

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

---

**Financial Report  
with Supplemental Information  
June 30, 2012**





# Dave Yost • Auditor of State

Board of Trustees  
Lake County Community College District  
d/b/a Lakeland Community College  
7700 Clock Tower  
Kirtland, Ohio 44094

We have reviewed the *Independent Auditor's Report* of the Lake County Community College District, d/b/a Lakeland Community College, prepared by Plante & Moran, PLLC, for the audit period July 1, 2011 through June 30, 2012. 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. Lake County Community College District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 24, 2012

**This page intentionally left blank.**

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

---

## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-15
<b>Basic Financial Statements</b>	
Statement of Net Assets	16
Statement of Revenue, Expenses, and Changes in Net Assets	17
Statement of Cash Flows	18-19
Balance Sheet and Condensed Statement of Activities - Component Unit - The Lakeland Foundation	20
Notes to Financial Statements	21-48
<b>Federal Compliance Audit</b>	49
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	50-51
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	52-53
Schedule of Expenditures of Federal Awards	54
Notes to Schedule of Expenditures of Federal Awards	55
Schedule of Findings and Questioned Costs	56-58

**This page intentionally left blank.**



Plante & Moran, PLLC

3434 Granite Circle

Toledo, OH 43617

Tel: 419.843.6000

Fax: 419.843.6099

plantemoran.com

## 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 financial statements of Lake County Community College District d/b/a Lakeland Community College (the "College") as of and for the years ended June 30, 2012 and 2011. We did not audit the financial statements of the Lakeland Foundation, which present all the balances and activity reported in the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for Lakeland Foundation, is based on the report of the other auditors. The College and the discretely presented component unit collectively comprise the basic financial statements. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audits.

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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the College and its discretely presented component unit as of June 30, 2012 and 2011 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 October 25, 2012 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended June 30, 2012. 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 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 audits.

The accompanying other supplemental information and schedule of expenditures of federal awards are 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 are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified on pages 3-15, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Plante & Moran, PLLC*

October 25, 2012

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

## **Management's Discussion and Analysis (Unaudited)**

The management's 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 provides an overview of the College's financial activities for the years ended June 30, 2012, 2011, and 2010. 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's 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. Revenue 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 revenue, expenses, and changes in net assets presents the revenue 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 revenue. 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 fundraising via friend-raising. It is a legally separate entity governed by its own board of directors. Discrete condensed financial information is presented on page 20 and in Notes I and 15.

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

	Year Ended June 30		
	2012	2011	2010
<b>Operating Revenue</b>			
Student tuition and fees - Net	\$ 9,121,040	\$ 9,084,515	\$ 11,300,648
Grants, contracts, and other revenue	2,173,927	2,335,879	1,967,973
Auxiliary enterprises	4,278,198	4,475,441	5,000,437
Total operating revenue	15,573,165	15,895,835	18,269,058
<b>Operating Expenses</b>	71,284,681	67,768,173	66,453,603
<b>Operating Loss</b>	(55,711,516)	(51,872,338)	(48,184,545)
<b>Nonoperating Revenue</b>			
State appropriations	18,206,337	22,505,312	23,172,294
Local appropriations	18,672,505	14,793,751	10,599,945
Pell grant revenue - Net of refunds	16,317,212	16,185,450	12,782,907
Other nonoperating income and expenses - Net	(404,717)	(206,224)	(111,632)
Total nonoperating revenue	52,791,337	53,278,289	46,443,514
<b>(Loss) Gain - Before other changes</b>	(2,920,179)	1,405,951	(1,741,031)
<b>Other Changes</b>			
Capital appropriations from the State of Ohio	633,900	1,114,629	1,221,101
Capital grants and gifts	25,500	14,500	10,907
Total other changes	659,400	1,129,129	1,232,008
<b>(Decrease) Increase in Net Assets</b>	(2,260,779)	2,535,080	(509,023)
<b>Net Assets - Beginning of year</b>	41,646,354	39,111,274	39,620,297
<b>Net Assets - End of year</b>	<b>\$ 39,385,575</b>	<b>\$ 41,646,354</b>	<b>\$ 39,111,274</b>

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

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

### Analysis of Results of Operations

Total revenue for the years ended June 30, 2012 and 2011 was \$69.0 million and \$70.3 million, respectively, of which operating revenue amounted to \$15.6 million and \$15.9 million, respectively. Operating revenue decreased \$0.3 million, or 2.0 percent. Total operating expenses for the years ended June 30, 2012 and 2011 were \$71.3 million and \$67.8 million, respectively. Operating expenses increased \$3.5 million, or 5.2 percent. The College's operating loss amounted to \$55.7 million during 2012 compared to \$51.9 million in 2011, which represented an increase of \$3.8 million, or 7.4 percent.

Total revenue for the years ended June 30, 2011 and 2010 was \$70.3 million and \$65.9 million, respectively, of which operating revenue amounted to \$15.9 million and \$18.3 million, respectively. Operating revenue decreased \$2.4 million, or 13.0 percent. Total operating expenses for the years ended June 30, 2011 and 2010 were \$67.8 million and \$66.5 million, respectively. Operating expenses increased \$1.3 million, or 2.0 percent. The College's operating loss amounted to \$51.9 million during 2011 compared to \$48.2 million in 2010, which represented an additional increase of \$3.7 million, or 7.7 percent.

Student tuition and fees, net, are comprised of credit and noncredit instruction revenue. A breakdown and comparison of this revenue is as follows:

### Credit and Noncredit Instruction Revenue

	Year Ended June 30		
	2012	2011	2010
	(dollars in millions)		
Credit instruction	\$ 20.8	\$ 20.9	\$ 20.1
Less Pell grants and scholarship allowances	(13.9)	(14.0)	(11.2)
Net credit instruction	6.9	6.9	8.9
Noncredit instruction	1.3	1.3	1.4
Other	0.9	0.9	1.0
Total	<u>\$ 9.1</u>	<u>\$ 9.1</u>	<u>\$ 11.3</u>

Student tuition and fees, net, was slightly higher during 2012 as compared to 2011.

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

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

Credit instruction tuition and fees, net, did not change during 2012 as compared to 2011. Gross credit instruction and fees decreased by 0.1 percent. The decrease is primarily attributable to a decrease in summer, fall, and spring enrollment (3.7 percent), partially offset by a tuition increase for out-of-district and out-of-state students, commencing with the fall 2011 term. The College honored its commitments to in-district students and did not raise tuition for FY 2012. Gross credit instruction and fees are offset by Pell grants and other scholarship allowances of \$13.9 million during 2012 as compared to \$14.0 million and \$11.2 million during 2011 and 2010, respectively.

Credit instruction tuition and fees, net, were lower during 2011 as compared to 2010. Gross credit instruction and fees increased by 4.0 percent. The increase is related to a 3.5 percent increase in tuition rates commencing with the summer semester, and 1.8 percent enrollment growth compared to prior year (12.9 percent increase in summer, 3.3 percent increase in fall, and 2.5 percent decrease in spring). Gross credit instruction and fees are offset by Pell grants and other scholarship allowances of \$14.0 million during 2011 as compared to \$11.2 million and \$5.3 million during 2010 and 2009, respectively. The significant increase in Pell grants and allowances since 2009 is attributable to increased student demand and the elimination of State programs for tuition support (Ohio College Opportunity Grant and Ohio Incentive Grant).

There was a 0.7 percent decrease in noncredit instruction revenue during 2012 as compared to 2011. The decrease is primarily due to decreased enrollment in youth and recreation classes, computers and personal skills, health professional development classes, and senior classes, partially offset by increases in the center for business and industry training, business and professional classes, nonprofit classes, and basic police classes.

There was a 7.2 percent decrease in noncredit instruction revenue during 2011 as compared to 2010, which is primarily due to a decrease in business professional development and senior citizen enrollments, partially offset by increased enrollment in healthcare development classes.

Grants, contracts, and other revenue decreased by \$0.2 million during 2012 as compared to 2011, primarily attributable to increased partnership revenue from the Holden University Center, more than offset by lower grant revenue.

Grants, contracts, and other revenue increased by \$0.4 million during 2011 as compared to 2010, primarily attributable to an increase in federal grants (Bioscience Industry Workforce Preparedness Grant, Nuclear Regulatory Commission Great Lakes Grant). Other revenue is also higher primarily attributable to revenue generated from the College's university partnerships.

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

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

Auxiliary enterprises revenue is comprised primarily of bookstore and event services and campus dining revenue. Operating revenue decreased by 4.4 percent for these operations during 2012 compared to 2011, primarily attributable to a decrease in bookstore sales attributable to a decrease in enrollment.

