

**LORAIN COUNTY COMMUNITY
COLLEGE FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2017



Dave Yost • Auditor of State

Board of Directors
Lorain County Community Foundation, Inc.
1005 N. Abbe Road, Suite CC220
Elyria, Ohio 44035

We have reviewed the *Independent Auditor's Report* of the Lorain County Community Foundation, Inc., Lorain County, prepared by Maloney + Novotny LLC, for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

November 28, 2017

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LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

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Independent Auditors' Report

To the Board of Directors
Lorain County Community College Foundation, Inc.
Elyria, Ohio

We have audited the accompanying financial statements of Lorain County Community College Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lorain County Community College Foundation, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Lorain County Community College Foundation, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2017 on our consideration of Lorain County Community College Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Lorain County Community College Foundation, Inc.'s internal control over financial reporting and compliance.



Cleveland, Ohio
October 10, 2017

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(With Comparative Totals at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,429,632	\$ 625,932
Unconditional promises to give, net	3,725,795	5,027,643
Investments	43,599,258	39,262,038
Prepaid expenses and other assets	82,405	8,002
Related party receivable	109,040	93,257
Equipment and software, net	<u>15,942</u>	<u>23,184</u>
Total assets	<u>\$48,962,072</u>	<u>\$45,040,056</u>
LIABILITIES		
Accounts, support and grants payable	\$ 489,378	\$ 554,046
Deferred revenue	7,450	-
Funds held as fiscal agent	<u>-</u>	<u>518,322</u>
Total liabilities	496,828	1,072,368
NET ASSETS		
Unrestricted	2,780,289	3,002,057
Temporarily restricted	9,838,935	9,720,539
Permanently restricted	<u>35,846,020</u>	<u>31,245,092</u>
Total net assets	<u>48,465,244</u>	<u>43,967,688</u>
Total liabilities and net assets	<u>\$48,962,072</u>	<u>\$45,040,056</u>

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

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2017

(With Comparative Totals for Year Ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
REVENUE AND SUPPORT					
Contributions, net	\$ 295,091	\$ 465,942	\$ 1,308,945	\$ 2,069,978	\$ 3,240,441
Innovation fund income, net		876,250		876,250	730,000
Innovation fund replenishment income		205,834		205,834	97,000
Investment income, net	392,380	435,432	4,157,508	4,985,320	(499,598)
Special event, net	22,354	-	21,236	43,590	286,154
Total revenue and support	709,825	1,983,458	5,487,689	8,180,972	3,853,997
Scholarship and program transfers		702,744	(702,744)	-	-
Administrative fees	334,916	(47,521)	(287,395)	-	-
Net assets released from restrictions	2,416,907	(2,416,907)		-	-
	3,461,648	221,774	4,497,550	8,180,972	3,853,997
EXPENSES					
Scholarships	692,925			692,925	690,201
Support for Lorain County Community College	1,245,114			1,245,114	1,577,105
Innovation fund awards and supporting expenses	747,233			747,233	1,624,862
Management and general	285,135			285,135	279,011
Fundraising	713,009			713,009	776,000
Total expenses	3,683,416			3,683,416	4,947,179
CHANGES IN NET ASSETS	(221,768)	221,774	4,497,550	4,497,556	(1,093,182)
EQUITY TRANSFERS		(103,378)	103,378	-	-
NET ASSETS, BEGINNING OF YEAR	3,002,057	9,720,539	31,245,092	43,967,688	45,060,870
NET ASSETS, END OF YEAR	\$ 2,780,289	\$ 9,838,935	\$35,846,020	\$48,465,244	\$43,967,688

