

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

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**Financial Report**  
**with Supplemental Information**  
**June 30, 2015**





# Dave Yost • Auditor of State

Board of Trustees  
Lake County Community College District  
d/b/a Lakeland Community College  
7700 Clocktower Drive  
Kirtland, OH 44094

We have reviewed the *Independent Auditor's Report* of the Lake County Community College District d/b/a Lakeland Community College, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 Lake County Community College District d/b/a 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 23, 2015

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

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Lake County Community College District d/b/a Lakeland Community College (the "College"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College'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 College'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.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the College, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 1, Note 2 and Note 10 to the basic financial statements, in fiscal year 2015, the College adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and as a result restated their June 30, 2014 net position of the business-type activities. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 16 and the schedules of the College's proportionate share of the net pension liability and schedules of the College's contributions on pages 56 to 59 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 who 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 supplementary 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.

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Lake County Community College District  
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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

*Cini & Parichi, Inc.*

Cleveland, Ohio  
November 10, 2015

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

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## 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, 2015 and 2014. Management has prepared the financial statements and the related note 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 ("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*. 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 statements of net position, statements of revenue, expenses, and changes in net position, and statements 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 statements of net position include 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 statements of revenue, expenses, and changes in net position present 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.

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### **Management's Discussion and Analysis (Unaudited) (continued)**

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

The College adheres to GASB 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 14.

#### **GASB Statement No. 68**

During 2015, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles in the United States of America. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting.

Under GASB 68, the net pension liability equals the College's proportionate share of each plan's collective:

1. present value of estimated future pension benefits attributable to employees' past service;
2. minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit in exchange. However, the College is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange knowing the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension systems are responsible for the administration of the plans.

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**Management's Discussion and Analysis (Unaudited) (continued)**

Most long-term liabilities have set repayment schedules or, in the case of compensated absences, are satisfied through paid time off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the Statement of Net Position.

In accordance with GASB 68, the College's Statement of Revenue, Expenses, and Changes in Net Position include an annual pension expense for its proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB 68, the College is reporting a net pension liability and deferred inflows/outflows of resources related to pensions on the accrual basis of accounting. This implementation had the effect of restating net position at June 30, 2014 from \$43,037,926 to \$(41,482,811).

Additional information about pensions is presented in Notes 2 and 10.

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**Management’s Discussion and Analysis (Unaudited) (continued)**

**Condensed Statements of Net Position**

|  | June 30                      |                             |
|--|------------------------------|-----------------------------|
|  | 2015                         | 2014                        |
| <b>Assets</b>  |                              |                             |
| Current assets                                       | \$ 29,796,859                | \$ 33,515,768               |
| Noncurrent assets:                                   |                              |                             |
| Capital  | 55,834,122                   | 41,708,749                  |
| Other  | <u>12,960,658</u>            | <u>10,496,321</u>           |
| Total assets   | 98,591,639                   | 85,720,838                  |
| <b>Deferred Outflows of Resources</b>                |                              |                             |
| Pensions   | <u>5,497,154</u>             | <u>5,011,512</u>            |
| Total deferred outflows                              | <u>5,497,154</u>             | <u>5,011,512</u>            |
| Total assets and deferred outflows                   | <b><u>\$ 104,088,793</u></b> | <b><u>\$ 90,732,350</u></b> |
| <b>Liabilities</b>                                   |                              |                             |
| Current liabilities                                  | \$ 18,650,361                | \$ 23,273,819               |
| Noncurrent liabilities                               | <u>106,492,370</u>           | <u>101,096,342</u>          |
| Total liabilities                                    | 125,142,731                  | 124,370,161                 |
| <b>Deferred Inflows of Resources</b>                 |                              |                             |
| Property taxes                                       | 8,090,661                    | 7,845,000                   |
| Pensions   | <u>10,721,208</u>            | <u>-</u>                    |
| Total deferred inflows                               | <u>18,811,869</u>            | <u>7,845,000</u>            |
| <b>Net Position</b>                                  |                              |                             |
| Net investment in capital assets                     | 27,530,676                   | 29,988,570                  |
| Restricted   | 372,097                      | 376,934                     |
| Unrestricted   | <u>(67,768,580)</u>          | <u>(71,848,315)</u>         |
| Total net position                                   | <u>(39,865,807)</u>          | <u>(41,482,811)</u>         |
| Total liabilities, deferred inflows and net position | <b><u>\$ 104,088,793</u></b> | <b><u>\$ 90,732,350</u></b> |

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**Management's Discussion and Analysis (Unaudited) (continued)**

**Analysis of Overall Financial Position**

At June 30, 2015, current assets amounted to \$29.8 million as compared to \$33.5 million at June 30, 2014, a decrease of \$3.7 million. Current liabilities at June 30, 2015 amounted to \$18.7 million and current liabilities at June 30, 2014 amounted to \$23.3 million, a decrease of \$4.6 million. The College's working capital ratio was 1.6 and 1.4 at June 30, 2015 and 2014, respectively.

The decrease in current assets at June 30, 2015 is primarily attributable to a decrease in accounts receivable from students of \$1.5 million due to lower enrollment, coupled with a decrease in short-term investments of \$1.1 million, which was offset by an increase in long-term investments.

The decrease in current liabilities at June 30, 2015 is attributable to the refunding of the \$3.0 million Series 2014 Tax Anticipation Notes, coupled with decline in unearned revenue of \$2.1 million due to lower enrollment, partially offset by an increase in accounts payable.

Noncurrent assets are comprised of capital assets, restricted cash, investments, and loans receivable. The increase in noncurrent assets of \$16.6 million during 2015 is primarily attributable to the acquisition by the College of the Holden University Center property in November 2014. The purchase price of \$13.5 million was funded by the Series 2014 Bonds.

The increase in noncurrent liabilities in 2015 of \$5.4 million is due to the issuance of the Series 2014 Bonds in the amount of \$20.7 million, partially offset by a decrease in the College's pension liability recognized under GASB 68.

The College's net position amounted to \$(39.9) million and \$(41.5) million at June 30, 2015 and 2014, respectively. The increase in the College's net position during 2015 was primarily attributable to a net credit to pension expense due to the impact of GASB 68. In addition, net investment in capital assets decreased by \$2.5 million due depreciation, partially offset by capital asset additions.

**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 on projects that meet the Governor's goals for the State. During 2015, the College utilized \$0.9 million in state capital appropriations, \$19.8 million in internal funds including debt proceeds, and purchased \$20.7 million of capital assets.

The College's long-term debt is comprised of Series 2008 Tax Anticipation Notes, Series 2011 Tax Anticipation Notes, and Series 2014 General Receipts Bonds.

In 2014, the College issued general receipts bonds in the amount of \$20.7 million representing the par amount of the bonds, at fixed interest rates ranging from 3.25 percent to 5.0 percent and a final maturity in 2039. The notes are dated November 25, 2014. Bond proceeds were used to refund the Series 2014 Tax Anticipation Notes, acquire the Holden University Center property, and to renovate science labs.

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d/b/a Lakeland Community College**

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**Management's Discussion and Analysis (Unaudited) (continued)**

In 2011, the College issued the Series 2011 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 the Series 2008 Notes in the amount of \$8.5 million, with fixed interest rates ranging from 3.25% to 3.75% 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.

During 2015 and 2014, the College paid \$4.7 million and \$1.7 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 5 and 6 of the financial statements.

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d/b/a Lakeland Community College**

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**Management's Discussion and Analysis (Unaudited) (continued)**

**Condensed Statements of Revenue, Expenses, and Changes in Net Position**

|   | Year Ended June 30     |                        |
|---|------------------------|------------------------|
|   | 2015                   | 2014                   |
| <b>Operating Revenue</b>                      |                        |                        |
| Student tuition and fees - Net                | \$ 10,855,940          | \$ 10,577,449          |
| Grants, contracts, and other revenue          | 2,769,193              | 1,610,716              |
| Auxiliary enterprises                         | 3,674,590              | 4,376,048              |
| Total operating revenue                       | 17,299,723             | 16,564,213             |
| <b>Operating Expenses</b>                     | 63,676,624             | 65,899,157             |
| <b>Operating Loss</b>                         | (46,376,901)           | (49,334,944)           |
| <b>Nonoperating Revenue</b>                   |                        |                        |
| State appropriations                          | 18,617,240             | 17,597,078             |
| Local appropriations                          | 17,725,078             | 17,685,340             |
| Pell grant revenue - Net of refunds           | 11,583,223             | 12,584,919             |
| Other nonoperating income and expenses - Net  | (795,234)              | (330,729)              |
| Total nonoperating revenue                    | 47,130,307             | 47,536,608             |
| <b>Gain (Loss) - Before other changes</b>     | 753,406                | (1,798,336)            |
| <b>Other Changes</b>                          |                        |                        |
| Capital appropriations from the State of Ohio | 848,798                | 2,045,953              |
| Capital grants and gifts                      | 14,800                 | 10,000                 |
| Total other changes                           | 863,598                | 2,055,953              |
| <b>Increase in Net Position</b>               | 1,617,004              | 257,617                |
| <b>Net Position - Beginning of year</b>       | (41,482,811)           | N/A                    |
| <b>Net Position - End of year</b>             | <b>\$ (39,865,807)</b> | <b>\$ (41,482,811)</b> |

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 operating expenses still include pension expense of \$5,011,512 computed under GASB 27. GASB 27 requires recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows of resources. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$3,823,723. Consequently, in order to compare 2015 total operating expenses to 2014, the following adjustments are needed:

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**Management’s Discussion and Analysis (Unaudited) (continued)**

|   |                       |
|---|-----------------------|
| Total 2015 operating expenses under GASB 68           | \$63,676,624          |
| Pension expense under GASB 68                         | (3,823,723)           |
| 2015 contractually required contributions             | <u>4,937,885</u>      |
| Adjusted 2015 operating expenses                      | 64,790,786            |
| Total 2014 operating expenses under GASB 27           | <u>65,899,157</u>     |
| Decrease in operating expenses not related to pension | <u>\$ (1,108,371)</u> |

**Analysis of Results of Operations**

Total revenue for the years ended June 30, 2015 and 2014 was \$65.3 million and \$66.2 million, respectively, of which operating revenue amounted to \$17.3 million and \$16.6 million, respectively. Operating revenue increased \$0.7 million, or 4.4 percent. Total operating expenses for the years ended June 30, 2015 and 2014 were \$63.7 million and \$65.9 million, respectively. Operating expenses decreased \$2.2 million, or 3.4 percent. The College’s operating loss amounted to \$46.4 million during 2015 compared to \$49.3 million in 2014, which represented an increase of \$3.0 million, or 6.0 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**

|   | Years Ended June 30   |                       |
|---|-----------------------|-----------------------|
|   | 2015                  | 2014                  |
|   | (dollars in millions) |                       |
| Credit instruction                          | \$ 19.2               | \$ 19.8               |
| Less Pell grants and scholarship allowances | <u>(9.9)</u>          | <u>(10.9)</u>         |
| Net credit instruction                      | 9.3                   | 8.9                   |
| Noncredit instruction                       | 0.9                   | 0.9                   |
| Other                                       | <u>0.7</u>            | <u>0.8</u>            |
| Total                                       | <u><b>\$ 10.9</b></u> | <u><b>\$ 10.6</b></u> |

Student tuition and fees, net, was higher during 2015 as compared to 2014.

Credit instruction tuition and fees, net, increased by \$0.4 million in 2015 as compared to 2014. Gross credit instruction and fees decreased by 3.0 percent. The decrease is primarily related to declines in summer, fall, and spring enrollments of 10.5 percent, 6.4 percent and 8.7 percent, respectively, partially offset by an increase in tuition rates commencing with fall 2014. Gross credit instruction and fees are offset by Pell

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**Management's Discussion and Analysis (Unaudited) (continued)**

grants and other scholarship allowances of \$9.9 million during 2015 as compared to \$10.9 million during 2014.

Noncredit instruction revenue during 2015 was flat as compared to 2014.

Grants, contracts, and other revenue increased by \$1.2 million during 2015 as compared to 2014, primarily attributable to higher federal, state and local grants and contracts of \$0.9.

Auxiliary enterprises revenue is comprised primarily of bookstore and event services and campus dining revenue. Operating revenue decreased by 16.0 percent for these operations during 2015 compared to 2014, primarily attributable to a decline in bookstore sales attributable to a decrease in enrollment and increased competition from on-line book sellers. Gross auxiliary bookstore revenue is offset by Pell grants of \$1.6 million during 2015 compared to \$1.7 million in 2014.

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 College's State Share of Instructional Support ("SSIS").

The College's State funding for operational support is determined legislatively and controlled through the Ohio Department of Higher Education. SSIS is formula determined and allocates available 2015 State funds to each two year institution based on: (a) course completion, (b) success points, and (c) degrees and certificates earned. Moreover, in 2015 there was a hold harmless guarantee that provided temporary stability to institutions where funding decreased precipitously.

State support increased during 2015 by \$1.0 million, or 5.8 percent, as compared with 2014.

Local appropriations increased by approximately \$40,000 or 0.2 percent during 2015 as compared to 2014. The increase is primarily attributable to higher real estate tax receipts due to an increase in collections of delinquent accounts.

Pell grant revenues decreased by \$1.0 million during 2015 as compared to 2014, due to lower enrollment. Other nonoperating income and expenses increased by \$0.5 million during 2015 compared to 2014, due primarily to interest expense on the Series 2014 Bonds.

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

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**Management’s Discussion and Analysis (Unaudited) (continued)**

**Operating Expense Summary**

|                               | Years Ended June 30   |                       |
|-------------------------------|-----------------------|-----------------------|
|                               | 2015                  | 2014                  |
|                               | (dollars in millions) |                       |
| Educational and general:      |                       |                       |
| Salaries and wages            | \$ 35.5               | \$ 36.6               |
| Benefits                      | 9.1                   | 10.4                  |
| Operating expenses            | <u>10.0</u>           | <u>9.7</u>            |
| Total educational and general | 54.6                  | 56.7                  |
| Auxiliary enterprises         | 5.0                   | 5.2                   |
| Depreciation                  | <u>4.1</u>            | <u>4.0</u>            |
| Total                         | <u><u>\$ 63.7</u></u> | <u><u>\$ 65.9</u></u> |

Salaries and wages decreased by 3.0 percent during 2015. The decrease is primarily attributable to (a) lower part-time summer, fall, and spring faculty cost resulting from lower enrollment and increased class sizes, (b) replacing full-time faculty open positions at lower salaries, (c) delay in filling open non-faculty positions.

Benefits include retirement and non-retirement benefits. Total benefits decreased by 12.5 percent during 2015 and is attributable to the change in the recognition of pension expense as required by GASB 68.

The increase in operating expenses in 2015 as compared to 2014 is primarily attributable to funding phase two of the science hallway renovation project, debt service on the Series 2014 Bonds, and various other space renovations and related equipment purchases, partially offset by lower rent expense and utilities.

Auxiliary enterprises expense decreased by 5.6 percent during 2015 as compared to 2014 primarily resulting from lower expenses related to decreases in bookstore sales resulting from enrollment declines and increased competition from on-line book purchases.

Depreciation expense is higher by 3.3 percent during 2015 as compared to 2014 due to additional capital expenditures (purchase of the Holden University Center and science hallway renovations, along with related equipment purchases).

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, 2015 comparison of net changes to fund balance, budget versus actual, for the College’s unrestricted funds are as follows:

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**Management’s Discussion and Analysis (Unaudited) (continued)**

**Unrestricted Funds Budget to Actual Comparison**

| <u>Changes to Fund Balances by Unrestricted Fund Type</u> | <u>2015</u>           |               |
|---|-----------------------|---------------|
|   | <u>Adopted Budget</u> | <u>Actual</u> |
|   | (dollars in millions) |               |
| General operating   | \$ (0.2)              | \$ -          |
| Auxiliary   | (0.5)                 | 0.4           |
| Plant   | (0.2)                 | (0.1)         |
| Total   | <u>\$ (0.9)</u>       | <u>\$ 0.3</u> |

**Statements of Cash Flows**

**Cash Flows for the Years Ended June 30**

|  | <u>2015</u>         | <u>2014</u>         |
|--|---------------------|---------------------|
| <b>Net Cash and Cash Equivalents (Used in) Provided by</b> |                     |                     |
| Operating activities                                       | \$ (45,170,891)     | \$ (45,155,655)     |
| Noncapital financing activities                            | 47,448,440          | 47,947,406          |
| Capital and related financing activities                   | (1,816,452)         | (1,207,549)         |
| Investing activities                                       | (191,958)           | 2,154,196           |
| <b>Net Increase in Cash and Cash Equivalents</b>           | 269,139             | 3,738,398           |
| <b>Cash and Cash Equivalents - Beginning of year</b>       | <u>6,666,964</u>    | <u>2,928,566</u>    |
| <b>Cash and Cash Equivalents - End of year</b>             | <u>\$ 6,936,103</u> | <u>\$ 6,666,964</u> |

Major sources of cash included student tuition and fees of \$10.8 million in 2015 and \$11.3 million in 2014; state appropriations of \$18.6 million in 2015 and \$17.6 million in 2014; local appropriations of \$17.2 million in 2015 and \$17.8 million in 2014; grants and contracts of \$1.2 million in 2015 and \$0.1 million in 2014; auxiliary sales and services of \$3.6 million in 2015 and \$4.5 million in 2014; and proceeds from debt of \$20.7 million in 2015 and \$3.0 million in 2014.

The largest payments were for employee compensation and benefits totaling \$52.2 million in 2015 and \$52.1 million in 2014; suppliers of goods and services totaling \$10.1 million in 2015 and \$10.0 million in 2014; and purchases of capital assets totaling \$17.4 million in 2015 and \$2.2 million in 2014.

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

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## **Management’s Discussion and Analysis (Unaudited) (continued)**

### **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.

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.

The College’s state funding for operational support is determined legislatively and controlled through the Department of Higher Education. Under the new formula, the 2016 funding model for community and technical colleges will consist of three components; (1) course completion, (2) success points, and (3) degrees and certificates earned. Overall, State appropriations for higher education are 4.6 percent higher in 2016 than they were in 2015.

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. Variations in funding, outside the levy mill amounts is threatened by property devaluations and the level of delinquent taxes collected each year.

Instructional fees are limited by both enrollment declines and the inability to raise tuition beyond a certain level as determined by the State Legislature. The College’s 2016 budget reflects an anticipated enrollment decline of 4.0 percent from 2015. The State’s current budget bill, House Bill 64, freezes tuition at 2015 levels for 2016 and 2017.

### **Contacting the College’s Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the College’s finances and to show the College’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Cook, Associate Vice President for Business Services & Interim Controller at Lakeland Community College, 7700 Clocktower Drive, Kirtland, Ohio 44094 or email at [BCook@Lakelandcc.edu](mailto:BCook@Lakelandcc.edu).

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

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**Statement of Net Position  
June 30, 2015**

**Assets**

Current assets:

|  |                  |
|--|------------------|
| Cash and cash equivalents (Note 3)         | \$ 2,635,909     |
| Short-term investments (Note 3)            | 1,768,265        |
| Intergovernmental receivables              | 12,474,533       |
| Loans and other receivables - Net (Note 4) | 10,937,388       |
| Inventories                                | 684,124          |
| Prepaid assets                             | <u>1,296,640</u> |

Total current assets 29,796,859

Noncurrent assets:

|   |                   |
|---|-------------------|
| Restricted cash and cash equivalents (Note 3) | 4,300,194         |
| Investments (Note 3)                          | 8,653,983         |
| Loans receivable - Net (Note 4)               | 6,481             |
| Capital assets - Net (Note 5)                 | <u>55,834,122</u> |

Total noncurrent assets 68,794,780

Total assets 98,591,639

**Deferred Outflows of Resources**

|          |                  |
|----------|------------------|
| Pensions | <u>5,497,154</u> |
|----------|------------------|

Total deferred outflows 5,497,154

Total assets and deferred outflows **\$ 104,088,793**

**Liabilities**

Current liabilities:

|  |                |
|--|----------------|
| Accounts payable and accrued liabilities | \$ 5,398,785   |
| Unearned revenue                         | 10,243,187     |
| Debt payable (Note 6)                    | 1,774,073      |
| Compensated absences (Note 6)            | 964,814        |
| Other liabilities                        | <u>269,502</u> |

Total current liabilities 18,650,361

Noncurrent liabilities (Note 6):

|                                  |                |
|----------------------------------|----------------|
| Pensions                         | 75,642,037     |
| Debt payable                     | 29,763,878     |
| Compensated absences             | 624,282        |
| Refundable federal student loans | 214,173        |
| Other liabilities                | <u>248,000</u> |

Total noncurrent liabilities 106,492,370

Total liabilities 125,142,731

**Deferred Inflows of Resources**

|                |                   |
|----------------|-------------------|
| Property Taxes | 8,090,661         |
| Pensions       | <u>10,721,208</u> |

Total deferred inflows 18,811,869

**Net Position**

|                                       |                     |
|---------------------------------------|---------------------|
| Net investment in capital assets      | 27,530,676          |
| Restricted for:                       |                     |
| Nonexpendable for endowment purposes  | 350,367             |
| Expendable for instructional purposes | 21,730              |
| Unrestricted                          | <u>(67,768,580)</u> |

Total net position (39,865,807)

Total liabilities, deferred inflows and net position **\$ 104,088,793**

The Accompanying Notes are an Integral Part of these Financial Statements.

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

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**Statement of Revenue, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2015**

**Operating Revenue**

|   |                |
|---|----------------|
| Student tuition and fees - Net of \$9,938,405<br>in Pell and scholarship allowances | \$ 10,855,940  |
| Federal grants and contracts  | 431,516        |
| State grants and contracts  | 289,590        |
| Private grants and contracts  | 418,266        |
| Sales and services  | 1,286,570      |
| Auxiliary enterprises - Net of \$1,644,818<br>in Pell and scholarship allowances    | 3,674,590      |
| Other operating revenue   | <u>343,251</u> |
| Total operating revenue   | 17,299,723     |

**Operating Expenses**

|   |                   |
|---|-------------------|
| Educational and general:                |                   |
| Instruction and departmental research   | 23,969,405        |
| Public service                          | 1,070,236         |
| Academic support                        | 4,763,807         |
| Student services                        | 7,544,039         |
| Institutional support                   | 10,493,004        |
| Operation and maintenance of facilities | <u>6,766,215</u>  |
| Total educational and general           | 54,606,706        |
| Auxiliary enterprises                   | 4,951,264         |
| Depreciation and amortization           | <u>4,118,654</u>  |
| Total operating expenses                | <u>63,676,624</u> |

**Operating Loss** (46,376,901)

**Nonoperating Revenue (Expense)**

|  |                   |
|--|-------------------|
| State appropriations (Note 8)                              | 18,617,240        |
| Local appropriations (Note 9)                              | 17,725,078        |
| Pell grant revenue - Net of refunds                        | 11,583,223        |
| Unrestricted investment income - Net of investment expense | 92,978            |
| Restricted investment income - Net of investment expense   | 329               |
| Interest on capital asset - Related debt                   | <u>(888,541)</u>  |
| Net nonoperating revenue                                   | <u>47,130,307</u> |

**Gain - Before other changes** 753,406

**Other Changes**

|  |                |
|--|----------------|
| Capital appropriations from the State of Ohio (Note 8) | 848,798        |
| Capital grants and gifts                               | <u>14,800</u>  |
| Total other changes                                    | <u>863,598</u> |

**Increase in Net Position** 1,617,004

**Net Position - Beginning of year** (41,482,811)

**Net Position - End of year** \$ (39,865,807)

The Accompanying Notes are an Integral Part of these Financial Statements.

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

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**Statement of Cash Flows  
For the Year Ended June 30, 2015**

|   |                            |
|---|----------------------------|
| <b>Cash Flows from Operating Activities</b>                     |                            |
| Tuition and fees - Net  | \$ 10,806,157              |
| Grants and contracts  | 1,216,194                  |
| Payments to suppliers and utilities                             | (10,111,813)               |
| Payments for compensation and benefits                          | (52,193,836)               |
| Federal draw-downs  | 16,648,681                 |
| Federal draw-downs applied to tuition - Disbursed to students   | (16,999,252)               |
| Auxiliary sales and services                                    | 3,628,213                  |
| Other   | <u>1,834,765</u>           |
| Net cash used in operating activities                           | (45,170,891)               |
| <b>Cash Flows from Noncapital Financing Activities</b>          |                            |
| State appropriations  | 18,617,240                 |
| Local appropriations  | 17,247,977                 |
| Federal Pell - Net of refunds                                   | <u>11,583,223</u>          |
| Net cash provided by noncapital financing activities            | 47,448,440                 |
| <b>Cash Flows from Capital and Related Financing Activities</b> |                            |
| Capital gift  | 14,800                     |
| Proceeds from issuance of debt                                  | 20,700,000                 |
| Purchases of capital assets                                     | (17,419,955)               |
| Principal paid on capital debt - Net                            | (4,699,041)                |
| Interest paid on capital debt                                   | (935,205)                  |
| Bond issue costs  | <u>522,949</u>             |
| Net cash used in capital and related financing activities       | (1,816,452)                |
| <b>Cash Flows from Investing Activities</b>                     |                            |
| Proceeds from sales and maturities of investments               | 8,120,000                  |
| Purchase of investments   | (8,397,085)                |
| Interest on investments   | <u>85,127</u>              |
| Net cash used in investing activities                           | <u>(191,958)</u>           |
| <b>Net Increase in Cash and Cash Equivalents</b>                | 269,139                    |
| <b>Cash and Cash Equivalents - Beginning of year</b>            | <u>6,666,964</u>           |
| <b>Cash and Cash Equivalents - End of year</b>                  | <u><u>\$ 6,936,103</u></u> |
| <b>Classification of Cash and Cash Equivalents</b>              |                            |
| Cash and cash equivalents                                       | \$ 2,635,909               |
| Restricted cash and cash equivalents                            | <u>4,300,194</u>           |
| Total cash and cash equivalents                                 | <u><u>\$ 6,936,103</u></u> |

The Accompanying Notes are an Integral Part of these Financial Statements.

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

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**Statement of Cash Flows (Continued)  
For the Year Ended June 30, 2015**

**Reconciliation of Operating Loss to Net Cash from  
Operating Activities:**

|  |    |                            |
|--|----|----------------------------|
| Operating loss   | \$ | (46,376,901)               |
| Adjustments to reconcile operating loss to net cash from operating activities: |    |                            |
| Depreciation and amortization expense  |    | 4,118,654                  |
| Net Pension Expense  |    | (3,654,647)                |
| (Increase) Decrease in assets:   |    |                            |
| Accounts receivable  |    | (543,080)                  |
| Inventories  |    | (169,132)                  |
| Other assets   |    | (3,793)                    |
| Increase (Decrease) in liabilities:  |    |                            |
| Accounts payable and accrued liabilities                                       |    | 1,766,364                  |
| Unearned revenue   |    | (268,074)                  |
| Other liabilities  |    | 92,746                     |
| Compensated absences   |    | (133,028)                  |
| Net cash used in operating activities  | \$ | <u><u>(45,170,891)</u></u> |

The Accompanying Notes are an Integral Part of these Financial Statements.

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

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**Statements of Financial Position and Condensed Statements of Activities  
Component Unit – The Lakeland Foundation  
As of and for the Year Ended June 30, 2015**

**Statement of Financial Position**

**Assets**

|                           |                            |
|---------------------------|----------------------------|
| Cash and cash equivalents | \$ 440,481                 |
| Cash held for others      | 11,069                     |
| Investments (Note 2)      | 4,210,099                  |
| Receivables               | 180,574                    |
| Other assets              | 14,342                     |
|                           | <hr/>                      |
| Total assets              | <b><u>\$ 4,856,565</u></b> |

**Liabilities and Net Position**

**Liabilities**

|                        |           |
|------------------------|-----------|
| Accounts payable       | \$ 55,951 |
| Due to custodial funds | 11,069    |
|                        | <hr/>     |
| Total liabilities      | 67,020    |

**Net Position**

|                                    |                            |
|------------------------------------|----------------------------|
| Unrestricted                       | 130,235                    |
| Temporarily restricted             | 2,172,770                  |
| Permanently restricted             | 2,486,540                  |
|                                    | <hr/>                      |
| Total net position                 | 4,789,545                  |
|                                    | <hr/>                      |
| Total liabilities and net position | <b><u>\$ 4,856,565</u></b> |

**Condensed Statement of Activities**

**Support and Revenue**

|                           |              |
|---------------------------|--------------|
| Contributions and grants  | \$ 1,093,175 |
| Investment income - Net   | 115,720      |
|                           | <hr/>        |
| Total support and revenue | 1,208,895    |

**Program and Support Services**

|                                    |           |
|------------------------------------|-----------|
| Program services:                  |           |
| Scholarships                       | 550,824   |
| Educational and related programs   | 313,562   |
| Support services - Administration  | 163,462   |
|                                    | <hr/>     |
| Total program and support expenses | 1,027,848 |

|   |                            |
|---|----------------------------|
| <b>Increase in Net Position</b>         | 181,047                    |
| <b>Net Position - Beginning of year</b> | 4,608,498                  |
|   | <hr/>                      |
| <b>Net Position - End of year</b>       | <b><u>\$ 4,789,545</u></b> |

The Accompanying Notes are an Integral Part of these Financial Statements.

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

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## Notes to Financial Statements June 30, 2015

### Note 1: 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) because its sole purpose is to provide support for the College. 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.

**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.

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 1: Basis of Presentation and Significant Accounting Policies (continued)**

**Restricted Cash and Cash Equivalents** – As of June 30, 2015, restricted cash and cash equivalents of \$4,300,194 consist of the unspent proceeds from the Series 2014 General Receipts Bonds (\$3,941,898), and unspent proceeds from the Tax Anticipation Notes, Series 2014 (\$358,296).

**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.

**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, and 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. Equipment, furniture, and vehicles are based on date of acquisition and half-year straight-line method for all other capital assets:

|                                     |             |
|-------------------------------------|-------------|
| Land improvements                   | 20-30 years |
| Infrastructure                      | 20-25 years |
| Buildings 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 2016 that have not yet been earned.

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 1: Basis of Presentation and Significant Accounting Policies (continued)**

**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*.

**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 2015 is \$11,583,223.

**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.

**Deferred Outflows/ Inflows of Resources** – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applied to a future period and will not be recognized as an outflow of resources (expense) until then. For the College, deferred outflows of resources are reported for pensions and are explained in Note 10.

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 1: Basis of Presentation and Significant Accounting Policies (continued)**

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the College, deferred inflows of resources include property taxes and pensions. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. Deferred inflows of resources related to pensions are explained in Note 10.

**Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**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.

**Note 2: Change in Accounting Principle and Restatement of Net Position**

For fiscal year 2015, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB 68 and 71 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and pension expense. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

|  |                       |
|--|-----------------------|
| Net position June 30, 2014                                 | \$43,037,926          |
| Adjustments:   |                       |
| Net Pension Liability                                      | (89,532,249)          |
| Deferred Outflow – Payments Subsequent to Measurement Date | <u>5,011,512</u>      |
| Restated Net Position June 30, 2014                        | <u>\$(41,482,811)</u> |

Other than employer contributions subsequent to the measurement date, the College made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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

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## Notes to Financial Statements June 30, 2015

### Note 3: 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, 2015, the carrying amount of the College's cash balance was \$1,387,409 and the bank balance totaled \$1,440,654. 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 year ended June 30, 2015. 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.

**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 interest bearing bank account. In addition, funds are also invested in the State of Ohio treasurer's STAR investment program fund. The remaining portfolio at June 30, 2015 is made up of United States Treasury and agency issues, and commercial paper. 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 \$748,975 in commercial paper in 2015. 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.

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 3: Cash and Cash Equivalents and Investments (continued)**

**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.

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** – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. In 2015, the College had investments in international equity mutual funds of \$59,243 (included in the stock mutual fund balance of \$229,838), representing less than 1 percent of the College’s total investments.

**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 did not have over 5 percent of its investments in any single issuer in 2015.

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

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**Notes to Financial Statements  
June 30, 2015**

**Note 3: Cash and Cash Equivalents and Investments (continued)**

At June 30, 2015, the College's investment portfolio and credit ratings consisted of the following:

| 2015   | Fair Market<br>Value | Less Than<br>One Year | 1-4 Years           | NRSRO<br>Rating |
|--|----------------------|-----------------------|---------------------|-----------------|
| State Treasurer Asset Reserve Fund (STAR Ohio) | \$ 5,548,694         | \$ 5,548,694          | \$ -                | AAA             |
| Money market                                   | 57,672               | 57,672                | -                   | AAA             |
| Commercial Paper                               | 748,975              | 748,975               | -                   | P-1             |
| U.S. government agency                         | 9,267,996            | 998,752               | 8,269,244           | AAA             |
| Bond mutual funds                              | 117,767              | -                     | 117,767             | AAA             |
| Stock mutual funds                             | 229,838              | -                     | 229,838             |                 |
| Total investments                              | <u>\$ 15,970,942</u> | <u>\$ 7,354,093</u>   | <u>\$ 8,616,849</u> |                 |

**Note 4: 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 \$3,832,270 at June 30, 2015.

|                               | Current<br>Portion - Net | Noncurrent<br>Portion - Net |
|-------------------------------|--------------------------|-----------------------------|
| Employee computer financing   | \$ 22,525                | \$ 6,481                    |
| Student accounts              | 10,423,939               | -                           |
| Auxiliary receivables         | 144,978                  | -                           |
| Interest receivable           | 15,010                   | -                           |
| Sales and service receivables | 330,936                  | -                           |
| Total                         | <u>\$ 10,937,388</u>     | <u>\$ 6,481</u>             |

Federal Direct Loans processed for students by the College totaled \$16,397,403 during the year ended June 30, 2015. 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**

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**Notes to Financial Statements  
June 30, 2015**

**Note 5: Capital Assets**

Capital asset activity for the year ended June 30, 2015 was as follows:

|                                | June 30, 2014<br>Balance | Additions     | Retirements<br>and Transfers | June 30, 2015<br>Balance |
|--------------------------------|--------------------------|---------------|------------------------------|--------------------------|
| Nondepreciable assets:         |                          |               |                              |                          |
| Land                           | \$ 723,289               | \$ 2,070,455  | \$ -                         | \$ 2,793,744             |
| Construction in progress       | 1,576,591                | 1,538,723     | (1,541,591)                  | 1,573,723                |
| Depreciable assets:            |                          |               |                              |                          |
| Land improvements              | 4,621,800                | 22,188        | (35,000)                     | 4,608,988                |
| Infrastructure                 | 6,200,609                | 77,700        | -                            | 6,278,309                |
| Buildings and improvements     | 78,118,075               | 15,347,367    | (1,370,211)                  | 92,095,231               |
| Equipment and vehicles         | 13,505,356               | 1,324,699     | (24,042)                     | 14,806,013               |
| Software and library books     | 10,528,896               | 295,342       | -                            | 10,824,238               |
| Total capital assets           | 115,274,616              | 20,676,474    | (2,970,844)                  | 132,980,246              |
| Less accumulated depreciation: |                          |               |                              |                          |
| Land improvements              | 2,898,424                | 145,698       | (4,375)                      | 3,039,747                |
| Infrastructure                 | 3,259,069                | 203,459       | -                            | 3,462,528                |
| Buildings and improvements     | 50,595,234               | 2,087,329     | (523,885)                    | 52,158,678               |
| Equipment and vehicles         | 7,172,301                | 1,343,105     | (24,042)                     | 8,491,364                |
| Software and library books     | 9,640,839                | 352,968       | -                            | 9,993,807                |
| Total accumulated depreciation | 73,565,867               | 4,132,559     | (552,302)                    | 77,146,124               |
| Capital assets - Net           | \$ 41,708,749            | \$ 16,543,915 | \$ (2,418,542)               | \$ 55,834,122            |

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

**Notes to Financial Statements  
June 30, 2015**

**Note 6: Long-Term Obligations**

Noncurrent liability activity for the year ended June 30, 2015 was as follows:

| 2015                                  | June 30, 2014<br>Balance | Additions            | Reductions           | June 30, 2015<br>Balance | Current Portion     |
|---------------------------------------|--------------------------|----------------------|----------------------|--------------------------|---------------------|
| Long-term debt and lease obligations: |                          |                      |                      |                          |                     |
| General Receipts Bonds, Series 2014   | \$ -                     | \$ 20,700,000        | \$ -                 | \$ 20,700,000            | \$ -                |
| Premium on General Receipts Bonds     | -                        | 522,949              | 12,202               | 510,747                  | 20,918              |
| Tax Anticipation Note, Series 2014    | 3,000,000                | -                    | 3,000,000            | -                        | -                   |
| Premium on Tax Anticipation Note      | 9,598                    | -                    | 9,598                | -                        | -                   |
| Tax Anticipation Note, Series 2011    | 7,395,000                | -                    | 835,000              | 6,560,000                | 860,000             |
| Tax Anticipation Note, Series 2008    | 4,620,000                | -                    | 860,000              | 3,760,000                | 890,000             |
| Premium on Tax Anticipation Note      | 11,245                   | -                    | 4,041                | 7,204                    | 3,155               |
| Total                                 | 15,035,843               | 21,222,949           | 4,720,841            | 31,537,951               | 1,774,073           |
| Net Pension Liability:                |                          |                      |                      |                          |                     |
| STRS                                  | 58,852,165               | -                    | 9,312,701            | 49,539,464               | -                   |
| SERS                                  | 30,680,084               | -                    | 4,577,511            | 26,102,573               | -                   |
| Total                                 | 89,532,249               | -                    | 13,890,212           | 75,642,037               | -                   |
| Other noncurrent obligations:         |                          |                      |                      |                          |                     |
| Reserve for compensated absences      | 1,722,124                | -                    | 133,028              | 1,589,096                | 964,814             |
| Reserve for federal student loans     | 214,173                  | -                    | -                    | 214,173                  | -                   |
| Other liabilities                     | 248,000                  | -                    | -                    | 248,000                  | -                   |
| Total noncurrent liabilities          | <u>\$ 106,752,389</u>    | <u>\$ 21,222,949</u> | <u>\$ 18,744,081</u> | <u>\$ 109,231,257</u>    | <u>\$ 2,738,887</u> |

**General Receipts Bonds Series 2014, Tax Anticipation Notes Series 2011, Series 2008** – Effective November 25, 2014 the College issued \$20,700,000 of General Receipts Bonds, Series 2014 (Series 2014 Bonds) to purchase the Holden University Center Building, refund the Tax Anticipation Notes Series 2014, and renovate science labs. The proceeds and related indebtedness have been recorded as assets and liabilities of the College. The Series 2014 Tax Anticipation Notes were refunded on December 15, 2014.

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 6: Long-Term Obligations (continued)**

The Series 2014 Bonds are special obligations of the College. Bondholders have no right to have excises or taxes levied by the State of Ohio General Assembly or by the College for their payment. Principal and interest on the bonds are payable solely from and secured by a pledge of the College's general receipts and bond proceeds. State appropriations, local ad valorem property tax receipts, and other restricted receipts are specifically excluded from general receipts. According to bond covenants, the College includes in its budget for each fiscal year amounts from general receipts that are at least sufficient to pay debt service charges payable that fiscal year from general receipts, as well as to satisfy other requirements.

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 Series 2011 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 officer; 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 Notes are 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 for the Series 2011 Notes and a Certificate of Award dated June 13, 2011 for the Series 2011 Notes (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 mill 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**

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**Notes to Financial Statements  
June 30, 2015**

**Note 6: Long-Term Obligations (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 3.25 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.

Scheduled principal maturities and total debt service on the Series 2014 Bonds, Series 2011 Notes, and Series 2008 Notes for fiscal years subsequent to June 30, 2015 are as follows:

| <u>Fiscal Years Ending</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Total</u>         |
|----------------------------|----------------------|----------------------|----------------------|
| 2016                       | \$ 1,750,000         | \$ 1,087,121         | \$ 2,837,121         |
| 2017                       | 1,805,000            | 1,031,016            | 2,836,016            |
| 2018                       | 1,865,000            | 971,880              | 2,836,880            |
| 2019                       | 1,930,000            | 909,488              | 2,839,488            |
| 2020                       | 1,695,000            | 845,926              | 2,540,926            |
| 2021-2025                  | 5,985,000            | 3,456,356            | 9,441,356            |
| 2026-2030                  | 4,500,000            | 2,567,725            | 7,067,725            |
| 2031-2035                  | 5,255,000            | 1,709,841            | 6,964,841            |
| 2036-2040                  | 6,235,000            | 635,550              | 6,870,550            |
| Total                      | <u>\$ 31,020,000</u> | <u>\$ 13,214,903</u> | <u>\$ 44,234,903</u> |

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

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**Notes to Financial Statements  
June 30, 2015**

**Note 7: Operating Lease Obligations**

The College has entered into various lease agreements, which are considered operating leases. Total rental expense under operating leases during the year ended June 30, 2015 amounted to \$431,129. Two operating leases are outstanding at June 30, 2015. One was for real estate property rentals for Lakeland's campus in Madison, the other was for a motor vehicle. A third lease was terminated during 2015, when the College exercised its option to purchase the property.

Future minimum lease payments as of June 30, 2015 under operating leases are as follows:

|       |    |                |
|-------|----|----------------|
| 2016  | \$ | 112,345        |
| 2017  |    | 125,671        |
| 2018  |    | 130,697        |
| 2019  |    | 135,925        |
| 2020  |    | <u>141,362</u> |
| Total | \$ | <u>646,000</u> |

**Note 8: 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 position. 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.

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

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## Notes to Financial Statements June 30, 2015

### Note 9: Local Appropriations

The College receives local appropriations in the form of property taxes levied against real and public utility property 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.

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 receives 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 \$4.0 million for half year assessments in 2011. On November 8, 2011, the 1.5 mills levy was renewed by the Lake County voters.

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 2015 until October 2015, 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 and public utility property taxes, which were measurable at June 30, 2015. 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 2015 operations, the receivable amount is recorded as deferred inflows of resources.

### Note 10: Defined Benefit Pension Plans

**Net Pension Liability** – The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the College’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the College’s obligation for this liability to annually required payments. The College cannot control benefit terms or the manner in which pensions are financed; however, the College does receive the benefit of employees’ services in exchange for compensation including pension.

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

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**Notes to Financial Statements  
June 30, 2015**

**Note 10: Defined Benefit Pension Plans (continued)**

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

**Plan Description - School Employees Retirement System (SERS)** - Plan Description – College non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

|                              | Eligible to<br>Retire on or before<br>August 1, 2017 *                          | Eligible to<br>Retire on or after<br>August 1, 2017                                  |
|------------------------------|---|--|
| Full Benefits                | Any age with 30 years of service credit   | Age 67 with 10 years of service credit; or<br>Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit<br>Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or<br>Age 60 with 25 years of service credit |

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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

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## Notes to Financial Statements June 30, 2015

### Note 10: Defined Benefit Pension Plans (continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the College is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The College's contributions to SERS for fiscal year 2015 were \$2,222,436, equal to the contractually required contributions for the year.

**Plan Description - State Teachers Retirement System (STRS)** - Plan Description – College licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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**Notes to Financial Statements  
June 30, 2015**

**Note 10: Defined Benefit Pension Plans (continued)**

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The College was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The College's contributions to STRS for fiscal year 2015 were \$2,715,449, equal to the contractually required contributions for the year.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The College's proportion of the net pension liability was based on the College's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

|  | <u>SERS</u>   | <u>STRS</u>   | <u>Total</u>  |
|--|---------------|---------------|---------------|
| Proportionate Share of the Net Pension Liability | \$ 26,102,573 | \$ 49,539,464 | \$ 75,642,037 |
| Proportion of the Net Pension Liability          | 0.515765%     | 0.20366947%   |               |
| Pension Expense                                  | \$ 1,535,045  | \$ 2,288,678  | \$ 3,823,723  |

**Lake County Community College District**  
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**Notes to Financial Statements**  
**June 30, 2015**

**Note 10: Defined Benefit Pension Plans (continued)**

At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>SERS</u>         | <u>STRS</u>         | <u>Total</u>        |
|--|---------------------|---------------------|---------------------|
| <b>Deferred Outflows of Resources</b>                    |                     |                     |                     |
| Differences between expected and actual experience       | \$ 177,729          | \$ 381,540          | \$ 559,269          |
| College contributions subsequent to the measurement date | <u>2,222,436</u>    | <u>2,715,449</u>    | <u>4,937,885</u>    |
| Total Deferred Outflows of Resources                     | <u>\$ 2,400,165</u> | <u>\$ 3,096,989</u> | <u>\$ 5,497,154</u> |

**Deferred Inflows of Resources**

|  |                     |                     |                      |
|--|---------------------|---------------------|----------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ <u>3,389,217</u> | \$ <u>7,331,991</u> | \$ <u>10,721,208</u> |
|--|---------------------|---------------------|----------------------|

\$4,937,885 reported as deferred outflows of resources related to pension resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

|                             | <u>SERS</u>           | <u>STRS</u>           | <u>Total</u>           |
|-----------------------------|-----------------------|-----------------------|------------------------|
| Fiscal Year Ending June 30: |                       |                       |                        |
| 2016                        | \$ (802,872)          | \$ (1,737,613)        | \$ (2,540,485)         |
| 2017                        | (802,872)             | (1,737,613)           | (2,540,485)            |
| 2018                        | (802,872)             | (1,737,613)           | (2,540,485)            |
| 2019                        | <u>(802,872)</u>      | <u>(1,737,612)</u>    | <u>(2,540,484)</u>     |
| Total                       | <u>\$ (3,211,488)</u> | <u>\$ (6,950,451)</u> | <u>\$ (10,161,939)</u> |

**Actuarial Assumptions – SERS - SERS’** total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**Lake County Community College District  
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**Notes to Financial Statements  
June 30, 2015**

**Note 10: Defined Benefit Pension Plans (continued)**

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

|  |  |
|--|--|
| Wage Inflation                               | 3.25 percent   |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent                                   |
| COLA or Ad Hoc COLA                          | 3 percent  |
| Investment Rate of Return                    | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method                        | Entry Age Normal   |

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS’ *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

| Asset Class            | Target<br><u>Allocation</u> | Long Term Expected<br><u>Real Rate of Return</u> |
|------------------------|-----------------------------|--|
| Cash                   | 1.00 %                      | 0.00 %   |
| US Stocks              | 22.50                       | 5.00   |
| Non-US Stocks          | 22.50                       | 5.50   |
| Fixed Income           | 19.00                       | 1.50   |
| Private Equity         | 10.00                       | 10.00  |
| Real Assets            | 10.00                       | 5.00   |
| Multi-Asset Strategies | <u>15.00</u>                | 7.50   |
| Total                  | <u>100.00 %</u>             |  |

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

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**Notes to Financial Statements  
June 30, 2015**

**Note 10: Defined Benefit Pension Plans (continued)**

**Discount Rate** - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

|  | 1% Decrease<br><u>(6.75%)</u> | Current<br>Discount Rate<br><u>(7.75%)</u> | 1% Increase<br><u>(8.75%)</u> |
|--|-------------------------------|--|-------------------------------|
| College's proportionate share of the net pension liability | \$ 37,240,615                 | \$ 26,102,573                              | \$ 16,734,516                 |

**Actuarial Assumptions – STRS** - The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                                   |  |
|-----------------------------------|--|
| Inflation                         | 2.75 percent   |
| Projected salary increases        | 2.75 percent at age 70 to 12.25 percent at age 20  |
| Investment Rate of Return         | 7.75 percent, net of investment expenses   |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date. |

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above.

Females younger than age 80 are set back four years; one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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**Notes to Financial Statements  
June 30, 2015**

**Note 10: Defined Benefit Pension Plans (continued)**

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

| Asset Class          | <u>Target<br/>Allocation</u> | <u>Long Term Expected<br/>Real Rate of Return</u> |
|----------------------|------------------------------|---|
| Domestic Equity      | 31.00 %                      | 8.00 %  |
| International Equity | 26.00                        | 7.85  |
| Alternatives         | 14.00                        | 8.00  |
| Fixed Income         | 18.00                        | 3.75  |
| Real Estate          | 10.00                        | 6.75  |
| Liquidity Reserves   | <u>1.00</u>                  | 3.00  |
| Total                | <u><u>100.00 %</u></u>       |   |

**Discount Rate** - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the College's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

|  | <u>1% Decrease<br/>(6.75%)</u> | <u>Current<br/>Discount Rate<br/>(7.75%)</u> | <u>1% Increase<br/>(8.75%)</u> |
|--|--------------------------------|--|--------------------------------|
| College's proportionate share of the net pension liability | \$ 70,921,143                  | \$ 49,539,464                                | \$ 31,461,655                  |

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

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**Notes to Financial Statements  
June 30, 2015**

**Note 10: Defined Benefit Pension Plans (continued)**

**Net Pension Expense** - The College's operating expenses as reflected in the Statement of Revenues, Expenses and changes in Net Position for the year ended June 30, 2015 include an amount for net pension expense as required by GASB 68. This amount was allocated among the functional expense categories as follows:

|   | Expenses<br>Before<br>Pension | Net Pension<br>Expense<br>Allocation | Expenses<br>After<br>Pension |
|---|-------------------------------|--------------------------------------|------------------------------|
| Instruction and departmental research   | \$26,005,043                  | (\$2,035,638)                        | \$23,969,405                 |
| Public service                          | 1,548,995                     | (478,759)                            | 1,070,236                    |
| Academic support                        | 4,840,555                     | (76,748)                             | 4,763,807                    |
| Student services                        | 7,807,174                     | (263,135)                            | 7,544,039                    |
| Institutional support                   | 10,957,144                    | (464,140)                            | 10,493,004                   |
| Operation and maintenance of facilities | <u>6,970,875</u>              | <u>(204,660)</u>                     | <u>6,766,215</u>             |
| Total educational and general           | 58,129,786                    | (3,523,080)                          | 54,606,706                   |
| <br>                                    |                               |                                      |                              |
| Auxiliary enterprises                   | 5,082,831                     | (131,567)                            | 4,951,264                    |
| Depreciation                            | <u>4,118,654</u>              | <u>-</u>                             | <u>4,118,654</u>             |
| Total operating expenses                | <u>\$67,331,271</u>           | <u>(\$3,654,647)</u>                 | <u>\$63,676,624</u>          |

The net pension expense consists of the College's proportion of pension expense for STRS and SERS, as reflected above, adjusted by the amortization of deferred inflows/outflows of resources related to pensions.

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

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## Notes to Financial Statements June 30, 2015

### Note 11: Post-Employment Benefits

**State Teachers Retirement System** – Ohio Law authorizes STRS to offer a cost-sharing, multiple-employer health care plan. STRS provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physician's fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014 and 2013. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. The amounts contributed by the College to fund health care benefits for the years ended June 30, 2015, 2014 and 2013 were \$-0-, \$203,332 and \$210,808, respectively, equal to the required contributions each year.

**School Employees' Retirement System** – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Ohio Revised code provides statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2015, the health care allocation is 0.82%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated if less than a full year of service was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total state-wide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the minimum compensation level was established at \$20,450. The surcharge, added to the unallocated portion of the 14% employer contribution rate, is the total amount assigned to the Health Care Fund. The College's contributions assigned to health care for the years ended June 30, 2015, 2014 and 2013 were \$270,296, \$155,873 and \$155,696, respectively; 48.2%, 100.0% and 100.0%, respectively, were contributed by the College, and the remaining balance is an accrued liability.

The SERS Retirement Board establishes the rules for premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

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

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## Notes to Financial Statements June 30, 2015

### **Note 12: 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 health care 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 health care 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 health care benefits administrator. The LCSC in turn manages various health care benefit organizations to deliver those services.

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 health care benefit obligations. As part of joining the LCSC, the College's Board of Trustees authorized payment to the 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 on 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, health care 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. LCSC net assets at June 30, 2015 (unaudited) amounted to \$7.5 million. The LCSC audit report is available at the Ohio Auditor of State website (<https://ohioauditor.gov>) or upon request.

### **Note 13: 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, casualty, and general liability insurance. The College pays annual premiums to the pool for coverage based on its percentage of the total insurable value to the pool. There are twelve members in the pool as of June 30, 2015.

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

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## Notes to Financial Statements June 30, 2015

### Note 14: Discretely Presented Component Unit

#### 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 the 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 the College. The accounting records for the Foundation are maintained at the College in Kirtland, Ohio. Certain administrative expenses of the Foundation are paid directly by the College.

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

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

#### 2. Summary of Significant Accounting Policies

##### Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

##### 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.

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**2. Summary of Significant Accounting Policies (continued)**

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, 2015, the Foundation's cash in bank balances may have exceeded the federal insured limits.

Investments

Investments in marketable securities are stated at fair market value.

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

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**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 upon 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 nonprofit 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, 2015, 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 2012.

Pledges Receivable

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

Loans Receivable

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

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**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, 2015 have been evaluated for possible adjustment to the financial statements or disclosure is October 12, 2015, 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, 2015 was as follows:

|                                | <u>2015</u>         |                     |
|--------------------------------|---------------------|---------------------|
|                                | <u>Cost</u>         | <u>Value</u>        |
| Corporate bonds                | \$ 509,986          | \$ 507,577          |
| International bonds            | 20,399              | 20,237              |
| Fixed-income mutual funds      | 705,141             | 691,279             |
| Large cap equity               | 1,008,344           | 1,021,519           |
| Mid cap equity                 | 665,161             | 681,857             |
| Equity mutual funds            | 300,611             | 301,253             |
| International mutual funds     | 465,614             | 488,015             |
| International fixed income     | 169,230             | 164,626             |
| Alternative assets             | 166,667             | 167,505             |
| Emerging markets equities      | 99,774              | 99,259              |
| Money market/cash and reserves | <u>66,972</u>       | <u>66,972</u>       |
|                                | <u>\$ 4,177,899</u> | <u>\$ 4,210,099</u> |

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**Note 3: Investments (continued)**

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

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

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

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

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

The following is a summary of the inputs used as of June 30, 2015, 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>        |
|--------------------------------|---------------------|-------------------|----------------|---------------------|
| Corporate bonds                | \$ -                | \$ 507,577        | \$ -           | \$ 507,577          |
| International bonds            | -                   | 20,237            | -              | 20,237              |
| Fixed income mutual funds      | 691,279             | -                 | -              | 691,279             |
| Large cap equity               | 1,021,519           | -                 | -              | 1,021,519           |
| Mid cap equity                 | 681,857             | -                 | -              | 681,857             |
| Equity mutual funds            | 301,253             | -                 | -              | 301,253             |
| International mutual funds     | 488,015             | -                 | -              | 488,015             |
| International fixed income     | 164,626             | -                 | -              | 164,626             |
| Emerging markets equities      | 99,259              | -                 | -              | 99,259              |
| Alternative assets             | 167,505             | -                 | -              | 167,505             |
| Money market/cash and reserves | <u>66,972</u>       | <u>-</u>          | <u>-</u>       | <u>66,972</u>       |
| Investments                    | \$ <u>3,682,285</u> | \$ <u>527,814</u> | \$ <u>-</u>    | \$ <u>4,210,099</u> |

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**Note 3: Investments (continued)**

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

**Note 4: Net Assets**

Unrestricted Funds

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

Temporarily Restricted Funds

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

Temporarily restricted net assets are available for the following purposes as of June 30, 2015:

|  |                     |
|--|---------------------|
| Scholarships   | \$ 874,215          |
| Loans (Note 6)   | 18,044              |
| Educational and related programs                               | 432,789             |
| Portion of endowment fund classified as temporarily restricted | <u>847,722</u>      |
| Total temporarily restricted net assets                        | \$ <u>2,172,770</u> |

As of June 30, 2015, 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:

|  |                   |
|--|-------------------|
| Scholarships   | \$ 550,824        |
| Loans (Note 6)   | 329               |
| Educational and related programs                                 | 289,415           |
| Administration/fundraising                                       | 43,661            |
| Transferred – permanently restricted                             | 32,438            |
| Transferred – undesignated                                       | <u>21,016</u>     |
| Total net assets released from donor restrictions or transferred | \$ <u>937,683</u> |

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**Note 4: Net Assets (continued)**

Permanently Restricted Funds

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

Net Asset Classification of Endowment Funds

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

The Board of Directors of the Foundation has interpreted the State 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, 2015:

|                                  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted endowment funds | \$ _____ -          | \$ <u>847,722</u>                 | \$ <u>2,467,458</u>               | \$ <u>3,315,180</u> |
| Total funds                      | \$ _____ -          | \$ <u>847,722</u>                 | \$ <u>2,467,458</u>               | \$ <u>3,315,180</u> |

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

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**Note 4: Net Assets (continued)**

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015:

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets,<br>beginning of year           | \$ -                | \$ 861,652                        | \$ 2,267,134                      | \$ 3,128,786        |
| Investment return:                                   |                     |                                   |                                   |                     |
| Interest and dividends                               | -                   | 57,575                            | -                                 | 57,575              |
| Net realized and unrealized gain                     | <u>-</u>            | <u>55,650</u>                     | <u>-</u>                          | <u>55,650</u>       |
| Total investment return                              | -                   | 113,225                           | -                                 | 113,225             |
| Contributions  | -                   | -                                 | 167,886                           | 167,886             |
| Appropriation of endowment assets<br>for expenditure | -                   | (104,691)                         | -                                 | (104,691)           |
| Management fee                                       | -                   | (22,464)                          | -                                 | (22,464)            |
| Transfers in   | <u>-</u>            | <u>-</u>                          | <u>32,438</u>                     | <u>32,438</u>       |
| Endowment net assets,<br>end of year                 | \$ <u>-</u>         | \$ <u>847,722</u>                 | \$ <u>2,467,458</u>               | \$ <u>3,315,180</u> |

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

|   | <u>2015</u>         |
|---|---------------------|
| Permanently restricted net assets within the endowment fund         | \$ 2,467,458        |
| Permanently restricted contributions included in pledges receivable | <u>19,082</u>       |
| Total permanently restricted net assets                             | \$ <u>2,486,540</u> |

The temporarily restricted endowment includes a \$321,355 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**

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**Notes to Financial Statements**  
**June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**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. The Foundation engages an investment manager whose performance is measured against respective benchmarks. The endowment’s real total return is sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility. The Foundation recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential loss in purchasing power due to inflation are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the investment portfolio the opportunity to achieve satisfactory results consistent with the objectives and character of the portfolio.

Strategies Employed for Achieving Objectives

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

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

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>   |             |

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

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**Notes to Financial Statements  
June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**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 net present value assuming their respective terms (up to five years) and a discount rate of 6%. The pledges receivable, net as of June 30, 2015 are scheduled to be collected as follows:

|   |                   |
|---|-------------------|
| Pledges receivable:                       |                   |
| Payable within one year                   | \$ 24,151         |
| Payable in one to five years              | <u>140,535</u>    |
| Total pledges receivable                  | 164,686           |
| Less: discount to net present value       | (17,282)          |
| Less: allowance for uncollectible pledges | <u>(12,701)</u>   |
| Pledges receivable, net at June 30, 2015  | \$ <u>134,703</u> |

**Note 6: Loans Receivable**

As of June 30, 2015, loans receivable totaled \$95,357. During the fiscal year ended June 30, 2015, \$3,800 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, 2015, \$4,275 had been repaid. The related allowance for uncollectible loans is \$88,606 at June 30, 2015.

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

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**Notes to Financial Statements  
June 30, 2015**

**Note 14: Discretely Presented Component Unit (continued)**

**Note 7: Related-Party Transactions**

The College made distributions to the Foundation of \$142,397 for the year ended June 30, 2015. The Foundation distributed \$916,415 during the year ended June 30, 2015, to the College. The Foundation also distributed \$18,850 in Gifts-in-Kind during the year ended June 30, 2015. The Foundation had receivables from the College of \$530 as of June 30, 2015. The Foundation had payables to the College of \$5,805 as of June 30, 2015.

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

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**Required Supplementary Information**

Schedule of the College's Proportionate Share of the Net Pension Liability  
 School Employees Retirement System of Ohio  
 Last Two Fiscal Years (1)

|  | <u>2014</u>   | <u>2013</u>   |
|--|---------------|---------------|
| College's Proportion of the Net Pension Liability  | 0.515765%     | 0.515765%     |
| College's Proportionate Share of the Net Pension Liability   | \$ 26,102,573 | \$ 30,680,084 |
| College's Covered-Employee Payroll   | \$ 14,987,079 | \$ 15,246,314 |
| College's Proportion of the Net Pension Liability as a Percentage of<br>its Covered-Employee Payroll | 174.17%       | 201.23%       |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                           | 71.70%        | 65.52%        |

(1) Information prior to 2013 is not available.

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

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**Required Supplementary Information**

Schedule of the College's Proportionate Share of the Net Pension Liability  
State Teachers Retirement System of Ohio  
Last Two Fiscal Years (1)

|  | <u>2014</u>   | <u>2013</u>   |
|--|---------------|---------------|
| College's Proportion of the Net Pension Liability  | 0.20366947%   | 0.20366947%   |
| College's Proportionate Share of the Net Pension Liability   | \$ 49,539,464 | \$ 58,852,165 |
| College's Covered-Employee Payroll   | \$ 20,333,150 | \$ 21,080,786 |
| College's Proportion of the Net Pension Liability as a Percentage of<br>its Covered-Employee Payroll | 243.64%       | 279.17%       |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                           | 74.70%        | 69.30%        |

(1) Information prior to 2013 is not available.

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

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**Required Supplementary Information**

Schedule of the College's Contributions  
 School Employees Retirement System of Ohio  
 Last Ten Fiscal Years

|   | 2015         | 2014         | 2013         | 2012         | 2011         | 2010         | 2009         | 2008         | 2007         | 2006         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually Required Contributions                              | \$ 2,222,436 | \$ 2,098,191 | \$ 2,134,484 | \$ 2,272,756 | \$ 2,126,396 | \$ 2,044,329 | \$ 2,075,693 | \$ 1,964,069 | \$ 1,905,795 | \$ 1,872,863 |
| Contributions in Relation to Contractually Required Contributions | (2,222,436)  | (2,098,191)  | (2,134,484)  | (2,272,756)  | (2,126,396)  | (2,044,329)  | (2,075,693)  | (1,964,069)  | (1,905,795)  | (1,872,863)  |
| Contribution Deficiency (Excess)                                  | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          |
| College Covered-Employee Payroll                                  | \$15,874,543 | \$14,987,079 | \$15,246,314 | \$16,233,971 | \$15,188,543 | \$14,602,350 | \$14,826,379 | \$14,029,064 | \$13,612,821 | \$13,377,593 |
| Contribution as a Percentage of Covered-Employee Payroll          | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       |

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

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**Required Supplementary Information**

Schedule of the College's Contributions  
 State Teachers Retirement System of Ohio  
 Last Ten Fiscal Years

|   | 2015         | 2014         | 2013         | 2012         | 2011         | 2010         | 2009         | 2008         | 2007         | 2006         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually Required Contributions                              | \$ 2,715,449 | \$ 2,846,641 | \$ 2,951,310 | \$ 3,095,012 | \$ 3,004,055 | \$ 2,923,450 | \$ 2,815,994 | \$ 2,697,403 | \$ 2,388,544 | \$ 2,504,628 |
| Contributions in Relation to Contractually Required Contributions | (2,715,449)  | (2,846,641)  | (2,951,310)  | (3,095,012)  | (3,004,055)  | (2,923,450)  | (2,815,994)  | (2,697,403)  | (2,388,544)  | (2,504,628)  |
| Contribution Deficiency (Excess)                                  | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          |
| College Covered-Employee Payroll                                  | \$19,396,064 | \$20,333,150 | \$21,080,786 | \$22,107,229 | \$21,457,536 | \$20,881,786 | \$20,114,243 | \$19,267,164 | \$17,061,029 | \$17,890,200 |
| Contribution as a Percentage of Covered-Employee Payroll          | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       | 14.00%       |

## **Federal Compliance Audit**



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

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

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 financial statements of the business-type activities and the aggregate discretely presented component unit of the Lake County Community College District d/b/a Lakeland Community College (the “College”), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College’s basic financial statements, and have issued our report thereon dated November 10, 2015, wherein we noted that the College implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and as a result restated their June 30, 2014 net position of the business-type activities, as disclosed in Note 2.

**Internal Control over Financial Reporting**

In planning and performing our audit of the 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 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Cioni & Paricki, Inc.*

Cleveland, Ohio  
November 10, 2015

**Independent Auditor's Report on Compliance for Each Major Federal Program;  
Report on Internal Control over Compliance; and Report on the Schedule of  
Expenditures of Federal Awards Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited the Lake County Community College District d/b/a Lakeland Community College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2015. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the College's major federal programs 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 each major federal program. However, our audit does not provide a legal determination of the College's compliance.

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

### ***Opinion on Each 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 each of its major federal programs for the year ended June 30, 2015.

### **Report on Internal Control over Compliance**

Management of the 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 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.

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

**Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of the College as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated November 10, 2015, which contained unmodified opinions on those financial statements, wherein we noted that the College implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and as a result restated their June 30, 2014 net position of the business-type activities, as disclosed in Note 2. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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.

*Cimini & Panichi, Inc.*

Cleveland, Ohio  
November 10, 2015

**Lake County Community College District  
d/b/a Lakeland Community College  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015**

| Federal Agency/Pass-through-Agency/Program Title  | CFDA<br>Number | Pass-Through<br>Entity Project/<br>Grant Number | Fiscal year 2015<br>Expenditures |
|---|----------------|---|----------------------------------|
| Clusters:   |                |   |                                  |
| Student Financial Aid Cluster - U.S Department of<br>Education - Direct program:  |                |   |                                  |
| Federal Pell Grant Program  | 84.063         | P063P102857                                     | \$ 11,583,223                    |
| Federal Work Study Program  | 84.033         | P0033A106053                                    | 188,401                          |
| Federal Supplemental Educational<br>Opportunity Grant Program   | 84.007         | P007A106053                                     | 190,600                          |
| Federal Direct Student Loans Program  | 84.268         |   | <u>16,397,403</u>                |
| Subtotal Student Financial Aid Cluster  |                |   | 28,359,627                       |
| WIA Cluster - U.S. Department of Labor:<br>Passed through the Ohio Department of Job and Family<br>Services - Job Training Partnership Act: |                |   |                                  |
| Lake County   | 17.246         | G-1011-15-0262                                  | 35,474                           |
| Geauga, Ashtabula, and Portage Partnership  | 17.246         | G-1011-15-0261                                  | <u>1,355</u>                     |
| Subtotal WIA Cluster  |                |   | 36,829                           |
| Other Federal Programs:   |                |   |                                  |
| U. S. Department of Education - Passed through the Ohio Department<br>of Education:   |                |   |                                  |
| Two-Year College Perkins  | 84.048         | 063347-20C3-2009                                | 151,613                          |
| U. S. Department of Commerce  |                |   |                                  |
| USDC MAGNET Ohio MEP  | 11.611         | TC-26435-14-60-A-39                             | 70,053                           |
| U. S. Department of Labor   |                |   |                                  |
| USDL TAACCCT Welding Grant  | 17.282         |   | <u>103,971</u>                   |
| Subtotal Other Federal Programs   |                |   | 325,637                          |
| U.S Department of Defense - Passed through Defense Logistics Agency (DLA)   |                |   |                                  |
| Procurement Technical Assistance for Business Firms (PTAC)  | 12.002         |   | <u>89,281</u>                    |
| Total Expenditures of Federal Awards  |                |   | <u>\$ 28,811,374</u>             |

The notes to the schedule of federal awards receipts and expenditures are an integral part of this schedule.

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

Notes to Schedule of Expenditures of Federal Awards

## **For the Year Ended June 30, 2015**

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### **Note 1: 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, 2015. 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  
OMB Circular A-133 Section .505

**For the Year Ended June 30, 2015**

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**1. Summary of Auditor's Results**

|              |  |  |
|--------------|--|--|
| (d)(1)(i)    | Type of Financial Statement Opinion  | Unmodified   |
| (d)(1)(ii)   | Were there any material control weaknesses reported at the financial statement level (GAGAS)?                  | No   |
| (d)(1)(ii)   | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No   |
| (d)(1)(iii)  | Was there any reported material noncompliance at the financial statement level (GAGAS)?                        | No   |
| (d)(1)(iv)   | Were there any material internal control weaknesses reported for major federal programs?                       | No   |
| (d)(1)(iv)   | Were there any other significant deficiencies in internal control reported for major federal programs?         | No   |
| (d)(1)(v)    | Type of Major Programs' Compliance Opinion   | Unmodified   |
| (d)(1)(vi)   | Are there any reportable findings under Section .510?  | No   |
| (d)(1)(vii)  | Major Programs   | Student Financial Aid Cluster:<br>CFDA # 84.063, 84.033,<br>84.007, 84.268 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs  | Type A: >\$300,000<br>Type B: All Others                                   |
| (d)(1)(ix)   | Low Risk Auditee?  | Yes  |

**2. Findings Related to the Financial Statements  
Required To Be Reported In Accordance With GAGAS**

None noted.

**3. Findings for Federal Awards**

None noted.

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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 3, 2015**