

The Lakeland Foundation

**Financial Statements
June 30, 2012**



Dave Yost • Auditor of State

Board of Directors
The Lakeland Foundation
7700 Clocktower Drive
Kirtland, Ohio 44094

We have reviewed the *Independent Auditor's Report* of The Lakeland Foundation, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 10, 2013

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The Lakeland Foundation

Financial Statements

June 30, 2012 (with comparative totals for 2011)

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Independent Auditor's Report

Board of Directors
The Lakeland Foundation
Kirtland, Ohio

We have audited the accompanying statement of financial position of The Lakeland Foundation, Inc. (the "Foundation") as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2011 financial statements, which were audited by other auditors whose report dated September 30, 2011 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2012, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

Ciuni + Panichi, Inc.

Cleveland, Ohio
October 4, 2012

The Lakeland Foundation

Statement of Financial Position

June 30, 2012 (with comparative totals for 2011)

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 372,840	\$ 202,891
Cash held for others	11,204	16,051
Investments	2,920,758	2,900,864
Pledges receivable	489,549	286,292
Accounts receivable	32,608	72,018
Loans receivable	9,273	8,420
Other assets	-	1,431
Prepaid expense	<u>13,837</u>	<u>11,427</u>
Total assets	\$ <u>3,850,069</u>	\$ <u>3,499,394</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Payables (scholarship & trade)	\$ 21,263	\$ 28,915
Deferred revenue	13,101	21,561
Due to custodial funds	<u>11,204</u>	<u>16,051</u>
Total liabilities	<u>45,568</u>	<u>66,527</u>
Net assets:		
Permanently restricted	1,971,083	1,683,634
Temporarily restricted	1,856,065	1,640,322
Unrestricted:		
Operating	26,273	108,911
Endowment	<u>(48,920)</u>	<u>-</u>
Total unrestricted	<u>(22,647)</u>	<u>108,911</u>
Total net assets	<u>3,804,501</u>	<u>3,432,867</u>
Total liabilities and net assets	\$ <u>3,850,069</u>	\$ <u>3,499,394</u>

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Statement of Activities

For the year ended June 30, 2012 (with comparative totals for 2011)

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>2012 Totals</u>	<u>2011 Totals</u>
Support, revenue, and gains (losses):					
Private and corporate contributions and grants	\$ 154,944	\$ 943,013	\$ 49,022	\$ 1,146,979	\$ 902,844
Donations-in-kind	-	59,222	5,218	64,440	62,114
Interest and dividends	-	45,958	8,582	54,540	43,201
Net realized and unrealized gain (loss) on investments	<u>-</u>	<u>6,126</u>	<u>(52,914)</u>	<u>(46,788)</u>	<u>359,395</u>
Total support, revenue, and gains (losses)	154,944	1,054,319	9,908	1,219,171	1,367,554
Net assets released from restrictions or transferred	<u>132,505</u>	<u>(838,576)</u>	<u>706,071</u>	<u>-</u>	<u>-</u>
Total support, revenue, gains (losses), and transfers	<u>287,449</u>	<u>215,743</u>	<u>715,979</u>	<u>1,219,171</u>	<u>1,367,554</u>
Program and supporting expenses:					
Program services:					
Scholarships	-	-	344,650	344,650	394,134
Educational and related programs	-	-	196,855	196,855	264,418
In-kind educational and related programs	<u>-</u>	<u>-</u>	<u>40,528</u>	<u>40,528</u>	<u>36,229</u>
Total program services	<u>-</u>	<u>-</u>	<u>582,033</u>	<u>582,033</u>	<u>694,781</u>
Supporting services:					
Administration	-	-	150,520	150,520	134,163
Fundraising	-	-	91,072	91,072	86,908
Fundraising – in-kind	<u>-</u>	<u>-</u>	<u>23,912</u>	<u>23,912</u>	<u>26,410</u>
Total supporting services	<u>-</u>	<u>-</u>	<u>265,504</u>	<u>265,504</u>	<u>247,481</u>
Total program and supporting expenses	<u>-</u>	<u>-</u>	<u>847,537</u>	<u>847,537</u>	<u>942,262</u>
Change in net assets	287,449	215,743	(131,558)	371,634	425,292
Net assets – beginning of year	<u>1,683,634</u>	<u>1,640,322</u>	<u>108,911</u>	<u>3,432,867</u>	<u>3,007,575</u>
Net assets – end of year	<u>\$ 1,971,083</u>	<u>\$ 1,856,065</u>	<u>\$ (22,647)</u>	<u>\$ 3,804,501</u>	<u>\$ 3,432,867</u>