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

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

(With Comparative Totals for Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 4,497,556	\$(1,093,182)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	7,242	19,847
Net realized and unrealized (gain) loss on investments	(4,079,370)	1,670,830
(Increase) decrease in assets:		
Unconditional promises to give, net	1,301,848	(1,363,123)
Prepaid expenses and other assets	(74,403)	6,972
Related party receivable	(15,783)	(82,077)
Increase (decrease) in liabilities:		
Accounts, support and grants payable	(64,668)	64,963
Deferred revenue	7,450	(113,845)
Funds held as fiscal agent	(518,322)	(1,678)
Contributions restricted for permanent investment	<u>(1,230,573)</u>	<u>(295,011)</u>
Net cash used in operating activities	(169,023)	(1,186,304)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale and maturities of investments	4,730,505	5,745,071
Purchase of investments	<u>(4,988,355)</u>	<u>(5,339,418)</u>
Net cash (used in) provided by investing activities	(257,850)	405,653
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	<u>1,230,573</u>	<u>295,011</u>
CHANGE IN CASH AND CASH EQUIVALENTS	803,700	(485,640)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>625,932</u>	<u>1,111,572</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,429,632</u>	<u>\$ 625,932</u>

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

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

- A. Nature of Activities – Lorain County Community College Foundation, Inc. (the Foundation), a non-governmental, non-profit Ohio corporation established for the exclusive benefit and support of Lorain County Community College (the College), assembles and utilizes its resources solely to assist and support the College in the achievement of its mission and vision.
- B. Accounting Method – The financial statements of the Foundation have been prepared utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and the financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 958, *Financial Statements of Not-For Profit Organizations*. The Foundation has reported information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets

This category includes net assets not subject to donor-imposed stipulations. This category periodically includes net assets designated by the Board. At June 30, 2017 and 2016, there were Board designated net assets of \$3,192,275 and \$3,096,990, respectively.

Temporarily Restricted Net Assets

This category includes net assets subject to donor-imposed stipulations that may or will be met by actions of the Board/Foundation and/or the passage of time. It also includes earnings from the donor restricted endowment net of amounts appropriated by the Board of Directors.

Permanently Restricted Net Assets

This category includes net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

- C. Equity Transfers – From time to time, the Foundation's donors reconsider the nature of gifts to the Foundation and request reclassification of net asset balances to more closely align with the intention of their donations. The Foundation records these net asset reclassifications as equity transfers between net asset classifications.
- D. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- E. Comparative Financial Information – The financial statements include certain prior year summarized comparative financial information. Such information does not include sufficient detail to constitute a full financial statement presentation. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- F. Cash and Cash Equivalents – The Foundation classifies its checking and money market accounts as cash. Any cash or cash equivalents maintained within professionally managed accounts are classified as investments, due to the overall non-current investment strategy of their investment philosophy.
- G. Investments – Investment income includes realized and unrealized gains and losses, and interest and dividends that are reported in the changes in net assets in the accompanying statement of activities.
- H. Fair Value Reporting – Under accounting principles generally accepted in the United States of America, financial and nonfinancial assets and liabilities are required to be remeasured on an annual basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and establishes a fair value hierarchy based upon the inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities (for example, exchange quoted prices).

Level 2 – Inputs to the valuation methodology are observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not sufficiently active to qualify as Level 1, other observable inputs or inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs to the valuation methodology are significant to the fair value measurement and unobservable (for example, supported by little or no market activity).

Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The Foundation has determined the fair value of the investments to be within Levels 1, 2 and 3, as summarized herein, of the hierarchy. The Foundation's investments in equity securities and mutual funds are valued with quoted prices in active markets that are considered to be Level 1 inputs. Investments in money market funds are considered to be Level 2 inputs. Investments in limited partnerships which are based on the change in the equity partnership are considered to be Level 3 inputs.

