

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

**Financial Report
with Supplemental Information
June 30, 2013**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lake County Community College District, d/b/a Lakeland Community College, prepared by Plante & Moran, PLLC, for the audit period July 1, 2012 through June 30, 2013. 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 Community College is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

November 13, 2013

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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lake County Community College d/b/a Lakeland Community College (Lakeland Community College, Lakeland, or the "College") and its discretely presented component unit as of and for the years then ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Lakeland Community College's basic financial statements as listed in the table of contents.

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 did not audit the financial statements of the Lakeland Foundation (the "Foundation") which is the sole discretely presented component unit. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the College, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 audits 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.

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Lake County Community College d/b/a Lakeland Community College and its discretely presented component unit as of June 30, 2013 and 2012 and the changes in their financial position and, where applicable, cash flows thereof, for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the basic financial statements, the 2012 basic financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the basic financial statements, effective July 1, 2012, the College adopted new accounting guidance under GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lakeland Community College's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

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

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of Lakeland Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Lakeland Community College's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 31, 2013

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

Management's Discussion and Analysis (Unaudited)

The management's discussion and analysis of Lake County Community College District d/b/a Lakeland Community College's (Lakeland Community College, Lakeland, or the "College") annual financial statements provides an overview of the College's financial activities for the years ended June 30, 2013, 2012, and 2011. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's administration.

Using this Report

The College's annual report consists of a series of financial statements prepared in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The financial statements focus on the financial condition, the results of operations, and the impact on cash flows of the College as a whole.

One of the most important questions asked about the College's finances is whether the College as a whole is better off, or worse off, as a result of the current year's activities. The keys to understanding this question are the statement of net position, statement of revenue, expenses, and changes in net position, and statement of cash flows. These statements present financial information in a form similar to that used by corporations. The College's net position is one indicator of its financial health. Over time, increases or decreases in net position point out the improvement or erosion of the College's financial health when considered with nonfinancial facts (such as enrollment levels, state changes in funding, facility changes, etc.).

The statement of net position includes all assets and liabilities of the College. It is prepared using the accrual basis of accounting. Revenue and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the services, regardless of when cash is exchanged.

The statement of revenue, expenses, and changes in net position presents the revenue earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies that state and local appropriations, as well as gifts, are treated as nonoperating revenue. Since dependency on the State of Ohio and local aid is recognized as nonoperating revenue under accounting principles generally accepted in the United States of America, a public college normally presents operating results as a deficit. The utilization of long-lived assets, primarily capital assets, is presented in the financial statements as depreciation.

Another important factor to consider when evaluating the College's financial viability is the College's ability to meet financial obligations as they mature. One measure of this factor is the College's working capital or the relationship of its current assets less its current liabilities.

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

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

The statement of cash flows presents the information related to cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities and illustrates the College's sources and uses of cash.

The College adheres to Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus*. In that regard, The Lakeland Foundation is recognized as a discretely presented component unit due to the significant operational and financial relationships maintained with the College. The Lakeland Foundation's purpose is to support and promote excellence at the College by fundraising. It is a legally separate entity governed by its own board of directors. Discrete condensed financial information is presented on page 21 and in Notes 1 and 15.

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

	Year Ended June 30		
	2013	2012	2011
Operating Revenue			
Student tuition and fees - Net	\$ 10,106,022	\$ 9,121,040	\$ 9,084,515
Grants, contracts, and other revenue	2,354,007	2,173,927	2,335,879
Auxiliary enterprises	4,022,522	4,278,198	4,475,441
Total operating revenue	16,482,551	15,573,165	15,895,835
Operating Expenses	68,922,460	71,284,681	67,768,173
Operating Loss	(52,439,909)	(55,711,516)	(51,872,338)
Nonoperating Revenue			
State appropriations	17,676,460	18,206,337	22,505,312
Local appropriations	18,112,482	18,672,505	14,793,751
Pell grant revenue - Net of refunds	14,857,438	16,317,212	16,185,450
Other nonoperating income and expenses - Net	(415,940)	(404,717)	(206,224)
Total nonoperating revenue	50,230,440	52,791,337	53,278,289
(Loss) Gain - Before other changes	(2,209,469)	(2,920,179)	1,405,951
Other Changes			
Capital appropriations from the State of Ohio	5,604,203	633,900	1,114,629
Capital grants and gifts	-	25,500	14,500
Total other changes	5,604,203	659,400	1,129,129
Increase (Decrease) in Net Position	3,394,734	(2,260,779)	2,535,080
Net Position - Beginning of year	39,385,575	41,646,354	39,111,274
Net Position - End of year	\$ 42,780,309	\$ 39,385,575	\$ 41,646,354

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

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

Analysis of Results of Operations

Total revenue for the years ended June 30, 2013 and 2012 was \$72.3 million and \$69.0 million, respectively, of which operating revenue amounted to \$16.5 million and \$15.6 million, respectively. Operating revenue increased \$0.9 million, or 5.8 percent. Total operating expenses for the years ended June 30, 2013 and 2012 were \$68.9 million and \$71.3 million, respectively. Operating expenses decreased \$2.4 million, or 3.3 percent. The College's operating loss amounted to \$52.4 million during 2013 compared to \$55.7 million in 2012, which represented a decrease of \$3.3 million, or 5.9 percent.

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

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

Credit and Noncredit Instruction Revenue

	Year Ended June 30		
	2013	2012	2011
	(dollars in millions)		
Credit instruction	\$ 21.0	\$ 20.8	\$ 20.9
Less Pell grants and scholarship allowances	(12.8)	(13.9)	(14.0)
Net credit instruction	8.2	6.9	6.9
Noncredit instruction	1.0	1.3	1.3
Other	0.9	0.9	0.9
Total	<u>\$ 10.1</u>	<u>\$ 9.1</u>	<u>\$ 9.1</u>

Student tuition and fees, net, was slightly higher during 2013 as compared to 2012.

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

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

Credit instruction tuition and fees, net, increased by \$1.3 million in 2013 as compared to 2012. Gross credit instruction and fees increased by 1.0 percent. The increase is primarily related to a decline in Pell grants used for tuition and fees of \$1.1 million and an increase in tuition rates commencing with Fall 2012, offset by declines in summer, fall, and spring enrollments of 5.9 percent, 3.7 percent, and 3.2 percent, respectively. Gross credit instruction and fees are offset by Pell grants and other scholarship allowances of \$12.8 million during 2013 as compared to \$13.9 million and \$14.0 million during 2012 and 2011, respectively.

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

There was a 23.1 percent decrease in noncredit instruction revenue during 2013 as compared to 2012. The decrease is primarily due to enrollment declines in business professional, computer and personal skills, health professional, police academy, nonprofit, and CBI courses attributable to the economic climate and reorganization of the Community Learning Division, partially offset by enrollment increases in youth and recreation. Related expenses were reduced by the corresponding decrease in revenue as well as cost savings from the reorganization commencing at the start of this fiscal year.

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

Grants, contracts, and other revenue increased by \$0.2 million during 2013 as compared to 2012, primarily attributable to increased partnership revenue from the Holden University Center and the Teaching Learning Center.

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

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

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

Auxiliary enterprises revenue is comprised primarily of bookstore and event services and campus dining revenue. Operating revenue decreased by 6.0 percent for these operations during 2013 compared to 2012, primarily attributable to a decrease in bookstore sales attributable to a decrease in enrollment and increased competition from online book sellers.

Operating revenue decreased by 4.4 percent for these operations during 2012 compared to 2011, primarily attributable to a decrease in bookstore sales attributable to a decrease in enrollment.

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

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

State Appropriations

	Year Ended June 30		
	2013	2012	2011
	(dollars in millions)		
SSIS and access challenge	\$ 17.6	\$ 17.6	\$ 17.1
Federal fiscal stabilization funds	-	-	2.9
Replacement state taxes on property tax law changes	0.1	0.6	2.5
Total	\$ 17.7	\$ 18.2	\$ 22.5

The College’s state funding for operational support is determined legislatively and controlled through the Ohio Board of Regents (OBR). State Share of Instructional Support (SSIS) is formula determined and allocates available State funds to each two-year institution primarily based on (a) statewide cost model averages by course and (b) eligible enrollment changes. SSIS in the 2012-2013 biennium allocates available state funds to each two-year institution by blending a minimum guarantee “floor” along with that institution’s subsidized enrollment.

The College’s 2013 Budget reflects the State’s 2012-2013 Operating Biennium Budget. Although state support during 2013 is relatively flat with 2012, the College experienced a \$2.4 million, or 12 percent, reduction in state support during 2012 as compared to 2011, primarily attributable to the loss of Federal stimulus money.

