# SINGLE AUDIT REPORT

Lake County Community College District

Years ended June 30, 2003 and 2002

**Auditor of State**
**Betty Montgomery**

Board of Trustees
Lake County Community College
7700 Clocktower Drive
Kirtland, Ohio 44094-5198

We have reviewed the Independent Auditor's Report of the Lake County Community College, Lake County, prepared by Ernst & Young LLP, for the audit period July 1, 2002 through June 30, 2003. 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 is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 8, 2003

**This Page is Intentionally Left Blank.**

Lake County Community College District

Single Audit Report

Years ended June 30, 2003 and 2002

## Contents

**This Page is Intentionally Left Blank.**

ERNST & YOUNG

Ernst & Young LLP
1300 Huntington Building
925 Euclid Avenue
Cleveland, Ohio 44115-1405

Phone: (216) 861-5000
www.ey.com

# Report of Independent Auditors

Board of Trustees
Lake County Community College District

We have audited the accompanying statements of net assets of Lake County Community College District as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Lake County Community College District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake County Community College District as of June 30, 2003 and 2002 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 2-9 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2003 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Lake County Community College District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Ernst & Young LLP

August 29, 2003

This section of the Lake County Community College District (Lakeland Community College, Lakeland, or College) annual financial report presents a discussion and analysis of the financial performance of the College during the fiscal year (FY) ended June 30, 2003 with a comparative analysis to the prior year. This discussion was prepared by management and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting changes, and current known facts. The financial statements, footnotes, and this discussion are the responsibility of management.

**Using the Annual Report**

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

One of the most important questions asked about college 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 Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. These statements present financial information in a form similar to that used by corporations. The College's net assets are one indicator of its financial health. Over time, increases or decreases in net assets point out the improvement or erosion of the College's financial health when considered with non-financial facts (such as enrollment levels, State changes in funding, facility changes, etc.).

The Statements of Net Assets include all assets and liabilities of the College. It is prepared using the accrual basis of accounting. Revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues 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 revenues. Since dependency on State of Ohio and local aid is recognized as nonoperating revenue under generally accepted accounting principles, a public college normally presents operating results as a deficit. The utilization of long-lived assets, primarily capital assets, is reflected 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.

The Statements of Cash Flows present the information related to cash inflows and outflows summarized by operating, capital and non-capital financing and investing activities, and illustrates the College's sources and uses of cash.

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

| | Years ended June 30 | | Change | |
|---|---|---|---|---|
| | **2003** | **2002** | **$** | **%** |
| **Operating revenues and expenses** | | | | |
| Student tuition and fees, net | **$ 14,138,141** | $ 12,023,000 | **$ 2,115,141** | 17.6% |
| Grants, contracts and other revenues | **2,358,116** | 2,315,061 | **43,055** | 1.9% |
| Auxiliary enterprises | **5,150,435** | 4,763,533 | **386,902** | 8.1% |
| Total operating revenues | **21,646,692** | 19,101,594 | **2,545,098** | 13.3% |
| Operating expenses | **50,644,638** | 49,920,543 | **724,095** | 1.5% |
| Operating loss | **(28,997,946)** | (30,818,949) | **1,821,003** | 5.9% |
| **Nonoperating revenues (expenses)** | | | | |
| State appropriations | **15,986,449** | 15,768,675 | **217,774** | 1.4% |
| Local appropriations | **10,662,142** | 9,894,022 | **768,120** | 7.8% |
| Other nonoperating income and expenses, net | **295,351** | 739,541 | **(444,190)** | (60.1)% |
| Net nonoperating revenues | **26,943,942** | 26,402,238 | **541,704** | 2.1% |
| Loss before other changes | **(2,054,004)** | (4,416,711) | **2,362,707** | 53.5% |
| **Other changes** | | | | |
| Capital appropriations from the State of Ohio | **198,194** | 706,208 | **(508,014)** | (71.9)% |
| Capital grants and gifts | **8,176** | 296,089 | **(287,913)** | (97.2)% |
| Total other changes | **206,370** | 1,002,297 | **(795,927)** | (79.4)% |
| Decrease in net assets | **(1,847,634)** | (3,414,414) | **1,566,780** | 45.9% |
| **Net assets** | | | | |
| Net assets at beginning of year | **46,430,557** | 49,844,971 | **(3,414,414)** | (6.9)% |
| Net assets at end of year | **$ 44,582,923** | $ 46,430,557 | **$ (1,847,634)** | (4.0)% |

**Condensed Statements of Net Assets**

| | June 30 | | Change | |
|---|---|---|---|---|
| | **2003** | **2002** | **$** | **%** |
| **Assets** | | | | |
| Current assets | **$ 24,089,858** | $ 22,814,738 | **$ 1,275,120** | 5.6% |
| Noncurrent assets: | | | | |
| Capital | **32,699,422** | 35,094,142 | **(2,394,720)** | (6.8)% |
| Other | **1,715,298** | 1,220,217 | **495,081** | 40.6% |
| Total assets | **58,504,578** | 59,129,097 | **(624,519)** | (1.1)% |
| **Liabilities** | | | | |
| Current liabilities | **11,509,350** | 10,006,050 | **1,503,300** | 15.0% |
| Noncurrent liabilities | **2,412,306** | 2,692,490 | **(280,184)** | (10.4)% |
| Total liabilities | **13,921,656** | 12,698,540 | **1,223,116** | 9.6% |
| **Net assets** | | | | |
| Invested in capital assets | **30,722,444** | 32,652,548 | **(1,930,104)** | (5.9)% |
| Restricted | **999,991** | 1,101,205 | **(101,214)** | (9.2)% |
| Unrestricted | **12,860,488** | 12,676,804 | **183,684** | 1.4% |
| Total net assets | **$ 44,582,923** | $ 46,430,557 | **$ (1,847,634)** | (4.0)% |

## Analysis of Results of Operations

Total FY 2003 and FY 2002 total revenues were $48.9 million and $46.6 million, respectively, of which operating revenues amounted to $21.6 million and $19.1 million, respectively. Operating revenue increased $2.5 million, or 13.3 percent. FY 2003 and FY 2002 total expenses were $50.7 million and $50.0 million, respectively, of which operating expenses, including depreciation, totaled $50.6 million and $49.9 million, respectively. Operating expenses increased $0.7 million, or 1.5 percent. The College's operating loss amounted to $29.0 million during FY 2003 as compared to $30.8 million during FY 2002, which represented a favorable decrease of $1.8 million, or 5.9 percent.