The following is a summary of the inputs used as of June 30, 2017 and 2016 in valuing the Foundation's investments carried at fair value:

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fair Value Reporting (Continued)

	2017			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 47,606	\$ -	\$ 47,606	\$ -
Mutual equity funds	33,516,672	33,516,672	-	-
Mutual bond funds	<u>10,034,980</u>	<u>10,034,980</u>	-	-
	<u>\$43,599,258</u>	<u>\$43,551,652</u>	<u>\$ 47,606</u>	<u>\$ -</u>
	2016			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 47,306	\$ -	\$ 47,306	\$ -
Mutual equity funds	28,821,585	28,821,585	-	-
Mutual bond funds	9,480,965	9,480,965	-	-
Real estate	735,149	-	-	735,149
Limited partnership	<u>177,033</u>	<u>-</u>	<u>-</u>	<u>177,033</u>
	<u>\$39,262,038</u>	<u>\$38,302,550</u>	<u>\$ 47,306</u>	<u>\$ 912,182</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fair Value Reporting (Continued)

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

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 912,182	\$ 867,220
Sale of real estate	(735,149)	-
Contributions	25,000	25,000
Management fee	(5,295)	(5,635)
Unrealized gain	25,448	25,597
Valuation allowance	<u>(222,186)</u>	<u>-</u>
Ending balance	<u>\$ -</u>	<u>\$ 912,182</u>

I. Grants Receivable – Grants receivable are comprised primarily of prospective and reimbursable awards committed from various funding agencies for use in the Foundation's activities. All grants receivable are expected to be collected within one year. The Foundation has recorded a provision of \$300,000 for the years ended June 30, 2017 and 2016.

J. Equipment and Software – Equipment and software are recorded at historical cost or fair market value in case of donation. Depreciation is recorded on the straight-line method over the useful lives of the respective assets, which generally range from three to seven years. The Foundation capitalizes all long-lived assets that cost more than \$1,000 and have a useful life in excess of one year. Depreciation expense was \$7,242 and \$19,847 for the years ended June 30, 2017 and 2016, respectively. Accumulated depreciation at June 30, 2017 and 2016 was \$76,272 and \$69,030, respectively.

K. Contributions – The Foundation recognizes contributions as revenue in the period in which the pledge (unconditional promise to give) is received.

Grants from the State of Ohio and collaborating colleges and universities related to the Innovation Fund are conditional based on criteria included within the grant and collaboration agreements. The Innovation Fund recognizes revenue from these agencies when the conditions are fulfilled and the Foundation has requested reimbursement.

L. Donated Services – Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Foundation. Note 8 to the financial statements discloses the value of services donated by the College to the Foundation during the years ended June 30, 2017 and 2016.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- M. Administration Fee – The Foundation allocates a 1.25% administration fee on temporarily and permanently restricted net assets, excluding unconditional promises to give, to provide for indirect program, general management and fundraising expenses. The total amount charged to temporarily and permanently restricted net assets related to this fee was \$334,916 and \$446,093 for the years ended June 30, 2017 and 2016, respectively.
- N. Functional Allocation of Expenses – The cost of providing various programs and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.
- O. Income Taxes – The Foundation is exempt from income taxes under Section 501(c)(3) as a non-governmental, non-profit entity under provisions of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170 of the Internal Revenue Code.

The Foundation believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. As of June 30, 2017, the Foundation's income tax years from 2013 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

- P. Innovation Fund Awards – The innovation fund bestows awards in two categories, Type A awards and Type B awards. Type A awards are up to \$25,000 and contain no right of replenishment. Type B awards are greater than \$25,000 and up to \$100,000 and contain a right of replenishment as disclosed in Note 10 to the financial statements. It is the policy of the Foundation to fully reserve against the possibility of replenishment at the time of the award based on insufficient financial information regarding the future collectability of these awards, creating a net \$-0- effect to receivables. If the right of replenishment is exercised for an award, the receivable will be recorded at the time the Foundation determines an entity is financially viable for repayment of its innovation fund award. During the years ended June 30, 2017 and 2016, the Foundation made innovation award payments of \$733,900 and \$1,587,600, respectively, to entities selected by the Innovation Fund Committee. At June 30, 2017 and 2016, the Foundation had additional unpaid awards of \$456,300 and \$447,350, respectively, which were considered conditional and, therefore, not included within accounts payable.
- Q. Reclassifications – Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.
- R. Subsequent Events – The Foundation has evaluated subsequent events through October 10, 2017, the date which the financial statements were available to be issued.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Unconditional Promises to Give