Operating revenue decreased by 10.5 percent for these operations during 2011 compared to 2010, primarily attributable to an increase in Pell grants used for bookstore purchases partially offset by increased bookstore sales.

The College's nonoperating revenue is comprised primarily of the State of Ohio (the "State") and local appropriations and federal Pell grant revenue. State appropriations include the State's Share of Instructional Support (SSIS) and replacement state taxes on property tax law changes.

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

### State Appropriations

	Year Ended June 30		
	2012	2011	2010
	(dollars in millions)		
SSIS and access challenge	\$ 17.6	\$ 17.1	\$ 17.7
Federal fiscal stabilization funds	-	2.9	3.0
Replacement state taxes on property tax law changes	0.6	2.5	2.5
Total	<u>\$ 18.2</u>	<u>\$ 22.5</u>	<u>\$ 23.2</u>

The College's State funding for operational support is determined legislatively and controlled by the Ohio Board of Regents (OBR) allocation formula. That formula is primarily based on projected subsidy-eligible enrollment and available State funds. The College receives its State of Ohio Support based on the Ohio Board of Regents distribution schedule. The College's State support was reduced by \$2.4 million in 2012 compared to 2011, primarily attributable to the loss of Federal stimulus money.

The 2011 SSIS is lower than the 2010 amounts primarily due to (a) a lower base of funding to public higher education in the second year of the State's operating biennium budget (2011 versus 2010); (b) an additional reduction in funding (\$649,361) identified by OBR and attributable to the State's funding formula reallocating monies from Lakeland to those two-year colleges that experienced significant annualized double-digit enrollment growth the past few years; and (c) partially offset by an increase attributable to returning the \$914,722 deferral back in as 2011 receipts. Federal stimulus money received during 2011 accounted for \$2,914,848 or 14.8 percent of state support appropriated to Lakeland.

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

---

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

Replacement property taxes on property tax law changes represent legislated, time-limited State funding guarantees on local property tax reductions attributable to (a) elimination of certain electric and natural gas utilities personal property taxes commencing in calendar year 2002 and (b) as the phased-out elimination of tangible personal property taxes of general business, telephone and telecommunications companies, and railroads commencing in calendar year 2006. Replacement State taxes on property tax law changes were lower by 1.9 million during 2012. Replacement State taxes on property tax law changes were slightly higher during 2011 as compared to 2010.

Local appropriations increased by \$3.9 million or 26.2 percent during 2012 as compared to 2011. The increase is primarily attributable to increased real estate collections from incremental proceeds from the 1.7 mills continuing levy replacement approved by Lake County voters on November 2, 2010, partially offset by the loss from personal property tax revenue.

For a number of years, the College received guarantees from the State on previously lost personal property taxes. Those guarantees were expected to be continued and phased out over the next five years. In the State FY 2012-FY 2013 Operating Biennium Budget, the guarantees mentioned above will be essentially eliminated; guarantees were reduced from \$2.5 million in FY 2011, to \$0.6 million in FY 2012, to \$0.1 million in FY 2013, and then \$0.

Local appropriations increased by \$4.2 million, or 39.6 percent, during 2011 as compared to 2010, primarily due to increased real estate tax collections from incremental proceeds from the 1.7 mills continuing levy replacement approved by Lake County voters on November 2, 2010, partially offset by the loss of tangible personal property tax revenue that the State of Ohio is phasing out.

Other nonoperating income and expenses decreased by \$0.2 million during 2012 as compared to 2011. The decrease is primarily attributable to an increase in Pell grants revenue (\$16.3 million in 2012 compared to \$16.2 million in 2011) and incremental revenue generated from the College's University Partnership revenue sharing agreements, more than offset by a decrease in investment income due to the continuation of the lower investment yields on the College's portfolio and higher debt interest expense.

Other nonoperating income and expenses increased by \$3.3 million during 2011 as compared to 2010. The increase is primarily attributable to a significant increase in Pell grants revenue (\$16.2 million in 2011 compared to \$12.8 million in 2010), partially offset by a decrease in investment income due to the continuation of the lower investment yields on the College's portfolio.

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

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

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

### Operating Expense Summary

	Year Ended June 30		
	2012	2011	2010
	(dollars in millions)		
Educational and general:			
Salaries and wages	\$ 38.1	\$ 36.3	\$ 36.0
Benefits	11.6	10.7	10.3
Operating expenses	11.9	11.3	10.5
Total educational and general	61.6	58.3	56.8
Auxiliary enterprises	6.3	6.2	6.2
Depreciation	3.4	3.3	3.4
Total	<u>\$ 71.3</u>	<u>\$ 67.8</u>	<u>\$ 66.4</u>

Salaries and wages increased by 4.7 percent during 2012. The increase is primarily attributable to higher summer faculty costs, staffing associated with the Holden University Center, merit increases for staff and administrators that occurred January 1, 2011, and 2012 salary step and general salary adjustments for faculty and staff including retroactive adjustments resulting from the salary adjustments deferred from 2011, partially offset by savings from unfilled open positions.

Benefits before the Early Retirement Incentive Plan (ERIP) include retirement and nonretirement benefits, which increased 7.5 percent. The increase is attributable to (a) the change in salaries and wages commensurate with the increase in retirement and medical benefits, (b) new hires subject to Medicare that replace employees who retired or resigned that were not subject to this benefit cost, and (c) an increase in healthcare premiums of approximately 11 percent.

In the latest collective bargaining agreement, the Board of Trustees approved an ERIP for full-time faculty. The total cost of the ERIP was \$310,901 in 2012.

The increase in salaries and wages during 2011 was primarily attributable to higher faculty summer teaching pay (due to an increase in summer enrollment of 12 percent), the filling of certain positions, and limited salary adjustments, partially offset by delays in filling open positions and hiring new replacements at lower starting salaries.

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

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

In 2012, operating expenses were higher by 5.2 percent when compared to 2011. The increase is due to increased costs associated with the Holden University Center, the Teaching/Learning Enhancement program for faculty, the financial aid call center, the Campus EAI (Enterprise Application Integration) software maintenance contract, and HR Academic search expenses, partially offset by utility savings, lower printing, insurance, and postage costs.

In 2011, operating expenses were higher by 7.7 percent when compared to 2010. The 2011 increase is primarily due to additional "build-out" costs for The Holden University Center and an increase in license fees (Touchnet), partially offset by a reduction in outside printing, advertising, and postage costs.

Auxiliary enterprises expense increased by 1.6 percent primarily attributable to slightly higher book costs during 2012.

Auxiliary enterprises expense decreased by 1.5 percent during 2011 primarily attributed to lower costs due to bookstore sales (net of Pell).

Depreciation expense is higher by 2.5 percent during 2012 due to additional capital expenditures.

Depreciation expense is lower by 3.5 percent during 2011 due to capital assets that became fully depreciated in 2011.

From a budgetary perspective, the College utilizes fund-based accounting to control unrestricted revenue, expenditures, and transfers. A summary for the year ended June 30, 2012 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	2012	
	Adopted Budget	Actual
	(dollars in millions)	
General operating	\$ (1.6)	\$ (2.1)
Auxiliary	(0.6)	(0.1)
Plant	(0.1)	-
Total	<u>\$ (2.3)</u>	<u>\$ (2.2)</u>

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

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

### Condensed Statement of Net Assets

	June 30		
	2012	2011	2010
<b>Assets</b>			
Current assets	\$ 33,231,398	\$ 34,983,764	\$ 31,277,607
Noncurrent assets:			
Capital	37,744,229	34,051,670	35,516,812
Other	8,863,250	15,870,520	6,259,902
Total assets	<u><b>\$ 79,838,877</b></u>	<u><b>\$ 84,905,954</b></u>	<u><b>\$ 73,054,321</b></u>
<b>Liabilities</b>			
Current liabilities	\$ 25,589,663	\$ 25,999,741	\$ 24,881,126
Noncurrent liabilities	14,863,639	17,259,859	9,061,921
Total liabilities	40,453,302	43,259,600	33,943,047
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	23,146,431	26,003,090	25,961,813
Restricted	625,986	587,703	974,989
Unrestricted	15,613,158	15,055,561	12,174,472
Total net assets	<u>39,385,575</u>	<u>41,646,354</u>	<u>39,111,274</u>
Total liabilities and net assets	<u><b>\$ 79,838,877</b></u>	<u><b>\$ 84,905,954</b></u>	<u><b>\$ 73,054,321</b></u>

### Analysis of Overall Financial Position

At June 30, 2012, current assets amounted to \$33.2 million as compared to \$35.0 million at June 30, 2011, a decrease of \$1.8 million. Current liabilities at June 30, 2012 amounted to \$25.6 million and current liabilities at June 30, 2011 amounted to \$26.0 million, a decrease of \$0.4 million. The College's working capital ratio was 1.3 and 1.3 at June 30, 2012 and 2011, respectively. The decrease in current assets is primarily attributable to decreased cash attributable to the scheduled principal payments of the College's Series 2008 and 2003 Tax Anticipation Notes, the early pay-off of the Series 1999 Bonds, spending of the proceeds from the Series 2011 Tax Anticipation Notes, the planned reduction to reserves, increased receivables resulting from increased tuition rates, partially offset by decreased intergovernment receivables. The slight decrease in current liabilities is attributable to the timing of payments to vendors, partially offset by the increase in debt payments to be made in 2013.