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Statement of Cash Flows

For the year ended June 30, 2012 (with comparative totals for 2011)

	2012	2011
Cash flow from operating activities:		
Change in net assets	\$ 371,634	\$ 425,292
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Change in allowance for uncollectible loans	5,427	3,694
Change in allowance for uncollectible pledges	43,762	(22,096)
Change in discounts to net present value	3,344	24,094
Net realized and unrealized loss (gain) on investments	46,788	(359,403)
Contributions restricted for long-term investment	(154,944)	(83,235)
Premium/discount amortization	15,753	14,782
Interest and dividends restricted for reinvestment	(45,958)	(30,488)
Changes in operating assets and liabilities:		
Decrease (increase) in pledges receivable	(173,318)	(13,506)
Decrease (increase) in program loans receivable	(6,280)	(8,090)
Decrease (increase) in accounts receivable	39,410	(49,777)
Decrease (increase) in other assets	1,431	(353)
Decrease (increase) in prepaid expense	(2,410)	(2,560)
(Decrease) increase in payables	(7,652)	14,876
(Decrease) increase in deferred revenue	(8,460)	-
Net cash provided (used) by operating activities	128,527	(86,770)
Cash flow from investing activities:		
Proceeds from sales and maturity of investments	1,849,361	1,253,914
Purchases of investments	(1,879,426)	(1,333,381)
Net (purchases) of money market funds	(52,370)	(29,562)
Net cash used by investing activities	(82,435)	(109,029)
Cash flows from financing activities:		
Interest and dividends restricted for reinvestment	45,958	30,488
Contributions restricted for long-term investment	77,899	83,235
Net cash provided by financing activities	123,857	113,723
Net change in cash and cash equivalents	169,949	(82,076)
Cash and cash equivalents – beginning of year	202,891	284,967
Cash and cash equivalents – end of year	\$ 372,840	\$ 202,891

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 1: Nature of Activities

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

The Foundation serves as fiscal agent for Partners in Science Excellence (PSE). Partners in Science Excellence is a separate organization with its own board. The cash on hand and due PSE is reflected on the statement of financial position and "Cash held for others" and "Due to custodial funds."

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

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

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

Basis of Presentation

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

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

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

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 2: Summary of Significant Accounting Policies (continued)

Comparative Financial Statements

The financial statements include certain prior-year comparative total amounts. Such total amounts do not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such amounts should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2011, from which the comparative total amounts were derived.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and liquid debt instruments that may be used within one year. Money market investments are considered investments.

Concentrations of Credit Risk

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

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

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

At various times during the year ended June 30, 2012, the Foundation's cash in bank balances may exceed the federal insured limits.

Investments

Investments in marketable securities are stated at fair market value.

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

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 2: Summary of Significant Accounting Policies (continued)

Contributions

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

Tax Status

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

The Foundation accounts for income taxes in accordance with the "Income Taxes" topic of the FASB ASC. Uncertain income tax positions are evaluated at least annually by management. The Foundation classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of June 30, 2012, the Foundation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

The Foundation files its Form 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of Ohio. The Foundation is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2009.

Pledges Receivable

Pledges receivable are funds committed as part of the major gifts campaign. The Foundation provides for uncollectible pledges receivable using the allowance method. Management estimates an allowance based on a calculation of maturities of the pledges. Pledges receivable are written off when they are determined to be uncollectible.