Unconditional promises to give at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 868,575	\$ 1,465,183
Receivable in one to five years	3,919,425	4,652,789
Receivable in six to ten years	175,000	225,000
Receivable in greater than ten years	<u>1,195,000</u>	<u>1,195,000</u>
Total unconditional promises to give	6,158,000	7,537,972
Less discounts to present value	(631,271)	(697,603)
Less valuation reserves for uncollectible promises to give	<u>(1,800,934)</u>	<u>(1,812,726)</u>
Net unconditional promises to give	<u>\$ 3,725,795</u>	<u>\$ 5,027,643</u>

The discount rate used on long-term promises to give was 2.00% at June 30, 2017 and 2016. Pledges receivable restricted for long-term purposes of \$65,000 are due in less than one year as of June 30, 2017.

The Foundation has estimated a reserve for uncollectible promises to give based upon management's review of current outstanding promises to give, current economic conditions and historical collections of \$1,800,934 and \$1,812,726 at June 30, 2017 and 2016, respectively. During the years ended June 30, 2017 and 2016, the Foundation directly wrote off uncollectible promises to give of \$22,050 and \$-0-, respectively. During the years ended June 30, 2017 and 2016, the Foundation recognized a decrease in the reserve for uncollectible promises to give of (\$11,792) and (\$51,163), respectively.

Note 3. Investments

Investments are carried at fair value and are summarized as follows:

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 47,579	\$ 47,606	\$ 47,301	\$ 47,306
Mutual equity funds	25,971,233	33,516,672	25,032,877	28,821,585
Mutual bond funds	10,094,613	10,034,980	9,418,355	9,480,965
Real estate	-	-	735,149	735,149
Limited partnership	<u>200,000</u>	<u>-</u>	<u>175,000</u>	<u>177,033</u>
	<u>\$36,313,425</u>	<u>\$43,599,258</u>	<u>\$35,408,682</u>	<u>\$39,262,038</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Investments (Continued)

Investment income for the years ended June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 987,786	\$ 1,254,570
Net realized and unrealized gain (loss)	4,079,370	(1,670,830)
Management fees	<u>(81,836)</u>	<u>(83,338)</u>
Total investment income	<u>\$ 4,985,320</u>	<u>\$ (499,598)</u>

Mutual Capital Partners Fund Partnership

During 2011, the Foundation's Board approved program support of \$50,000 per year for five years with Mutual Capital Partners (MCP). Under this agreement, MCP will provide specific deliverables to enhance the College's entrepreneurship program including: internships and jobs for Lorain County Community College students with MCP companies, build an entrepreneurial speaker series and mentor Innovation Fund and GLIDE companies and initiatives.

This programmatic relationship qualified the Foundation as an investor in the Mutual Capital Partners Fund II, an Ohio limited partnership. Payments of \$200,000 have been made. As of June 30, 2017, the Foundation has an outstanding commitment of \$50,000. At June 30, 2017, the valuation of this investment was reduced to \$-0-. The partnership's annual administrative fee was \$5,295 and \$5,635 for the year ended June 30, 2017 and 2016, respectively.

Note 4. Charitable Remainder Trust

The Foundation was named co-beneficiary of a charitable remainder unitrust. Despite the fact the trust is irrevocably funded, no amount has been recorded in the accompanying financial statements, as the naming and changing of the charities in the trust is revocable by the trustees.