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

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

At June 30, 2011, current assets amounted to \$35.0 million as compared to \$31.3 million at June 30, 2010, an increase of \$3.7 million. Current liabilities at June 30, 2011 amounted to \$26.0 million and current liabilities at June 30, 2010 amounted to \$24.9 million, an increase of \$1.1 million. The College's working capital ratio was 1.3 and 1.3 at June 30, 2011 and 2010, respectively. The increase in current assets is primarily attributable to increased cash from property tax proceeds received by passage of the 1.7 mill replacement levy, increased receivables resulting from increased tuition rates and enrollment growth, and increased inter-government receivables resulting from the year-end property tax accrual for property taxes collected in 2011 not paid to the College until 2012. The increase in current liabilities is attributable to an increase in deferred revenue due to the year-end property tax revenue deferral mentioned above.

Noncurrent assets are comprised of capital assets, restricted cash, investments, and loans receivable. The decrease in noncurrent assets (\$3.3 million) during 2012 is primarily due to the decrease in restricted cash from the proceeds from the 2011 Tax Anticipation Notes that were spent in 2012, partially offset by higher long-term investments and the addition to net capital assets.

The increase in noncurrent assets (\$8.1 million) during 2011 is primarily due to cash proceeds received from the \$9.5 million Series 2011 Tax Anticipation Notes, a reduction in net capital assets of \$1.5 million, and a slight decrease in long-term investments.

The decrease in noncurrent liabilities in 2012 (\$2.4 million) is primarily attributable to scheduled principal payments on the College's debt. On December 1, 2011, the College made \$2,260,000 in principal payments, including \$985,000 for fully calling the Series 1999 Bonds.

The increase in noncurrent liabilities (\$8.2 million) in 2011 is primarily attributable to an increase in debt payable due to the 2011 Tax Anticipation Notes (\$9.5 million), partially offset by scheduled principal payments on the College's Series 2008 and 2003 Tax Anticipation Notes, and its Series 1999 General Receipts Bond. The 2003 Tax Anticipation Notes were paid in full in November 2010. The College is in full compliance with all debt issuance provisions.

The College's net assets amounted to \$39.4 million, \$41.6 million, and \$39.1 million at June 30, 2012, 2011, and 2010, respectively. The \$2.3 million decrease in the College's net assets during 2012 was primarily attributable to the planned reduction in the General Fund during 2012.

### **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 2012, the College utilized \$0.6 million in state capital appropriations, \$6.5 million in internal funds including debt proceeds, and purchased \$7.1 million of capital assets.

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

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

During 2011, the College utilized \$1.1 million in state capital appropriations, \$0.8 million in internal funds, and purchased \$1.9 million of capital assets.

The College's long-term debt is comprised of Series 1999 General Receipts Bonds, Series 2008 Tax Anticipation Notes, and Series 2011 Tax Anticipation Notes.

In 2011, the College issued notes in the amount of \$9.5 million representing the par amount of the notes, at a fixed interest rate of 2.8 percent. The notes are dated June 29, 2011 and shall be payable as to principal and interest on December 1 in the years 2011-2021. The notes shall not be redeemable at the option of the College in whole or in part prior to stated maturity. The proceeds are to be used for technology, furniture, and equipment at The Holden University Center and other technology, furniture, equipment, and capital additions.

In 2009, the College issued notes in the amount of \$8.5 million, with fixed interest rates and a final maturity date in 2018. The proceeds of the notes were used to pay costs associated with the implementation of energy conservation measures that are intended to significantly reduce the College's energy consumption and the operating costs of its buildings. A portion of the proceeds of the notes was also used to pay costs associated with the acquisition of technology equipment and other capital improvements. During 2011, 2010, and 2009, the College paid \$1.6 million, \$1.5 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. On September 1, 2011, the board of trustees issued a resolution to redeem the outstanding General Receipts Bonds, Series 1999. The bonds were redeemed on December 1, 2011.

More detailed information about the College's capital assets and long-term debt is presented in Notes 4 and 5 of the financial statements.

### Statement of Cash Flows

#### Cash Flows for the Year Ended June 30

	2012	2011	2010
<b>Net Cash and Cash Equivalents (Used in) Provided by</b>			
Operating activities	\$ (51,187,775)	\$ (55,118,083)	\$ (44,402,657)
Noncapital financing activities	54,149,947	58,545,263	46,290,553
Capital and related financing activities	(10,427,283)	5,714,043	(4,650,193)
Investing activities	(4,435,942)	1,602,836	455,381
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(11,901,053)	10,744,059	(2,306,916)
<b>Cash and Cash Equivalents - Beginning of year</b>	13,877,351	3,133,292	5,440,208
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,976,298</u>	<u>\$ 13,877,351</u>	<u>\$ 3,133,292</u>

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

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

Major sources of cash in 2012 included student tuition and fees of \$9.9 million, \$8.3 million in 2011, and \$10.9 million in 2010; state appropriations of \$18.2 million in 2012, \$22.5 million in 2011, and \$23.2 million in 2010; local appropriations of \$18.7 million in 2012, \$14.8 million in 2011, and \$10.3 million in 2010; grants and contracts of \$1.3 million in 2012, \$1.1 million in 2011, and \$0.6 million in 2010; and auxiliary sales and services of \$4.1 million in 2012, \$4.3 million in 2011, and \$4.8 million in 2010.

The largest payments were for employee compensation and benefits totaling \$53.1 million in 2012, \$49.7 million in 2011, and \$48.7 million in 2010; suppliers of goods and services totaling \$13.8 million in 2012, \$16.0 million in 2011, and \$15.9 million in 2010; and purchases of capital assets totaling \$7.7 million in 2012, \$1.9 million in 2011, and \$2.8 million in 2010.

### **Factors Impacting Future Periods**

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

The College places significant reliance on state appropriations. State income and budget constraints may from time to time compel stabilization or reduction to levels of state assistance and support for higher education in general and the College in particular. In addition, the SSIS 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 shall issue such orders to prevent the 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 Lakeland Community College property tax. The College 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 1.7 mill levy replacement was approved by Lake County voters on November 2, 2010 and the 1.5 mill stated rate was renewed on November 8, 2011. This replacement of the 1.7 mill levy generated approximately \$4.0 million dollars in incremental funding for 2011, as compared to 2010, and has generated an incremental \$8.0 million dollars in 2012 compared to 2010.

Effective July 1, 2011, the College did not receive any federal or state support to offset the loss of federal fiscal stabilization funds (\$2.9 million annually); additionally, the State's FY 2012-FY 2013 operating budget significantly reduced or eliminated "guarantee" funding it previously received associated with State laws that deregulated electric and gas utilities, and the phase-out of business tangible personal property taxes (\$1.2 million annually). Furthermore, the State did not issue a capital bill for the FY 2011-FY 2012 biennium. Annualized, the College lost \$1.8 million of funding for capital improvements during FY 2011 and is not expecting any funding in FY 2012.

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

---

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

The 2013 adopted budget also reflects a significant reduction to collections in anticipation of devalued real estate property appraisals commencing with calendar 2013 tax receipts.

