AAA |
| U.S. government agency | <u>7,870,980</u> | <u>5,065,779</u> | <u>2,805,201</u> | AAA |
| Total investments | <u>\$ 13,523,936</u> | <u>\$ 10,718,735</u> | <u>\$ 2,805,201</u> | |

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

Notes to Financial Statements June 30, 2007 and 2006

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

Custodial Credit Risk - Investments under management are directed by the College's investment manager, United American Capital Corporation. The investment manager shall be either registered with the Securities and Exchange Commission, or be licensed by the division of securities under Section 1707.141 ORC, and will possess experience in the management of public funds, specifically in the area of state and local government investment portfolios, or is an eligible institution referenced in 135.03 ORC.

The investment advisor is authorized to manage the investment funds of the College, which includes the selection of eligible investment assets as defined under applicable sections of the ORC, and the selection of eligible broker/dealer firms based upon the criteria as determined by the investment advisor.

The investment advisor may execute the purchase and/or sale of securities with eligible Ohio financial institutions, primary securities dealers regularly reporting to the New York Federal Reserve Bank, and regional securities firms or broker dealers licensed with the Ohio Department of Commerce, Division of Securities to transact business in the state of Ohio.

The investment advisor, eligible financial institutions, and broker/dealers transacting investment business with the College are required to sign the College's investment policy as an acknowledgment and understanding of the contents of said policy.

Securities purchased for the College are held in a safekeeping account established by the College (National City Bank), as provided in Section 135.37 ORC. Securities held in safekeeping by the custodian are evidenced by a monthly statement describing such securities. The custodian may safe keep the College's securities in (1) Federal Reserve Bank book entry form, (2) Depository Trust Company (DTC) book entry form in the account of the custodian or the custodian's correspondent bank, or (3) non-book entry (physical) securities held by the custodian or the custodian's correspondent bank. Therefore, the custodial risk is limited.

Foreign Currency Risk - The College did not invest in any foreign instruments in 2007 or 2006.

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 \$1,415,333 and \$1,235,989 at June 30, 2007 and 2006, respectively.

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

Notes to Financial Statements June 30, 2007 and 2006

Note 3 - Loans and Other Receivables (Continued)

The following schedule is an analysis of loans and other receivable balances as of June 30, 2007 and 2006:

| | 2007 | | 2006 | |
|---|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Current Portion - Net | Noncurrent Portion - Net | Current Portion - Net | Noncurrent Portion - Net |
| In-house student loans | \$ - | \$ 1,500 | \$ - | \$ 1,500 |
| Federal Perkins and nursing student loans | 33,661 | 51,006 | 43,316 | 204,804 |
| Employee computer financing | 42,923 | 22,145 | 53,954 | 26,744 |
| Student accounts | 8,073,589 | - | 5,738,240 | - |
| Auxiliary receivables | 241,646 | - | 286,687 | - |
| Interest receivable | 106,918 | - | 54,598 | - |
| Sales and service receivables | 118,735 | - | 202,159 | - |
| Total | \$ 8,617,472 | \$ 74,651 | \$ 6,378,954 | \$ 233,048 |

The increase in student accounts is attributable to growth in enrollment and 6 percent tuition increase (commenced fall 2006) as well as increased federal financial aid.

Note 4 - Capital Assets

Capital asset activity for the years ended June 30, 2007 and 2006 was as follows:

| | July 1, 2006 | | June 30, 2007 | |
|---------------------------------------|----------------------|-----------------------|--------------------|----------------------|
| | Balance | Additions | Retirements | Balance |
| Nondepreciable assets: | | | | |
| Land | \$ 723,289 | \$ - | \$ - | \$ 723,289 |
| Construction in progress | 2,146,099 | 733,306 | (17,214) | 2,862,191 |
| Depreciable assets: | | | | |
| Land improvements | 3,208,510 | - | - | 3,208,510 |
| Infrastructure | 2,907,873 | - | - | 2,907,873 |
| Buildings and improvements | 59,258,939 | 186,211 | - | 59,445,150 |
| Equipment and vehicles | 4,717,637 | 318,667 | (142,737) | 4,893,567 |
| Software and library books | 7,895,385 | 264,178 | - | 8,159,563 |
| Total capital assets | 80,857,732 | 1,502,362 | (159,951) | 82,200,143 |
| Less accumulated depreciation: | | | | |
| Land improvements | 1,934,048 | 104,777 | - | 2,038,825 |
| Infrastructure | 1,927,776 | 89,066 | - | 2,016,842 |
| Buildings and improvements | 34,797,613 | 1,873,977 | - | 36,671,590 |
| Equipment and vehicles | 3,407,875 | 310,961 | (137,536) | 3,581,300 |
| Software and library books | 5,956,794 | 637,525 | - | 6,594,319 |
| Total accumulated depreciation | 48,024,106 | 3,016,306 | (137,536) | 50,902,876 |
| Capital assets - Net | \$ 32,833,626 | \$ (1,513,944) | \$ (22,415) | \$ 31,297,267 |