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

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

Replacement property taxes on property tax law changes represent legislated, time-limited state funding guarantees on local property tax reductions attributable to (a) legislation on deregulated electric and natural gas utilities (SB3 and SB287) and (b) the phase out on the tangible personal property tax of general business, telephone, telecommunications companies, and railroads (HB66). Guarantees were in place to transition and protect the College in the loss of those personal property taxes and were expected to continue and phase out over the next five years. In the State 2012-2013 Operating Biennium Budget, the guarantees mentioned above were eliminated; guarantees were reduced from \$2.5 million during 2011 to \$0.6 million during 2012, to \$0.1 million during 2013, and then to \$0 in FY 2014.

Local appropriations decreased by \$0.6 million, or 3.0 percent, during 2013 as compared to 2012. The decrease is primarily attributable to lower real estate tax receipts due to a decline in revaluations.

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

Pell grant revenues decreased by \$1.4 million during 2013 (\$14.9 million in 2013 compared to \$16.3 million in 2012). Other nonoperating income and expenses slightly decreased by 3.0 percent during 2013 as compared to 2012.

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

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

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

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

Operating Expense Summary

	Year Ended June 30		
	2013	2012	2011
	(dollars in millions)		
Educational and general:			
Salaries and wages	\$ 37.4	\$ 38.1	\$ 36.3
Benefits	11.2	11.6	10.7
Operating expenses	10.9	11.9	11.3
Total educational and general	59.5	61.6	58.3
Auxiliary enterprises	5.6	6.3	6.2
Depreciation	3.8	3.4	3.3
Total	<u>\$ 68.9</u>	<u>\$ 71.3</u>	<u>\$ 67.8</u>

Salaries and wages decreased by 1.8 percent during 2013. The decrease is primarily attributable to (a) no salary increases given to part-time faculty, staff, and management in FY 2013, (b) elimination of noncredit positions through reorganization, (c) freezing/delaying the hiring of certain open positions, (d) lower part-time faculty costs resulting from lower credit and noncredit enrollment in addition to increased credit class size, (e) replacing full-time faculty open positions at lower salaries, and (f) savings due to the retire/rehire program, partially offset by higher full-time faculty costs resulting from contract salary increases.

Benefits before the Early Retirement Incentive Plan (ERIP) include retirement and nonretirement benefits, which decreased by 3.4 percent. The decrease is attributable to a decrease in retirement benefits resulting from the decrease in salaries and wages, offset by a modest increase in health care rates. There was no Early Retirement Incentive Plan (ERIP) for full-time faculty in 2013.

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

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

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

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

In 2013, operating expenses were lower by 3.4 percent. The decrease is primarily attributable to lower expenses related to the decrease in noncredit classes and various cost saving efforts, partially offset by the Holden University Center operating at a full year during 2013 versus ten months in its startup during 2012.

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

Auxiliary enterprises expense decreased by 11.1 percent resulting from the favorable impact for event and food services, staffing and salary adjustments, and lower bookstore costs resulting from lower sales during 2013.

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

Depreciation expense is higher by 11.8 percent during 2013 due to additional capital expenditures (C Building Project, parking lot renovations, Holden University Center, and planned equipment replacements).

Depreciation expense is higher by 3 percent during 2012 due to additional capital expenditures.

From a budgetary perspective, the College utilizes fund-based accounting to control unrestricted revenue, expenditures, and transfers. A summary for the year ended June 30, 2013 comparison of net changes to fund balance, budget versus actual, for the College’s unrestricted funds is as follows:

Unrestricted Funds Budget to Actual Comparison

Changes to Fund Balances by Unrestricted Fund Type	2013	
	Adopted Budget	Actual
	(dollars in millions)	
General operating	\$ (0.5)	\$ (0.2)
Auxiliary	(0.1)	-
Plant	(0.3)	(0.1)
Total	<u>\$ (0.9)</u>	<u>\$ (0.3)</u>

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

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

Condensed Statement of Net Position

	June 30		
	2013	2012	2011
Assets			
Current assets	\$ 32,132,120	\$ 33,231,398	\$ 34,983,764
Noncurrent assets:			
Capital	42,119,422	37,744,229	34,051,670
Other	9,332,539	8,863,250	15,870,520
Total assets	<u>\$ 83,584,081</u>	<u>\$ 79,838,877</u>	<u>\$ 84,905,954</u>
Liabilities			
Current liabilities	\$ 27,522,633	\$ 25,589,663	\$ 25,999,741
Noncurrent liabilities	13,281,139	14,863,639	17,259,859
Total liabilities	40,803,772	40,453,302	43,259,600
Net Position			
Net investment in capital assets	29,954,701	25,985,225	26,003,090
Restricted	469,044	625,986	587,703
Unrestricted	12,356,564	12,774,364	15,055,561
Total net position	42,780,309	39,385,575	41,646,354
Total liabilities and net position	<u>\$ 83,584,081</u>	<u>\$ 79,838,877</u>	<u>\$ 84,905,954</u>

Analysis of Overall Financial Position

At June 30, 2013, current assets amounted to \$32.1 million as compared to \$33.2 million at June 30, 2012, a decrease of \$1.1 million. Current liabilities at June 30, 2013 amounted to \$27.5 million and current liabilities at June 30, 2012 amounted to \$25.6 million, an increase of \$1.9 million. The College's working capital ratio was 1.2 and 1.3 at June 30, 2013 and 2012, respectively. The decrease in current assets is primarily attributable to a decrease in investments due to spending of the proceeds from the Series 2011 Tax Anticipation Notes and the planned reduction to reserves, as well as an increase in intergovernmental receivables offset by a decrease in student loans and receivables. The increase in current liabilities is attributable to the timing of payments to vendors, an increase in deferred revenue resulting from an earlier fall 2013 registration during 2013 as compared to 2012, and an increase in the deferral of grant revenue. It should be noted that grant revenue is deferred until the corresponding disbursement is made.

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

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

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

Noncurrent assets are comprised of capital assets, restricted cash, investments, and loans receivable. The increase in noncurrent assets (\$4.8 million) during 2013 is primarily due to the increases in capital assets from various state and College funded projects and higher long-term investments compared to 2012.

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

The decrease in noncurrent liabilities in 2013 (\$1.6 million) is primarily attributable to scheduled principal payments on the College's debt.

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

The College's net position amounted to \$42.8 million, \$39.4 million, and \$41.6 million at June 30, 2013, 2012, and 2011, respectively. The \$3.4 million increase in the College's net position during 2013 was primarily attributable to increased capital appropriated from the State of Ohio, partially offset by the planned reduction in reserves in the general and auxiliary funds and planned debt payments. A prior period adjustment was made to the College's net position in 2013 to correct the classification of the 2012 components of net position. See Note 16 for further description of the adjustment.

Capital Assets and Long-term Debt Activity

The College utilizes state capital appropriations, internal funds, debt proceeds, and gifts and other grants for capital asset expenditures. State capital appropriations are on a biennium basis, and individual institutions' capital funding allocations are based largely on enrollment. During 2013, the College utilized \$5.6 million in state capital appropriations and \$2.6 million in internal funds including debt proceeds and purchased \$8.2 million of capital assets.

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

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

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

The College's long-term debt is comprised of Series 1999 General Receipts Bonds, Series 2008 Tax Anticipation Notes, and Series 2011 Tax Anticipation Notes. The bonds have a Moody's rating of A1.

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

In 2009, the College issued notes in the amount of \$8.5 million, with fixed interest rates and a final maturity date in 2018. The proceeds of the notes were used to pay costs associated with the implementation of energy conservation measures that are intended to significantly reduce the College's energy consumption and the operating costs of its buildings. A portion of the proceeds of the notes was also used to pay costs associated with the acquisition of technology equipment and other capital improvements.

On September 1, 2011, the board of trustees issued a resolution to redeem the outstanding General Receipts Bonds, Series 1999. The bonds were redeemed on December 1, 2011.

During 2013, 2012, and 2011, the College paid \$1.6 million, \$2.3 million, and \$1.6 million, respectively, in connection with debt maturities. The College is in compliance with all of its contractual long-term debt requirements and covenants.