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

## Statement of Net Assets

	June 30	
	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 981,864	\$ 4,022,871
Short-term investments (Note 2)	4,923,498	2,247,360
Intergovernmental receivables	9,825,956	11,752,452
Loans and other receivables - Net (Note 3)	15,040,415	13,652,016
Inventories	859,393	919,592
Prepaid assets	<u>1,600,272</u>	<u>2,389,473</u>
Total current assets	33,231,398	34,983,764
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	994,434	9,854,480
Restricted Investments (Note 2)	2,848,817	-
Investments (Note 2)	4,998,591	5,994,475
Loans receivable - Net (Note 3)	21,408	21,565
Capital assets - Net (Note 4)	<u>37,744,229</u>	<u>34,051,670</u>
Total noncurrent assets	46,607,479	49,922,190
Total assets	<u><u>\$ 79,838,877</u></u>	<u><u>\$ 84,905,954</u></u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,976,993	\$ 3,747,727
Deferred revenue	19,813,868	19,556,359
Other liabilities	138,659	281,622
Debt payable (Note 5)	1,595,528	1,371,266
Compensated absences (Note 5)	<u>1,064,615</u>	<u>1,042,767</u>
Total current liabilities	25,589,663	25,999,741
Noncurrent liabilities (Note 5):		
Other liabilities	248,000	323,000
Debt payable	13,676,011	16,166,539
Compensated absences	636,663	476,596
Refundable federal student loans	<u>302,965</u>	<u>293,724</u>
Total noncurrent liabilities	14,863,639	17,259,859
Total liabilities	<u>40,453,302</u>	<u>43,259,600</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	23,146,431	26,003,090
Restricted for:		
Nonexpendable for endowment purposes	354,545	354,480
Expendable for instructional purposes	271,441	233,223
Unrestricted	<u>15,613,158</u>	<u>15,055,561</u>
Total net assets	39,385,575	41,646,354
Total liabilities and net assets	<u><u>\$ 79,838,877</u></u>	<u><u>\$ 84,905,954</u></u>

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

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

	Year Ended June 30	
	2012	2011
<b>Operating Revenue</b>		
Student tuition and fees - Net of \$13,943,471 and \$14,035,828 in Pell and scholarship allowances in 2012 and 2011, respectively	\$ 9,121,040	\$ 9,084,515
Federal grants and contracts	298,873	750,569
State grants and contracts	316,882	438,108
Private grants and contracts	262,855	68,242
Sales and services	805,554	499,541
Auxiliary enterprises - Net of \$2,373,741 and \$2,149,622 in Pell and scholarship allowances in 2012 and 2011, respectively	4,278,198	4,475,441
Other operating revenue	489,763	579,419
Total operating revenue	15,573,165	15,895,835
<b>Operating Expenses</b>		
Educational and general:		
Instruction and departmental research	28,787,466	27,957,443
Public service	2,441,090	2,376,017
Academic support	4,966,354	3,927,487
Student services	8,296,772	7,911,580
Institutional support	10,176,580	9,464,077
Operation and maintenance of facilities	6,960,707	6,676,422
Total educational and general	61,628,969	58,313,026
Auxiliary enterprises	6,258,796	6,141,333
Depreciation	3,396,916	3,313,814
Total operating expenses	71,284,681	67,768,173
<b>Operating Loss</b>	(55,711,516)	(51,872,338)
<b>Nonoperating Revenue (Expense)</b>		
State appropriations (Note 9)	18,206,337	19,590,464
Federal fiscal stabilization funds	-	2,914,848
Local appropriations (Note 10)	18,672,505	14,793,751
Pell grant revenue - Net of refunds	16,317,212	16,185,450
Unrestricted investment income - Net of investment expense	92,866	160,047
Restricted investment income - Net of investment expense	19,440	387
Interest on capital asset - Related debt	(517,023)	(366,658)
Net nonoperating revenue	52,791,337	53,278,289
<b>(Loss) Gain - Before other changes</b>	(2,920,179)	1,405,951
<b>Other Changes</b>		
Capital appropriations from the State of Ohio (Note 9)	633,900	1,114,629
Capital grants and gifts	25,500	14,500
Total other changes	659,400	1,129,129
<b>(Decrease) Increase in Net Assets</b>	(2,260,779)	2,535,080
<b>Net Assets - Beginning of year</b>	41,646,354	39,111,274
<b>Net Assets - End of year</b>	<b>\$ 39,385,575</b>	<b>\$ 41,646,354</b>

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

## Statement of Cash Flows

	Year Ended June 30	
	2012	2011
<b>Cash Flows from Operating Activities</b>		
Tuition and fees - Net	\$ 9,922,339	\$ 8,290,132
Grants and contracts	1,346,310	1,121,273
Payments to suppliers and utilities	(13,776,148)	(15,982,269)
Payments for compensation and benefits	(53,140,949)	(49,686,752)
Federal draw-downs	23,858,678	21,963,790
Federal draw-downs applied to tuition - Disbursed to students	(24,736,592)	(25,895,456)
Auxiliary sales and services	4,082,869	4,286,319
Other	1,255,718	784,880
Net cash used in operating activities	(51,187,775)	(55,118,083)
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	18,206,337	19,590,464
Federal fiscal stabilization funds	-	2,914,848
Local appropriations	18,672,505	14,793,751
Federal Pell - Net of refunds	17,271,105	21,246,200
Net cash provided by noncapital financing activities	54,149,947	58,545,263
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital appropriations	63,718	38,218
Proceeds from issuance of debt	-	9,500,000
Purchases of capital assets	(7,723,780)	(1,884,215)
Principal paid on capital debt and leases - Net	(2,266,266)	(1,552,842)
Interest paid on capital debt and leases	(500,955)	(349,118)
Bond issue costs	-	(38,000)
Net cash (used in) provided by capital and related financing activities	(10,427,283)	5,714,043
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	13,125,000	10,455,000
Purchase of investments	(17,674,157)	(9,042,580)
Interest on investments	113,215	190,416
Net cash (used in) provided by investing activities	(4,435,942)	1,602,836
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(11,901,053)	10,744,059
<b>Cash and Cash Equivalents - Beginning of year</b>	13,877,351	3,133,292
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,976,298</u>	<u>\$ 13,877,351</u>
<b>Classification of Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 981,864	\$ 4,022,871
Restricted cash and cash equivalents	994,434	9,854,480
Total cash and cash equivalents	<u>\$ 1,976,298</u>	<u>\$ 13,877,351</u>

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

## Statement of Cash Flows (Continued)

	Year Ended June 30	
	2012	2011
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities:</b>		
Operating loss	\$ (55,711,516)	\$ (51,872,338)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	3,396,916	3,313,814
Decrease (increase) in assets:		
Accounts receivable	678,620	(1,969,888)
Inventories	60,199	225,552
Other assets	1,639,969	(1,646,362)
(Decrease) increase in liabilities:		
Accounts payable and accrued liabilities	(1,120,970)	112,297
Deferred revenue	(322,149)	(3,324,711)
Deposits held for others	9,241	4,410
Compensated absences	181,915	39,143
Net cash used in operating activities	<u>\$ (51,187,775)</u>	<u>\$ (55,118,083)</u>

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

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

		June 30	
		2012	2011
<b>Assets</b>			
Cash and cash equivalents	\$	372,840	\$ 202,891
Cash held for others		11,204	16,051
Investments (Note 2)		2,920,758	2,900,864
Receivables		531,430	366,730
Other assets		13,837	12,858
Total assets	<b>\$</b>	<b>3,850,069</b>	<b>\$ 3,499,394</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts payable	\$	34,364	\$ 50,476
Due to custodial funds		11,204	16,051
Total liabilities		45,568	66,527
<b>Net Assets</b>			
Unrestricted		(22,647)	108,911
Temporarily restricted		1,856,065	1,640,322
Permanently restricted		1,971,083	1,683,634
Total net assets		3,804,501	3,432,867
Total liabilities and net assets	<b>\$</b>	<b>3,850,069</b>	<b>\$ 3,499,394</b>

### Statement of Activities

		Year Ended June 30	
		2012	2011
<b>Support and Revenue</b>			
Contributions and grants	\$	1,211,419	\$ 964,958
Investment income - Net		7,752	402,596
Total support and revenue		1,219,171	1,367,554
<b>Program and Support Services</b>			
Program services:			
Scholarships		344,650	394,134
Educational and related programs		237,383	300,647
Support services - Administration		265,504	247,481
Total program and support expenses		847,537	942,262
<b>Increase in Net Assets</b>		371,634	425,292
<b>Net Assets - Beginning of year</b>		3,432,867	3,007,575
<b>Net Assets - End of year</b>	<b>\$</b>	<b>3,804,501</b>	<b>\$ 3,432,867</b>

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

---

## Notes to Financial Statements June 30, 2012 and 2011

### Note 1 - 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 College reports as a business-type activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The accompanying financial statements have been prepared in accordance with criteria established by the 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. The Foundation is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under the GASB. No modifications have been made to the Foundation's financial information included in the College's financial report to account for these differences. 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 accounting principles generally accepted in the United States of America (GAAP) as prescribed by the GASB.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

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

**FASB Pronouncements** - Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the FASB conflicts with the GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

**Measurement Focus and Financial Statement Presentation** - Operating revenue 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 revenue and expenses not meeting this definition, including state and local appropriations, are reported as nonoperating revenue 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" revenue and expenses.

