The Lakeland Foundation

(A Component Unit of Lakeland Community College)

Financial Statements
June 30, 2018

Dave Yost • Auditor of State

Board of Directors
Lakeland Foundation
7700 Clocktower Drive
Kirtland, Oh 44094-5198

We have reviewed the *Independent Auditor's Report* of Lakeland Foundation, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2017 through June 30, 2018. 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. Lakeland Foundation is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

December 11, 2018

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The Lakeland Foundation

Financial Statements

June 30, 2018

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Ciuni &
Panichi
CPAs and Business Advisors
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Independent Auditor's Report

Board of Directors
The Lakeland Foundation
Kirtland, Ohio

Report on Financial Statements

We have audited the accompanying financial statements of The Lakeland Foundation (a nonprofit corporation, the "Foundation"), a component unit of Lakeland Community College, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities 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.

Auditor's 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 auditor's 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 auditor considers 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.

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Board of Directors
The Lakeland Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2018, 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 the Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 November 9, 2018, on our consideration of the Foundation'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 solely 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 the effectiveness of the Foundation's 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 the Foundation's internal control over financial reporting and compliance.

Ciuni & Panichi, Inc.

Cleveland, Ohio
November 9, 2018

The Lakeland Foundation

Statement of Financial Position

June 30, 2018 (with comparative totals for 2017)

Assets

		2018		2017
Cash and cash equivalents	$	898,477	$	363,756
Cash held for others		9,141		6,583
Pledges receivable, net		221,531		120,885
Accounts receivable		55,219		46,758
Loans receivable, net		8,983		5,275
Other assets		305		696
Prepaid expenses		10,300		8,800
Investments		4,656,838		4,397,132
Total assets	$	5,860,794	$	4,949,885

Liabilities and Net Assets

		2018		2017
Liabilities:				
Payables (scholarship & trade)	$	9,700	$	7,792
Deferred revenue		46,416		44,368
Due to custodial funds		9,141		6,583
Total liabilities		65,257		58,743
Net assets:				
Permanently restricted		2,572,964		2,468,006
Temporarily restricted		2,973,785		2,324,978
Unrestricted		248,788		98,158
Total net assets		5,795,537		4,891,142
Total liabilities and net assets	$	5,860,794	$	4,949,885

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Statement of Activities

For the year ended June 30, 2018 (with comparative totals for 2017)

	Permanently Restricted	Temporarily Restricted	Unrestricted	2018 Totals	2017 Totals
Support, revenue, and gains:					
Private and corporate contributions and grants	$ 104,958	$ 1,111,818	$ 403,077	$ 1,619,853	$ 790,841
Donations-in-kind	-	367,247	3,367	370,614	22,068
Interest and dividends	-	57,785	16,783	74,568	63,675
Net realized and unrealized gain (loss) on investments	-	198,806	(35)	198,771	430,179
Total support, revenue, and gains	104,958	1,735,656	423,192	2,263,806	1,306,763
Net assets released from restrictions or transferred	-	(1,086,849)	1,086,849	-	-
Total support, revenue, gains, and transfers	104,958	648,807	1,510,041	2,263,806	1,306,763
Program and supporting expenses:					
Program services:					
Scholarships	-	-	415,737	415,737	444,760
Educational and related programs	-	-	285,647	285,647	223,925
In-kind educational and related programs	-	-	360,736	360,736	10,625
Total program services	-	-	1,062,120	1,062,120	679,310
Supporting services:					
Administration	-	-	273,006	273,006	136,652
Fundraising	-	-	14,016	14,016	9,351
Fundraising – in-kind	-	-	10,269	10,269	10,747
Total supporting services	-	-	297,291	297,291	156,750
Total program and supporting expenses	-	-	1,359,411	1,359,411	836,060
Change in net assets from operations	104,958	648,807	150,630	904,395	470,703
Transfer out of endowment	-	-	-	-	(219,413)
Change in net assets	104,958	648,807	150,630	904,395	251,290
Net assets – beginning of year	2,468,006	2,324,978	98,158	4,891,142	4,639,852
Net assets – end of year	$ 2,572,964	$ 2,973,785	$ 248,788	$ 5,795,537	$ 4,891,142

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Statement of Cash Flows

For the year ended June 30, 2018 (with comparative totals for 2017)

	2018	2017
Cash flow from operating activities:		
Change in net assets	$ 904,395	$ 251,290
Adjustments to reconcile change in net assets		
to net cash provided (used) by operating activities:		
Change in allowance for uncollectible loans	760	5,800
Change in allowance for uncollectible pledges	1,194	(4,933)
Change in discounts to net present value	20,062	7,483
Net realized and unrealized gain on investments	(198,771)	(430,179)
Contributions restricted for long-term investment	(104,958)	(60,095)
Premium/discount amortization	792	1,885
Transfer out of endowment	-	219,413
Changes in operating assets and liabilities:		
Decrease (increase) in pledges receivable	(117,571)	(68,693)
Decrease (increase) in loans receivable	(4,468)	(7,630)
Decrease (increase) in accounts receivable	(8,461)	(8,605)
Decrease (increase) in other assets	391	(696)
Decrease (increase) in prepaid expenses	(1,500)	5,453
Increase (decrease) in payables	1,908	1,362
Increase (decrease) in deferred revenue	2,048	(5,133)
Net cash provided (used) by operating activities	495,821	(93,278)
Cash flow from investing activities:		
Proceeds from sales and maturity of investments	1,003,869	604,317
Purchases of investments	(989,774)	(461,488)
Change in money market funds	(75,822)	20,937
Net cash (used) provided by investing activities	(61,727)	163,766
Cash flows from financing activities:		
Transfer out of endowment	-	(219,413)
Collection of contributions restricted for long-term investment	100,627	65,102
Net cash provided (used) by financing activities	100,627	(154,311)
Net change in cash and cash equivalents	534,721	(83,823)
Cash and cash equivalents – beginning of year	363,756	447,579
Cash and cash equivalents – end of year	$ 898,477	$ 363,756

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Notes to Financial Statements

June 30, 2018

Note 1: Nature of Activities

The Lakeland Foundation (the "Foundation") was formed in 1981 to obtain private financing support for the promotion of excellence at Lakeland Community College (LCC) and operates for the benefit and is a component unit of LCC. The Foundation provides scholarships, support, and loans to financially disadvantaged students, students demonstrating excellent academic abilities, and students meeting criteria of specific donor stipulations. The Foundation also provides support to specific educational departments and programs of LCC. The accounting records for the Foundation are maintained at LCC in Kirtland, Ohio. Certain administrative expenses of the Foundation are paid directly by LCC.

The Foundation serves as fiscal agent for two community organizations. The cash on hand and due these organizations is reflected on the statement of financial position as "Cash held for others" and "Due to custodial funds."

The Foundation's primary sources of revenue are endowment income and public support through grants and donations from individuals, corporations, foundations, and trusts located primarily in northeastern Ohio.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

The Foundation follows authoritative guidance issued by the Financial Accounting Standards Board (FASB) which established the FASB Accounting Standards Codification (ASC) as the single source of authoritative accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.
- Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Foundation. Generally, the donors of such assets permit the Foundation to use all or part of the income earned on the assets for general or specific purposes.

Note 2: Summary of Significant Accounting Policies (continued)

Comparative Financial Statements

The financial statements include certain prior-year comparative total amounts. Such comparative total amounts do not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such amounts should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2017, from which the comparative total amounts were derived.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits and certificates of deposit. Money market investments are considered investments. Cash held for others is excluded from the definition of cash and cash equivalents.

Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, investments, and pledges receivable.

The Foundation has significant investments in equity and debt securities and is, therefore, subject to concentrations of credit risk. Investments are managed by investment advisors who are overseen by a committee. Though the market value of investments is subject to fluctuations on a year-to-year basis, the committee believes that the investment policy is prudent for the long-term welfare of the Foundation.

Credit risk with respect to pledges receivable is limited due to the number and credit worthiness of the foundations, corporations, governmental units, and individuals who comprise the contributor base.

At various times during the year ended June 30, 2018, the Foundation's cash in bank balances may have exceeded the federal insured limits.

Investments

Investments in marketable securities are stated at fair market value.

The Foundation's practice with respect to contributions of equity securities is to sell the securities upon receipt for their current fair market value.

The Lakeland Foundation

Notes to Financial Statements

June 30, 2018

Note 2: Summary of Significant Accounting Policies (continued)

Contributions

The Foundation accounts for donations in accordance with ASC 958. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor- imposed restrictions, if any, on the contributions.

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities and Health Care Entities – Presentation of Financial Statements of Not-for-Profit Entities*. This ASU changes the current reporting requirements for nonprofit organizations and their required disclosures. The changes include: (a) requiring the presentation of only two classes of net assets, entitled "net assets without donor restriction" and "net assets with donor restrictions," (b) modifying the presentation and disclosures of underwater endowment funds, (c) requiring the use of the placed in service approach to recognize the releases from restriction for gifts utilized to acquire or construct long-lived assets, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes to the financial statements and to summarize the allocation methodologies utilized to allocate the costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity, and (f) modifying other financial statement reporting requirements and disclosures to enhance the usefulness of nonprofit financial statements. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 which deferred the effective date for the Foundation until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application.

Note 2: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to address questions stemming from ASU 2014-09 regarding its implications on the grants and contracts of not-for-profit organizations. This ASU provides guidance on determining whether a transfer of assets is a contribution or an exchange transaction, and, if a contribution, whether the contribution is conditional. The ASU clarifies that a transfer of assets is an exchange transaction if the resource provider is receiving commensurate value in return for the resources transferred and provides points of consideration in making this determination. It also states that a contribution is conditional if the agreement includes both (a) a barrier that must be overcome before the recipient is entitled to the assets and (b) a right of return of the assets transferred or a right of release of a promisor's obligation to transfer assets. This ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Retrospective application of the amendments in this update is permitted, although a modified prospective application is recommended.

The Foundation is evaluating the potential impact of adopting this guidance on its financial statements.

Tax Status

The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Foundation accounts for income taxes in accordance with the "Income Taxes" topic of the FASB ASC. Uncertain income tax positions are evaluated at least annually by management. The Foundation classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of June 30, 2018, the Foundation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

The Foundation files its Form 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of Ohio.

Pledges Receivable

Pledges receivable are funds primarily committed as part of the major gifts campaign. The Foundation provides for uncollectible pledges receivable using the allowance method. Management estimates an allowance based on an aging schedule and a calculation using past due pledges receivable. Pledges receivable past due less than one year use an allowance percentage of 50% of the past due amount and pledges receivable past due greater than one year use an allowance percentage of 100% of the past due amount. Pledges receivable are written off when they are determined to be uncollectible.

Loans Receivable

Loans receivable are funds committed to qualifying students in the C. Schell Loan Program. This revolving student loan program grants interest-free loans with various repayment terms. The Foundation provides for uncollectible loans receivable using the allowance method. Management estimates an allowance based on historical collection percentages, an aging schedule, and a calculation based on maturity dates of individual loans. Loans receivable are written-off when they are determined to be uncollectible.

Note 2: Summary of Significant Accounting Policies (continued)

Donated Administrative Expenses

Certain administrative functions of the Foundation are performed by administrative employees of LCC at no charge to the Foundation. The value of these services is not recognized in these financial statements.

Donated Fundraising Expenses

Significant time has been provided by many volunteers in fundraising activities; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Subsequent Events

The date to which events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure is November 9, 2018, which is the date on which the financial statements were available to be issued. No events were identified that would require adjustment to or disclosure in the financial statements.

Note 3: Investments

Investments are recorded at fair value. The historical cost and fair value at June 30, 2018 and 2017 were as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Debt securities:				
Corporate bonds	$ 190,228	$ 189,569	$ 270,703	$ 271,243
Mutual funds:				
Fixed-income mutual funds	728,664	706,939	721,512	702,848
Large cap equity	808,756	1,017,257	1,021,075	1,164,201
Mid cap equity	590,410	636,531	679,452	730,324
Domestic equity mutual funds	586,775	578,704	566,880	566,836
International equities	646,655	685,977	465,398	500,301
International fixed-income	170,989	165,625	167,686	168,947
Alternative assets	478,011	467,556	163,819	167,007
Emerging markets equities	81,798	88,974	79,949	81,542
Money market/cash and reserves	119,706	119,706	43,883	43,883
	$ 4,401,992	$ 4,656,838	$ 4,180,357	$ 4,397,132

Note 3: Investments (continued)

Fair Value of Financial Instruments – The Foundation adopted applicable sections of ASC 820: *Fair Value Measurements and Disclosures* for financial assets and financial liabilities. In accordance with ASC 820, fair value is defined as the price the Foundation would receive to sell an asset 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 asset or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs may be used in determining the value of the Foundation's investments. The inputs are summarized in the three broad levels below:

Level 1 – quoted prices in active markets for identical assets and liabilities

Level 2 – other significant observable inputs (including quoted prices for similar assets and liabilities, interest rates, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Foundation's own assumptions in determining the fair value of the assets and liabilities)

The input or methodology used for valuing securities is not necessarily an indication of the risk associated with maintaining those investments.

The following is a summary of the inputs used as of June 30, 2018, in valuing the Foundation's investments carried at fair value:

	Level 1	Level 2	Level 3	Total
Debt securities:				
Corporate bonds	$ -	$ 189,569	$ -	$ 189,569
Mutual funds:				
Fixed-income mutual funds	706,939	-	-	706,939
Large cap equity	1,017,257	-	-	1,017,257
Mid cap equity	636,531	-	-	636,531
Domestic equity mutual funds	578,704	-	-	578,704
International equities	685,977	-	-	685,977
International fixed-income	165,625	-	-	165,625
Alternative assets	467,556	-	-	467,556
Emerging markets equities	88,974	-	-	88,974
Money market/cash and reserves	119,706	-	-	119,706
Investments	$ 4,467,269	$ 189,569	$ -	$ 4,656,838

Note 3: Investments (continued)

The Foundation's corporate bonds are valued based on bid-side quotations from dealers, or if a bond has not been traded recently, it is valued using a "matrix-based" pricing model. This pricing model analyzes bonds with similar attributes from the same issuer or other issuers.

Note 4: Net Assets

Unrestricted Funds

These funds have no donor-imposed stipulations and the funds are used for general operating purposes deemed necessary by the Board of Directors.

Temporarily Restricted Funds

The Foundation has funds which have been designated temporarily restricted. These funds include private and corporate contributions and earnings on the endowment funds which have been temporarily restricted for specific purposes. Earnings on investments of these funds are included in the unrestricted funds 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, 2018 and 2017:

	2018	2017
Scholarships	$ 799,555	$ 791,504
Loans (Note 6)	110,904	111,664
Educational and related programs	988,520	452,601
Portion of endowment fund classified as temporarily restricted	1,074,806	969,209
Total temporarily restricted net assets	$ 2,973,785	$ 2,324,978

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by donors or transferred in accordance with donor intentions as follows:

	2018	2017
Scholarships	$ 415,737	$ 436,260
Loans (Note 6)	760	5,800
Educational and related programs	622,421	209,589
Administration/fundraising	45,547	43,080
Transferred – permanently restricted	-	5,785
Transferred – unrestricted	2,384	512
Total net assets released from donor restrictions or transferred	$ 1,086,849	$ 701,026

Note 4: Net Assets (continued)

Permanently Restricted Funds

The endowment fund includes contributions restricted in perpetuity or for terms 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. A majority of endowment activity is restricted for the use of scholarships.

Net Asset Classification of Endowment Funds

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State of Ohio enacted version of 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, (b) the original value of subsequent gifts, 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 standards of prudence by UPMIFA. In accordance with UPMIFA, the foundation considers the following factors in making a determination to appropriate donor-restricted endowment funds:

(1) Preservation of the fund
(2) The purpose of the Foundation and the donor-restricted Endowment Fund
(3) General economic conditions
(4) The investment policies of the Foundation
(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

Endowment Net Asset Composition by Type of Fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,074,806	$ 2,567,598	$ 3,642,404
Board-designated endowment funds	30,046	-	-	30,046
Total funds	$ 30,046	$ 1,074,806	$ 2,567,598	$ 3,672,450

The Lakeland Foundation

Notes to Financial Statements

June 30, 2018

Note 4: Net Assets (continued)

Net Asset Classification of Endowment Funds, continued

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 29,573	$ 969,209	$ 2,466,971	$ 3,465,753
Investment return:				
Interest and dividends	521	57,264	-	57,785
Net realized and unrealized gain	118	207,913	-	208,031
Total investment return	639	265,177	-	265,816
Contributions	-	-	100,627	100,627
Appropriation of endowment assets for expenditure	-	(141,286)	-	(141,286)
Management fee	(166)	(18,294)	-	(18,460)
Endowment net assets, end of year	$ 30,046	$ 1,074,806	$ 2,567,598	$ 3,672,450

Below is a reconciliation of permanently restricted net assets included in the endowment fund to total permanently restricted net assets:

	2018
Permanently restricted net assets within the endowment fund	$ 2,567,598
Permanently restricted contributions included in pledges receivable	5,366
Total permanently restricted net assets	$ 2,572,964

The temporarily restricted endowment includes $352,596 of endowment net assets that by the donor's restrictions are temporarily restricted. The Board of Directors has determined that the donations will be maintained similar to a permanent endowment.

Note 4: Net Assets (continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for the Endowment Fund. The 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 LCC. Assets for the investment pool include those assets of donor-restricted funds that the Foundation must hold in perpetuity. 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% 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.

Spending Policy

The Lakeland Foundation 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 funds by improving investment growth and management. The spending policy allows up to a maximum of 4.5% 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% will be reinvested in the endowment fund's 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 5: Pledges Receivable

Pledges were discounted to their present value assuming their respective terms (up to five years) and a discount rate of 6%. The pledges receivable, net as of June 30, 2018 are scheduled to be collected as follows:

Pledges receivable:		
Payable within one year	$	155,507
Payable in one to five years		102,695
Total pledges receivable		258,202
Less: discount to net present value		(35,067)
Less: allowance for uncollectible pledges		(1,604)
Pledges receivable, net at June 30, 2018	$	221,531

Note 6: Loans Receivable

As of June 30, 2018 and 2017, loans receivable totaled $104,729 and $100,261, respectively. During the fiscal year ended June 30, 2018, $4,468 was distributed to qualifying students in a revolving student loan from the C. Schell Loan Program. The loans are interest-free and have various repayment terms. During the fiscal year ended June 30, 2018, $2,780 was repaid. Repayment of the outstanding loans is poor primarily because, as a condition of the loan program, repayment is not to impose an undue burden on the borrower. The related allowance for uncollectible loans is $95,746 and $94,986 at June 30, 2018 and 2017, respectively.

Note 7: Related-Party Transactions

LCC made distributions to the Foundation of $134,100 and $136,985 for the years ended June 30, 2018 and 2017, respectively. LCC also made gifts of $300,000 and $-0- to the Foundation during the years ended June 30, 2018 and 2017, respectively. The Foundation distributed $789,273 and $742,683 during the years ended June 30, 2018 and 2017, respectively, to LCC. The Foundation also distributed $360,736 and $10,625 in Gifts-in-Kind to LCC during the years ended June 30, 2018 and 2017, respectively. The Foundation had receivables from LCC of $20,170 and $11,753 as of June 30, 2018 and 2017, respectively. The Foundation had payables to LCC of $9,226 and $7,326 as of June 30, 2018 and 2017, respectively.

Independent Auditor's 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*

Board of Directors
The Lakeland Foundation
Kirtland, Ohio

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 The Lakeland Foundation (a nonprofit corporation, the "Foundation"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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.

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Board of Directors
The Lakeland Foundation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from 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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ciuni & Panichi, Inc.

Cleveland, Ohio
November 9, 2018

Dave Yost · Auditor of State

LAKELAND FOUNDATION

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
DECEMBER 27, 2018

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