

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

FINANCIAL REPORT

JUNE 30, 2020

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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Board of Directors
Lorain County Community College Foundation, Inc.
1005 North Abbe Road
Elyria, Ohio 44035

We have reviewed the *Independent Auditors' Report* of the Lorain County Community College Foundation, Inc., Lorain County, prepared by Maloney + Novotny LLC, for the audit period July 1, 2019 through June 30, 2020. 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 College Foundation, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

March 25, 2021

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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, 2020, and the related statements of activities and changes in net assets, functional expenses, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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 13, 2020 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 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 Lorain County Community College Foundation, Inc.'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 Lorain County Community College Foundation, Inc.'s internal control over financial reporting and compliance.

Meloney + Novotny LLC

Cleveland, Ohio
October 13, 2020

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2020

(With Comparative Totals at June 30, 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 943,933	\$ 787,252
Unconditional promises to give, net	2,287,701	2,934,722
Investments	48,329,812	47,538,560
Prepaid expenses and other assets	2,104	81,340
Related party receivable	1,557	53,619
Equipment and software, net	<u>8,074</u>	<u>8,702</u>
Total assets	<u>\$51,573,181</u>	<u>\$51,404,195</u>
LIABILITIES		
Accounts, support and grants payable	\$ 171,485	\$ 213,031
Deferred revenue	<u>1,500</u>	<u>44,600</u>
Total liabilities	172,985	257,631
NET ASSETS		
Without donor restrictions	2,710,656	2,763,388
With donor restrictions	<u>48,689,540</u>	<u>48,383,176</u>
Total net assets	<u>51,400,196</u>	<u>51,146,564</u>
Total liabilities and net assets	<u>\$51,573,181</u>	<u>\$51,404,195</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, 2020
 (With Comparative Totals for Year Ended June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
REVENUE AND SUPPORT				
Contributions, net	\$ 394,421	\$ 1,465,315	\$ 1,859,736	\$ 1,369,049
Innovation Fund replenishment income		161,000	161,000	169,105
Investment income, net	82,814	1,368,306	1,451,120	2,520,140
Special event, net	<u>40,910</u>	<u>59,728</u>	<u>100,638</u>	<u>91,914</u>
Total revenue and support	518,145	3,054,349	3,572,494	4,150,208
Administrative fees	462,517	(462,517)	-	-
Grant forfeiture			-	(203,909)
Net assets released from restrictions	<u>2,285,468</u>	<u>(2,285,468)</u>	<u>-</u>	<u>-</u>
	3,266,130	306,364	3,572,494	3,946,299
EXPENSES				
Program services				
Scholarships	889,527		889,527	784,643
Support for Lorain County Community College	1,492,493		1,492,493	1,424,824
Innovation Fund awards and supporting expenses	<u>116,069</u>		<u>116,069</u>	<u>349,163</u>
Total program services	2,498,089		2,498,089	2,558,630
Management and general	257,684		257,684	267,727
Fundraising	<u>563,089</u>		<u>563,089</u>	<u>577,143</u>
Total expenses	<u>3,318,862</u>		<u>3,318,862</u>	<u>3,403,500</u>
CHANGES IN NET ASSETS	(52,732)	306,364	253,632	542,799
NET ASSETS, BEGINNING OF YEAR	<u>2,763,388</u>	<u>48,383,176</u>	<u>51,146,564</u>	<u>50,603,765</u>
NET ASSETS, END OF YEAR	<u>\$ 2,710,656</u>	<u>\$48,689,540</u>	<u>\$51,400,196</u>	<u>\$51,146,564</u>

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

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020
 (With Comparative Totals for Year Ended June 30, 2019)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2020 Total</u>	<u>2019 Total</u>
Salaries and wages		\$ 116,617	\$ 196,455	\$ 313,072	\$ 306,180
Benefits		24,510	49,767	74,277	83,025
Grants and awards	\$1,163,224			1,163,224	1,205,198
Scholarships, awards and student aid	928,739			928,739	848,028
Innovation Fund program	116,069			116,069	349,000
In-kind support	11,730	56,159	186,211	254,100	237,495
Professional services and consulting	108,407	28,017	20,672	157,096	140,537
Technology, supplies and postage	86,022	20,643	53,702	160,367	74,844
Publishing	28,000			28,000	56,000
Cultivation and recognition	20,282		37,225	57,507	48,863
Other	<u>35,616</u>	<u>11,738</u>	<u>19,057</u>	<u>66,411</u>	<u>54,330</u>
	<u>\$2,498,089</u>	<u>\$ 257,684</u>	<u>\$ 563,089</u>	<u>\$3,318,862</u>	<u>\$3,403,500</u>