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

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

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

Statement of Cash Flows

Cash Flows for the Year Ended June 30

	2013	2012	2011
Net Cash and Cash Equivalents (Used in)			
Provided by			
Operating activities	\$ (46,053,734)	\$ (51,187,775)	\$ (55,118,083)
Noncapital financing activities	51,077,495	54,149,947	58,545,263
Capital and related financing activities	(5,084,291)	(10,427,283)	5,714,043
Investing activities	1,012,798	(4,435,942)	1,602,836
Net Increase (Decrease) in Cash and Cash Equivalents	952,268	(11,901,053)	10,744,059
Cash and Cash Equivalents - Beginning of year	1,976,298	13,877,351	3,133,292
Cash and Cash Equivalents - End of year	\$ 2,928,566	\$ 1,976,298	\$ 13,877,351

Major sources of cash included student tuition and fees of \$12.3 million, \$9.9 million in 2012, and \$8.3 million in 2011; state appropriations of \$17.7 million in 2013, \$18.2 million in 2012, and \$22.5 million in 2011; local appropriations of \$18.6 million in 2013, \$18.7 million in 2012, and \$14.8 million in 2011; grants and contracts of \$0.7 million in 2013, \$1.3 million in 2012, and \$1.1 million in 2011; and auxiliary sales and services of \$3.5 million in 2013, \$4.1 million in 2012, and \$4.3 million in 2011.

The largest payments were for employee compensation and benefits totaling \$51.6 million in 2013, \$53.1 million in 2012, and \$49.7 million in 2011; suppliers of goods and services totaling \$11.4 million in 2013, \$13.8 million in 2012, and \$16.0 million in 2011; and purchases of capital assets totaling \$3.0 million in 2013, \$7.7 million in 2012, and \$1.9 million in 2011.

Factors Impacting Future Periods

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

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

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

The College places significant reliance on state appropriations. State income and budget constraints may from time to time compel stabilization or reduction to levels of state assistance and support for higher education in general and the College in particular. In addition, the SSIS appropriations are subject to subsequent limitations, which provide in part that if the governor ascertains that the available revenue receipts and balances for the current fiscal year will in all probability be less than the appropriations for the year, he shall issue such orders to prevent the expenditure and incurred obligations from exceeding those revenue receipts and balances. SSIS is formula determined and allocates 2014 state funds to each two-year institution based on (a) enrollment, (b) course completion, and (c) student success. In 2014 there is a hold-harmless guarantee that provides temporary stability to institutions where funding decreases precipitously.

Local appropriations in the form of property taxes are another critical element of support. The electors within the County of Lake, Ohio (the "County") must approve any Lakeland Community College property tax. The College collects property taxes for operating and capital purposes from two levies approved by the County voters: a 1.7 mills stated rate for a continuing period and a 1.5 mills stated rate for 10 years. The 1.7 mills levy replacement was approved by Lake County voters on November 2, 2010 and the 1.5 mills stated rate was renewed on November 8, 2011. This replacement of the 1.7 mills levy generated approximately \$4.0 million dollars in incremental funding for 2011, as compared to 2010, and has generated an incremental \$8.0 million dollars in 2012 compared to 2010. The incremental \$8.0 million dollars, as compared to 2010, is expected to continue unless another replacement is passed.

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

Statement of Net Position

	June 30	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 2,283,060	\$ 981,864
Short-term investments (Note 2)	3,102,973	4,923,498
Intergovernmental receivables	11,345,571	9,825,956
Loans and other receivables - Net (Note 3)	13,246,215	15,040,415
Inventories	798,588	859,393
Prepaid assets	1,355,713	1,600,272
Total current assets	32,132,120	33,231,398
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	645,506	994,434
Restricted investments (Note 2)	1,199,173	2,848,817
Investments (Note 2)	7,471,962	4,998,591
Loans receivable - Net (Note 3)	15,898	21,408
Capital assets - Net (Note 4)	42,119,422	37,744,229
Total noncurrent assets	51,451,961	46,607,479
Total assets	83,584,081	79,838,877
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	4,057,844	2,976,993
Unearned revenue	20,615,573	19,813,868
Other liabilities	266,208	138,659
Debt payable (Note 5)	1,649,766	1,595,528
Compensated absences (Note 5)	933,242	1,064,615
Total current liabilities	27,522,633	25,589,663
Noncurrent liabilities (Note 5):		
Other liabilities	248,000	248,000
Debt payable	12,026,245	13,676,011
Compensated absences	792,721	636,663
Refundable federal student loans	214,173	302,965
Total noncurrent liabilities	13,281,139	14,863,639
Total liabilities	40,803,772	40,453,302
Net Position		
Net investment in capital assets	29,954,701	25,985,225
Restricted for:		
Nonexpendable for endowment purposes	355,124	354,545
Expendable for instructional purposes	113,920	271,441
Unrestricted	12,356,564	12,774,364
Total net position	\$ 42,780,309	\$ 39,385,575

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

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended June 30	
	2013	2012
Operating Revenue		
Student tuition and fees - Net of \$12,835,200 and \$13,943,471 in Pell and scholarship allowances in 2013 and 2012, respectively	\$ 10,106,022	\$ 9,121,040
Federal grants and contracts	231,327	298,873
State grants and contracts	131,877	316,882
Private grants and contracts	433,644	262,855
Sales and services	792,687	805,554
Auxiliary enterprises - Net of \$2,022,238 and \$2,373,741 in Pell and scholarship allowances in 2013 and 2012, respectively	4,022,522	4,278,198
Other operating revenue	764,472	489,763
Total operating revenue	16,482,551	15,573,165
Operating Expenses		
Educational and general:		
Instruction and departmental research	28,185,915	28,787,466
Public service	1,624,805	2,441,090
Academic support	5,118,898	4,966,354
Student services	7,968,079	8,296,772
Institutional support	9,806,532	10,176,580
Operation and maintenance of facilities	6,762,442	6,960,707
Total educational and general	59,466,671	61,628,969
Auxiliary enterprises	5,601,071	6,258,796
Depreciation	3,854,718	3,396,916
Total operating expenses	68,922,460	71,284,681
Operating Loss	(52,439,909)	(55,711,516)
Nonoperating Revenue (Expense)		
State appropriations (Note 9)	17,676,460	18,206,337
Local appropriations (Note 10)	18,112,482	18,672,505
Pell grant revenue - Net of refunds	14,857,438	16,317,212
Unrestricted investment income - Net of investment expense	40,891	92,866
Restricted investment income - Net of investment expense	5,643	19,440
Interest on capital asset - Related debt	(462,474)	(517,023)
Net nonoperating revenue	50,230,440	52,791,337
Loss - Before other changes	(2,209,469)	(2,920,179)
Other Changes		
Capital appropriations from the State of Ohio (Note 9)	5,604,203	633,900
Capital grants and gifts	-	25,500
Total other changes	5,604,203	659,400
Increase (Decrease) in Net Position	3,394,734	(2,260,779)
Net Position - Beginning of year	39,385,575	41,646,354
Net Position - End of year	\$ 42,780,309	\$ 39,385,575

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

Statement of Cash Flows

	Year Ended June 30	
	2013	2012
Cash Flows from Operating Activities		
Tuition and fees - Net	\$ 12,291,978	\$ 9,922,339
Grants and contracts	745,078	1,346,310
Payments to suppliers and utilities	(11,420,612)	(13,776,148)
Payments for compensation and benefits	(51,597,718)	(53,140,949)
Federal draw-downs	21,502,285	23,858,678
Federal draw-downs applied to tuition - Disbursed to students	(23,038,039)	(24,736,592)
Auxiliary sales and services	3,531,006	4,082,869
Other	1,932,288	1,255,718
Net cash used in operating activities	(46,053,734)	(51,187,775)
Cash Flows from Noncapital Financing Activities		
State appropriations	17,676,460	18,206,337
Local appropriations	18,543,597	18,672,505
Federal Pell - Net of refunds	14,857,438	17,271,105
Net cash provided by noncapital financing activities	51,077,495	54,149,947
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	-	63,718
Purchases of capital assets	(3,040,322)	(7,723,780)
Principal paid on capital debt and leases - Net	(1,595,528)	(2,266,266)
Interest paid on capital debt and leases	(448,441)	(500,955)
Net cash used in capital and related financing activities	(5,084,291)	(10,427,283)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	9,725,225	13,125,000
Purchase of investments	(8,743,344)	(17,674,157)
Interest on investments	30,917	113,215
Net cash provided by (used in) in investing activities	1,012,798	(4,435,942)
Net Increase (Decrease) in Cash and Cash Equivalents	952,268	(11,901,053)
Cash and Cash Equivalents - Beginning of year	1,976,298	13,877,351
Cash and Cash Equivalents - End of year	\$ 2,928,566	\$ 1,976,298
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 2,283,060	\$ 981,864
Restricted cash and cash equivalents	645,506	994,434
Total cash and cash equivalents	\$ 2,928,566	\$ 1,976,298