Note 5. Temporarily Restricted Net Assets

Net assets as of June 30, 2017 and 2016 were temporarily restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Support of the College's faculty, programs, facilities and Foundation's operation	\$ 8,195,540	\$ 8,643,244
Innovation fund	599,686	155,386
Scholarships	<u>1,043,709</u>	<u>921,909</u>
Total temporarily restricted net assets	<u>\$ 9,838,935</u>	<u>\$ 9,720,539</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Temporarily Restricted Net Assets (Continued)

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or passage of time for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Support of the College's faculty, programs, facilities and Foundation's operation	\$ 990,082	\$1,662,693
Innovation fund disbursements	733,900	1,587,600
Scholarships	<u>692,925</u>	<u>690,201</u>
Total restrictions released	<u>\$2,416,907</u>	<u>\$3,940,494</u>

Note 6. Endowments

The Foundation's endowment includes 164 scholarship funds and 15 program funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of Ohio, 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: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 and (7) the Foundation's investment policies.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Endowments (Continued)

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also preserving the fair value of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes money market funds, mutual equity and bond funds and alternatives intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions in accordance with the Foundation's Investment and Allocation Policy of up to 4.5% of the audited June 30 trailing three year moving market value average of permanently restricted endowment funds. By this practice, the Foundation expects its endowment assets, over time, to produce an average rate of return in excess of 6% which allows for transfers of endowed net assets in accordance with both the spending policy and administrative fee policy, while maintaining growth within the endowment. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Foundation has a policy of appropriating for distribution, on an annual basis, up to 4.5% of the fair market value of permanently restricted endowment funds as approved by the Board, plus the administrative fee described in Note 1 to the financial statements. The Foundation charges an administrative fee to offset the costs of operating the Foundation. In establishing these policies, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment to grow over the long-term. This is consistent with the Foundation's objective to preserve the fair value of the endowment assets as well as to provide additional real growth through new gifts and investment return. All withdrawals or transfers to other funds are subject to approval by the Board of Directors. Several of the Foundation's permanently restricted funds designated for operations have fallen below the corpus by a total of approximately \$419,190 and \$1,473,000 as of June 30, 2017 and 2016, respectively.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Endowments (Continued)

Changes in endowment net assets as of June 30, 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,545,620	\$31,194,579	\$32,740,199
Investment return:				
Administrative fee	307,486	(20,091)	(287,395)	-
Scholarship and program transfers	-	702,744	(702,744)	-
Investment income, net	-	-	511,528	511,528
Net appreciation (realized and unrealized)	-	198,348	3,645,980	3,844,328
Total investment return - endowed	307,486	881,001	3,167,369	4,355,856
Contributions	-	-	1,356,679	1,356,679
Special events	-	-	21,236	21,236
Equity transfers	-	244	34,500	34,744
Appropriation of endowment assets for expenditure	<u>(307,486)</u>	<u>(826,909)</u>	<u>-</u>	<u>(1,134,395)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,599,956</u>	<u>\$35,774,363</u>	<u>\$37,374,319</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Endowments (Continued)

Changes in endowment net assets as of June 30, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,775,594	\$32,358,362	\$34,133,956
Investment return:				
Administrative fee	366,615	(17,286)	(349,329)	-
Scholarship and program transfers	-	1,020,829	(1,020,829)	-
Investment income, net	-	43,733	1,008,590	1,052,323
Net depreciation (realized and unrealized)	-	(61,153)	(1,410,229)	(1,471,382)
Total investment return - endowed	366,615	986,123	(1,771,797)	(419,059)
Contributions	-	-	321,511	321,511
Special events	-	-	271,899	271,899
Equity transfers	-	-	14,604	14,604
Appropriation of endowment assets for expenditure	<u>(366,615)</u>	<u>(1,216,097)</u>	<u>-</u>	<u>(1,582,712)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,545,620</u>	<u>\$31,194,579</u>	<u>\$32,740,199</u>

Note 7. Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2017 and 2016 were comprised of the following amounts, the earnings of which were available for the following purposes:

	<u>2017</u>	<u>2016</u>
Support of the College's faculty, programs and facilities	\$16,247,082	\$13,758,702
Scholarships	15,871,082	14,182,294
Operations and general support	<u>3,727,856</u>	<u>3,304,096</u>
Total permanently restricted net assets	<u>\$35,846,020</u>	<u>\$31,245,092</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 8. Related Party

As described in Note 1, the Foundation is affiliated with, but separate from, the College. During the years ended June 30, 2017 and 2016, the College provided the Foundation with professional staffing and office support valued at \$272,495 and \$209,086, respectively. The value of those services is included as contributions in the financial statements and expensed on a functional basis based on the type of service provided by the employee.