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, 2020

(With Comparative Totals for Year Ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 253,632	\$ 542,799
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	5,608	5,240
Net realized and unrealized gain on investments	(283,124)	(985,655)
(Increase) decrease in assets:		
Unconditional promises to give, net	647,021	244,986
Prepaid expenses and other assets	79,236	2,200
Related party receivable	52,062	(53,619)
Increase (decrease) in liabilities:		
Accounts, support and grants payable	(41,546)	(126,277)
Deferred revenue	(43,100)	850
Contributions restricted for permanent investment	(579,302)	(478,462)
Net cash provided by (used in) operating activities	<u>90,487</u>	<u>(847,938)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and software	(4,980)	(2,875)
Proceeds from the sale and maturities of investments	12,775,059	7,645,937
Purchase of investments	<u>(13,283,187)</u>	<u>(7,991,038)</u>
Net cash used in investing activities	(513,108)	(347,976)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	<u>579,302</u>	<u>478,462</u>
CHANGE IN CASH AND CASH EQUIVALENTS	156,681	(717,452)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>787,252</u>	<u>1,504,704</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 943,933</u>	<u>\$ 787,252</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's (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 two classes of net assets: without donor restrictions and with donor restrictions.

Net Assets Without Donor Restrictions

This category includes net assets not subject to donor-imposed stipulations. This category periodically includes net assets designated by the Board. At June 30, 2020 and 2019, there were board designated net assets of \$2,717,727 and \$2,863,093, respectively.

Net Assets With Donor Restrictions

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 and net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. It also includes earnings from endowments with donor restrictions net of amounts appropriated by the Board of Directors.

- C. Change in Accounting Principle – In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance clarifies the definition of an exchange transaction and the criteria for evaluating whether contributions are conditional or unconditional. Effective July 1, 2019, the Foundation adopted ASU 2018-08 using the modified prospective transition method. The adoption did not have a significant impact on the Foundation's financial statements.
- D. Net Asset 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 net asset transfers between net asset classifications.
- E. 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.
- F. 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, 2019, 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)

- G. 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.
- H. 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.
- I. 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 and are fully reserved.

Certain investments in funds established by private investment companies are valued based upon the net asset value (NAV) provided by the fund manager as a practical expedient. As allowed by accounting principles generally accepted in the United States of America, these investments are not included in the fair value levels described above.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fair Value Reporting (Continued)

The following is a summary of the inputs used as of June 30, 2020 and 2019 in valuing the Foundation's investments carried at fair value:

	2020			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 2,254,426	\$ -	\$ 2,254,426	\$ -
Equity mutual funds	32,515,634	32,515,634	-	-
Bond mutual funds	<u>11,549,695</u>	<u>11,549,695</u>	-	-
Total assets in the fair value hierarchy	46,319,755	<u>\$44,065,329</u>	<u>\$ 2,254,426</u>	<u>\$ -</u>
Investments valued at NAV	<u>2,010,057</u>			
Total investments	<u>\$48,329,812</u>			

	2019			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 53,300	\$ -	\$ 53,300	\$ -
Equity mutual funds	37,059,810	37,059,810	-	-
Bond mutual funds	<u>10,425,450</u>	<u>10,425,450</u>	-	-
	<u>\$47,538,560</u>	<u>\$47,485,260</u>	<u>\$ 53,300</u>	<u>\$ -</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.

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

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ -	\$ -
Distributions	-	-
Contributions	-	-
Management fee	(4,444)	(4,550)
Unrealized (loss) gain	(32,227)	15,841
Valuation allowance	<u>36,671</u>	<u>(11,291)</u>
Ending balance	<u>\$ -</u>	<u>\$ -</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

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 \$5,608 and \$5,240 for the years ended June 30, 2020 and 2019, respectively. Accumulated depreciation at June 30, 2020 and 2019 was \$36,148 and \$33,127, 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 7 to the financial statements discloses the value of services donated by the College to the Foundation during the years ended June 30, 2020 and 2019.

M. Foundation Support Fee – Excluding unconditional promises to give, the Foundation allocates a 1.25% foundation support fee on net assets with donor restrictions that are endowed or have a projected lifespan of three years or more and have a final balance greater than \$15,000. The support is used to provide for indirect program, general management and fundraising expenses. The total amount charged to donor-restricted net assets related to this fee was \$462,517 and \$445,847 for the years ended June 30, 2020 and 2019, 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 and by natural classification in the statement of functional expenses. Accordingly, certain costs have been allocated among program services, management and general and fundraising.