Student tuition and fees, net are comprised of credit and non-credit instruction revenues. A breakdown and comparison of these revenues follow:

| | FY 2003 | FY 2002 | Change Dollars | Change Percentage |
|---|---|---|---|---|
| | *(Dollars in Millions)* | | | |
| Credit Instruction | **$ 12.1** | $ 10.2 | **$ 1.9** | 19.5% |
| Non-credit Instruction | **1.3** | 1.2 | **0.1** | 7.5% |
| Other | **0.7** | 0.6 | **0.1** | 7.1% |
| Total | **$ 14.1** | $ 12.0 | **$ 2.1** | 17.6% |

Student tuition and fees, net increased 17.6 percent during FY 2003 as compared to FY 2002. Credit instruction increased 19.5 percent during FY 2003 as compared to FY 2002. This reflects a 10.6 percent enrollment increase in credit instruction during FY 2003 as compared to FY 2002 (from 141,157 credit hours in FY 2002 to 156,085 credit hours in FY 2003). Enrollment in credit instruction was higher than the prior year due to an increase in full-time students, more credit hours taken per student, and a reflection of local economic conditions. Additionally, the increase reflected a 7.5 percent rate increase to credit instruction tuition and general fees effective with both Spring terms 2002 and 2003. Non-credit instruction revenue increased 7.5 percent during FY 2003 as compared to FY 2002 and was attributable to additional course offerings and enrollments, especially in campus recreation, senior citizen, and professional development courses.

Auxiliary enterprises revenues are primarily comprised of bookstore and food service sales and facility rentals. Revenues increased by 8.1 percent for these operations during FY 2003 as compared to FY 2002, with the largest growth attributable to bookstore sales, primarily resulting from higher enrollments.

The College's nonoperating revenues are comprised primarily of State of Ohio (State) and local appropriations. State appropriations include the State's Share of Instructional Support (SSIS) and access challenge funds, as well as replacement state excise taxes.

A breakdown and comparison of State appropriations revenues is as follows:

| | FY 2003 | FY 2002 | Change Dollars | Percentage |
|---|---|---|---|---|
| | *(Dollars in Millions)* | | | |
| SSIS and Access Challenge | **$ 14.8** | $ 15.2 | **$ (0.4)** | (2.6)% |
| Replacement State Excise Taxes | **1.2** | 0.6 | **0.6** | 100.0% |
| Total | **$ 16.0** | $ 15.8 | **$ 0.2** | 1.4% |

Due to the economic recession, State budget cuts continued during FY 2003 and the College experienced additional reductions in SSIS and access challenge funds mandated by the governor in order to balance the State's FY 2003 budget.

As part of the legislation that deregulated the electric and natural gas utilities, commencing with calendar year 2002, the College began receiving $1,238,070 in Replacement State Excise taxes at a "100 percent guarantee" each year for a five-year period (to protect the College from lost public utility taxes due to lowered valuations). This amount is being received from the State in two equal installments in March and September ($619,035). The guarantee will be reduced to an 80 percent level for years 6 through 10, and proportionately reduced to zero in years 11 through 15. Both semiannual payments were received and earned from the State during FY 2003 as compared to the College only receiving and earning the State's initial payment during FY 2002.

Local appropriations increased by $0.8 million, or 7.8%, during FY 2003 as compared to a FY 2002. Local appropriations represent the receipt and collection of property taxes for operating and capital purposes from two levies approved by the Lake County voters: a 1.7 mill continuing levy, and a 1.5 mill ten year levy. Collections on an existing 1.5 mill ten year levy ceased December 31, 2002, and were replaced by a new 10 year levy approved by the Lake County voters during May 2002. Increased collections from the new 1.5 mill ten year replacement levy commenced January 1, 2003.

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

| | FY 2003 | FY 2002 | Change Dollars | Change Percentage |
|---|---|---|---|---|
| | *(Dollars in Millions)* | | | |
| Educational and general: | | | | |
| Salaries and wages | **$ 27.5** | $ 26.0 | **$ 1.5** | 5.8% |
| Benefits | **6.6** | 7.1 | **(0.5)** | (7.0)% |
| Operating expenses | **8.8** | 9.1 | **(0.3)** | (3.3)% |
| | **42.9** | 42.2 | **0.7** | 1.7% |
| Auxiliary Enterprises | **5.0** | 4.8 | **0.2** | 4.2% |
| Depreciation | **2.7** | 2.9 | **(0.2)** | (6.9)% |
| Total | **$ 50.6** | $ 49.9 | **$ 0.7** | 1.5% |

Lakeland Community College's educational and general operating expenses during FY 2003 continued to reflect the College implementing a number of cost saving and efficiency efforts as a series of proactive measures that addressed the ongoing reductions in State appropriations.

The increase in salaries and wages during FY 2003 was attributable to higher teaching costs (due to increased enrollments) and negotiated wage increases for employees, partially offset by cost savings from a management reorganization, as well as obtaining efficiencies in the College scheduling its credit instruction classes.

Benefits decreased during FY 2003 and were attributable to increases in retirement benefits proportional to the increase in salaries and wages, which were more than offset by a reduction in nonretirement benefits. Nonretirement benefit costs decreased and reflected lower health-care premiums as a result of cost savings experienced by the College being a member of the Lake County Schools Council (LCSC), as well as that during FY 2002 the College expensed a nonrefundable assessment ("reserves buy in") amounting to $0.7 million paid to the LCSC in order for the College to be considered as an equal member of standing.

The decrease in operating expenses was attributable to the College's elimination of certain advertising efforts, decreased spending on travel, repairs, and maintenance contracts, partially offset by increased postage and freight, utilities, professional services, and insurance.

Auxiliary enterprises expenses during FY 2003 increased and are a reflection of related sales increases. The decrease in depreciation expense during FY 2003 is attributable to various capital assets becoming fully depreciated.

From a budgetary perspective, the College's FY 2003 general fund operations budget (fund-based accounting) was prepared to reflect a "balanced" budget. In light of efficiencies and cost saving measures taken in reaction to reduced State appropriations, as well as increases in student enrollment and related tuition and fees as compared to budget, there was an increase in Lakeland's general operations fund net asset position of $1.1 million during FY 2003.

**Analysis of Overall Financial Position**

At June 30, 2003, current assets amounted to $24.1 million, as compared to $22.8 million at June 30, 2002, an increase of $1.3 million. Current liabilities at June 30, 2003 as compared to June 30, 2002 amounted to $11.5 million and $10.0 million, respectively, an increase of $1.5 million. The College's working capital ratio at June 30, 2003, and 2002 was 2.09 and 2.28, respectively. The increases to current assets and current liabilities, as well as the change in working capital, were primarily attributable to identical increases in intergovernmental receivables and deferred revenue associated with future increased collections from the College's new 1.5 mill property tax levy.

Noncurrent assets are comprised of capital assets, investments, and loans receivable. The decrease in the College's capital assets is associated with current year depreciation expense exceeding additions. The increase in other noncurrent assets is primarily due to the length of maturities associated with the College's investments.

The decrease in the College's noncurrent liabilities is primarily due to scheduled current year maturities of long-term debt and capital lease obligations.

The College's net assets were $44.6 million and $46.4 million at June 30, 2003 and 2002, respectively. The $1.8 million decrease in net assets was primarily attributable to the recognition of $2.7 million in depreciation expense partially offset by improvements to operating revenues, and the control of operating expenses.

## Capital Assets and Long-Term Debt Activity

The College utilizes State capital appropriations, internal funds, and gifts and other grants for capital asset expenditures. State capital appropriations are on a biennium basis, and individual institutions' capital funding allocations are based largely on enrollment. During FY 2003, the College utilized $0.2 million in State capital appropriations and $0.1 million in internal funds and purchased $0.3 million of capital assets.

The College's long-term debt is comprised of its general receipts bonds and capital lease obligations. During FY 2003, the College did not issue any new debt or capital lease obligations and paid $0.5 million in connection with debt maturities. During fiscal 2002 the College issued $0.1 million in new capital lease obligations and paid $0.6 million 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 and lease obligations is presented in Notes 8 and 12, respectively, of the financial statements.

## 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 of a level of State assistance and support for higher education in general and the College in particular. In addition, the State's share of instructional support and access challenge 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 or she shall issue such orders to prevent their expenditure and incurred obligations from exceeding those revenue receipts and balances.

Local appropriations in the form of property taxes are another critical element of support. The electors within the County of Lake, Ohio (County) must approve any Lake County Community College District property tax. The District collects property taxes for operating and capital purposes from two levies approved by the County voters: a 1.7 mill stated rate for a continuing period, and a 1.5 mill stated rate for ten years. The current 1.5 mill levy expires with the last collection in calendar year 2012.

# Lake County Community College District

## Statements of Net Assets

| | Years ended June 30 | |
|---|---|---|
| | **2003** | **2002** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 11,588,357** | $ 5,892,718 |
| Restricted cash and cash equivalents | **325,452** | 323,564 |
| Short-term investments | **1,000,420** | 7,039,063 |
| Intergovernmental receivables, net | **8,692,698** | 7,300,406 |
| Loans and other receivables, net | **1,547,866** | 1,432,170 |
| Inventories | **696,168** | 501,067 |
| Prepaid assets | **238,897** | 325,750 |
| Total current assets | **24,089,858** | 22,814,738 |
| | | |
| Noncurrent assets: | | |
| Investments | **1,502,865** | 1,001,629 |
| Loans receivable, net | **212,433** | 218,588 |
| Capital assets, net | **32,699,422** | 35,094,142 |
| Total noncurrent assets | **34,414,720** | 36,314,359 |
| Total assets | **58,504,578** | 59,129,097 |
| | | |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | **2,609,790** | 2,490,699 |
| Deferred revenue | **7,579,137** | 6,069,095 |
| Other liabilities | **195,948** | 253,707 |
| Debt payable | **305,251** | 467,751 |
| Compensated absences | **819,224** | 724,798 |
| Total current liabilities | **11,509,350** | 10,006,050 |
| | | |
| Noncurrent liabilities: | | |
| Other liabilities | **125,000** | 125,000 |
| Debt payable | **1,671,727** | 1,973,843 |
| Compensated absences | **228,124** | 195,438 |
| Refundable Federal student loans | **387,455** | 398,209 |
| Total noncurrent liabilities | **2,412,306** | 2,692,490 |
| Total liabilities | **13,921,656** | 12,698,540 |
| | | |
| **Net assets** | | |
| Invested in capital assets, net of related debt | **30,722,444** | 32,652,548 |
| Restricted for: | | |
| Nonexpendable | **325,452** | 323,564 |
| Expendable | **674,539** | 777,641 |
| Unrestricted | **12,860,488** | 12,676,804 |
| Total net assets | **$ 44,582,923** | $ 46,430,557 |

*See accompanying notes.*

# Lake County Community College District

## Statements of Revenues, Expenses and Changes in Net Assets

| | Years ended June 30 | |
|---|---|---|
| | **2003** | **2002** |
| **Revenues** | | |
| Operating revenues: | | |
| Student tuition and fees, net of $260,693 and $248,300 in scholarship allowances in 2003 and 2002, respectively | **$ 14,138,141** | $ 12,023,000 |
| Federal grants and contracts | **449,462** | 407,763 |
| State grants and contracts | **1,037,377** | 1,061,972 |
| Private grants and contracts | **234,291** | 157,403 |
| Sales and services | **357,023** | 374,123 |
| Auxiliary enterprises | **5,150,435** | 4,763,533 |
| Other operating revenues | **279,963** | 313,800 |
| Total operating revenues | **21,646,692** | 19,101,594 |
| | | |
| **Expenses** | | |
| Operating expenses: | | |
| Educational and general: | | |
| Instruction and departmental research | **19,111,274** | 18,217,842 |
| Public service | **3,058,495** | 2,916,450 |
| Academic support | **1,692,233** | 1,736,799 |
| Student services | **5,920,504** | 5,845,332 |
| Institutional support | **7,427,134** | 7,710,355 |
| Operation and maintenance of facilities | **5,682,328** | 5,804,866 |
| Total educational and general | **42,891,968** | 42,231,644 |
| Auxiliary enterprises | **5,019,324** | 4,773,254 |
| Depreciation and amortization | **2,733,346** | 2,915,645 |
| Total operating expenses | **50,644,638** | 49,920,543 |
| Operating loss | **(28,997,946)** | (30,818,949) |
| | | |
| **Nonoperating revenues (expenses)** | | |
| State appropriations | **15,986,449** | 15,768,675 |
| Local appropriations | **10,662,142** | 9,894,022 |
| Unrestricted investment income, net of investment expense | **385,754** | 838,370 |
| Restricted investment income, net of investment expense | **5,566** | 7,780 |
| Interest on capital asset-related debt | **(96,330)** | (128,929) |
| Other nonoperating revenues, net | **361** | 22,320 |
| Net nonoperating revenues | **26,943,942** | 26,402,238 |
| Loss before other changes | **(2,054,004)** | (4,416,711) |
| | | |
| **Other changes** | | |
| Capital appropriations from the State of Ohio | **198,194** | 706,208 |
| Capital grants and gifts | **8,176** | 296,089 |
| Total other changes | **206,370** | 1,002,297 |
| Decrease in net assets | **(1,847,634)** | (3,414,414) |
| | | |
| **Net assets** | | |
| Net assets—beginning of year | **46,430,557** | 49,844,971 |
| Net assets—end of year | **$ 44,582,923** | $ 46,430,557 |

*See accompanying notes.*

# Lake County Community College District

## Statements of Cash Flows

| | Years ended June 30 | |
|---|---|---|
| | **2003** | 2002 |
| **Cash flows from operating activities** | | |
| Tuition and fees | **$ 13,798,572** | $ 12,289,268 |
| Grants and contracts | **1,721,130** | 1,627,138 |
| Payments to suppliers | **(10,406,768)** | (11,300,463) |
| Payments for utilities | **(1,536,630)** | (1,228,535) |
| Payments for compensation and benefits | **(35,950,729)** | (35,046,233) |
| Payments for early retirement incentive plan | **-** | (2,106,737) |
| Federal Draw Downs | **4,498,119** | 2,605,000 |
| Federal Draw Downs applied to tuition, disbursed to students | **(3,190,777)** | (2,400,684) |
| Auxiliary sales and services | **5,195,764** | 4,856,823 |
| Other | **(195,733)** | (336,861) |
| Net cash used by operating activities | **(26,067,052)** | (31,041,284) |
| | | |
| **Cash flows from noncapital financing activities** | | |
| State appropriations | **15,986,449** | 15,768,675 |
| Local appropriations | **10,536,047** | 9,785,728 |
| Student organization agency transactions | **(75,215)** | (65,212) |
| Net cash provided by noncapital financing activities | **26,447,281** | 25,489,191 |
| | | |
| **Cash flows from capital financing activities** | | |
| Capital appropriations | **198,194** | 706,208 |
| Proceeds from sale of capital assets | **360** | 23,428 |
| Purchases of capital assets | **(330,450)** | (993,044) |
| Principal paid on capital debt and leases, net | **(464,616)** | (458,654) |
| Interest paid on capital debt and leases | **(96,330)** | (128,929) |
| Net cash used by capital financing activities | **(692,842)** | (850,991) |
| | | |
| **Cash flows from investing activities** | | |
| Proceeds from maturities of investments | **7,000,000** | 10,500,000 |
| Purchase of investments | **(1,504,063)** | (2,559,736) |
| Interest on investments | **514,203** | 1,026,491 |
| Net cash provided by investing activities | **6,010,140** | 8,966,755 |
| | | |
| Net increase in cash and cash equivalents | **5,697,527** | 2,563,671 |
| Cash and cash equivalents—beginning of the year | **6,216,282** | 3,652,611 |
| Cash and cash equivalents—end of the year | **$ 11,913,809** | $ 6,216,282 |
| | | |
| **Reconciliation of net operating revenues (expenses) to net cash used by operating activities** | | |
| Operating loss | **$ (28,997,946)** | $ (30,818,949) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation expense | **2,733,346** | 2,915,645 |
| Changes in assets and liabilities: | | |
| (Increase) in accounts receivable, net | **(158,583)** | (292,444) |
| (Increase) decrease in inventories | **(195,101)** | 247,705 |
| Decrease in other assets | **86,852** | 4,492 |
| Increase (decrease) in accounts payable and accrued liabilities | **244,258** | (810,652) |
| Increase (decrease) in deferred revenue | **155,714** | (35,799) |
| (Decrease) in deposits held for others | **(4,945)** | (29,443) |
| Increase (decrease) in compensated absences | **127,112** | (189,197) |
| (Decrease) increase in other liabilities | **(57,759)** | 25,000 |
| (Decrease) in early retirement incentive plan | **-** | (2,057,642) |
| Net cash used by operating activities | **$ (26,067,052)** | $ (31,041,284) |

*See accompanying notes.*

## 1. Summary of Significant Accounting and Reporting Policies

### Reporting Entity

Lake County Community College District (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.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, the College's financial statements are included as a joint venture, on the State of Ohio's Consolidated Annual Financial Report. As defined by GASB Statement No. 14, the College is not financially accountable for any other entity nor are there any other entities for which the nature and significance of their relationship with the College are such that exclusion would cause the College's financial statements to be misleading or incomplete.

### Basis of Accounting

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), statements and interpretations issued after November 30, 1989, which do not conflict or contradict GASB pronouncements.

### Measurement Focus and Financial Statement Presentation

Operating revenues 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 revenues and expenses not meeting this definition, including State and local appropriations, are reported as nonoperating revenues 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" revenues and expenses.

**1. Summary of Significant Accounting and Reporting Policies (continued)**

**Cash and Cash Equivalents**

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

**Inventories**

Inventories primarily consist 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 assets. 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 requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Capital assets include: land, land improvements, infrastructure, buildings, building improvements, construction in progress, equipment, furniture, vehicles, software and library books.

Capital assets greater than $5,000 are capitalized at cost or, if acquired by donation, at appraised values as of the date received. When capital assets are sold, or otherwise disposed of, the carrying value of such assets and any accumulated depreciation are removed from the statement of net assets. 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.

**1. Summary of Significant Accounting and Reporting Policies (continued)**

Capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

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

**Deferred Revenue**

Deferred revenue includes tuition and fees for summer sessions and local government revenues. Summer term tuition and fees, and corresponding expenses relating to various sessions falling in this fiscal year are recognized as tuition revenue. The portion of sessions falling into the next fiscal year are recorded as deferred revenue in the Statements of Net Assets and will be recognized in the following year. See Note 2 for summary of restatement.

Deferred revenue also includes certain local appropriations as discussed in Note 4.

**Reserve for Compensated Absences**

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

**Net Assets**

Net assets are classified according to external donor restrictions or availability of assets for satisfaction of College obligations. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted or granted for specific purposes, funds used for capital projects, and debt service.

Endowment and similar funds are subject to the restrictions of gift instruments or board designations and are accounted for accordingly.

## 1. Summary of Significant Accounting and Reporting Policies (continued)

### 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. Revenues received under grants and contracts are subject to the examination and retroactive adjustments by the awarding agency.

### Intergovernmental Receivables and Revenue

Local government revenues are 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.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosure in the footnotes. Actual results could differ from those estimates.

### Accounting Standards

The GASB issued GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB Statement No. 39 establishes criteria to determine if organizations that are legally separate, tax-exempt entities should be discretely presented as component units. Application of this standard is required for fiscal 2004. The impact of GASB Statement No. 39 on the College's financial reporting, operating results, or financial position has not been determined.

## 2. Restatement

The College restated the June 30, 2002 and 2001 net assets to recognize revenues and expenses related to summer sessions in the proper fiscal years. Net assets were decreased at June 30, 2002 and 2001 by $48,386 and $118,418, respectively.

## 3. State Appropriations

The College is a State-assisted institution of higher education, and receives a 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 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 State. If sufficient monies are not available from this 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 OPFC is not included on the College's statement of net assets. In addition, the appropriations by the General Assembly to the Ohio Board of Regents for payments of debt service are not reflected and the related debt service payments are not recorded in the College's accounts.

Due to enacted legislation related to deregulating public electric and natural gas utilities, the assessment percentage on various components of public utility tangible personal property was reduced starting with the College's calendar year 2002 tax receipts. The State Tax Commissioner's Office has certified that the annual loss to the College attributable to deregulation commencing with 2002 receipts will amount to $1,238,070, however, with deregulation the College will recover, under various guarantee provisions (SB3 and SB287) those lost collections through receipts of a replacement State excise tax, which is guaranteed at 100% for a five-year period to protect the College for lost public utility tangible personal property taxes; thereafter, the replacement tax will be phased out over an additional ten-year period. The replacement State excise taxes related to the current year operations will be collected in two separate payments during March and September of each year. The College has recognized one-half year of replacement State excise tax as an intergovernmental receivable in both FY 2003 and FY 2002. Replacement State excise taxes were measurable at June 30, 2003 and 2002; however, since these revenue collections to be received during the available period are not intended to finance current year operations, the receivable amount is recorded as deferred revenue.

**4. Local Appropriations**

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

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

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

The electors within the County must approve any District property tax. The District collects property taxes for operating and capital purposes from two levies approved by the County voters: a 1.7 mill stated rate for a continuing period, and a 1.5 mill stated rate for ten years. The current 1.5 mill levy expires with the last collection in calendar year 2012.

Revenue authorization is recognized based on the taxing authorities amounts to be distributed to the tax district and their certification of the College's annual budget. The taxing authority does not authorize the distribution of the tax assessment for calendar 2003 until October 2003, thus not legally making it available to the College until after the end of the College's fiscal year for that year's calendar assessment. The College has recognized one half year of its real property and public utility property tax receipts due as an intergovernmental receivable in the current fiscal year. Property taxes receivable represent outstanding real property, public utility, and tangible personal property taxes, which were measurable at June 30, 2003. 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 2003 operations, the receivable amount is recorded as deferred revenue.

**5. 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 two 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, 2003 and 2002, the carrying amount of the College's cash balance was a negative $1,051,307 and $1,158,851, respectively. The bank balance at June 30, 2003 and 2002 totaled $161,432 and $103,965, respectively. The difference represents outstanding checks payable and normal reconciling items. $100,000 of the bank balance was covered by federal depository insurance. The remainder was secured by collateral pools of the U.S. government and municipal securities and are thus a category (3) deposit risk. 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.

**6. Investments**

The College records investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* which requires most investments to be recorded at fair value and the recognition of unrealized gains and losses in the statement of revenues, expenses and changes in net assets. Fixed income securities, which are held to maturity, are recorded at cost, which approximates fair value.

The College's investment policies are governed by State statutes, which authorize the College to invest in obligations of the U.S. Treasury, agencies and instrumentalities (bonds and other State obligations, certificates of deposit, U.S. Government money market funds, and repurchase transactions). Such repurchase transactions must be purchased from financial institutions as discussed in "Cash and Cash Equivalents" above or with registered broker/dealers.

Investments are categorized to give an indication of the level of risk assumed by the College at year-end. The categorized investments include those, which are classified as cash and cash equivalents in accordance with the provisions of GASB Statement No. 9. The College's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end.

**6. Investments (continued)**

At June 30, 2003, amounts reported in cash, cash equivalents, and investments include:

| Type of Investment | Category (2) | Category (3) | Cost | Fair Value |
|---|---|---|---|---|
| Repurchase Agreements | **$ -** | **$ 1,013,423** | **$ -** | **$ 1,013,423** |
| U.S. Government T-Notes | **2,503,285** | **-** | **2,503,285** | **2,503,285** |
| | **$ 2,503,285** | **$ 1,013,423** | **$ 2,503,285** | |
| State Treasurer Asset Reserve Fund (Star Ohio) | | | | **11,932,751** |
| Total investments | | | | **$ 15,449,459** |

A reconciliation of cash, cash equivalents, and investments as shown on the financial statements is as follows:

| | |
|---|---|
| Cash on hand | **$ 18,942** |
| Carrying amount of cash balance | **(1,051,307)** |
| Fair value of investments | **15,449,459** |
| | **$ 14,417,094** |

Investments classified in category (2) are held in banks' trust departments due to legal restrictions required by trust indentures and codified ordinances. Assets held by these trust departments as custodial agents are considered legally separate from the assets of the commercial side of the bank and are held strictly on a fiduciary basis. These trust departments are authorized by and regulated under various state and federal laws. Investments classified in category (3) are uninsured and unregistered, with securities held by the counter-party, or its trust department or agent, but not in the College's name.

Star Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Star Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Star Ohio are valued at Star Ohio's share price, which is the price the investment could be sold for on June 30, 2003. The deposits invested with Star Ohio are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

## 7. 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 $812,884 and $730,956 at June 30, 2003 and 2002, respectively.

The following schedule is an analysis of loans and other receivables balances as of June 30, 2003 and 2002 respectively:

| | FY 2003 | | FY 2002 | |
|---|---|---|---|---|
| | **Current Portion, Net** | **Noncurrent Portion, Net** | **Current Portion, Net** | **Noncurrent Portion, Net** |
| In-house student loans | **$ 10,401** | **$ -** | $ 27,284 | $ - |
| Federal Perkins and Nursing student loans | **46,877** | **178,909** | 34,058 | 158,835 |
| Employee computer financing | **57,092** | **33,524** | 33,891 | 59,753 |
| Tuition payment plan loans | **536,540** | **-** | 386,481 | - |
| Auxiliary receivables | **168,138** | **-** | 175,355 | - |
| Interest receivable | **12,656** | **-** | 100,105 | - |
| Sales and service receivables | **716,162** | **-** | 674,996 | - |
| Total | **$ 1,547,866** | **$ 212,433** | $ 1,432,170 | $ 218,588 |

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

| | July 1, 2002 Balance | Additions | Retirements | June 30, 2003 Balance |
|---|---|---|---|---|
| Nondepreciable assets: | | | | |
| Land | $ 723,289 | **$ -** | **$ -** | **$ 723,289** |
| Depreciable assets: | | | | |
| Land improvements | 3,023,815 | **38,864** | **-** | **3,062,679** |
| Infrastructure | 2,907,873 | **-** | **-** | **2,907,873** |
| Buildings and improvements | 56,984,754 | **127,059** | **-** | **57,111,813** |
| Equipment and vehicles | 4,186,416 | **23,000** | **72,506** | **4,136,910** |
| Software and library books | 4,896,174 | **149,703** | **-** | **5,045,877** |
| Total capital assets | 72,722,321 | **338,626** | **72,506** | **72,988,441** |
| Less accumulated depreciation: | | | | |
| Land improvements | 1,501,732 | **112,283** | **-** | **1,614,015** |
| Infrastructure | 1,546,998 | **98,408** | **-** | **1,645,406** |
| Buildings and improvements | 27,588,583 | **1,732,470** | **-** | **29,321,053** |
| Equipment and vehicles | 2,773,334 | **401,506** | **72,506** | **3,102,334** |
| Software and library books | 4,217,532 | **388,679** | **-** | **4,606,211** |
| Total accumulated depreciation | 37,628,179 | **2,733,346** | **72,506** | **40,289,019** |
| Capital assets, net | $ 35,094,142 | **$ (2,394,720)** | **$ -** | **$ 32,699,422** |

## 9. Retirement Plans

All full-time employees of the College are covered by one of two state-administered retirement plans. Faculty and other qualified individuals participate in the State Teachers Retirement System of Ohio (STRS) and all other College employees participate in the School Employees Retirement System (SERS). The retirement programs are cost-sharing, multiple-employer defined benefit plans. In addition, effective July 1, 2001, STRS members have the additional options of a defined contribution plan and a combined plan. STRS and SERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits for plan members and beneficiaries.

## 9. Retirement Plans (continued)

The State Teachers Retirement System of Ohio Comprehensive Annual Financial Report may be obtained by writing to The State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771. The School Employees Retirement System of Ohio Comprehensive Annual Financial Report may be obtained by writing to School Employees Retirement System of Ohio, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. The Ohio Revised Code (ORC) provides statutory authority for employee and employer contributions. The employee contribution rates are 9.3% and 9% for STRS and SERS, respectively, of covered payroll and the College is required to contribute 14% of covered payroll. The STRS defined contribution plan allows members to invest all their member and employer contributions equal to 10.5 percent of earned compensation. The combined plan offers features of the defined benefit and defined contribution plan. The College's contributions to STRS for the years ended June 30, 2003, 2002 and 2001 were $2,197,282, $2,036,594 and $2,084,103, respectively, equal to the required contributions for each year. The College's contributions to SERS for the years ended June 30, 2003, 2002 and 2001 were $1,606,952, $1,562,794 and $1,504,426, respectively, equal to the required contributions for each year.

Amended Substitute House Bill 586 requires all Ohio public colleges to offer at least three alternative retirement plans to certain new and existing full-time employees. For those employees electing to participate in an alternative retirement plan (ARP), the College will contribute 14 percent of covered payroll to the Plan for SERS eligible participants. For STRS eligible participants electing the alternative retirement plan the College will contribute 8.24 percent through September 30, 2001 and 10.5 percent after September 30, 2001 to the ARP. The difference from the 14 percent overall College distribution rate of STRS employee covered payroll is to be paid to STRS to mitigate any negative financial impact of ARPs on the State system.

## 10. Post Employment Benefit

### State Teachers Retirement System

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

**10. Post Employment Benefit (continued)**

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund (the Fund) from which health care benefits are paid. For the fiscal year ended June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the health care reserve fund. Effective July 1, 2002, 1 percent of covered payroll will be allocated to the Fund. The balance in the health care reserve fund was $3.011 billion on June 30, 2002.

For the year ended June 30, 2002, the net health care costs paid by STRS Ohio were $354,697,000. There were 105,300 eligible benefit recipients.

**School Employees Retirement System**

SERS provides post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on and after August 1, 1989 with less than 25 years of qualified service credit pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer’s 14 percent contribution is allocated to providing health care benefits. At June 30, 2002, the allocation rate is 8.54 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member’s pay, pro-rated for partial service credit. For fiscal 2002, the minimum pay has been established as $12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. For the year ended June 30, 2002, the net health care costs paid by SERS were $182,946,777. At June 30, 2002, the Retirement System’s net assets available for payment of health care benefits was $335.2 million. The number of retirees and covered dependents currently receiving benefits is approximately 50,000.

### 11. Early Retirement Incentive Plan

During fiscal year 1998, the College entered into an agreement with the Lakeland Faculty Association, which included an early retirement incentive plan for the fiscal years 1999, 2000, and 2001. In accordance with the terms of the plan, members of STRS who meet certain eligibility requirements and choose to participate can take early retirement. The cost of retirement incentive credits for individuals participating in the plan is determined by STRS and is paid entirely by the College. The total cost of the early retirement incentive plan was $3,484,904; a final settlement of $49,095 was expensed in the fiscal year ended June 30, 2002.

### 12. Long-Term Debt and Lease Obligations

Long-term debt and lease obligation activity for the year ended June 30, 2003 was as follows:

| | July 1, 2002 Balance | Additions | Reductions | June 30, 2003 Balances | Amount Due/Payable Within One Year |
|---|---|---|---|---|---|
| General receipts bonds | $ 1,635,000 | $ - | $ 60,000 | $ 1,575,000 | $ 65,000 |
| Capital lease obligations | 806,594 | - | 404,616 | 401,978 | 240,251 |
| Total long-term debt and lease obligations | $ 2,441,594 | $ - | $ 464,616 | $ 1,976,978 | $ 305,251 |

Effective March 15, 1999, the College issued $1,740,000 of General Receipts Bonds, Series 1999 (Series 1999 Bonds) to pay part of the cost of renovating and adding to the College's Athletic Fitness Center (AFC). The proceeds and related indebtedness outstanding have been recorded as assets and liabilities of the College.

## 12. Long-Term Debt and Lease Obligations (continued)

The Series 1999 Bonds 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 1999 Bonds are subject to mandatory or optional redemption, with stated interest rates ranging from 3.60% to 5.12%. The final maturity of the Series 1999 Bonds is December 1, 2019.

The Series 1999 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. The College has covenanted that it will include in its budget for each fiscal year amounts of general receipts at least sufficient to pay debt service charges payable that fiscal year from general receipts, as well as to satisfy other requirements.

Scheduled principal maturities and total debt service of the Series 1999 Bonds for fiscal years subsequent to June 30, 2003 are as follows:

| Year ending June 30 | Principal | Interest | Total Principal and Interest |
|---|---|---|---|
| 2004 | $ 65,000 | $ 74,145 | $ 139,145 |
| 2005 | 65,000 | 71,528 | 136,528 |
| 2006 | 70,000 | 68,742 | 138,742 |
| 2007 | 70,000 | 65,785 | 135,785 |
| 2008 | 75,000 | 62,666 | 137,666 |
| 2009-2013 | 430,000 | 257,816 | 687,816 |
| 2014-2018 | 545,000 | 137,988 | 682,988 |
| 2019-2020 | 255,000 | 13,196 | 268,196 |
| | $ 1,575,000 | $ 751,866 | $ 2,326,866 |

Capital leased assets consist of computer hardware and software, implementation costs, and other equipment. Capital leased assets, net of accumulated depreciation, recorded on the statements of net assets at June 30, 2003 and 2002 amounted to $2,100,559 and $1,695,943, respectively.

## 12. Long-Term Debt and Lease Obligations (continued)

The College has entered into various lease agreements, which are considered operating leases. Total rental expense under operating leases during the years ended June 30, 2003 and 2002 amounted to $232,089 and $222,228, respectively.

Future minimum lease payments as of June 30, 2003 under all capital and operating leases, along with the present value of net minimum capital lease payments are as follows:

| Year ended June 30 | Capital Leases | Operating Leases |
|---|---|---|
| 2004 | $ 253,010 | $ 239,891 |
| 2005 | 103,800 | 28,919 |
| 2006 | 60,727 | 26,825 |
| 2007 | 7,954 | - |
| Total minimum lease payments | 425,491 | $ 295,635 |
| Less amount representing interest | 23,513 | |
| Present value of net minimum capital lease payments | $ 401,978 | |

The College has noncancelable operating lease agreements containing renewal options that, if exercised over the next five years, will result in additional rental expense of $932,592 during the period 2004 through 2008.

## 13. Other Noncurrent Liabilities

The following is the detail activity for other noncurrent liabilities for the year ended June 30, 2003:

| | Balance July 1, 2002 | Additions | Reductions | Balance June 30, 2003 | Amount Due/Payable Within One Year |
|---|---|---|---|---|---|
| Other liabilities | $ 125,000 | **$ -** | **$ -** | **$ 125,000** | **$ -** |
| Reserve for compensated absences | 920,236 | **209,030** | **81,918** | **1,047,348** | **819,224** |
| Refundable Federal student loans | 398,209 | **4,599** | **15,353** | **387,455** | **-** |
| Total noncurrent liabilities | $ 1,443,445 | **$ 213,629** | **$ 97,271** | **$ 1,559,803** | **$ 819,224** |

## 14. Lake County School's 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 purposes of the LCSC are 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 their 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 provider. The LCSC in turn manages various health care benefit organizations to deliver those services.

Since its inception, LCSC has built up its reserves, and at the time of the College's application for membership (November 1, 2001), the reserve balance approximated $4.7 million. LCSC members are responsible for the 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 Council in the amount of $680,239 as the College's assessment for inclusion in the LCSC's Health Care Benefits Program as a member of equal standing. The assessment was in two equal installments (at inception on November 1, 2001 and at November 1, 2002). The entire assessment was expensed in fiscal 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 30th, and the Treasurer of the LCSC, a position appointed by the Board of Directors of the LCSC, also serves as the Treasurer of the Consortium. The Treasurer of the Mentor Village Exempted School District (Mentor School District) currently serves as the LCSC Treasurer, and LCSC and Consortium fiscal record keeping and reporting are incorporated through an agency relationship with the Mentor School District. 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.

## 14. Lake County School's Health Care Consortium (continued)

LCSC funds held in agency by the Mentor School District at July 1, 2002 amounted to $5.7 million, LCSC member contributions and other income for the years ended June 30, 2003 amounted to $22.5 million, health care program and related costs amounted to $22.2 million, leaving $6.0 million as funds held in agency accounts at June 30, 2003.

## 15. Risk Management

Lake County Community College District maintains a broad-based insurance program underwritten by A+ and A++ Superior-rated insurance companies. The College engages the services of an insurance consulting/risk management firm to review and maintain its insurance program. This program includes commercial and umbrella liability, law enforcement liability, school leaders errors and omissions liability, consultants' professional liability, and medical professional liability coverages. The College also maintains a comprehensive property insurance program. The College did not have any insurance settlements during fiscal 2003 or 2002 that exceeded the coverage outlined in its insurance program.

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.

## 16. Foundation (Unaudited)

The Lakeland Foundation (Foundation) was formed in 1981 to obtain private financing support for the promotion of excellence at the College. The Foundation provides scholarships to financially disadvantaged students and merit scholarships to those students demonstrating excellent academic abilities. The Foundation also provides support to specific educational departments and programs of the College. The accounting records for the Foundation are maintained at the College in Kirtland, Ohio. Certain administrative expenses of the Foundation are borne directly by the College. Summary financial information of the Foundation at June 30 is as follows:

| | **2003** | **2002** |
|---|---|---|
| Total assets | **$ 2,149,279** | $ 2,245,785 |
| Net assets | **2,078,320** | 2,176,557 |
| Total revenue | **494,703** | 354,573 |

# Lake County Community College District

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

| Federal Grantor/Program Title | CFDA Number | Pass-Through Identifying Number | Federal Expenditures |
|---|---|---|---|
| **Student Financial Aid Cluster** | | | |
| Department of Education: | | | |
| Direct Programs: | | | |
| Federal Pell Grant Program | 84.063 | | $ 3,865,547 |
| Federal Work Study Program | 84.033 | | 195,261 |
| Federal Supplemental Educational Opportunity Grant Program | 84.007 | | 254,238 |
| Federal Perkins Loan Program (*Note 2)* | 84.038 | | 55,413 |
| Federal Family Loan Program (*Note 3)* | 84.032 | | 2,449,332 |
| | | | 6,819,791 |
| Department of Health and Human Services: | | | |
| Direct Program: | | | |
| Nursing Student Loan Program (*Note 4)* | 93.364 | | 26,203 |
| Total Student Financial Aid Cluster | | | 6,845,994 |
| **Other Programs** | | | |
| Department of Justice: | | | |
| Direct Program: | | | |
| Public Safety Partnership and Community Policing Grant | 16.710 | | 22,450 |
| Department of Labor: | | | |
| Direct Program: | | | |
| Workforce Investment Act: | | | |
| Higher Skills Partnership Initiative | 17.258 | | 584 |
| Pass-Through Program: | | | |
| Job Training Partnership Act: | | | |
| Geauga County | 17.246 | | 4,824 |
| Cuyahoga County | 17.246 | | 12,426 |
| Lake County II | 17.246 | | 15,382 |
| Ashtabula County | 17.246 | | 15,415 |
| | | | 48,047 |
| Total Department of Labor | | | 48,631 |

# Lake County Community College District

## Schedule of Expenditures of Federal Awards (continued)

| Federal Grantor/Program Title | CFDA Number | Pass-Through Identifying Number | Federal Expenditures |
|---|---|---|---|
| Institute of Museum and Library Services: | | | |
| Pass-Through Program: | | | |
| Library Services and Technology Act: | | | |
| State Library of Ohio | 45.310 | | 1,776 |
| | | | |
| National Science Foundation: | | | |
| Pass-Through Program: | | | |
| Paragon Tech / NASA | 47.076 | | 107,543 |
| | | | |
| Department of Education: | | | |
| Direct Programs: | | | |
| Two Year College Perkins Grant | 84.048 | | 74,422 |
| Business and International Education | 84.153 | | 92,432 |
| | | | 166,854 |
| Pass-Through Program: | | | |
| Technical Preparatory Grant | 84.243 | | 161,695 |
| Total Department of Education | | | 328,549 |
| Total Expenditures of Federal Awards | | | $ 7,354,943 |

## 1. Summary of Significant Account Policies

### Basis of Presentation

The schedule of expenditures of federal awards includes federal grant transactions of the Lake County Community College District (the College) on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

## 2. Federal Perkins Loan Program

The College administers the following loan program:

| | CFDA Number | Outstanding Balance at June 30, 2003 |
|---|---|---|
| Federal Perkins Loan Program | 84.038 | $ 178,287 |

Total loan expenditures and disbursements of the Department of Education student financial assistance program for the fiscal year are identified below:

| | CFDA Number | Disbursements |
|---|---|---|
| Federal Perkins Loan Program | 84.038 | $ 55,413 |

The above expenditures for the Federal Perkins Loan Program include disbursements and expenditures such as loans to students and administrative expenditures.

**3. Federal Family Loan Program**

During the fiscal year ending June 30, 2003, the College processed the following amount of new loans under the Federal Family Loan Program (which includes Stafford Loans and Parents' Loans for Undergraduate Students):

| | CFDA Number | Loans Processed |
|---|---|---|
| Federal Family Loan Program | 84.032 | $ 2,449,332 |

**4. Nursing Student Loan Program**

The College administers the following federal loan program:

| | CFDA Number | Outstanding Balance at June 30, 2003 |
|---|---|---|
| Nursing Student Loan Program | 93.364 | $ 104,174 |

Total loan expenditures and disbursements of the Department of Health and Human Services student financial assistance programs for the fiscal year are identified below:

| | CFDA Number | Disbursements |
|---|---|---|
| Nursing Student Loan Program | 93.364 | $ 26,203 |

The above expenditures for the Nursing Student Loan Program include disbursements and expenditures such as loans to students and administrative expenditures.

ERNST & YOUNG

Ernst & Young LLP
1300 Huntington Building
925 Euclid Avenue
Cleveland, Ohio 44115-1405

Phone: (216) 861-5000
www.ey.com

# Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance with *Government Auditing Standards*

Board of Trustees
Lake County Community College District

We have audited the financial statements of the Lake County Community College District (the College) as of and for the years ended June 30, 2003 and 2002 and have issued our report thereon dated August 27, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated August 29, 2003.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

August 29, 2003

Ernst & Young

Ernst & Young LLP
1300 Huntington Building
925 Euclid Avenue
Cleveland, Ohio 44115-1405

Phone: (216) 861-5000
www.ey.com

# Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Lake County Community College District

## Compliance

We have audited the compliance of Lake County Community College District (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that is applicable to its major federal program for the years ended June 30, 2003. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program are the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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, *Audit 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. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the years ended June 30, 2003.

**Internal Control Over Compliance**

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

August 29, 2003

# Lake County Community College District

## Schedule of Findings and Questioned Costs

Year ended June 30, 2003

**Part I—Summary of Auditor's Results**

**Financial Statement Section**

| | | | | |
|---|---|---|---|---|
| Type of auditor's report issued: | Unqualified Opinion | | | |
| Internal control over financial reporting: | | | | |
| Material weakness(es) identified? | | yes | ✓ | no |
| Reportable condition(s) identified not considered to be material weaknesses? | | yes | ✓ | none noted |
| Noncompliance material to financial statements noted? | | yes | ✓ | no |

**Federal Awards Section**

| | | | | |
|---|---|---|---|---|
| Dollar threshold used to determine Type A programs: | $300,000 | | | |
| Auditee qualified as low-risk auditee? | ✓ | yes | | no |
| Type of auditor's report on compliance for major programs: | Unqualified Opinion | | | |

**Part I—Summary of Auditor's Results (continued)**

Internal Control over compliance:

| | | | | |
|---|---|---|---|---|
| Material weakness(es) identified? | ______ | yes | ✓ | no |
| Were reportable condition(s) identified not considered to be material weakness(es)? | ______ | yes | ✓ | none noted |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133? | ______ | yes | ✓ | no |

Identification of major programs:

| **CFDA Number(s)** | **Name of Federal Program or Cluster** |
|---|---|
| 84.063 | Student Financial Aid Cluster |
| 84.033 | |
| 84.007 | |
| 84.038 | |
| 84.032 | |
| 93.364 | |

**Part II—Schedule of Financial Statement Findings**

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

None.

**Part III—Schedule of Federal Award Findings and Questioned Costs**

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 Section .510.

None.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

# LAKE COUNTY 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 18, 2003**