Loans Receivable

Loans receivable are funds committed to qualifying students in the C. Schell Loan Program. This revolving student loan program grants interest-free loans with various repayment terms. The Foundation provides for uncollectible loans receivable using the allowance method. Management estimates an allowance based on the maturity dates of past due balances. Loans receivable are written off when they are determined to be uncollectible.

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 2: Summary of Significant Accounting Policies (continued)

Donated Administrative Expenses

Certain administrative functions of the Foundation are performed by administrative employees of Lakeland Community College at no charge to the Foundation. The value of these services is not recognized in these financial statements. The dollar value is not significant in relation to the financial statements taken as a whole.

Donated Fundraising Expenses

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

Subsequent Events

The date to which events occurring after June 30, 2012, have been evaluated for possible adjustment to the financial statements or disclosure is October 4, 2012, which is the date on which the financial statements were available to be issued. No events were identified that would require adjustment to or disclosure in the financial statements.

Note 3: Investments

Investments are recorded at fair value. The historical cost and fair value at June 30, 2012 and 2011 were as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Municipal bonds	\$ 803,691	\$ 802,188	\$ 650,141	\$ 646,018
Corporate bonds	-	-	103,551	101,655
Fixed income mutual funds	545,121	565,282	436,814	453,170
Equities	216,263	241,759	-	-
Equity mutual funds	732,271	836,271	856,593	1,036,570
International mutual funds	173,074	195,017	331,021	395,300
Alternative assets	156,272	178,582	183,851	218,862
Money market/cash and reserves	<u>101,659</u>	<u>101,659</u>	<u>49,289</u>	<u>49,289</u>
	<u>\$ 2,728,351</u>	<u>\$ 2,920,758</u>	<u>\$ 2,611,260</u>	<u>\$ 2,900,864</u>

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 3: Investments (continued)

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

Level 1 – quoted prices in active markets for identical investments

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

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

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

The following is a summary of the inputs used as of June 30, 2012, in valuing the Foundation's investments carried at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Municipal bonds	\$ 802,188	\$ -	\$ -	\$ 802,188
Fixed income mutual funds	565,282	-	-	565,282
Equities	241,759	-	-	241,759
Equity mutual funds	836,271	-	-	836,271
International mutual funds	195,017	-	-	195,017
Alternative assets	178,582	-	-	178,582
Money market/cash and reserves	<u>101,659</u>	<u>-</u>	<u>-</u>	<u>101,659</u>
Investments	\$ <u>2,920,758</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,920,758</u>

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 4: Net Assets

Unrestricted Funds

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

Temporarily Restricted Funds

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

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

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 851,260	\$ 732,632
Loans (Note 6)	19,542	24,969
Educational and related programs	595,872	370,644
Portion of endowment fund classified as temporarily restricted	<u>389,391</u>	<u>512,077</u>
Total temporarily restricted net assets	\$ <u>1,856,065</u>	\$ <u>1,640,322</u>

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

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 344,650	\$ 394,134
Loans (Note 6)	5,427	3,694
Educational and related programs	228,006	287,272
Administration/fundraising	134,478	128,267
Released or transferred – perm restricted	132,505	14,257
Released or transferred – undesignated	<u>(6,490)</u>	<u>31,629</u>
Total net assets released from donor restrictions or transferred	\$ <u>838,576</u>	\$ <u>859,253</u>

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 4: Net Assets (continued)

Permanently Restricted Funds

The Endowment Fund includes contributions restricted in perpetuity or for terms designated by the donor. Earnings on investments of the Endowment Fund are classified as temporarily restricted net assets. However, the earnings may be used for current purposes of the Foundation. All endowment activity is restricted for the use of scholarships.