Activities of the Foundation that are not directly related to program services are classified as management and general or fundraising activities. Management and general activities are those related to the general operations of the Foundation including investment management, accounting, auditing, tax preparation, board management, insurance, payroll, legal, record keeping and personnel. Fundraising activities are those related to the strategic cultivation and solicitation of contributions, stewardship of donors and related programs, fundraising and recognition events, development of marketing materials through various media and promoting community relationships. Costs for management and general as well as fundraising are allocated based on the nature of the expense incurred. Individual expenses are categorized as expensed. Personnel costs are allocated based on the effective use of employee's time and effort.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- 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, 2020, the Foundation's income tax years from 2016 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

- P. Reclassifications – Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation.
- Q. Subsequent Events – The Foundation has evaluated subsequent events through October 13, 2020, the date which the financial statements were available to be issued.

Note 2. Unconditional Promises to Give

Unconditional promises to give at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 2,304,839	\$ 1,347,400
Receivable in one to five years	572,500	2,650,739
Receivable in six to ten years	25,000	75,000
Receivable in greater than ten years	<u>1,690,000</u>	<u>1,190,000</u>
Total unconditional promises to give	4,592,339	5,263,139
Less discounts to present value	(637,381)	(514,699)
Less valuation reserves for uncollectible promises to give	<u>(1,667,257)</u>	<u>(1,813,718)</u>
Net unconditional promises to give	<u>\$ 2,287,701</u>	<u>\$ 2,934,722</u>

The discount rate used on long-term promises to give was 2.00% at June 30, 2020 and 2019. Pledges receivable restricted for long-term purposes of \$35,000 are due in less than one year as of June 30, 2020.

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 \$1,667,257 and \$1,813,718 at June 30, 2020 and 2019, respectively. During the years ended June 30, 2020 and 2019, the Foundation directly wrote off uncollectible promises to give of \$2,000 and \$500, respectively. During the years ended June 30, 2020 and 2019, the Foundation recognized a (decrease) increase in the reserve for uncollectible promises to give of \$(146,460) and \$23,533, respectively.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Investments

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

	June 30, 2020		June 30, 2019	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 2,254,426	\$ 2,254,426	\$ 53,300	\$ 53,300
Equity mutual funds	25,340,155	32,515,634	28,536,396	37,059,810
Bond mutual funds	11,069,556	11,549,695	10,350,181	10,425,450
Alternative investment	2,000,000	2,010,057	-	-
Limited partnership	219,560	-	219,560	-
	<u>\$40,883,697</u>	<u>\$48,329,812</u>	<u>\$39,159,437</u>	<u>\$47,538,560</u>

Investment income for the years ended June 30, 2020 and 2019 consisted of the following:

	2020	2019
Interest and dividends	\$1,258,152	\$1,620,649
Net realized and unrealized gain	283,124	985,655
Management fees	<u>(90,156)</u>	<u>(86,164)</u>
Total investment income	<u>\$1,451,120</u>	<u>\$2,520,140</u>

Alternative Investments

The Foundation's alternative investments include investments in the Black Diamond Arbitrage Ltd. Fund (the Fund). As of June 30, 2020, the investments in the Fund were \$2,010,057. This strategy includes investments in a single-strategy event-driven fund. Event-driven strategies center on investing in securities of companies facing a major corporate event. There are no unfunded commitments relating to this investment, and the Fund offers monthly liquidations with a 45 day notice period.

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 \$250,000 have been made. At June 30, 2020 and 2019, the valuation of this investment was \$226,518 and \$263,189, respectively, but due to the speculative nature of the investment was fully reserved. The partnership's annual administrative fee was \$4,444 and \$4,550 for the years ended June 30, 2020 and 2019, 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.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Net Assets

In 2016, the Board of Directors of the Foundation established a board designated operating reserve for the support of ongoing activities of the Foundation. The reserve totaled \$2,689,436 and \$2,835,652 as of June 30, 2020 and 2019, respectively. The Board approves allocations from the operating reserve annually to fund ongoing operations.

In 2018, the Board of Directors of the Foundation established a board designated endowment from a donor's unrestricted gift. The purpose of the fund is to generate annual support for the campus grants program. The fund totaled \$28,291 and \$27,441 as of June 30, 2020 and 2019, respectively.

Net assets with donor restrictions are placed in one of two categories: net assets with donor restrictions for a specific purpose or specified time or net assets maintained permanently by the Foundation as endowments.