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

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2013	2012
Reconciliation of Operating Loss to Net Cash from Operating Activities:		
Operating loss	\$ (52,439,909)	\$ (55,711,516)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	3,854,718	3,396,916
Decrease in assets:		
Accounts receivable	280,094	678,620
Inventories	60,805	60,199
Other assets	244,559	1,639,969
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	1,208,401	(1,120,970)
Unearned revenue	801,705	(322,149)
Deposits held for others	(88,792)	9,241
Compensated absences	24,685	181,915
Net cash used in operating activities	<u>\$ (46,053,734)</u>	<u>\$ (51,187,775)</u>

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

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

Balance Sheet

		June 30	
		2013	2012
Assets			
Cash and cash equivalents		\$ 377,747	\$ 372,840
Cash held for others		11,182	11,204
Investments (Note 2)		3,266,222	2,920,758
Receivables		414,683	531,430
Other assets		24,771	13,837
	Total assets	<u>\$ 4,094,605</u>	<u>\$ 3,850,069</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable		\$ 52,628	\$ 34,364
Due to custodial funds		11,182	11,204
	Total liabilities	63,810	45,568
Net Assets			
Unrestricted		45,514	(22,647)
Temporarily restricted (Note 7)		1,888,793	1,856,065
Permanently restricted		2,096,488	1,971,083
	Total net assets	4,030,795	3,804,501
	Total liabilities and net assets	<u>\$ 4,094,605</u>	<u>\$ 3,850,069</u>

Condensed Statement of Activities

		Year Ended June 30	
		2013	2012
Support and Revenue			
Contributions and grants		\$ 873,931	\$ 1,211,419
Investment income - Net		295,658	7,752
	Total support and revenue	1,169,589	1,219,171
Program and Support Services			
Program services:			
Scholarships		452,762	344,650
Educational and related programs		265,849	237,383
Support services - Administration		224,684	265,504
	Total program and support expenses	943,295	847,537
	Increase in Net Assets	226,294	371,634
	Net Assets - Beginning of year	3,804,501	3,432,867
	Net Assets - End of year	<u>\$ 4,030,795</u>	<u>\$ 3,804,501</u>

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

Notes to Financial Statements June 30, 2013 and 2012

Note I - Basis of Presentation and Significant Accounting Policies

Lake County Community College District d/b/a Lakeland Community College (the "College") is a two-year community college and a political subdivision of the State of Ohio (the "State"). The College is exempt from filing a federal tax return based upon the ruling it received from the Internal Revenue Service dated August 27, 1968.

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

The financial statements have been prepared in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. This standard requires examination of significant operational or financial relationships with the College and establishes criteria for identifying and presenting component units of the organization. Based on this examination and application of the criteria, the College has identified one component unit: the Lakeland Foundation. A component unit is a separate legal entity that is included in the College's reporting entity because of the significance of its operational financial relationships with the College.

The Lakeland Foundation (the "Foundation") is discretely reported as part of the College's reporting entity (although it is legally separate and governed by its own board of directors) The Foundation is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under the GASB. No modifications have been made to the Foundation's financial information included in the College's financial report to account for these differences. Separate financial statements of the Foundation may be obtained by contacting The Lakeland Foundation, 7700 Clocktower Drive, Kirtland, Ohio 44094-5198.

Basis of Accounting - The accompanying financial statements of the College were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the GASB.

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

Notes to Financial Statements June 30, 2013 and 2012

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

Measurement Focus and Financial Statement Presentation - Operating revenue and expenses generally result from providing service in connection with the College's principal ongoing operations. The principal operating revenue is student tuition. The College also recognizes as operating revenue grants and contracts classified as exchange transactions and auxiliary activities. Operating expenses include educational costs, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition, including state and local appropriations, are reported as nonoperating revenue and expenses. When the College incurs an expense for which both unrestricted and restricted net assets are available, it is the College's policy to first apply restricted resources. Activity related to Internal Service Funds is eliminated to avoid "doubling up" revenue and expenses.

Cash and Cash Equivalents - Cash and cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased.

Restricted Cash and Cash Equivalents - As of June 30, 2013, restricted cash and cash equivalents of \$645,506 consist of the unspent proceeds from the Tax Anticipation Notes, Series 2011 (\$290,382) issued on June 29, 2011 and for endowment purposes (\$355,124). As of June 30, 2012, restricted cash and cash equivalents of \$994,434 consist of the unspent proceeds from the Tax Anticipation Notes, Series 2011 (\$639,889) issued on June 29, 2011 and for endowment purposes (\$354,545).

Inventories - Inventories consist primarily of books and supplies of the College's bookstore and are valued at the lower of cost (first-in, first-out) or market.

Investments - All investments are measured at fair value, based on quoted market prices, in the statement of net position. Investments maturing in one year or less are categorized as short term.

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

Notes to Financial Statements June 30, 2013 and 2012

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

Capital Assets - The College's policy on capitalization and depreciation adheres to the requirement of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. Capital assets include land, land improvements, infrastructure, buildings, building improvements, construction in progress, equipment, furniture, vehicles, software, and library books.

Capital assets greater than \$5,000 are capitalized at cost or, if acquired by donation, at appraised values as of the date received. When capital assets are sold or otherwise disposed of, the carrying value of such assets and any accumulated depreciation are removed from the statement of net position. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend the capital asset's life are expensed.

Capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method for equipment, furniture, and vehicles and half-year convention for all other capital assets:

Land improvements	20-30 years
Infrastructure	20-25 years
Building and building improvements	5-40 years
Equipment, furniture, and vehicles	3-15 years
Software and library books	3-5 years

Unearned Revenue - Unearned revenue includes tuition and fees for summer sessions and local government revenue. Summer tuition and fee revenue received and related expenses incurred are unearned in their entirety to the next fiscal year. This is consistent with the State of Ohio reporting model. Unearned revenue also includes amounts billed to students for the fall semester of fiscal year 2014 that have not yet been earned.

Reserve for Compensated Absences - Compensated absences, including accumulated unpaid vacation benefits and unpaid sick leave, are accrued to conform to GASB Statement No. 16, *Accounting for Compensated Absences*.

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

Notes to Financial Statements June 30, 2013 and 2012

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

Net Position - Net position is classified according to external donor restrictions or availability of assets for satisfaction of College obligations. Nonexpendable, restricted net positions are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net position represents funds that have been gifted or granted for specific purposes, funds used for capital projects, and debt service. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Unrestricted net position is not subject to externally-imposed constraints and may be designated for specific purposes by action of the board of trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties.

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

Grants and Contracts - The College receives grants and contracts from federal, state, and private agencies to fund education programs, research, and other activities. Grants and contracts generally provide for the recovery of direct and indirect costs. Indirect costs recovery is recorded as a percentage of direct costs at negotiated fixed rates. Revenue received under grants and contracts is subject to the examination and retroactive adjustments by the awarding agency.

Pell Grant Reimbursements - Pell grant reimbursements are classified as nonoperating revenue due to their nonexchange nature. The amounts recorded as Pell revenue for 2013 and 2012 are \$14,857,438 and \$16,317,212, respectively.

Intergovernmental Receivables and Revenue - Local government revenue is recorded as receivables and revenue when the legal right to the funds has occurred. Other federal and state grants and assistance awards made on the basis of entitlement are recorded as intergovernmental receivables and revenue when entitlement occurs.

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

Notes to Financial Statements June 30, 2013 and 2012

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures in the notes. Actual results could differ from the estimates.

Newly Adopted Accounting Pronouncements- Effective July 1, 2012, the College implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement introduces and defines those elements as a consumption of net assets by the College that are applicable to a future reporting period, and an acquisition of net assets by the College that are applicable to a future reporting period, respectively. The standards also incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Newly Issued Accounting Pronouncements, Not Yet Adopted- In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.

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

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

Notes to Financial Statements June 30, 2013 and 2012

Note 2 - Cash and Cash Equivalents and Investments

Cash and Cash Equivalents - Ohio law requires that cash amounts be placed in eligible financial institutions located in Ohio. Any public depository in which the College places deposits must pledge as collateral eligible securities of aggregate fair value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation. Further, Ohio law requires such collateral amounts to exceed deposits by 2 percent. Collateral that may be pledged is limited to obligations of the following entities: the United States and its agencies, the State of Ohio, the Ohio Student Loan Commission, and any legally constituted taxing subdivision within the state of Ohio.