**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, 2012, restricted cash and cash equivalents of \$994,434 consist of the unspent proceeds from the Tax Anticipation Notes, Series 2011 (\$639,889) issued on June 29, 2011 and for endowment purposes (\$354,545). As of June 30, 2011, restricted cash consists of \$354,480 for endowment purposes, and \$9,500,000 from unspent proceeds from the Tax Anticipation Notes, Series 2011.

**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.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

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

**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

**Deferred Revenue** - Deferred revenue includes 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. Deferred revenue also includes amounts billed to students for the fall semester of fiscal year 2013 that have not yet been earned.

**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*.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

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

**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. Invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Unrestricted net assets are not subject to externally-imposed constraints and may be designated for specific purposes by action of the board of trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties.

**Revenue Recognition** - State appropriations are recognized when received or made available. Restricted funds are recognized as revenue only to the extent expended. Gifts and interest on student loans are recognized when received. The College's policy for defining operating activities as reported on the statement of revenue, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the College's expenses are from exchange transactions.

**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. Revenue received under grants and contracts is subject to the examination and retroactive adjustments by the awarding agency.

**Pell Grant Reimbursements** - Pell grant reimbursements are classified as nonoperating revenue due to their nonexchange nature. The amounts recorded as Pell revenue for 2012 and 2011 are \$16,317,212 and \$16,185,450, respectively.

**Intergovernmental Receivables and Revenue** - Local government revenue is 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.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

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

**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 notes. Actual results could differ from the estimates.

**Reclassification** - Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

**Upcoming Accounting Standards** - The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCAs)*, in November 2010. This statement addresses financial reporting related to service concession arrangements, which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA committee on accounting procedure.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued in June 2011. This statement introduced and defined those elements as a consumption of net assets by the College that is applicable to a future reporting period, and an acquisition of net assets by the College that is applicable to a future reporting period, respectively. The standard also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The requirements of GASB Statements No. 60, No. 62, and No. 63 are effective for financial statements for periods beginning after December 15, 2011.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

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

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement No. 14 and Statement No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The requirements of Statement No. 61 are effective for financial statements for periods beginning after June 15, 2012.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012 (or June 30, 2014).

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The College is currently evaluating the impact this standard will have on the financial statements when adopted. The total pension liability will be computed on a different basis than the current actuarial accrued liability and the method of allocating this liability to each participating employer has not yet been determined, so the precise impact is not known. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

College management has not yet determined the impact that implementation of these GASB statements will have on the College's financial statements.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

### 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, 2012 and 2011, the carrying amount of the College's cash balance was \$82,080 and \$128,357, respectively. The bank balance at June 30, 2012 and 2011 totaled \$1,089,065 and \$1,805,353, respectively. The difference represents outstanding checks payable, deposits in transit, and normal reconciling items.

A total of \$250,000 of the bank balance was covered by the federal depository insurance for the years ended June 30, 2012 and 2011. The remainder was specifically secured by 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's 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, 2012 and 2011

### 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, 2012 and 2011 is made up of 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 2012 or 2011. 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.

**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 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.

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

## Notes to Financial Statements June 30, 2012 and 2011

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

Securities purchased for the College are held in a safekeeping account established by the College (PNC), 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) nonbook 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 2012 or 2011.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The College's investment policy places no limitation on the amount that may be invested in a single issuer. At June 30, 2012 and 2011, the College did not have more than 5 percent of its fixed-income investments in any single issuer or any that were not issued by the U.S. government.

At June 30, 2012 and 2011, the College's investment portfolio and credit ratings consisted of the following:

2012	Fair Market Value	Less Than One Year	1-4 Years	NRSRO Rating
State Treasurer Asset Reserve Fund (STAR Ohio)	\$ 406,218	\$ 406,218	\$ -	AAA
Money market	4,418,897	3,424,463	994,434	AAA
U.S. government agency	9,922,089	2,074,681	7,847,408	AAA
Total investments	<u>\$ 14,747,204</u>	<u>\$ 5,905,362</u>	<u>\$ 8,841,842</u>	
2011	Fair Market Value	Less Than One Year	1-2 Years	NRSRO Rating
State Treasurer Asset Reserve Fund (STAR Ohio)	\$ 1,411,883	\$ 1,411,883	\$ -	AAA
Money market	12,465,468	2,610,988	9,854,480	AAA
U.S. government agency	8,241,835	2,247,360	5,994,475	AAA
Total investments	<u>\$ 22,119,186</u>	<u>\$ 6,270,231</u>	<u>\$ 15,848,955</u>	

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

---

## Notes to Financial Statements June 30, 2012 and 2011

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

FASB accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. In accordance with the standard, fair value is defined as the price the Foundation would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

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

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

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

The following tables set forth by level within the fair value hierarchy the Foundation's investments that were accounted for at fair value on a recurring basis as of June 30, 2012 and 2011. All investments were Level 1 inputs, as defined above, for the years ended June 30, 2012 and 2011.

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

## Notes to Financial Statements June 30, 2012 and 2011

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

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Corporate bonds	\$ -	\$ -	\$ 101,655	\$ 103,551
Municipal bonds	802,189	803,691	646,018	650,141
Fixed-income mutual funds	565,282	545,121	453,170	436,814
Equities	241,758	216,263	-	-
Equity mutual funds	836,271	732,271	1,036,570	856,593
International mutual funds	195,017	173,074	395,300	331,021
Other investment assets	178,582	156,272	218,862	183,851
Money market/Cash reserves	101,659	101,659	49,289	49,289
Total	<u>\$ 2,920,758</u>	<u>\$ 2,728,351</u>	<u>\$ 2,900,864</u>	<u>\$ 2,611,260</u>

### 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 \$3,092,495 and \$2,656,665 at June 30, 2012 and 2011, respectively. The increase is primarily attributable to the planned growth in the uncollectible accounts provision attributable to (a) usage of the College's tuition payment plan, as well as (b) the College's accounting change in only writing off receivables when informed by the Attorney General's collection division. This account is reviewed and reestablished at each year end. The following schedule is an analysis of loans and other receivable balances as of June 30, 2012 and 2011:

	2012		2011	
	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	9,433	-	21,057	1,417
Employee computer financing	37,398	19,908	44,013	18,648
Student accounts	14,549,300	-	13,182,300	-
Auxiliary receivables	197,286	-	335,096	-
Interest receivable	14,221	-	16,967	-
Sales and service receivables	232,777	-	52,583	-
Total	<u>\$ 15,040,415</u>	<u>\$ 21,408</u>	<u>\$ 13,652,016</u>	<u>\$ 21,565</u>

The increase in loans and other receivables is primarily attributable to (a) increased student receivables resulting from increased tuition rates, and summer financial aid deferred to FY 2013, and (b) the College's accounting change in only writing off receivables when informed by the Attorney General's collection division (vs. what was previously an annual write-off).

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

## Notes to Financial Statements June 30, 2012 and 2011

### Note 3 - Loans and Other Receivables (Continued)

Federal Direct Loans Program loans processed for students by the College during the year ended June 30, 2012 totaled \$23,711,053. The College is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loans Program and, accordingly, these loans are not included in the College's financial statements.

### Note 4 - Capital Assets

Capital asset activity for the years ended June 30, 2012 and 2011 was as follows:

	July 1, 2011 Balance	Additions	Retirements and Transfers	June 30, 2012 Balance
Nondepreciable assets:				
Land	\$ 723,289	\$ -	\$ -	\$ 723,289
Construction in progress	1,389,233	548,484	(1,421,777)	515,940
Depreciable assets:				
Land improvements	3,631,704	388,626	-	4,020,330
Infrastructure	6,152,109	48,500	-	6,200,609
Buildings and improvements	69,605,385	1,453,949	-	71,059,334
Equipment and vehicles	6,838,374	5,806,500	(29,100)	12,615,774
Software and library books	9,422,535	278,317	-	9,700,852
Total capital assets	97,762,629	8,524,376	(1,450,877)	104,836,128
Less accumulated depreciation:				
Land improvements	2,473,890	136,357	-	2,610,247
Infrastructure	2,591,027	262,285	-	2,853,312
Buildings and improvements	44,848,519	2,077,968	-	46,926,487
Equipment and vehicles	5,138,437	682,872	(29,100)	5,792,209
Software and library books	8,659,086	250,558	-	8,909,644
Total accumulated depreciation	63,710,959	3,410,040	(29,100)	67,091,899
Capital assets - Net	\$ 34,051,670	\$ 5,114,336	\$ (1,421,777)	\$ 37,744,229