Net assets with donor restrictions for a specific purpose or specified time as of June 30, 2020 and 2019 were for the following purposes:

	<u>2020</u>	<u>2019</u>
Support of the College's faculty, programs, facilities and Foundation's operation	\$ 8,069,977	\$ 7,963,620
Innovation fund	319,248	274,248
Scholarships	<u>1,199,650</u>	<u>1,295,629</u>
Total net assets with donor restrictions for a specific purpose or specified time	<u>\$ 9,588,875</u>	<u>\$ 9,533,497</u>

Net assets with donor restrictions to be maintained permanently as endowments as of June 30, 2020 and 2019 were comprised of the following amounts, the earnings of which were available for the following purposes

	<u>2020</u>	<u>2019</u>
Support of the College's faculty, programs and facilities	\$16,627,127	\$16,780,342
Scholarships	17,530,678	17,274,759
Operations and general support	<u>4,942,860</u>	<u>4,794,578</u>
Total net assets with donor restrictions to be maintained permanently as endowments	<u>\$39,100,665</u>	<u>\$38,849,679</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or passage of time for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Support of the College's faculty, programs, facilities and Foundation's operation	\$ 1,279,941	\$ 1,294,074
Innovation fund disbursements	116,000	349,000
Scholarships	<u>889,527</u>	<u>784,643</u>
Total restrictions released	<u>\$ 2,285,468</u>	<u>\$ 2,427,717</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Endowments

The Foundation's endowment includes 178 scholarship funds and 19 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 net assets with donor restrictions to be maintained permanently: (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 net assets with donor restrictions to be maintained permanently is classified as net assets with donor restrictions for a specific purpose or specified period of time 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.

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 net assets with donor restrictions to be maintained permanently. 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 foundation support 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.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Endowments (Continued)

Spending Policy

The Foundation has a policy of appropriating for distribution, on an annual basis and subject to Board approval, up to 4.5% of the audited June 30 trailing three-year moving average balances of the net assets with donor restrictions that are to be maintained permanently. This is in addition to the Foundation support fee described in Note 1. The Foundation charges a foundation support 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.

Underwater Endowments

Due to market performance, the fair value of assets associated with individual donor-restricted endowment funds may, from time to time, fall below a balance required by a) the Foundation's interpretations of UPMIFA or b) the fund's respective donor agreement or originating gifting document. The Foundation's Board reviews endowment earnings and spending at least twice annually, as part of the annual budget review and at the year-end financial statement review. During these periods, the Foundation's Board identifies affected funds and makes spending adjustments if required. Taking donor intentions into account, the Board, along with management support, has made it a practice of decreasing or eliminating spending from underwater funds on a case by case basis.

As of June 30, 2020, two donor-restricted endowment funds had aggregated original gift values totaling \$231,987, current fair values totaling \$230,032 and deficiencies totaling \$1,955 (total deficiencies were \$8,127 at June 30, 2019). Some of these deficiencies resulted from unfavorable market fluctuations that occurred during the lives of the respective endowed funds. At all times, the spending was in accordance with the Foundation's spending policy. The Foundation's Board has curtailed spending from the two affected funds until such time the time the fair value balance for each fund will rise to its corresponding original gift value or higher.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Endowments (Continued)

Changes in endowment net assets as of June 30, 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 27,441	\$40,457,929	\$40,485,370
Investment return:			
Administrative fee	411,162	(411,162)	-
Investment income, net	676	984,855	985,531
Net appreciation (realized and unrealized)	174	253,365	253,539
Total investment return - endowed	<u>412,012</u>	<u>827,058</u>	<u>1,239,070</u>
Contributions	-	589,500	589,500
Special events	-	59,728	59,728
Net asset transfers	-	26,862	26,862
Appropriation of endowment assets for expenditure	<u>(411,162)</u>	<u>(1,183,903)</u>	<u>(1,595,065)</u>
Endowment net assets, end of year	<u>\$ 28,291</u>	<u>\$40,777,174</u>	<u>\$40,805,465</u>

Changes in endowment net assets as of June 30, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 26,016	\$39,330,186	\$39,356,202
Investment return:			
Administrative fee	388,304	(388,304)	-
Investment income, net	-	1,178,557	1,178,557
Net appreciation (realized and unrealized)	1,425	947,062	948,487
Total investment return - endowed	<u>389,729</u>	<u>1,737,315</u>	<u>2,127,044</u>
Contributions	-	500,962	500,962
Special events	-	62,509	62,509
Net asset transfers	-	28,528	28,528
Appropriation of endowment assets for expenditure	<u>(388,304)</u>	<u>(1,201,571)</u>	<u>(1,589,875)</u>
Endowment net assets, end of year	<u>\$ 27,441</u>	<u>\$40,457,929</u>	<u>\$40,485,370</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 7. Related Party