At June 30, 2013 and 2012, the carrying amount of the College's cash balance was \$283,802 and \$82,080, respectively. The bank balance at June 30, 2013 and 2012 totaled \$2,509,966 and \$1,089,065, respectively. The difference represents outstanding checks payable, deposits in transit, and normal reconciling items.

A total of \$250,000 of the bank balance was covered by the federal depository insurance for the years ended June 30, 2013 and 2012. The remainder was specifically secured by U.S. government and municipal securities. The College also maintains a small on-hand cash balance to maintain day-to-day operations in the cashier's office, bookstore, and food service operations.

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

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

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

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

Notes to Financial Statements June 30, 2013 and 2012

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

Liquidity Risk - The portfolio remains sufficiently liquid to meet all current obligations of the College. Minimum liquidity levels are established in order to meet all current obligations without having to sell securities. The College forecasts its cash needs and maintains cash balances (related to daily receipts or for immediate expenditure needs) in an overnight “sweep” bank account (that earns interest in overnight repurchase agreements). In addition, funds are also invested in the State of Ohio treasurer’s STAR investment program fund. The remaining portfolio at June 30, 2013 and 2012 is made up of federal agency issues. These investments are structured so that securities mature concurrently with cash needs.

Credit Risk - Credit risk is the risk of loss due to the failure of a security issuer to pay principal or interest or the failure of the issuer to make timely payments of principal. Eligible investments affected by credit risk include certificates of deposit, commercial paper, and bankers’ acceptances. The College had \$1,499,481 in commercial paper in 2013, \$0 in 2012. Credit risk is minimized by (1) diversifying assets by issuer, (2) ensuring that required minimum credit ratings exist prior to the purchase of commercial paper and bankers’ acceptances, and (3) maintaining adequate collateralization of certificates of deposits

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

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

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

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

Lake County Community College District

d/b/a Lakeland Community College

Notes to Financial Statements

June 30, 2013 and 2012

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

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

Foreign Currency Risk - The College did not invest in any foreign instruments in 2013 or 2012.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The College's investment policy places no limitation on the amount that may be invested in a single issuer. The college held commercial paper with General Electric Capital Corporation that had fair values of 5 percent or more of total investments as of June 30, 2013. There were no other issuers over 5 percent in 2013 and none in 2012.

At June 30, 2013 and 2012, the College's investment portfolio and credit ratings consisted of the following:

2013	Fair Market Value	Less Than One Year	1-4 Years	NRSRO Rating
State Treasurer Asset Reserve Fund (STAR Ohio)	\$ 399,557	\$ 399,557	\$ -	AAA
Money market	2,529,009	2,238,627	290,382	AAA
Commercial paper	1,499,481	499,586	999,895	P-1
U.S. Treasury	500,176		500,176	AAA
U.S. government agency	<u>9,774,451</u>	<u>2,603,387</u>	<u>7,171,064</u>	AAA
Total investments	<u>\$ 14,702,674</u>	<u>\$ 5,741,157</u>	<u>\$ 8,961,517</u>	
2012	Fair Market Value	Less Than One Year	1-4 Years	NRSRO Rating
State Treasurer Asset Reserve Fund (STAR Ohio)	\$ 406,218	\$ 406,218	\$ -	AAA
Money market	4,418,897	3,424,463	994,434	AAA
U.S. government agency	<u>9,922,089</u>	<u>2,074,681</u>	<u>7,847,408</u>	AAA
Total investments	<u>\$ 14,747,204</u>	<u>\$ 5,905,362</u>	<u>\$ 8,841,842</u>	

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

Notes to Financial Statements June 30, 2013 and 2012

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

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

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

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

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

The following table sets forth by level within the fair value hierarchy the Foundation's investments that were accounted for at fair value on a recurring basis as of June 30, 2013 and 2012. All investments were Level 1 and Level 2 inputs, as defined above, for the years ended June 30, 2013 and 2012.

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

Notes to Financial Statements June 30, 2013 and 2012

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

	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Corporate bonds	\$ 28,760	\$ 29,867	\$ -	\$ -
Municipal bonds	757,815	764,323	802,189	803,691
Fixed-income mutual funds	563,241	554,473	565,282	545,121
Equities	284,236	233,516	241,758	216,263
Equity mutual funds	1,072,317	852,219	836,271	732,271
International mutual funds	267,778	233,368	195,017	173,074
Other investment assets	215,101	223,514	178,582	156,272
Money market/Cash reserves	76,974	76,974	101,659	101,659
Total	<u>\$ 3,266,222</u>	<u>\$ 2,968,254</u>	<u>\$ 2,920,758</u>	<u>\$ 2,728,351</u>

Note 3 - Loans and Other Receivables

Loans and other receivables relate to several activities including tuition and fees, auxiliary sales, and miscellaneous sales and services. Loans and other receivables are recorded net of allowances for uncollectible accounts of \$3,442,464 and \$3,092,495 at June 30, 2013 and 2012, respectively. The increase is primarily attributable to the planned growth in the uncollectible accounts provision attributable to (a) usage of the College's tuition payment plan, as well as (b) the College's accounting change in only writing off receivables when informed by the Attorney General's collection division. This account is reviewed and reestablished at each year end. The following schedule is an analysis of loans and other receivable balances as of June 30, 2013 and 2012:

	2013		2012	
	Current Portion - Net	Noncurrent Portion - Net	Current Portion - Net	Noncurrent Portion - Net
In-house student loans	\$ -	\$ 1,500	\$ -	\$ 1,500
Federal Perkins and nursing student loans	12,526	-	9,433	-
Employee computer financing	30,058	14,398	37,398	19,908
Student accounts	12,739,596	-	14,549,300	-
Auxiliary receivables	249,732	-	197,286	-
Interest receivable	7,715	-	14,221	-
Sales and service receivables	206,588	-	232,777	-
Total	<u>\$ 13,246,215</u>	<u>\$ 15,898</u>	<u>\$ 15,040,415</u>	<u>\$ 21,408</u>

Federal Direct Loans Program loans processed for students by the College totaled \$21,308,215 and 23,711,053 during the years ended June 30, 2013 and 2012, respectively. The College is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loans Program and, accordingly, these loans are not included in the College's financial statements.

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

Notes to Financial Statements June 30, 2013 and 2012

Note 4 - Capital Assets

Capital asset activity for the years ended June 30, 2013 and 2012 was as follows:

	July 1, 2012 Balance	Additions	Retirements and Transfers	June 30, 2013 Balance
Nondepreciable assets:				
Land	\$ 723,289	\$ -	\$ -	\$ 723,289
Construction in progress	515,940	5,151,620	-	5,667,560
Depreciable assets:				
Land improvements	4,020,330	574,727	-	4,595,057
Infrastructure	6,200,609	-	-	6,200,609
Buildings and improvements	71,059,334	345,843	-	71,405,177
Equipment and vehicles	12,615,774	1,600,321	(1,249,815)	12,966,280
Software and library books	9,700,852	571,050	-	10,271,902
Total capital assets	104,836,128	8,243,561	(1,249,815)	111,829,874
Less accumulated depreciation:				
Land improvements	2,610,247	142,380	-	2,752,627
Infrastructure	2,853,312	203,227	-	3,056,539
Buildings and improvements	46,926,487	2,359,001	-	49,285,488
Equipment and vehicles	5,792,209	802,866	(1,244,914)	5,350,161
Software and library books	8,909,644	355,993	-	9,265,637
Total accumulated depreciation	67,091,899	3,863,467	(1,244,914)	69,710,452
Capital assets - Net	\$ 37,744,229	\$ 4,380,094	\$ (4,901)	\$ 42,119,422
	July 1, 2011 Balance	Additions	Retirements and Transfers	June 30, 2012 Balance
Nondepreciable assets:				
Land	\$ 723,289	\$ -	\$ -	\$ 723,289
Construction in progress	1,389,233	548,484	(1,421,777)	515,940
Depreciable assets:				
Land improvements	3,631,704	388,626	-	4,020,330
Infrastructure	6,152,109	48,500	-	6,200,609
Buildings and improvements	69,605,385	1,453,949	-	71,059,334
Equipment and vehicles	6,838,374	5,806,500	(29,100)	12,615,774
Software and library books	9,422,535	278,317	-	9,700,852
Total capital assets	97,762,629	8,524,376	(1,450,877)	104,836,128
Less accumulated depreciation:				
Land improvements	2,473,890	136,357	-	2,610,247
Infrastructure	2,591,027	262,285	-	2,853,312
Buildings and improvements	44,848,519	2,077,968	-	46,926,487
Equipment and vehicles	5,138,437	682,872	(29,100)	5,792,209
Software and library books	8,659,086	250,558	-	8,909,644
Total accumulated depreciation	63,710,959	3,410,040	(29,100)	67,091,899
Capital assets - Net	\$ 34,051,670	\$ 5,114,336	\$ (1,421,777)	\$ 37,744,229

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

Notes to Financial Statements June 30, 2013 and 2012

Note 4 - Capital Assets (Continued)

As of June 30, 2013 and 2012, the College had commitments of \$452,561 and \$0, respectfully, related to the C Building construction in progress.