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

## Notes to Financial Statements June 30, 2012 and 2011

### Note 4 - Capital Assets (Continued)

	July 1, 2010 Balance	Additions	Retirements and Transfers	June 30, 2011 Balance
Nondepreciable assets:				
Land	\$ 723,289	\$ -	\$ -	\$ 723,289
Construction in progress	422,386	1,217,485	(250,638)	1,389,233
Depreciable assets:				
Land improvements	3,400,906	230,798	-	3,631,704
Infrastructure	5,915,048	237,061	-	6,152,109
Buildings and improvements	69,561,234	44,151	-	69,605,385
Equipment and vehicles	6,637,976	213,298	(12,900)	6,838,374
Software and library books	9,265,444	163,296	(6,205)	9,422,535
Total capital assets	95,926,283	2,106,089	(269,743)	97,762,629
Less accumulated depreciation:				
Land improvements	2,363,313	110,577	-	2,473,890
Infrastructure	2,419,885	171,142	-	2,591,027
Buildings and improvements	42,761,040	2,087,479	-	44,848,519
Equipment and vehicles	4,609,112	541,651	(12,326)	5,138,437
Software and library books	8,256,121	402,965	-	8,659,086
Total accumulated depreciation	60,409,471	3,313,814	(12,326)	63,710,959
Capital assets - Net	\$ 35,516,812	\$ (1,207,725)	\$ (257,417)	\$ 34,051,670

### Note 5 - Noncurrent Liabilities

Noncurrent liability activity for the years ended June 30, 2012 and 2011 was as follows:

	June 30, 2011			June 30, 2012	
2012	Balance	Additions	Reductions	Balance	Current Portion
Long-term debt and lease obligations:					
Tax Anticipation Note, Series 2011	\$ 9,500,000	\$ -	\$ 500,000	\$ 9,000,000	\$ 790,000
Tax Anticipation Note, Series 2008	7,025,000	-	775,000	6,250,000	800,000
Premium on Tax Anticipation Note	27,805	-	6,266	21,539	5,528
General Receipts Bonds, Series 1999	985,000	-	985,000	-	-
Total	17,537,805	-	2,266,266	15,271,539	1,595,528
Other noncurrent obligations:					
Reserve for compensated absences	1,519,363	181,915	-	1,701,278	1,064,615
Reserve for federal student loans	293,724	9,241	-	302,965	-
Other liabilities	323,000	-	75,000	248,000	-
Total noncurrent liabilities	\$ 19,673,892	\$ 191,156	\$ 2,341,266	\$ 17,523,782	\$ 2,660,143

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

## Notes to Financial Statements June 30, 2012 and 2011

### Note 5 - Noncurrent Liabilities (Continued)

2011	June 30, 2010			June 30, 2011	
	Balance	Additions	Reductions	Balance	Current Portion
Long-term debt and lease obligations:					
Tax Anticipation Note, Series 2011	\$ -	\$ 9,500,000	\$ -	\$ 9,500,000	\$ 500,000
Tax Anticipation Note, Series 2008	7,775,000	-	750,000	7,025,000	775,000
Premium on Tax Anticipation Note	34,774	-	6,969	27,805	6,266
Tax Anticipation Note, Series 2003	710,000	-	710,000	-	-
Unamortized Debt Cost	873	-	873	-	-
General Receipts Bonds, Series 1999	1,070,000	-	85,000	985,000	90,000
Total	9,590,647	9,500,000	1,552,842	17,537,805	1,371,266
Other noncurrent obligations:					
Reserve for compensated absences	1,480,220	39,143	-	1,519,363	1,042,767
Reserve for federal student loans	289,314	4,410	-	293,724	-
Other liabilities	323,000	-	-	323,000	-
Total noncurrent liabilities	\$ 11,683,181	\$ 9,543,553	\$ 1,552,842	\$ 19,673,892	\$ 2,414,033

**Tax Anticipation Notes Series 2011, Series 2008, General Receipts Bonds, Series 1999** - The Tax Anticipation Notes Series 2011 is one of an authorized issue of Notes of the College in the aggregate principal amount of \$9,500,000 (the "Notes"). The Notes are issued for the purpose of providing funds for the acquisition of sites, the erection, furnishing, and equipment of buildings, the acquisition, construction, or improvement of any property which the board of trustees of the community college district is authorized to acquire, construct, or improve, and which has an estimated life of usefulness of five years or more as certified by the fiscal office, and the payment of operating costs of the College, and issued in anticipation of the collection of a fraction of the proceeds to be received from the collection of a 1.7 mill ad valorem property tax in excess of the 10-mill limitation (the "Tax Levy") for that purpose approved by the electors of the College at an election held on November 3, 1970 and replaced by a vote of the electors on November 2, 2010.

The Series 2011 Note is payable as to both principal and interest from the proceeds of the Tax Levy, and is issued under authority of and pursuant to the laws of the State of Ohio, particularly Sections 3354.12 and 133.24 of the Revised Code, the requisite majority vote of the electors of the College cast at an election held on November 2, 2010 upon the question of the Tax Levy, and a resolution adopted by the board of trustees of the College on June 2, 2011 and a Certificate of Award dated June 13, 2011 (collectively, the "Note Legislation").

The Notes are not subject to optional redemption prior to stated maturity. The Notes are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 of the years and in the respective principal amount.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

### Note 5 - Noncurrent Liabilities (Continued)

Effective July 10, 2008, the College issued Tax Anticipation Notes (Series 2008 Notes) in anticipation of the proceeds of a 1.7 mill ad valorem property tax approved by the electors of the College at an election held on November 3, 1970. The notes are in the amount of \$8,500,000, with fixed interest rates and a maturity date of 2018. The proceeds of the notes are being used to pay costs associated with the implementation of energy conservation measures that are intended to significantly reduce the College's energy consumption and operating costs of its buildings. A portion of the proceeds of the notes is also being used to pay costs associated with the acquisition of technology equipment and other capital improvements.

The Series 2008 Notes are issued pursuant to authorized legislation and the Ohio Revised Code, adopted by the board of trustees of the College on June 5, 2008. The notes are being issued in anticipation of the collection of a fraction of the proceeds from the tax levy, commencing with distributions from the College in calendar year 2008 and ending with collection year 2018. Under law authorizing this financing, notes may be issued from time to time during the life of the tax levy. The amount of principal payments may not in aggregate exceed 75 percent of the total anticipated proceeds of the levy to be collected during the particular calendar year.

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 Series 2011 Notes, Series 2008 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 2011 Notes are subject to mandatory redemption, with a fixed interest rate of 2.80 percent. The final maturity of the Series 2011 Notes is December 1, 2021. The Series 2008 Notes are subject to mandatory redemption, with stated interest rates ranging from 3.375 percent to 3.75 percent (an effective rate of 3.375 percent at June 30, 2011). The final maturity of the Series 2008 Notes is December 1, 2018. The Series 1999 Bonds are subject to mandatory or optional redemption, with stated interest rates ranging from 4.65 percent to 5.12 percent (an effective rate of 4.65 percent at June 30, 2011). The final maturity of the Series 1999 Bonds is December 1, 2019. On December 1, 2011, the College made \$2,260,000 in principal payments, including \$985,000 for fully calling the Series 1999 Bonds.

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

## Notes to Financial Statements June 30, 2012 and 2011

### Note 5 - Noncurrent Liabilities (Continued)

The Series 2011 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 1.7 mill property tax levy approved by the Lake County, Ohio electors at the November 3, 1970 election and replaced by a vote of the electors at the November 2, 2010 election.

The Series 2008 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 1.7 mill property tax levy approved by the Lake County, Ohio electors at the November 3, 1970 election.

The Series 1999 Bonds were 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.

Scheduled principal maturities and total debt service on the Series 2011 Notes and Series 2008 Notes, for fiscal years subsequent to June 30, 2012, are as follows:

	Total Bonds and Notes Payable		
	Principal	Interest	Total
2013	\$ 1,590,000	\$ 450,565	\$ 2,040,565
2014	1,645,000	399,570	2,044,570
2015	1,695,000	346,895	2,041,895
2016	1,750,000	292,540	2,042,540
2017	1,805,000	236,435	2,041,435
2018-2021	6,765,000	418,625	7,183,625
Total	<u>\$ 15,250,000</u>	<u>\$ 2,144,630</u>	<u>\$ 17,394,630</u>

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

## Notes to Financial Statements June 30, 2012 and 2011

### 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, 2012 and 2011 amounted to \$801,316 and \$222,920, respectively. On January 27, 2010, the Lakeland board of trustees approved a formal agreement with PF Kirtland, LLC for leasing a facility located on Kirtland Road and the necessary "build out" for use as an educational facility. The lease is consistent with the plans, specifications, and costs submitted to and reviewed by the board. The lease will be for an initial period of 15 years with three five-year options, together with the option to purchase the facility. Rents payable under the lease shall be limited to available receipts of the College as permitted under Ohio Revised Code Section 3345.12(4). Other operating leases were for real estate property rentals for Lakeland's campus in Madison and Willowick. Effective July 1, 2012, the College terminated its lease for the Willowick location.