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

Notes to Financial Statements June 30, 2007 and 2006

Note 4 - Capital Assets (Continued)

| | July 1, 2005 Balance | Additions | Retirements | June 30, 2006 Balance |
|--------------------------------|-------------------------|------------|-------------|--------------------------|
| Nondepreciable assets: | | | | |
| Land | \$ 723,289 | \$ - | \$ - | \$ 723,289 |
| Construction in progress | - | 2,157,099 | (11,000) | 2,146,099 |
| Depreciable assets: | | | | |
| Land improvements | 3,208,510 | - | - | 3,208,510 |
| Infrastructure | 2,907,873 | - | - | 2,907,873 |
| Buildings and improvements | 59,121,915 | 137,024 | - | 59,258,939 |
| Equipment and vehicles | 4,342,486 | 552,842 | (177,691) | 4,717,637 |
| Software and library books | 7,325,812 | 569,573 | - | 7,895,385 |
| Total capital assets | 77,629,885 | 3,416,538 | (188,691) | 80,857,732 |
| Less accumulated depreciation: | | | | |
| Land improvements | 1,831,338 | 102,710 | - | 1,934,048 |
| Infrastructure | 1,837,560 | 90,216 | - | 1,927,776 |
| Buildings and improvements | 32,896,423 | 1,901,190 | - | 34,797,613 |
| Equipment and vehicles | 3,251,872 | 329,734 | (173,731) | 3,407,875 |
| Software and library books | 5,369,396 | 587,398 | - | 5,956,794 |
| Total accumulated depreciation | 45,186,589 | 3,011,248 | (173,731) | 48,024,106 |
| Capital assets - Net | \$ 32,443,296 | \$ 405,290 | \$ (14,960) | \$ 32,833,626 |

Note 5 - Noncurrent Liabilities

Noncurrent liability activity for the years ended June 30, 2007 and 2006 was as follows:

| 2007 | July 1, 2006 Balance | Additions | Reductions | June 30, 2007 Balance | Current Portion |
|---------------------------------------|-------------------------|-----------|------------|--------------------------|--------------------|
| Long-term debt and lease obligations: | | | | | |
| Tax Anticipation Note, Series 2003 | \$ 3,370,000 | \$ - | \$ 645,000 | \$ 2,725,000 | \$ 655,000 |
| Premium on Tax Anticipation Note | 22,321 | - | 7,626 | 14,695 | 6,269 |
| General Receipts Bonds, Series 1999 | 1,375,000 | - | 70,000 | 1,305,000 | 75,000 |
| Total | 4,767,321 | - | 722,626 | 4,044,695 | 736,269 |
| Other noncurrent obligations: | | | | | |
| Reserve for compensated absences | 1,291,909 | 87,370 | - | 1,379,279 | 972,046 |
| Reserve for federal student loans | 407,504 | 6,085 | - | 413,589 | - |
| Other liabilities | 125,000 | - | - | 125,000 | - |
| Total noncurrent liabilities | \$ 6,591,734 | \$ 93,455 | \$ 722,626 | \$ 5,962,563 | \$ 1,708,315 |

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

Notes to Financial Statements June 30, 2007 and 2006

Note 5 - Noncurrent Liabilities (Continued)

| 2006 | July 1, 2005 | | | June 30, 2006 | |
|---------------------------------------|---------------------|------------------|-------------------|---------------------|---------------------|
| | Balance | Additions | Reductions | Balance | Current Portion |
| Long-term debt and lease obligations: | | | | | |
| Tax Anticipation Note, Series 2003 | \$ 4,000,000 | \$ - | \$ 630,000 | \$ 3,370,000 | \$ 645,000 |
| Premium on Tax Anticipation Note | 31,106 | - | 8,785 | 22,321 | 7,626 |
| General Receipts Bonds, Series 1999 | 1,445,000 | - | 70,000 | 1,375,000 | 70,000 |
| Capital lease obligations | 59,891 | - | 59,891 | - | - |
| Total | 5,535,997 | - | 768,676 | 4,767,321 | 722,626 |
| Other noncurrent obligations: | | | | | |
| Reserve for compensated absences | 1,223,171 | 68,738 | - | 1,291,909 | 906,373 |
| Reserve for federal student loans | 402,672 | 4,832 | - | 407,504 | - |
| Other liabilities | 125,000 | - | - | 125,000 | - |
| Total noncurrent liabilities | \$ 7,286,840 | \$ 73,570 | \$ 768,676 | \$ 6,591,734 | \$ 1,628,999 |

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 were used to pay for the costs of an integrated management information system, other technology projects, and other equipment and capital improvements.