Note 5 - Noncurrent Liabilities

Noncurrent liability activity for the years ended June 30, 2013 and 2012 was as follows:

2013	June 30, 2012			June 30, 2013	
	Balance	Additions	Reductions	Balance	Current Portion
Long-term debt and lease obligations:					
Tax Anticipation Note, Series 2011	\$ 9,000,000	\$ -	\$ 790,000	\$ 8,210,000	\$ 815,000
Tax Anticipation Note, Series 2008	6,250,000	-	800,000	5,450,000	830,000
Premium on Tax Anticipation Note	21,539	-	5,528	16,011	4,766
Total	15,271,539	-	1,595,528	13,676,011	1,649,766
Other noncurrent obligations:					
Reserve for compensated absences	1,701,278	24,685	-	1,725,963	933,242
Reserve for federal student loans	302,965	-	88,792	214,173	-
Other liabilities	248,000	-	-	248,000	-
Total noncurrent liabilities	\$ 17,523,782	\$ 24,685	\$ 1,684,320	\$ 15,864,147	\$ 2,583,008
2012	June 30, 2011			June 30, 2012	
	Balance	Additions	Reductions	Balance	Current Portion
Long-term debt and lease obligations:					
Tax Anticipation Note, Series 2011	\$ 9,500,000	\$ -	\$ 500,000	\$ 9,000,000	\$ 790,000
Tax Anticipation Note, Series 2008	7,025,000	-	775,000	6,250,000	800,000
Premium on Tax Anticipation Note	27,805	-	6,266	21,539	5,528
General Receipts Bonds, Series 1999	985,000	-	985,000	-	-
Total	17,537,805	-	2,266,266	15,271,539	1,595,528
Other noncurrent obligations:					
Reserve for compensated absences	1,519,363	181,915	-	1,701,278	1,064,615
Reserve for federal student loans	293,724	9,241	-	302,965	-
Other liabilities	323,000	-	75,000	248,000	-
Total noncurrent liabilities	\$ 19,673,892	\$ 191,156	\$ 2,341,266	\$ 17,523,782	\$ 2,660,143

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

Notes to Financial Statements June 30, 2013 and 2012

Note 5 - Noncurrent Liabilities (Continued)

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

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

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

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

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

Notes to Financial Statements June 30, 2013 and 2012

Note 5 - Noncurrent Liabilities (Continued)

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

The Series 2011 Notes and Series 2008 Notes were issued pursuant to a master trust agreement dated March 15, 1999, acting by and through the College's board of trustees and the bond trustee. The Series 2011 Notes are subject to mandatory redemption, with a fixed interest rate of 2.80 percent. The final maturity of the Series 2011 Notes is December 1, 2021. The Series 2008 Notes are subject to mandatory redemption, with stated interest rates ranging from 3.375 percent to 3.75 percent. The final maturity of the Series 2008 Notes is December 1, 2018.

The Series 2011 Notes are special obligations of the College. Pursuant to authorizing legislation and the Ohio Revised Code, amounts necessary to pay debt service as it comes due shall be appropriated for that purpose from the proceeds of the 1.7 mills property tax levy approved by the Lake County, Ohio electors at the November 3, 1970 election and replaced by a vote of the electors at the November 2, 2010 election.

The Series 2008 Notes are special obligations of the College. Pursuant to authorizing legislation and the Ohio Revised Code, amounts necessary to pay debt service as it comes due shall be appropriated for that purpose from the proceeds of the 1.7 mills property tax levy approved by the Lake County, Ohio electors at the November 3, 1970 election.

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

Notes to Financial Statements June 30, 2013 and 2012

Note 5 - Noncurrent Liabilities (Continued)

Scheduled principal maturities and total debt service on the Series 2011 Notes and Series 2008 Notes for fiscal years subsequent to June 30, 2013 are as follows:

Fiscal Years Ending	Principal	Interest	Total
2014	\$ 1,645,000	\$ 399,570	\$ 2,044,570
2015	1,695,000	346,895	2,041,895
2016	1,750,000	292,540	2,042,540
2017	1,805,000	236,435	2,041,435
2018	1,865,000	177,299	2,042,299
2019-2021	4,900,000	241,326	5,141,326
Total	<u>\$ 13,660,000</u>	<u>\$ 1,694,065</u>	<u>\$ 15,354,065</u>

Note 6 - Operating Lease Obligations

The College has entered into various lease agreements, which are considered operating leases. Total rental expense under operating leases during the years ended June 30, 2013 and 2012 amounted to \$1,076,732 and \$801,316, respectively. On January 27, 2010, the Lakeland board of trustees approved a formal agreement with PF Kirtland, LLC for leasing a facility located on Kirtland Road and the necessary "build out" for use as an educational facility. The lease is consistent with the plans, specifications, and costs submitted to and reviewed by the board. The lease will be for an initial period of 15 years with three five-year options, together with the option to purchase the facility. Rents payable under the lease shall be limited to available receipts of the College as permitted under Ohio Revised Code Section 3345.12(4). One other operating lease was for real estate property rentals for Lakeland's campus in Madison.

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

Notes to Financial Statements June 30, 2013 and 2012

Note 6 - Operating Lease Obligations (Continued)

Future minimum lease payments as of June 30, 2013 under operating lease in Kirtland and Madison are as follows:

2014	\$ 1,085,107
2015	943,188
2016	916,798
2017	914,759
2018	986,130
2019-2023	5,119,454
2024-2027	<u>3,584,934</u>
Total	<u>\$ 13,550,370</u>

Note 7 - Classification of Temporarily Restricted Net Assets

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

Temporarily restricted net assets are available for the following purposes as of June 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 823,678	\$ 851,260
Loans	18,109	19,542
Educational and related programs	515,314	595,872
Accumulated earnings on endowment funds	<u>531,692</u>	<u>389,391</u>
Total temporarily restricted net assets	<u>\$ 1,888,793</u>	<u>\$ 1,856,065</u>

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

Notes to Financial Statements June 30, 2013 and 2012

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

Permanently restricted net assets include contributions restricted in perpetuity designated by the donor. Earnings on investments of the endowment fund are classified as temporarily restricted net assets. However, the earnings may be used for current purposes of the Foundation. All endowment activity is restricted for the use of scholarships as of June 30, 2013 and 2012.

Note 8 - Endowment Funds

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

Interpretation of Relevant Law

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

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

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

**Notes to Financial Statements
June 30, 2013 and 2012**

Note 8 - Endowment Funds (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2012	\$ (48,920)	\$ 389,391	\$ 1,817,637	\$ 2,158,108
Investment return:				
Investment income	-	51,708	-	51,708
Net appreciation (realized and unrealized)	<u>48,920</u>	<u>188,043</u>	<u>-</u>	<u>236,963</u>
Total investment return	48,920	239,751	-	288,671
Contributions	-	-	168,262	168,262
Appropriations for expenditures	-	(78,097)	-	(78,097)
Management fee	-	(19,353)	-	(19,353)
Transfers	<u>-</u>	<u>-</u>	<u>3,191</u>	<u>3,191</u>
Endowment net assets as of June 30, 2013	<u>\$ -</u>	<u>\$ 531,692</u>	<u>\$ 1,989,090</u>	<u>\$ 2,520,782</u>

Below is a reconciliation of permanently restricted net assets included in the Endowment Fund to total permanently restricted net assets:

Permanently restricted net assets within the Endowment Fund	\$ 1,989,090
Permanently restricted contributions included in pledges receivable	<u>107,398</u>
Total permanently restricted net assets	<u>\$ 2,096,488</u>

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

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

**Notes to Financial Statements
June 30, 2013 and 2012**

Note 8 - Endowment Funds (Continued)

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

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The deficiencies of this nature that are included in temporarily restricted net assets attributed to the donor-restricted portion of the market value loss are \$0 and \$48,920 as of June 30, 2013 and 2012, respectively. These deficiencies result from unfavorable market fluctuations that occurred during the economic downturn that was experienced in the United States and worldwide.