Net Asset Classification of Endowment Funds

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

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

- (1) Preservation of the fund
- (2) The purpose of the Foundation and the donor-restricted Endowment Fund
- (3) General economic conditions
- (4) The investment policies of the Foundation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ <u>(48,920)</u>	\$ <u>389,391</u>	\$ <u>1,817,637</u>	\$ <u>2,158,108</u>
Total funds	\$ <u>(48,920)</u>	\$ <u>389,391</u>	\$ <u>1,817,637</u>	\$ <u>2,158,108</u>

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 4: Net Assets (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, beginning of year	\$ -	\$ 435,677	\$ 1,683,633	\$ 2,119,310
Investment return:				
Interest and dividends	-	45,958	-	45,958
Net realized and unrealized gain (loss)	<u>(48,920)</u>	<u>1,601</u>	<u>-</u>	<u>(47,319)</u>
Total investment return	(48,920)	483,236	1,683,633	2,117,949
Contributions	-	-	77,899	77,899
Appropriation of endowment assets for expenditure	-	(70,470)	-	(70,470)
Management fee	-	(23,375)	-	(23,375)
Transfers in	<u>-</u>	<u>-</u>	<u>56,105</u>	<u>56,105</u>
Endowment net assets, end of year	\$ <u>(48,920)</u>	\$ <u>389,391</u>	\$ <u>1,817,637</u>	\$ <u>2,158,108</u>

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

	<u>2012</u>
Permanently restricted net assets within Endowment Fund	\$ 1,817,637
Permanently restricted contributions included in pledges receivable	<u>153,446</u>
Total permanently restricted net assets	\$ <u>1,971,083</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.

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 4: Net Assets (continued)

Return Objectives And Risk Parameters

The Foundation has adopted investment and spending policies for the Endowment Fund. The policy goal for the Foundation's endowment investment portfolio is to provide a real total return that preserves the purchasing power of the endowment assets, while providing an income stream to support the Foundation's activities in support of 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 4.5% of the five-year average of the market value of the endowment portfolio.

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

Portfolio Allocation – Strategic Target and Tactical Range

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

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 4: Net Assets (continued)

Spending Policy

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

Note 5: Pledges Receivable

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

Pledges receivable, net at June 30, 2012, is as follows:

	<u>2012</u>
Pledges receivable:	
Payable within one year	\$ 88,340
Payable in one to five years	<u>509,232</u>
Total pledges receivable	597,572
Less: discount to net present value	(54,679)
Less: allowance for uncollectible pledges	<u>(53,344)</u>
Pledges receivable, net at June 30, 2012	\$ <u><u>489,549</u></u>

Note 6: Loans Receivable

As of June 30, 2012 and 2011, loans receivable totaled \$96,381 and \$90,101, respectively. During the fiscal year ended June 30, 2012, a total of \$8,800 was distributed to qualifying students in a revolving student loan from the C. Schell Loan Program. The loans are interest-free and have various repayment terms. During the fiscal year ended June 30, 2012, \$2,599 had been repaid. The related allowance for uncollectible loans is \$87,108 and \$81,681 at June 30, 2012 and 2011, respectively.

The Lakeland Foundation

Notes to Financial Statements

June 30, 2012

Note 7: Related Party Transactions

The College made distributions to the Foundation of \$138,973 and \$137,402 for the years ended June 30, 2012 and 2011, respectively. The Foundation distributed \$728,237 and \$793,795 during the years ended June 30, 2012 and 2011, respectively, to the College. The Foundation also distributed \$40,529 and \$36,299 in Gifts-in-Kind during the years ended June 30, 2012 and 2011, respectively. The Foundation had receivables from the College of \$471 and \$30,426 as of June 30, 2012 and 2011, respectively. The Foundation had payables to the College of \$9,044 and \$17,755 as of June 30, 2012 and 2011, respectively.

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

Board of Directors
The Lakeland Foundation

We have audited the financial statements of The Lakeland Foundation (the “Foundation”), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

Board of Directors
The Lakeland Foundation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Foundation in a separate letter dated October 4, 2012.

This report is intended solely for the information and use of management, the Board of Directors, and the Ohio Auditor of State's office and is not intended to be and should not be used by anyone other than these specified parties.

Ciuni + Panichi, Inc.

Cleveland, Ohio
October 4, 2012

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Dave Yost • Auditor of State

THE LAKELAND FOUNDATION

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 22, 2013