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 percent 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.

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

Notes to Financial Statements June 30, 2007 and 2006

Note 5 - Noncurrent Liabilities (Continued)

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 debt balance was fully paid during the year ended June 30, 2006.

Scheduled principal maturities and total debt service on the Series 2003 Notes and Series 1999 Bonds for fiscal years subsequent to June 30, 2007 are as follows:

| | Bonds and Notes Payable | | |
|-----------|-------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2008 | \$ 730,000 | \$ 133,054 | \$ 863,054 |
| 2009 | 750,000 | 112,243 | 862,243 |
| 2010 | 770,000 | 77,770 | 847,770 |
| 2011 | 795,000 | 63,396 | 858,396 |
| 2012 | 90,000 | 47,745 | 137,745 |
| 2013-2017 | 520,000 | 165,148 | 685,148 |
| 2018-2020 | 375,000 | 29,339 | 404,339 |
| Total | <u>\$ 4,030,000</u> | <u>\$ 628,695</u> | <u>\$ 4,658,695</u> |

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

Notes to Financial Statements June 30, 2007 and 2006

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, 2007 and 2006 amounted to \$188,354 and \$153,273, respectively.

Future minimum lease payments as of June 30, 2007 under operating leases are as follows:

| | | |
|------------|----|------------------|
| 2008 | \$ | 193,614 |
| 2009 | | 199,085 |
| 2010 | | 204,774 |
| 2011 | | 210,691 |
| 2012 | | 159,997 |
| Thereafter | | <u>369,450</u> |
| Total | \$ | <u>1,337,611</u> |

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 the 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 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.

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

Notes to Financial Statements June 30, 2007 and 2006

Note 7 - State Appropriations (Continued)

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 through 2006. 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 percent 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 10-year period. The amount received in 2007 was \$1,114,263. 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 the replacement state excise tax as an intergovernmental receivable in both 2007 and 2006. Replacement state excise taxes were measurable at June 30, 2007 and 2006; however, since these revenue collections to be received in the available period are not intended to finance current year operations, the receivable amount is recorded as deferred revenue. Also included in 2007 is \$487,612 in "hold harmless" replacement taxes for commencement of the State of Ohio phasing out the levying of tangible personal property taxes. The College will be fully protected for several years.

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 (the "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.

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

Notes to Financial Statements June 30, 2007 and 2006

Note 8 - Local Appropriations (Continued)

The electors within the County must approve any Lake County Community College District property tax. Lake County Community College 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 10 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 2007 until October 2007, 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, 2007. 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 2007 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, STRS and SERS 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.

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

Notes to Financial Statements June 30, 2007 and 2006

Note 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 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, 2007, 2006, and 2005 were \$2,388,544, \$2,504,628, and \$2,393,322, respectively, equal to the required contributions for each year. The College's contribution to SERS for the years ended June 30, 2007, 2006, and 2005 were \$1,905,795, \$1,872,863, and \$1,805,500, 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 up to 14 percent of covered payroll to the plan for STRS and SERS eligible participants. The difference from the 14 percent overall College distribution rate of both STRS and SERS employee-covered payrolls is to be paid to STRS and SERS, respectively, to mitigate any negative financial impact of ARPs on the state systems.

Note 10 - Postemployment Benefit

State Teachers Retirement System - STRS provides comprehensive healthcare 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 healthcare costs will be absorbed by STRS. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium. The ORC grants authority to STRS to provide healthcare 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.

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

Notes to Financial Statements June 30, 2007 and 2006

Note 10 - Postemployment Benefit (Continued)

The retirement board allocated employer contributions to the Health Care Stabilization Fund (the "Fund") from which healthcare benefits are paid. For the fiscal year ended June 30, 2006, the board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was approximately \$3.5 billion on June 30, 2006.

For the year ended June 30, 2006, the net healthcare costs paid by STRS Ohio were approximately \$490 million. There were 119,184 eligible benefit recipients.

School Employees Retirement System - SERS provides postretirement 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their healthcare premiums. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing healthcare benefits. In addition, SERS levies a surcharge to fund healthcare benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal years 2006 and 2007, the minimum pay was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the healthcare fund.

Healthcare benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2006, the net healthcare costs paid by SERS were approximately \$228.6 million. At June 30, 2006, the SERS' net assets available for payment of healthcare benefits were approximately \$295.6 million. The number of retirees and covered dependents currently receiving benefits was 62,521.

Note 11 - Lake County Schools' 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 healthcare 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 healthcare benefits consortium (the "Consortium").

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

Notes to Financial Statements June 30, 2007 and 2006

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

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 healthcare benefits provider. The LCSC in turn manages various healthcare 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 funding and setting aside reserves to pay its various healthcare benefit obligations. As part of joining the LCSC, the College's board of trustees authorized payment to LCSC in the amount of \$680,239 as the College's assessment for inclusion in the LCSC's healthcare 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 year 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 30 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, healthcare 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, 2006 amounted to \$6.2 million. LCSC member contributions and other income for the year ended June 30, 2006 amounted to \$21.8 million and healthcare program and related costs amounted to \$22.1 million, leaving \$5.9 million as funds held in agency accounts at June 30, 2007.

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 years 2007 or 2006 that exceeded the coverage outlined in its insurance program.

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

Notes to Financial Statements June 30, 2007 and 2006

Note 12 - Risk Management (Continued)

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 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.

Federal Compliance Audit

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

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

We have audited the financial statements of Lake County Community College District d/b/a Lakeland Community College (Lakeland Community College) as of and for the year ended June 30, 2007 and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance

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

This report is intended solely for the information and use of the board of trustees, management, 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

December 7, 2007

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of Lake County Community College District d/b/a Lakeland Community College (Lakeland Community College) 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 each of its major federal programs for the year ended June 30, 2007. The major federal programs of Lakeland Community College are 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 each of its major federal programs is the responsibility of Lakeland Community College's management. Our responsibility is to express an opinion on Lakeland Community College'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 Lakeland Community 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 Lakeland Community College's compliance with those requirements.

In our opinion, Lakeland Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-01.

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

Internal Control Over Compliance

The management of Lakeland Community 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 Lakeland Community 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 internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Lakeland Community College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit this response and, accordingly, we express no opinion on it.

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

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

December 7, 2007

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

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

| 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 | P063P052857 | \$ 6,120,547 |
| Federal Work Study Program | 84.033 | P033A056053 | 151,380 |
| Federal Supplemental Educational Opportunity Grant Program | 84.007 | P007A056053 | 209,817 |
| Federal Perkins Loan Program (Note 2) | 84.038 | P038A046053 | 16,590 |
| ACG Grant | 84.375 | N/A | 12,925 |
| Federal Family Education Loan Program | 84.032 | N/A | <u>10,664,790</u> |
| Total U.S. Department of Education | | | 17,176,049 |
| U.S. Department of Health and Human Services - | | | |
| Direct Program - Nursing Student Loan Program (Note 2) | 93.364 | N/A | <u>6,311</u> |
| Total Student Financial Aid Cluster | | | 17,182,360 |
| WIA Cluster - U.S. Department of Labor - Direct Program - | | | |
| Biotechnology Workforce Development Project: | 17.260 | AG-14313-04-60 | 119,671 |
| Passed through the Ohio Department of Job and Family Services - Economic Development Strategic Plan Initiative Lake County | 17.260 | G-67-15-0998 | 8,000 |
| Passed through the Ohio Department of Job and Family Services - Job Training Partnership Act: | | | |
| Geauga County | 17.246 | G-67-15-1012 | 14,933 |
| Cuyahoga County | 17.246 | G-67-15-0996 | 1,787 |
| Lake County II | 17.246 | G-67-15-0998 | 82,633 |
| Summit County | 17.246 | G-67-15-1013 | 3,197 |
| Ashtabula County | 17.246 | G-67-15-1012 | <u>7,966</u> |
| Total WIA Cluster | | | 238,187 |