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

Notes to Financial Statements June 30, 2013 and 2012

Note 8 - Endowment Funds (Continued)

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

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

Portfolio Allocation - Strategic Target and Tactical Range

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

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

Notes to Financial Statements June 30, 2013 and 2012

Note 8 - Endowment Funds (Continued)

Spending Policy

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

Note 9 - State Appropriations

The College is a state-assisted institution of higher education and receives student-based support from the State. This support is determined annually based upon a formula devised by the State. In addition to this student support, the State provides funding for the construction of major academic plant facilities on the College's campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC) which, in turn, is used for the construction and subsequent transfer of the facility to the College.

College facilities are not pledged as collateral for the OPFC revenue bonds. Instead, these bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the treasurer of the State. If sufficient monies are not available from the fund, the Ohio Board of Regents shall assess a special student fee uniformly applicable to students in State-assisted institutions of higher education throughout the state.

As a result of the above described financial assistance provided by the State to the College, outstanding debt issued by the OPFC is not included on the College's statement of net assets. In addition, the appropriations by the general assembly to the Ohio Board of Regents for payments of debt service are not reflected and the related debt service payments are not recorded in the College's accounts.

As part of legislation that deregulated the electric and natural gas utilities (SB3 and SB287), commencing with calendar year 2002, the College was to receive \$1,238,070 in replacement state taxes at a "100 percent guarantee" each year for a five-year period (to protect the College for lost public utility property taxes due to lowered valuations).

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

Notes to Financial Statements June 30, 2013 and 2012

Note 9 - State Appropriations (Continued)

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

For a number of years, the College received guarantees on previously lost personal property taxes. Those guarantees were expected to be continued and phased out over the next five years. In the State 2012- 2013 Operating Biennium Budget, the guarantees mentioned above will be essentially eliminated: guarantees were reduced from \$0.6 million in FY 2012, to \$0.1 million in FY 2013, to \$0 million in FY 2014.

Note 10 - Local Appropriations

The College receives local appropriations in the form of property taxes levied against real, public utility, and tangible (used in business) personal property located in the County of Lake, Ohio (the "County"). Real property taxes and public utility taxes are levied after October 1 on assessed value listed as of January 1, the lien date. Taxes collected on "real property" in one calendar year are levied in the preceding calendar year.

Tangible personal property taxes attach as a lien and are levied on January 1. Taxes collected on tangible personal property in one calendar year are levied in the same calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of the preceding calendar year and at the tax rates determined in the preceding year.

Public utility (real and tangible personal) taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year.

The electors within the County must approve any Lake County Community College District d/b/a Lakeland Community College property tax. Lake County Community College District d/b/a Lakeland Community College collects property taxes for operating and capital purposes from two levies approved by the County voters: a 1.7 mills stated rate for a continuing period and a 1.5 mills stated rate for 10 years. On November 2, 2010, Lake County voters approved a "replacement" of the 1.7 mills continuing levy. With this replacement levy approved, the incremental revenue was approximately \$8.0 million effective in 2012 after generating incremental in 2011 of \$4.0 million for half year assessments. On November 8, 2011, the 1.5 mills levy was renewed by the Lake County voters.

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

Notes to Financial Statements June 30, 2013 and 2012

Note 10 - Local Appropriations (Continued)

Revenue authorization is recognized based on the taxing authority's amounts to be distributed to the tax district and its certification of the College's annual budget. The taxing authority does not authorize the distribution of the tax assessment for the calendar year 2013 until October 2013, thus not legally making it available to the College until after the end of the College's fiscal year for that year's calendar assessment. The College has recognized one-half year of its real property and public utility property tax receipts due as an intergovernmental receivable in the current fiscal year. Property taxes receivable represent outstanding real property, public utility, and tangible personal property taxes, which were measurable at June 30, 2013. Total property tax collections for the next fiscal year are measurable amounts. However, since these revenue collections to be received during the available period are not intended to finance 2013 operations, the receivable amount is recorded as deferred revenue.

Note 11 - Retirement Plans

All full-time employees of the College are covered by one of two State-administered retirement plans. Faculty and other qualified individuals participate in the State Teachers Retirement System of Ohio (STRS) and all other College employees participate in the School Employees' Retirement System (SERS). The retirement programs are cost-sharing, multiple-employer defined benefit plans. In addition, STRS and SERS members have the additional options of a defined contribution plan and a combined plan. STRS and SERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits for plan members and beneficiaries.

The State Teachers Retirement System of Ohio Comprehensive Annual Financial Report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771. The School Employees' Retirement System of Ohio Comprehensive Annual Financial Report may be obtained by writing to School Employees' Retirement System of Ohio, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. The Ohio Revised Code (ORC) provides statutory authority for employee and employer contributions. The employee contribution rates are 10.0 percent for STRS and SERS of covered payroll and the College is required to contribute 14.0 percent of covered payroll. The STRS defined contribution plan allows members to invest all their member and employer contributions equal to 10.5 percent of earned compensation. The combined plan offers features of the defined benefit and defined contribution plan.

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

Notes to Financial Statements June 30, 2013 and 2012

Note 11 - Retirement Plans (Continued)

The College's contributions to STRS for the years ended June 30, 2013, 2012, and 2011 were \$2,951,310, \$3,095,012, and \$3,004,055, respectively, equal to the required contributions for each year. The College's contribution to SERS for the years ended June 30, 2013, 2012, and 2011 were \$2,134,484, \$2,272,756, and \$2,126,396, respectively.

Amended Substitute House Bill 586 requires all Ohio public colleges to offer at least three alternative retirement plans to certain new and existing full-time employees. For those employees electing to participate in an alternative retirement plan (ARP), the College will contribute up to 14 percent of covered payroll to the plan for STRS- and SERS-eligible participants. The difference from the 14 percent overall College distribution rate of both STRS and SERS employee-covered payrolls is to be paid to STRS and SERS, respectively, to mitigate any negative financial impact of ARPs on the state systems.

Note 12 - Postemployment Benefits

State Teachers Retirement System - STRS provides comprehensive healthcare benefits to retired teachers and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. Pursuant to the ORC, the State Teachers Retirement Board has discretionary authority over how much, if any, of the healthcare costs will be absorbed by STRS. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium. The ORC grants authority to STRS to provide healthcare coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The retirement board allocated employer contributions to the Health Care Stabilization Fund (the "Fund") from which healthcare benefits are paid. For the fiscal years ended June 30, 2012, 2011, and 2010, the board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Stabilization Fund. The balance in the Health Care Reserve Stabilization Fund was approximately \$3.1 billion on June 30, 2012.

For the year ended June 30, 2012, the net healthcare costs paid by STRS Ohio were approximately \$628 million. There were 143,256 eligible benefit recipients.

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

Notes to Financial Statements June 30, 2013 and 2012

Note 12 - Postemployment Benefits (Continued)

School Employees' Retirement System - SERS provides postretirement health care to retirees and their dependents. Coverage is made available to service retirees with 10 or more years of qualifying service credit and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their healthcare premiums. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing healthcare benefits. In addition, SERS levies a surcharge to fund healthcare benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal years 2013 and 2012, the minimum pay was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the healthcare fund.

Healthcare benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2012, the net healthcare costs paid by SERS were approximately \$210.0 million. At June 30, 2012, the SERS' net assets available for payment of healthcare benefits were approximately \$355.1 million. The number of retirees and covered dependents currently receiving benefits was 69,038.

Note 13 - Lake County Schools' Health Care Consortium

Effective November 1, 2001, the College joined the Lake County Schools Council (LCSC). Under state law, the LCSC was formed as a council of governments and includes a number of the boards of education in Lake County. The purpose of the LCSC is to undertake a joint program for the provision of healthcare benefits to the employees of those districts and their eligible dependents, as well as fostering cooperation among districts, from time to time, in other areas of educational services. As a related but separate agreement, the LCSC maintains a healthcare benefits consortium (the "Consortium").

The Consortium allows each political district to maintain its current plan designs (through selected providers) and allows efficiencies and economic benefits to occur through the group's buying power. The College, as well as the other LCSC members, utilizes the LCSC as its healthcare benefits provider. The LCSC in turn manages various healthcare benefit organizations to deliver those services.

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

Notes to Financial Statements June 30, 2013 and 2012

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

Since its inception, LCSC has built up its net assets and LCSC members are responsible for funding and setting aside reserves to pay its various healthcare benefit obligations. As part of joining the LCSC, the College's board of trustees authorized payment to LCSC in the amount of \$680,239 as the College's assessment for inclusion in the LCSC's healthcare benefits program as a member of equal standing. The assessment was in two equal installments (at inception on November 1, 2001 and at November 1, 2002). The entire assessment was expensed in fiscal year 2002 since the assessment is not guaranteed to be refunded to the College should the College at any time voluntarily withdraw from the LCSC.