As described in Note 1, the Foundation is affiliated with, but separate from, the College. During the years ended June 30, 2020 and 2019, the College provided the Foundation with professional staffing and office support valued at \$242,370 and \$237,495, 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, 2020 and 2019, the Foundation provided scholarships and support to the College of \$2,382,020 and \$2,209,467, respectively.

At June 30, 2020 and 2019, amounts due to the College and included within "accounts, support and grants payable" totaled \$156,895 and \$186,788, respectively.

During the years ended June 30, 2020 and 2019, the Foundation made contributions of \$225,000 and \$75,000, respectively, to Citizens for LCCC, 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.

At June 30, 2020 and 2019, contributions due from the College totaled \$1,557 and \$53,619, respectively.

Note 8. 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, 2020 and 2019, one donor's promise to give represented approximately 34% and 40%, respectively, of the outstanding promises to give.

Note 9. Innovation Fund Program

The purpose of the Innovation Fund program is to foster entrepreneurship and jobs growth by providing multi-year conditional awards to start-up businesses that create or enhance technology. The Foundation's objective in providing these awards is programmatic and not the return of principal.

The Innovation Fund program 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. Innovation Fund awards are expensed when all conditions of the award are fulfilled.

Awards Payable

During the years ended June 30, 2020 and 2019, the Foundation made Innovation Fund award payments of \$116,000 and \$349,000, respectively, to entities selected by the Innovation Fund Committee. At June 30, 2020 and 2019, the Foundation had additional unpaid awards of \$47,501 and \$180,376, respectively, which were considered conditional and, therefore, not included within accounts payable.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9. Innovation Fund Program (Continued)

Awards Payable (Continued)

Through the life of the Innovation Fund program, the Foundation has made award commitments of \$12,750,000 of which \$1,117,105 has been forfeited to date. The net remaining award commitment is \$47,501. 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, 2020 and 2019.

Innovation Fund Award Replenishment

The Foundation holds a right of replenishment over all Type B funds awarded.

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.

The Foundation made 100 Type B Innovation Fund awards since inception of the program. Of these 100 Type B Innovation Fund awards, the Foundation holds the right of replenishment on 51 awards expiring in:

<u>Years Ending June 30,</u>	
2021	\$2,688,001
2022	640,000
2023	368,400
2024	300,000
2025	175,000
2026	<u>27,500</u>
	<u>\$4,198,901</u>

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, 2020 and 2019, the Foundation received \$161,000 and \$169,105, 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.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9. Innovation Fund Program (Continued)

Innovation Fund Award Replenishment (Continued)

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.

Note 10. Liquidity

Within the spending parameters of the annual Board approved budget, the Foundation has created a cash reserve within its investments pool that is equal to the estimated annual spending of the Foundations budget. Spending is reviewed quarterly and the Board approves liquidations of investments as necessary and in keeping with Foundation spending policies.

Liquid financial assets available for general expenditure within one year as of June 30, 2020 are:

Cash and cash equivalents	\$ 943,933
Investments	48,329,812
Amount of unconditional promises to give, net due within one year excluding amounts dedicated to donor-restricted funds to be maintained permanently	1,744,839
Related party receivable	<u>1,557</u>
Total financial assets	<u>51,020,141</u>
Less funds not available for general expenditure within one year: Net assets with restrictions to be maintained permanently as endowments	<u>(40,777,174)</u>
Financial assets available within one year for general expenditure	<u><u>\$ 10,242,967</u></u>

Note 11. COVID-19 Global Pandemic

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease 2019 (COVID-19) a global health emergency and subsequently declared the COVID-19 outbreak a global pandemic in March 2020. The pandemic has adversely affected domestic and global economic activity and the full impact continues to evolve as of the date of this report.

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*

To the Board of Directors
Lorain County Community College Foundation, Inc.
Elyria, 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 Lorain County Community College Foundation, Inc., which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2020.

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 Lorain County Community College Foundation, Inc.'s internal control or on compliance. This 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Meloney + Novotny LLC

Cleveland, Ohio
October 13, 2020

OHIO AUDITOR OF STATE KEITH FABER



LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION

LORAIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 4/6/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov