

# **The Lakeland Foundation**

(A Component Unit of Lakeland Community College)

**Financial Statements**  
**June 30, 2016**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The Lakeland Foundation, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

December 12, 2016

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# The Lakeland Foundation

## Financial Statements

June 30, 2016

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## Independent Auditor's Report

Board of Directors  
The Lakeland Foundation  
Kirtland, Ohio

### Report on Financial Statements

We have audited the accompanying financial statements of The Lakeland Foundation (a nonprofit organization, the "Foundation"), a component unit of Lakeland Community College, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors  
The Lakeland Foundation

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Foundation's internal control over financial reporting and compliance.

*Cimini + Panichi, Inc.*

Cleveland, Ohio  
November 9, 2016

# The Lakeland Foundation

## Statement of Financial Position

June 30, 2016 (with comparative totals for 2015)

### Assets

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 447,579	\$ 440,481
Cash held for others	8,498	11,069
Pledges receivable, net	59,749	134,703
Accounts receivable	38,153	39,120
Loans receivable, net	3,445	6,751
Other assets	-	1,193
Prepaid expenses	14,253	13,149
Investments	<u>4,132,604</u>	<u>4,210,099</u>
Total assets	<u>\$ 4,704,281</u>	<u>\$ 4,856,565</u>

### Liabilities and Net Assets

#### Liabilities:

Payables (scholarship & trade)	\$ 6,430	\$ 6,450
Deferred revenue	49,501	49,501
Due to custodial funds	<u>8,498</u>	<u>11,069</u>
Total liabilities	<u>64,429</u>	<u>67,020</u>

#### Net assets:

Permanently restricted	2,589,314	2,486,540
Temporarily restricted	1,948,135	2,172,770
Unrestricted	<u>102,403</u>	<u>130,235</u>
Total net assets	<u>4,639,852</u>	<u>4,789,545</u>

Total liabilities and net assets	<u>\$ 4,704,281</u>	<u>\$ 4,856,565</u>
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The accompanying notes are an integral part of these financial statements

# The Lakeland Foundation

## Statement of Activities

**For the year ended June 30, 2016 (with comparative totals for 2015)**

	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
Support, revenue, and gains:					
Private and corporate contributions and grants	\$ 90,277	\$ 644,000	\$ 140,594	\$ 874,871	\$ 1,062,320
Donations-in-kind	-	20,541	4,180	24,721	30,855
Interest and dividends	-	54,775	9,312	64,087	62,364
Net realized and unrealized gain (loss) on investments	<u>-</u>	<u>(115,788)</u>	<u>(4,135)</u>	<u>(119,923)</u>	<u>53,356</u>
Total support, revenue, and gains	90,277	603,528	149,951	843,756	1,208,895
Net assets released from restrictions or transferred	<u>12,497</u>	<u>(828,163)</u>	<u>815,666</u>	<u>-</u>	<u>-</u>
Total support, revenue, gains, and transfers	<u>102,774</u>	<u>(224,635)</u>	<u>965,617</u>	<u>843,756</u>	<u>1,208,895</u>
Program and supporting expenses:					
Program services:					
Scholarships	-	-	472,047	472,047	550,824
Educational and related programs	-	-	236,353	236,353	294,712
In-kind educational and related programs	<u>-</u>	<u>-</u>	<u>2,100</u>	<u>2,100</u>	<u>18,850</u>
Total program services	<u>-</u>	<u>-</u>	<u>710,500</u>	<u>710,500</u>	<u>864,386</u>
Supporting services:					
Administration	-	-	203,290	203,290	144,739
Fundraising	-	-	56,648	56,648	7,108
Fundraising – in-kind	<u>-</u>	<u>-</u>	<u>23,011</u>	<u>23,011</u>	<u>11,615</u>
Total supporting services	<u>-</u>	<u>-</u>	<u>282,949</u>	<u>282,949</u>	<u>163,462</u>
Total program and supporting expenses	<u>-</u>	<u>-</u>	<u>993,449</u>	<u>993,449</u>	<u>1,027,848</u>
Change in net assets	102,774	(224,635)	(27,832)	(149,693)	181,047
Net assets – beginning of year	<u>2,486,540</u>	<u>2,172,770</u>	<u>130,235</u>	<u>4,789,545</u>	<u>4,608,498</u>
Net assets – end of year	<u>\$ 2,589,314</u>	<u>\$ 1,948,135</u>	<u>\$ 102,403</u>	<u>\$ 4,639,852</u>	<u>\$ 4,789,545</u>

The accompanying notes are an integral part of these financial statements

# The Lakeland Foundation

## Statement of Cash Flows

**For the year ended June 30, 2016 (with comparative totals for 2015)**

	2016	2015
Cash flow from operating activities:		
Change in net assets	\$ (149,693)	\$ 181,047
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Change in allowance for uncollectible loans	580	329
Change in allowance for uncollectible pledges	(7,358)	(30,263)
Change in discounts to net present value	(9,760)	(9,032)
Net realized and unrealized loss (gain) on investments	119,923	(53,356)
Contributions restricted for long-term investment	(90,277)	(130,270)
Premium/discount amortization	2,773	12,856
Changes in operating assets and liabilities:		
Decrease (increase) in pledges receivable	79,032	52,151
Decrease (increase) in loans receivable	2,726	475
Decrease (increase) in accounts receivable	967	(3)
Decrease (increase) in other assets	1,193	(1,193)
Decrease (increase) in prepaid expenses	(1,104)	(1,268)
Increase (decrease) in payables	(20)	(7,297)
Increase (decrease) in deferred revenue	-	39,133
Net cash (used by) provided by operating activities	(51,018)	53,309
Cash flow from investing activities:		
Proceeds from sales and maturity of investments	268,391	4,438,074
Purchases of investments	(315,744)	(4,677,634)
Change in money market funds	2,152	(24,567)
Net cash used by investing activities	(45,201)	(264,127)
Cash flows from financing activities:		
Contributions restricted for long-term investment	103,317	167,886
Net cash provided by financing activities	103,317	167,886
Net change in cash and cash equivalents	7,098	(42,932)
Cash and cash equivalents – beginning of year	440,481	483,413
Cash and cash equivalents – end of year	\$ 447,579	\$ 440,481

The accompanying notes are an integral part of these financial statements

# The Lakeland Foundation

## Notes to Financial Statements

June 30, 2016

### Note 1: Nature of Activities

The Lakeland Foundation (the "Foundation") was formed in 1981 to obtain private financing support for the promotion of excellence at Lakeland Community College (the "College") 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.

### Note 2: Summary of Significant Accounting Policies

#### Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with 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.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

# The Lakeland Foundation

## Notes to Financial Statements

June 30, 2016

### Note 2: Summary of Significant Accounting Policies (continued)

#### Comparative Financial Statements

The financial statements include certain prior-year comparative total amounts. Such comparative total amounts do not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such amounts should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015, from which the comparative total amounts were derived.

#### Use of Estimates

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

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits and certificates of deposit. Money market investments are considered investments.

#### 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, 2016, the Foundation's cash in bank balances may have exceeded the federal insured limits.

#### Investments

Investments in marketable securities are stated at fair market value.

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

# The Lakeland Foundation

## Notes to Financial Statements

June 30, 2016

### Note 2: Summary of Significant Accounting Policies (continued)

#### Contributions

The Foundation accounts for donations in accordance with ASC 958. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions 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, 2016, the Foundation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

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

#### Pledges Receivable

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

#### Loans Receivable

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

# The Lakeland Foundation

## Notes to Financial Statements

June 30, 2016

### Note 2: Summary of Significant Accounting Policies (continued)

#### Donated Administrative Expenses

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

#### 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, 2016 have been evaluated for possible adjustment to the financial statements or disclosure is November 9, 2016, 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, 2016 and 2015 were as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Debt securities:				
Corporate bonds	\$ 442,520	\$ 444,063	\$ 509,986	\$ 507,577
International bonds	19,963	20,032	20,399	20,237
Mutual funds:				
Fixed-income mutual funds	735,187	708,169	705,141	691,279
Large cap equity	1,049,181	1,002,899	1,008,344	1,021,519
Mid cap equity	703,279	669,114	665,161	681,857
Domestic equity mutual funds	358,656	361,704	300,611	301,253
International mutual funds	478,221	446,254	465,614	488,015
International fixed-income	174,711	157,877	169,230	164,626
Alternative assets	171,534	167,845	166,667	167,505
Emerging markets equities	100,361	89,827	99,774	99,259
Money market/cash and reserves	<u>64,820</u>	<u>64,820</u>	<u>66,972</u>	<u>66,972</u>
	\$ <u>4,298,433</u>	\$ <u>4,132,604</u>	\$ <u>4,177,899</u>	\$ <u>4,210,099</u>

# The Lakeland Foundation

## Notes to Financial Statements

June 30, 2016

### 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, 2016, 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>
Debt securities:				
Corporate bonds	\$ -	\$ 444,063	\$ -	\$ 444,063
International bonds	-	20,032	-	20,032
Mutual funds:				
Fixed-income mutual funds	708,169	-	-	708,169
Large cap equity	1,002,899	-	-	1,002,899
Mid cap equity	669,114	-	-	669,114
Domestic equity mutual funds	361,704	-	-	361,704
International mutual funds	446,254	-	-	446,254
International fixed-income	157,877	-	-	157,877
Alternative assets	167,845	-	-	167,845
Emerging markets equities	89,827	-	-	89,827
Money market/cash and reserves	<u>64,820</u>	<u>-</u>	<u>-</u>	<u>64,820</u>
Investments	\$ <u>3,668,509</u>	\$ <u>464,095</u>	\$ <u>-</u>	\$ <u>4,132,604</u>

# The Lakeland Foundation

## Notes to Financial Statements

June 30, 2016

### 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 832,846	\$ 874,215
Loans (Note 6)	117,464	18,044
Educational and related programs	333,663	432,789
Portion of endowment fund classified as temporarily restricted	<u>664,162</u>	<u>847,722</u>
Total temporarily restricted net assets	\$ <u>1,948,135</u>	\$ <u>2,172,770</u>

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

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 472,047	\$ 550,824
Loans (Note 6)	580	329
Educational and related programs	212,868	289,415
Administration/fundraising	105,754	43,661
Transferred – permanently restricted	12,497	32,438
Transferred – undesignated	<u>24,417</u>	<u>21,016</u>
Total net assets released from donor restrictions or transferred	\$ <u>828,163</u>	\$ <u>937,683</u>

# The Lakeland Foundation

## Notes to Financial Statements

June 30, 2016

### 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, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (4,469)	\$ 664,162	\$ 2,583,272	\$ 3,242,965
Board-designated endowment funds	<u>25,003</u>	<u>-</u>	<u>-</u>	<u>25,003</u>
Total funds	\$ <u>20,534</u>	\$ <u>664,162</u>	\$ <u>2,583,272</u>	\$ <u>3,267,968</u>

# The Lakeland Foundation

## Notes to Financial Statements

**June 30, 2016**

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 847,722	\$ 2,467,458	\$ 3,315,180
Investment return:				
Interest and dividends	-	54,775	-	54,775
Net realized and unrealized loss	<u>(4,469)</u>	<u>(122,377)</u>	<u>-</u>	<u>(126,846)</u>
Total investment return	(4,469)	(67,602)	-	(72,071)
Contributions	-	31,241	103,317	134,558
Appropriation of endowment assets for expenditure	-	(105,937)	-	(105,937)
Management fee	-	(16,259)	-	(16,259)
Transfers	<u>25,003</u>	<u>(25,003)</u>	<u>12,497</u>	<u>12,497</u>
Endowment net assets, end of year	\$ <u>20,534</u>	\$ <u>664,162</u>	\$ <u>2,583,272</u>	\$ <u>3,267,968</u>

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

	<u>2016</u>
Permanently restricted net assets within the endowment fund	\$ 2,583,272
Permanently restricted contributions included in pledges receivable	<u>6,042</u>
Total permanently restricted net assets	\$ <u>2,589,314</u>

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

# The Lakeland Foundation

## Notes to Financial Statements

June 30, 2016

### Note 4: Net Assets (continued)

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$4,469 as of June 30, 2016.

#### 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 fixed-income, alternatives, or cash equivalent securities.

# The Lakeland Foundation

## Notes to Financial Statements

June 30, 2016

### Note 4: Net Assets (continued)

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>	

### 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, 2016 are scheduled to be collected as follows:

Pledges receivable:	
Payable within one year	\$ 71,474
Payable in one to five years	<u>1,140</u>
Total pledges receivable	72,614
Less: discount to net present value	(7,522)
Less: allowance for uncollectible pledges	<u>(5,343)</u>
Pledges receivable, net at June 30, 2016	\$ <u>59,749</u>

# **The Lakeland Foundation**

## **Notes to Financial Statements**

**June 30, 2016**

### **Note 6: Loans Receivable**

As of June 30, 2016 and 2015, loans receivable totaled \$92,631 and \$95,357, respectively. During the fiscal year ended June 30, 2016, \$-0- 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, 2016, \$2,726 had been repaid. Repayment of the outstanding loans is poor primarily because, as a condition of the loan program, repayment is not to impose an undue burden on the borrower. The related allowance for uncollectible loans is \$89,186 and \$88,606 at June 30, 2016 and 2015, respectively.

### **Note 7: Related-Party Transactions**

The College made distributions to the Foundation of \$118,550 and \$142,397 for the years ended June 30, 2016 and 2015, respectively. The Foundation distributed \$830,322 and \$916,415 during the years ended June 30, 2016 and 2015, respectively, to the College. The Foundation also distributed \$2,100 and \$18,850 in Gifts-in-Kind during the years ended June 30, 2016 and 2015, respectively. The Foundation had receivables from the College of \$-0- and \$530 as of June 30, 2016 and 2015, respectively. The Foundation had payables to the College of \$5,680 and \$5,805 as of June 30, 2016 and 2015, respectively.

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

Board of Directors  
The Lakeland Foundation  
Kirtland, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Lakeland Foundation (a nonprofit organization, the “Foundation”), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

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

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

Board of Directors  
The Lakeland Foundation

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
November 9, 2016