Under its agreements and bylaws, the Consortium's fiscal year ends each June 30 and the treasurer of the LCSC is a position appointed by the board of directors of the LCSC. Prior to the beginning of each fiscal year, healthcare program and related costs and adjustments (program costs) are estimated and allocated to each member as a required contribution for that fiscal year. If contributions are insufficient to pay actual program costs during any fiscal year, members may be required to share in those additional costs or deficiencies during that fiscal year. The LCSC has purchased a stop-loss insurance policy with a maximum loss of \$500,000 per claimant. Settled claims relating to the insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. LCSC net assets at July 1, 2013 amounted to \$11.5 million.

Note 14 - Risk Management

On November 1, 2011, the College joined with seven other State-assisted community colleges in Ohio to form an insurance-purchasing pool for the acquisition of commercial property and casualty insurance. The College pays annual premiums to the pool for its property and casualty insurance coverage based on its percentage of the total insurable value to the pool. There are currently eight members as of June 30, 2013 in the pool. Settled claims relating to the commercial property and casualty insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Through the normal course of operations, the College is occasionally named as a defendant in legal actions and claims. In the opinion of management and legal counsel, any liability which may ultimately be incurred will not have a material adverse effect on the financial condition of the College. The College purchases commercial insurance to cover general liability losses.

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

Notes to Financial Statements June 30, 2013 and 2012

Note 15 - Foundation

The Lakeland Foundation was formed in 1981 to obtain private financing support for the promotion of excellence at the College. The Foundation provides scholarships to financially disadvantaged students and merit scholarships to those students demonstrating specific academic abilities. The Foundation also provides support to specific educational departments and programs of the College. The accounting records for the Foundation are maintained at the College in Kirtland, Ohio. Certain administrative expenses of the Foundation are borne directly by the College. The College made distributions to the Foundation of \$137,403 and \$138,973 for the years ended June 30, 2013 and 2012, respectively. The Foundation distributed \$844,244 and \$728,237 for the years ended June 30, 2013 and 2012, respectively. The Foundation also distributed to the College \$7,510 and \$40,529 in gifts in-kind for the years ended 2013 and 2012, respectively. The Foundation had receivables from the College of \$4,762 and \$471 as of June 30, 2013 and 2012, respectively. The Foundation had payables to the College of \$876 and \$9,044 as of June 30, 2013 and 2012, respectively.

Note 16 - Prior Period Adjustment

The accompanying financial statements have been restated to correct an error in the calculation of net position classifications of net investment in capital assets and unrestricted for June 30, 2012. The following financial statement line items for fiscal year 2012 were affected by the change:

	Balance Sheet June 30, 2012		
	As Computed (under old method)	As Reported (under new method)	Effect of Change
Net Investment in Capital Assets	\$ 23,146,431	\$ 25,985,225	\$ 2,838,794
Restricted for:			
Nonexpendable for endowment purposes	354,545	354,545	-
Expendable for instructional purposes	271,441	271,441	-
Unrestricted	<u>15,613,158</u>	<u>12,774,364</u>	<u>(2,838,794)</u>
Total Net Position	<u>\$ 39,385,575</u>	<u>\$ 39,385,575</u>	<u>\$ -</u>

Federal Compliance Audit

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

Independent Auditor's Report

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

We have audited, in accordance with the 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 basic financial statements of Lake County Community College District d/b/a Lakeland Community College (the "College") as of and for the year ended June 30, 2013 and related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 31, 2013. Our report includes a reference to other auditors who audited the financial statements of The Lakeland Foundation, as described in our report on the College's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the College'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 opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weaknesses.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2013-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's basic 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*.

Lake County Community College District d/b/a Lakeland Community College's Response to Finding

Lake County Community College District d/b/a Lakeland Community College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Lake County Community College District d/b/a Lakeland Community College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

Cleveland, Ohio
October 31, 2013

Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited Lake County Community College District d/b/a Lakeland Community College's (the "College") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2013. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the College's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the College's compliance.

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

Opinion on the Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of Lake County Community College District d/b/a Lakeland Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

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

Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Clusters:			
Student Financial Aid Cluster:			
U.S. Department of Education - Direct program:			
Federal Pell Grant Program	84.063	P063P132857	\$ 13,664,356
Federal Work Study Program	84.033	P0033A136053	182,950
Federal Supplemental Educational Opportunity Grant Program	84.007	P007A136053	208,464
Federal Perkins Loan Program	84.038	N/A	8,115
Federal Direct Student Loans Program	84.268	N/A	<u>21,308,215</u>
Subtotal U.S. Department of Education			35,372,100
U.S. Department of Health and Human Services - Direct program - Nursing Student Loan Program			
	93.364	N/A	<u>13,717</u>
Subtotal Student Financial Aid Cluster			35,385,817
WIA Cluster - U.S. Department of Labor - Passed through the Ohio Department of Job and Family Services - Job Training Partnership Act:			
Geauga One Stop	17.258-17.259	G-1011-15-0261	560
Cuyahoga County	17.258-17.259	N/A	6,132
Lake County	17.258-17.259	G-1011-15-0262	28,890
Geauga, Ashtabula, and Portage Partnership	17.258-17.259	G-1011-15-0261	<u>1,979</u>
Subtotal WIA Cluster			37,561
Other federal programs:			
ARRA - U.S. Department of Labor - Passed through the Edison Biotechnology Center d/b/a BioOhio - Bioscience Industry Workforce Preparedness Project			
	17.275	GJ-20076-10-60-A-39	204,412
U.S. Department of Health and Human Services - Direct Program - Health Resources and Services Administration - Health Outreach Special Initiative			
	93.888	I DIARH20106-01-00	13,643
U.S. Department of Education - Passed through the Ohio Department of Education:			
Two-year College Perkins	84.048	063347-20C3-2009	158,795
Perkins Non-Traditional We Are IT	84.048	063347-VENT-09-LCC	<u>2,500</u>
Subtotal Department of Education			161,295
U.S. Department of Defense - Passed through Defense Logistics Agency (DLA) Procurement Technical Assistance for Business Firms (PTAC)			
	12.002		<u>50,915</u>
Total federal awards			<u>\$ 35,853,643</u>

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

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

Note - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Lake County Community College District d/b/a Lakeland Community College (the "College") under programs of the federal government for the year ended June 30, 2013. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major program:

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

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

Auditee qualified as low-risk auditee? Yes No

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

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

Section II - Financial Statement Audit Findings

Reference Number	Finding
2013-001	<p>Finding Type - Material weakness</p> <p>Criteria - The College is required to implement effective internal controls over the classification of net position, including net investment in capital assets and restricted and unrestricted net position.</p> <p>Condition - In the prior year, the calculation of net investment in capital assets excluded certain assets related to unspent bond proceeds.</p> <p>Context - The 2012 amount was incorrectly classified in the financial statements, resulting in a reclassification and prior period adjustment in the amount of \$2,838,794 during 2013. Management identified the error during their review of the calculation in 2013.</p> <p>Cause - The College was not calculating the investment in capital assets in accordance with guidance provided by the Government Accounting Standards Board (GASB).</p> <p>Effect - For 2012, unrestricted net position was overstated by \$2,838,794 and investment in capital assets was understated by the same amount. The College's 2012 total net position remained unchanged. A prior period adjustment was made to the 2013 financial statements to properly classify the College's components of net position.</p> <p>Recommendation - Management should review the calculation of investment in capital assets to ensure the College's net position is presented in accordance with guidance provided by the Government Accounting Standards Board.</p>

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

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2013

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2013-001 (Continued)	<p>Views of Responsible Officials and Planned Corrective Actions - The GASB conversion error that occurred in the 2012 year-end financial statement compilation process is not acceptable and is also preventable. A stronger level of review of the College's 2013 GASB year-end financial statements identified this as a prior period misstatement, and we immediately informed our independent public accountants. Besides a stronger level of review of the GASB conversion in the year-end financial statement compilation process, we will require additional education and training to financial staff and management on the GASB conversion, as well as independently critique our process and make necessary changes.</p> <p>The error to the prior period financial statements was solely attributable to the year-end GASB conversion. It should be noted that this error and process does not touch or impact the College's integrated enterprise resource planning system (ERPS). The ERPS controls the significant majority of the College's daily transactions and its generation of internal reports, including interim financial statements.</p>

Section III - Federal Program Audit Findings

None

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Dave Yost • Auditor of State

LAKELAND COMMUNITY COLLEGE

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 31, 2013**