During the years ended June 30, 2017 and 2016, the Foundation provided scholarships and support to the College of \$1,938,039 and \$2,267,306, respectively.

At June 30, 2017 and 2016, amounts due to the College and included within "accounts, support and grants payable" totaled \$458,003 and \$538,022, respectively.

The Foundation made contributions of \$150,000 and \$170,000 to Citizens for LCCC during the years ended June 30, 2017 and 2016, respectively and are included in support for the College. Citizens for LCCC is a non-profit political action committee organized to enhance public support for the College. These contributions fall within the mission of the Foundation as Citizens for LCCC supports the growth of the College through support for tax levies benefiting the College.

The Lorain County Community College Innovation Foundation (LCCCIF) is a 501(c)(3) public charity and a Supporting Organization to the College separate from the Foundation. Several key employees of the College serve as both officers of the LCCCIF and the Foundation. As of June 30, 2017 and 2016, the Foundation holds \$-0- and \$500,000 on behalf of the LCCCIF.

Innovation Fund America (IFA) is a 501(c)(3) public charity separate from the Foundation. For the years ended June 30, 2017 and 2016, the Foundation accrued a receivable of \$109,040 and \$93,257, respectively for disbursements made on behalf of IFA.

Note 9. Concentrations

The Foundation maintains cash balances at a bank. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. These limits are subject to change by the FDIC. The Foundation's cash balances may exceed this amount from time to time.

At June 30, 2017 and 2016, one donor's promise to give represented approximately 41% and 46%, respectively, of the outstanding promises to give.

Note 10. Conditional Events

Innovation Award Replenishment

As described in Note 1 to the financial statements, the Foundation holds a right of replenishment over all Type B funds awarded. The awards specify a recipient may repay the Foundation without interest the amount of the award within two years. Subsequent to the two year anniversary of the award, the Foundation may exercise its right of replenishment through the fifth year, at which point the right of replenishment is forfeited. Effective September 30, 2011, for new awards, the repayment schedule is three years without interest and the Foundation's right to replenishment is through the sixth year.

The Foundation made 89 Type B Innovation Fund Awards since inception of the program. Of these 89 Type B Innovation Fund Awards, the Foundation holds the right of replenishment on 59 awards expiring in:

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 10. Conditional Events (Continued)

Innovation Award Replenishment (Continued)

<u>Years Ending June 30,</u>	
2018	\$1,359,500
2019	614,000
2020	775,000
2021	1,051,000
2022	853,000
2023	<u>363,400</u>
	<u>\$5,015,900</u>

The purpose of the Innovation Fund is to foster entrepreneurship and jobs growth. The Foundation's objective in providing these awards was not the return of principal, which is why Innovation Fund awards are expensed when all conditions of the award are fulfilled. The Foundation has not recorded an estimate of funds receivable from award replenishment because the amount cannot be reasonably estimated. As such, the Foundation's ability to realize these amounts is based on the financial success of the recipients. During the years ended June 30, 2017 and 2016, the Foundation received \$205,834 and \$97,000, respectively, of Innovation Fund replenishment income.

During the year ended June 30, 2013, the Foundation accepted an offer from Segmint, Inc. to take an equity position in an Innovation Fund award recipient company in lieu of its \$100,000 replenishment right. The Foundation accepted the offer and received 60,000 shares of restricted common stock.

During the year ended June 30, 2016, the Foundation accepted an offer from Vadxx Energy LLC to take an equity position in an Innovation Fund award recipient company in lieu of its \$33,334 replenishment right. The Foundation accepted the offer and received 11.12 shares of restricted stock.

As the restricted stocks cannot be transferred or sold, the Foundation has not recorded an estimate of the stock's value as the amount cannot be reasonably estimated.

Grants Receivable

During the year ended June 30, 2015, the Foundation was awarded a \$2,125,000 conditional grant (13-124) by the Ohio Department of Development to support the Innovation Fund. The Foundation was approved to receive the funds over a two year period from June 2015 through June 2017. During 2017, the grant was extended through December 2017. For the year ended June 30, 2017 and 2016, the Foundation has fulfilled some requirements pertaining to the grant and received \$776,250 and \$705,000 respectively.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 10. Conditional Events (Continued)

Awards Payable

As described in Note 1 to the financial statements, the Foundation's Innovation Fund involves multi-year conditional awards provided to start-up businesses that create or enhance technology. The Foundation has made award commitments of \$12,035,000, of which \$973,930 has been forfeited to date. The net remaining award commitment is \$456,301. These awards are expected to be paid out over the next two years once the sponsored recipients fulfill required conditions which may include completion and testing of a prototype, filing and protection of necessary patents and meeting certain financial reporting metrics. The conditional obligations are measured by Great Lakes Innovation and Development Enterprise, which monitors the recipients and reports progress of the recipients to the Foundation, which then approves payment of the conditional portion of the awards.

As these awards are conditional, no liability has been recorded at June 30, 2017 and 2016.

Grants

The Fund for Our Economic Future (the Fund) is a nonprofit tax exempt public charity which started as a pooled grant fund to dramatically improve the economic climate in Northeast Ohio by organizations with the potential to strengthen the region as a whole. Over \$72 million has been raised by over 100 foundations, corporations and individuals in the Northeast Ohio region. All grant recipients of the Fund are non-profit organizations and tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Grants are awarded by the Fund based on extensive due diligence and approval by the members of the Board. The Board is comprised of representatives from member organizations contributing at least \$100,000 over a three year period (phase).

The Foundation had previously made a \$100,000 conditional commitment to Phase II of the Fund, all of which was paid as of November 24, 2009.

The Foundation has made a conditional commitment to Phase III of the Fund for a total of \$100,000. During 2013, the Foundation made the third and final \$33,333 payment toward this commitment.

The Foundation has made a conditional commitment to Phase IV of the Fund for a total of \$100,000. During 2016, the Foundation made the third and final \$33,333 payment toward this commitment.

The Foundation has made a conditional commitment to Phase V of the Fund for a total of \$110,000. During 2016, the Foundation made its first payment towards this commitment in the amount of \$37,000. As the grant is conditional, no liability has been recorded for this account at June 30, 2017.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 11. Gift of Land and Building

In December 2012, the Foundation took title to the land and building at 225 Burns Road in Elyria, Ohio. The location of the property is adjacent to the college campus. The real estate was gifted to the Foundation in partial fulfillment of a larger pledge booked during the year ended June 30, 2010.

During the year ended June 30, 2013, upon receipt of title to the land and building, the Foundation booked the value of the real estate at \$735,149 based upon the estimated net realizable value upon sale. The property was sold on August 22, 2016 for \$750,000 and recorded a gain of \$12,178.

To the Board of Directors
Lorain County Community College Foundation, Inc.
Elyria, Ohio

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

We have audited, 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, the financial statements of Lorain County Community College Foundation, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lorain County Community College Foundation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lorain County Community College Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lorain County Community College Foundation, Inc.'s internal control.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lorain County Community College Foundation, Inc.'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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meloney + Novotny LLC

Cleveland, Ohio
October 10, 2017



Dave Yost • Auditor of State

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION

LORAIN 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
DECEMBER 12, 2017**