Future minimum lease payments as of June 30, 2012 under operating leases in Kirtland and Madison are as follows:

2013	\$ 1,070,715
2014	935,034
2015	914,759
2016	914,759
2017	914,759
2018-2022	5,025,812
2023-2027	<u>4,664,707</u>
Total	<u>\$ 14,440,545</u>

### Note 7 - Classification of Temporarily Restricted Net Assets

The Foundation has funds which have been designated as temporarily restricted. These funds include private and corporate contributions which have been temporarily restricted for specific purposes. Earnings on investments of these funds are included in the unrestricted fund unless such earnings have been stipulated as temporarily restricted by donors.

Temporarily restricted net assets are available for the following purposes as of June 30, 2012 and 2011.

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

**Notes to Financial Statements  
June 30, 2012 and 2011**

**Note 7 - Classification of Temporarily Restricted Net Assets (Continued)**

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 851,260	\$ 732,632
Loans	19,542	24,969
Educational and related programs	595,872	370,644
Accumulated earnings on endowment funds	<u>389,391</u>	<u>512,077</u>
Total temporarily restricted net assets	<u>\$ 1,856,065</u>	<u>\$ 1,640,322</u>

Permanently restricted net assets include contributions restricted in perpetuity designated by the donor. Earnings on investments of the endowment fund are classified as temporarily restricted net assets. However, the earnings may be used for current purposes of the Foundation. All endowment activity is restricted for the use of scholarships as of June 30, 2012 and 2011.

**Note 8 - Endowment Funds**

The Foundation's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

## Notes to Financial Statements June 30, 2012 and 2011

### Note 8 - Endowment Funds (Continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2011	\$ -	\$ 512,077	\$ 1,683,634	\$ 2,195,711
Investment return:				
Investment income	-	45,958	-	45,958
Net (depreciation) appreciation (realized and unrealized)	<u>(48,920)</u>	<u>1,601</u>	<u>-</u>	<u>(47,319)</u>
Total investment return	(48,920)	47,559	-	(1,361)
Contributions	-	-	154,945	154,945
Appropriations for expenditures	-	(70,470)	-	(70,470)
Management fee	-	(23,375)	-	(23,375)
Transfers	<u>-</u>	<u>(76,400)</u>	<u>132,504</u>	<u>56,104</u>
Endowment net assets as of June 30, 2012	<u>\$ (48,920)</u>	<u>\$ 389,391</u>	<u>\$ 1,971,083</u>	<u>\$ 2,311,554</u>

The temporarily restricted endowment includes an endowment that by the donor's restrictions is temporarily restricted. The board of directors has determined that the donation will be maintained similar to a permanent endowment.

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

## Notes to Financial Statements June 30, 2012 and 2011

### Note 8 - Endowment Funds (Continued)

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2010	\$ -	\$ 137,595	\$ 1,586,142	\$ 1,723,737
Investment return:				
Investment income	-	20,440	-	20,440
Net appreciation (realized and unrealized)	-	374,554	-	374,554
Total investment return	-	394,994	-	394,994
Contributions	-	57,962	83,235	141,197
Appropriations for expenditures	-	(57,244)		(57,244)
Management fee	-	(21,230)		(21,230)
Transfers in	-	-	14,257	14,257
Endowment net assets as of June 30, 2011	<u>\$ -</u>	<u>\$ 512,077</u>	<u>\$ 1,683,634</u>	<u>\$ 2,195,711</u>

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The deficiencies of this nature that are included in temporarily restricted net assets attributed to the donor-restricted portion of the market value loss are \$48,920 and \$0 as of June 30, 2012 and 2011, respectively. These deficiencies result from unfavorable market fluctuations that occurred during the economic downturn that was experienced in the United States and worldwide.

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

## Notes to Financial Statements June 30, 2012 and 2011

### Note 8 - Endowment Funds (Continued)

#### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for the endowment fund. This policy goal for the Foundation's endowment investment portfolio is to provide a real total return that preserves the purchasing power of the endowment assets, while providing an income stream to support the Foundation's activities in support of Lakeland Community College. Assets for the investment pool include those assets of donor-restricted funds that the Foundation must hold in perpetuity, as well as board-designated funds. The Foundation engages an investment manager whose performance is measured against respective benchmarks. The endowment's real total return is sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility. The Foundation recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential loss in purchasing power due to inflation are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the investment portfolio the opportunity to achieve satisfactory results consistent with the objectives and character of the portfolio.

#### Strategies Employed for Achieving Objectives

For the long term (defined as a rolling five-year period), the primary investment objective for the endowment portfolio is to earn a total return (net of portfolio management and custody fees) within prudent levels of risk, which is sufficient to maintain, in real terms, the purchasing power of the endowment's assets and support a desired annual spending policy of up to 4.5 percent of the five-year average of the market value of the endowment portfolio.

The Foundation's asset allocation guidelines are reviewed periodically by the Foundation Investment Committee with changes approved by the board of directors. The portfolio's major allocation guidelines allow an allocation of the portfolio to be invested in equity securities. Remaining portfolio funds may be invested in either fixed-income, alternatives, or cash equivalent securities.

#### Portfolio Allocation - Strategic Target and Tactical Range

	<u>Low</u>	<u>Target</u>	<u>High</u>
Equities	60%	67%	80%
Fixed-income	20%	26%	40%
Alternatives	0%	5%	10%
Cash equivalents	0%	2%	10%
Total		<u>100%</u>	

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

---

## Notes to Financial Statements June 30, 2012 and 2011

### Note 8 - Endowment Funds (Continued)

#### Spending Policy

The Lakeland Foundation's spending policy is based on a total return approach in order to maintain stable cash flows over an extended period of time, to protect endowment funds against inflation, and to preserve the purchasing power of endowment funding by improving investment growth and management. The spending policy allows up to a maximum of 4.5 percent of the five-year average market value of a designated endowment fund. Spending may include net realized gains earnings over that five-year period, and is offset by any previously designated spending amounts. All returns (gains, losses, and income - net of external and internal fees and previously designated spending amount) above 4.5 percent will be reinvested in the endowment funds portfolio. The spending policy is closely monitored by the Investment Committee and recommendations for any changes are forwarded to the Executive Committee and full board for review and approval.

### Note 9 - 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's 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 the 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.

As part of legislation that deregulated the electric and natural gas utilities (SB3 and SB287), commencing with calendar year 2002, the College was to receive \$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).

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

---

## Notes to Financial Statements June 30, 2012 and 2011

### Note 9 - State Appropriations (Continued)

The guarantee was to be reduced to an 80 percent level for years 6 through 10, and then proportionally reduced to zero in years 11 through 15. The amount was eliminated in 2012 as compared to \$1,030,736 in 2011.

For a number of years, the College received guarantees on previously lost personal property taxes. Those guarantees were expected to be continued and phased out over the next five years. In the State FY 2012-FY 2013 Operating Biennium Budget, the guarantees mentioned above will be essentially eliminated: guarantees were reduced from \$2.5 million in FY 2011, to \$0.6 million in FY 2012, to \$0.1 million in FY 2013, and then \$0.

### Note 10 - 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.

The electors within the County must approve any Lake County Community College District d/b/a Lakeland Community College property tax. Lake County Community College District d/b/a Lakeland Community College 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. On November 2, 2010, Lake County voters approved a "replacement" of the 1.7 mills continuing levy. With this replacement levy approved, the incremental revenue was \$8.0 million for 2012 after generating incremental revenue in 2011 of \$4.0 million for half-year assessments. On November 8, 2011, the 1.5 mill levy was renewed by the Lake County voters.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

### Note 10 - Local Appropriations (Continued)

Revenue authorization is recognized based on the taxing authority's amounts to be distributed to the tax district and its certification of the College's annual budget. The taxing authority does not authorize the distribution of the tax assessment for the calendar year 2012 until October 2012, 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, 2012. 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 2012 operations, the receivable amount is recorded as deferred revenue.