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

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2007

| Federal Agency/Pass-through Agency/Program Title | CFDA Number | Pass-through Entity Project/Grant Number | Federal Expenditures |
|--|----------------|---|-------------------------|
| Other Programs: | | | |
| U.S. Department of Health and Human Services - Passed through the Ohio Board of Regents - TANF Educational Awards Program | 93.558 | G994235 | \$ 100,300 |
| National Science Foundation: | | | |
| Passed through the Science, Engineering, Mathematics, and Aerospace Academy - Paragon Tech/NASA | 47.076 | NAS3-02123-LCC | 22,606 |
| Passed through Moraine Valley Community College, IL Consortium for the Advance of System Security and Information Assurance | 47.076 | N/A | <u>39,825</u> |
| Total National Science Foundation | | | 62,431 |
| National Nuclear Security Administration - Passed through Central State University - Science, Technology, Engineering and Mathematics Upgrade and Outreach Project | 81.123 | N/A | 10,000 |
| U.S. Department of Education - Passed through the Ohio Department of Education: | | | |
| Two-year College Perkins | 84.048 | 063347-20C3-2007 | 82,344 |
| Perkins Non-Traditional We Are IT | 84.048 | 063347-VENT-07-LCC | 1,999 |
| Technical Preparatory | 84.243 | 063347-3ETC-2007 | <u>164,843</u> |
| Total U.S. Department of Education | | | <u>249,186</u> |
| Total federal awards | | | <u>\$ 17,842,464</u> |

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

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lake County Community College District d/b/a Lakeland Community College 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

Lake County College had the following loan balances outstanding at June 30, 2007. These loan balances are not included in the federal expenditures presented in the schedule of expenditures of federal awards:

| Cluster/Program Title | CFDA Number | Amount Outstanding |
|---------------------------------|----------------|-----------------------|
| Federal Perkins Loan Program | 84.038 | \$ 136,847 |
| Nursing Student Loan Program | 93.364 | 67,070 |
| Total student loans outstanding | | \$ 203,917 |

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

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
- Significant deficiency(ies) 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(s):

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes ___ 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? X Yes ___ No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|--|------------------------------------|
| 84.063, 84.033, 84.007, 84.038, 84.032, 84.375, 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 ___ No

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

| Reference Number | Findings |
|------------------|---|
| 2007-01 | <p>Program Name - Student Financial Aid Cluster - 84.063, 84.033, 84.007, 84.038, 84.032, 84.375, and 93.364</p> <p>Finding Type - Significant deficiency/Noncompliance - Timely return of Title IV refunds</p> <p>Criteria - Return of Title IV funds is required to be refunded within 45 days after the date the institution determines that a student receiving the aid has withdrawn.</p> <p>Condition - Upon notification from Lakeland Community College and confirmed during our testing, we noted the return of funds was not being performed within 45 days of the date Lakeland Community College determined a withdrawal took place.</p> <p>Questioned Costs - Unknown</p> <p>Context - Out of 25 students tested, four did not have the Title IV refund completed within 45 days after the withdrawal was determined to have taken place.</p> <p>Cause and Effect - The student financial aid office appears to be calculating the refunds within the required time frame; however, the office is not submitting the payment within the necessary time frame.</p> <p>Recommendation - The student financial aid office should implement procedures to ensure that refunds are submitted within 45 days after a student withdraws.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Lakeland Community College is in the process of implementing a more efficient way to track class attendance. Once fully implemented, return of Title IV calculations will be completed in a timelier manner. Lakeland Community College is confident that these procedures will allow for compliance with federal regulations.</p> |

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

Summary Schedule of Prior Year Audit Findings Year Ended June 30, 2007

| Reference Number | Findings |
|---------------------|---|
| 2006-01 | <p>Program Name - Student Financial Aid Cluster - 84.063, 84.033, 84.007, 84.038, 84.032, and 93.364</p> <p>Finding Type - Noncompliance - Timely return of Title IV refunds</p> <p>Criteria - Return of Title IV funds is required to be refunded within 30 days after the date the institution determines that a student receiving the aid has withdrawn.</p> <p>Condition - Upon notification from Lakeland Community College and confirmed during our testing, we noted the return of funds was not being performed within 30 days of the date Lakeland Community College determined a withdrawal took place.</p> <p>Context - Out of 25 students tested, 14 did not have the Title IV refund completed within 30 days after the withdrawal was determined to have taken place.</p> <p>Status - Not corrected and reported as a finding in 2007-01.</p> |
| 2006-02 | <p>Program Name - Student Financial Aid Cluster - 84.063, 84.033, 84.007, 84.038, 84.032, and 93.364</p> <p>Finding Type - Noncompliance - NSLDS data quality</p> <p>Criteria - Title IV requires Lakeland Community College to update NSLDS within 30 days after the date the institution determines that a student receiving the aid has withdrawn.</p> <p>Condition - Upon notification from Lakeland Community College and confirmed during our testing, we noted that student status changes were not being updated with NSLDS within 30 days of the date Lakeland Community College determined a withdrawal took place.</p> <p>Context - Out of 25 students tested, 11 did not have status changes updated with NSLDS within 30 days after the withdrawal was determined to have taken place.</p> <p>Status - Corrective action has been taken.</p> |



Mary Taylor, CPA
Auditor of State

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
JANUARY 24, 2008**