### Note 11 - 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.

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.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

### Note 11 - Retirement Plans (Continued)

The College's contributions to STRS for the years ended June 30, 2012, 2011, and 2010 were \$3,095,012, \$3,004,055, and \$2,923,450, respectively, equal to the required contributions for each year. The College's contribution to SERS for the years ended June 30, 2012, 2011, and 2010 were \$2,272,756, \$2,126,396, and \$2,044,329, 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 12 - Postemployment Benefits

**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.

The retirement board allocated employer contributions to the Health Care Stabilization Fund (the "Fund") from which healthcare benefits are paid. For the fiscal years ended June 30, 2011, 2010, and 2009, the board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Stabilization Fund. The balance in the Health Care Reserve Stabilization Fund was approximately \$3.2 billion on June 30, 2011.

For the year ended June 30, 2011, the net healthcare costs paid by STRS Ohio were approximately \$604 million. There were 138,088 eligible benefit recipients.

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

---

## Notes to Financial Statements June 30, 2012 and 2011

### Note 12 - Postemployment Benefits (Continued)

**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 2012 and 2011, 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, 2011, the net healthcare costs paid by SERS were approximately \$221.2 million. At June 30, 2011, the SERS' net assets available for payment of healthcare benefits were approximately \$355.7 million. The number of retirees and covered dependents currently receiving benefits was 67,221.

### Note 13 - 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 purpose of the LCSC is 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").

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.

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

---

## **Notes to Financial Statements June 30, 2012 and 2011**

### **Note 13 - Lake County Schools' Health Care Consortium (Continued)**

Since its inception, LCSC has built up its net assets and 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. The LCSC has purchased a stop-loss insurance policy with a maximum loss of \$500,000 per claimant.

LCSC net assets at July 1, 2011 amounted to \$6.5 million. LCSC member contributions and other income for the year ended June 30, 2012 amounted to \$29.1 million and healthcare program and related costs amounted to \$27.1 million, leaving \$7.5 million as net assets at June 30, 2012.

### **Note 14 - Risk Management**

On November 1, 2011, the College joined with seven other State-assisted community colleges in Ohio to form an insurance-purchasing pool for the acquisition of commercial property and casualty insurance. The College pays annual premiums to the pool for its property and casualty insurance coverage based on its percentage of the total insurable value to the pool.

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.

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

---

## **Notes to Financial Statements June 30, 2012 and 2011**

### **Note 15 - 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 specific academic abilities. The Foundation also provides support to specific educational departments and programs of the College. The accounting records for the Foundation are maintained at the College in Kirtland, Ohio. Certain administrative expenses of the Foundation are borne directly by the College. The College made distributions to the Foundation of \$138,973 and \$137,402 for the years ended June 30, 2012 and 2011, respectively. The Foundation distributed \$728,237 and \$793,795 for the years ended June 30, 2012 and 2011, respectively. The Foundation also distributed to the College \$40,529 and \$36,299 in gifts in-kind for the years ended 2012 and 2011, respectively. The Foundation had receivables from the College of \$471 and \$30,426 as of June 30, 2012 and 2011, respectively. The Foundation had payables to the College of \$9,044 and \$17,755 as of June 30, 2012 and 2011, respectively.

# **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*

Independent Auditor's Report

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

We have audited the financial statements of the of Lake County Community College District d/b/a Lakeland Community College (the "College") as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 25, 2012. Our report was modified to include reference to other auditors. We have 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. Other auditors audited the financial statements of The Lakeland Foundation, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

Management of Lake County Community College District d/b/a Lakeland Community College is responsible for establishing and maintaining an effective internal control over financial reporting. In planning and performing our audit, we considered Lake County Community College District d/b/a Lakeland Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented or detected and corrected on a timely basis.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lake County Community College District d/b/a 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 management, the board of trustees, others within the entity, 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*

October 25, 2012

Report on Compliance with Requirements That Could Have a  
Direct and Material Effect on Each Major Program and on  
Internal Control over Compliance in Accordance with OMB Circular A-133

Independent Auditor's Report

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 (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The major federal programs of Lake County Community College District d/b/a 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 Lake County Community College District d/b/a Lakeland Community College's management. Our responsibility is to express an opinion on Lake County Community College District d/b/a 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 Lake County Community College District d/b/a 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 Lake County Community College District d/b/a Lakeland Community College's compliance with those requirements.

In our opinion, Lake County Community College District d/b/a Lakeland Community College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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

### **Internal Control Over Compliance**

The management of Lake County Community College District d/b/a 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 Lake County Community College District d/b/a 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of management, the board of trustees, others within the entity, 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*

October 25, 2012

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

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Clusters:			
Student Financial Aid Cluster			
U.S. Department of Education - Direct program:			
Federal Pell Grant Program	84.063	P063PI02857	\$ 16,334,954
Federal Work Study Program	84.033	P0033A106053	214,274
Federal Supplemental Educational Opportunity Grant Program	84.007	P007A106053	183,856
Federal Perkins Loan Program	84.038	N/A	103,722
Federal Direct Student Loans Program	84.268	N/A	23,711,053
Academic Competitiveness Grant	84.375	P375A102857	307
Subtotal U. S. Department of Education			40,548,166
U.S. Department of Health and Human Services - Direct program -			
Nursing Student Loan Program	93.364	N/A	35,641
Subtotal Student Financial Aid Cluster			40,583,807
WIA Cluster - U.S. Department of Labor:			
Passed through the Ohio Department of Job and Family Services - Job Training Partnership Act:			
Geauga One Stop	17.258-17.259	G-1011-15-0261	4,854
Cuyahoga County	17.258-17.259	N/A	12,370
Lake County	17.258-17.259	G-1011-15-0262	56,148
Geauga, Ashtabula & Portage Partnership	17.258-17.259	G-1011-15-0261	5,404
Subtotal WIA Cluster			78,776
Vocational Rehabilitation Cluster			
U.S. Department of Education - Passed through the Ohio Department of Education - Ohio Rehabilitation Service Center -			
Vocational Rehabilitation	84.126A		10,000
Other federal programs:			
ARRA - U.S. Department of Labor - Passed through the Edison Biotechnology Center d/b/a BioOhio - Bioscience Industry Workforce Preparedness Project			
	17.275	GJ-20076-10-60-A-39	200,033
U.S. Department of Health and Human Services - Direct Program - Health Resources and Services Administration - Health Outreach Special Initiative			
	93.888	I DIARH20106-01-00	100,521
U.S. Department of Education - College Access Challenge Grant (CACG) - Lake/Geauga Educational Assistance Foundation (LEAF)			
	84.378A	N/A	5,202
U.S. Department of Education - Passed through the Ohio Department of Education:			
Two-year College Perkins	84.048	063347-20C3-2009	156,026
Perkins Non-Traditional We Are IT	84.048	063347-VENT-09-LCC	5,613
Subtotal Department of Education			166,841
U.S. Department of Defense - Passed through Defense Logistics Agency (DLA) Procurement Technical Assistance for Business Firms (PTAC)			
	12.002		66,598
Total federal awards			\$ 41,206,576

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

---

## **Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2012**

### **Note 1 - Basis of Presentation and Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Lake County Community College District d/b/a Lakeland Community College (the "College") under programs of the federal government for the year ended June 30, 2012. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets, or cash flows, if applicable, of the College. Pass-through entity identifying numbers are presented where available.

### **Note 2 - Adjustments and Transfers**

During the year ended June 30, 2012, the College transferred \$22,283 of the 2011-2012 Supplemental Educational Opportunity Grant (SEOG) Program (84.007) award to Federal Work Study (FWS) Program (84.033).

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

## Schedule of Findings and Questioned Costs Year Ended June 30, 2012

### 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  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.375, 84.033, 84.038, 84.063, 84.268, and 93.364	Student Financial Aid Cluster

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

Auditee qualified as low-risk auditee?  Yes  No

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

---

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2012**

**Section II - Financial Statement Audit Findings**

None

**Section III - Federal Program Audit Findings**

None

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

**Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2012**

<u>Prior Year Finding Number</u>	<u>Federal Program</u>	<u>Original Finding Description</u>	<u>Status</u>	<u>Planned Corrective Action</u>
2011-01	Student Financial Aid Cluster - Federal Direct Student Loans Program - CFDA No. 84.268	The College did not perform the required financial reconciliation of the School Account Statement (SAS) data file every month, and for those months when the reconciliation was performed, the College was unsuccessful in reconciling the federal data file to its internal financial records.	Corrective action has been taken.	The College has developed a timeline and written procedures, as well as system reporting tools, to ensure that the reconciliation is being completed accurately and in compliance with federal regulations. The College also attended training and will continue to utilize resources such as those colleagues knowledgeable in Direct Loan reconciliation, as well as the Department of Education.



# Dave Yost • Auditor of State

LAKELAND COMMUNITY COLLEGE

LAKE COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 3, 2013