

**LORAIN COUNTY COMMUNITY  
COLLEGE FOUNDATION, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2012**





# Dave Yost • Auditor of State

Board of Trustees  
Lorain County Community College Foundation, Inc.  
1005 North Abbe Road  
Elyria, Ohio 44035

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

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lorain County Community College Foundation, Inc. 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 24, 2012

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LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

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To the Board of Directors  
Lorain County Community College Foundation, Inc.  
Elyria, Ohio

### Independent Auditors' Report

We have audited the accompanying statement of financial position of Lorain County Community College Foundation, Inc. as of June 30, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from Lorain County Community College Foundation, Inc.'s 2011 financial statements and in our report, dated November 1, 2011, we expressed an unqualified opinion on those financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012 on our consideration of Lorain County Community College Foundation, Inc.'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 on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Cleveland, Ohio  
November 15, 2012

## LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

## STATEMENT OF FINANCIAL POSITION

June 30, 2012

(With Comparative Totals at June 30, 2011)

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 358,403	\$ 1,001,708
Grants receivable	300,000	300,000
Unconditional promises to give, net	7,084,051	7,761,877
Investments	25,524,131	25,584,141
Prepaid expenses and other assets	6,378	1,971
Equipment, net	<u>11,045</u>	<u>3,257</u>
Total assets	<u>\$33,284,008</u>	<u>\$34,652,954</u>
<b>LIABILITIES</b>		
Accounts, support and grants payable	\$ 108,653	\$ 225,670
Deferred revenue	15,600	-
Annuity obligation	3,869	5,347
Due to fund	<u>4,780</u>	<u>3,450</u>
Total liabilities	132,902	234,467
<b>NET ASSETS</b>		
Unrestricted	393,176	470,667
Temporarily restricted	11,957,041	12,161,457
Permanently restricted	<u>20,800,889</u>	<u>21,786,363</u>
Total net assets	<u>33,151,106</u>	<u>34,418,487</u>
Total liabilities and net assets	<u>\$33,284,008</u>	<u>\$34,652,954</u>

The accompanying notes are an integral part of these financial statements.

## LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2012  
(With Comparative Totals for Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
<b>REVENUE AND SUPPORT</b>					
Contributions, net	\$ 298,600	\$ 533,853	\$ 118,472	\$ 950,925	\$ 1,015,834
Innovation fund income		1,008,000		1,008,000	1,125,000
Innovation fund replenishment income		124,084		124,084	-
Investment income, net	(2,196)	(27,389)	(95,214)	(124,799)	4,527,702
Special event, net			26,272	26,272	30,011
Other income				-	207
<b>Total revenue and support</b>	<b>296,404</b>	<b>1,638,548</b>	<b>49,530</b>	<b>1,984,482</b>	<b>6,698,754</b>
Scholarship and program transfers	292,001	530,685	(822,686)	-	-
Administrative fees	312,090	(58,713)	(253,377)	-	-
Net assets released from restrictions	2,274,377	(2,274,377)		-	-
	<u>3,174,872</u>	<u>(163,857)</u>	<u>(1,026,533)</u>	<u>1,984,482</u>	<u>6,698,754</u>
<b>EXPENSES</b>					
Scholarships	539,875			539,875	487,604
Support for Lorain County Community College	464,990			464,990	611,895
Innovation fund awards and supporting expenses	1,365,178			1,365,178	837,347
Management and general	428,168			428,168	459,128
Fundraising	453,652			453,652	312,791
<b>Total expenses</b>	<b>3,251,863</b>			<b>3,251,863</b>	<b>2,708,765</b>
<b>CHANGES IN NET ASSETS</b>	<b>(76,991)</b>	<b>(163,857)</b>	<b>(1,026,533)</b>	<b>(1,267,381)</b>	<b>3,989,989</b>
<b>EQUITY TRANSFERS</b>	<b>(500)</b>	<b>(40,559)</b>	<b>41,059</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>470,667</b>	<b>12,161,457</b>	<b>21,786,363</b>	<b>34,418,487</b>	<b>30,428,498</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 393,176</b>	<b>\$11,957,041</b>	<b>\$20,800,889</b>	<b>\$33,151,106</b>	<b>\$34,418,487</b>

The accompanying notes are an integral part of these financial statements.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

(With Comparative Totals for Year Ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (1,267,381)	\$ 3,989,989
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	2,837	1,700
Unconditional promises to give - reserves and other	(183,840)	(250,644)
Loss on disposal of land	-	130,942
Net loss (gain) on investments	798,399	(4,030,489)
(Increase) decrease in assets:		
Grants receivable	-	(270,000)
Unconditional promises to give	861,666	1,507,991
Prepaid expenses and other assets	(4,407)	2,198
Increase (decrease) in liabilities:		
Accounts, support and grants payable	(117,017)	93,514
Deferred revenue	15,600	(1,458)
Annuity obligation	(1,478)	(1,363)
Due to fund	1,330	250
Funds held as fiscal agent	-	(41,564)
Contributions restricted for permanent investment	<u>(130,691)</u>	<u>(351,655)</u>
Net cash (used in) provided by operating activities	(24,982)	779,411
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale and maturities of investments	3,079,433	13,293,806
Purchase of investments	(3,817,822)	(13,414,418)
Purchase of office equipment	(10,625)	-
Proceeds from the sale of land	-	1,820,317
Purchase of land	<u>-</u>	<u>(1,951,259)</u>
Net cash used in investing activities	(749,014)	(251,554)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for permanent investment	<u>130,691</u>	<u>351,655</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(643,305)	879,512
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,001,708</u>	<u>122,196</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 358,403</u>	<u>\$ 1,001,708</u>

The accompanying notes are an integral part of these financial statements.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies**

- A. Nature of Activities – Lorain County Community College Foundation, Inc. (the Foundation), a non-governmental, non-profit Foundation established under the laws of the State of Ohio, was established to foster excellence in teaching and learning by encouraging philanthropic support for students, faculty, programs and facilities of Lorain County Community College (the College).
- B. Accounting Method – The financial statements of the Foundation have been prepared utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation has reported information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

**Unrestricted Net Assets**

This category includes net assets not subject to donor-imposed stipulations. This category periodically includes net assets designated by the Board. At June 30, 2012 and 2011, there were no Board designated net assets.

**Temporarily Restricted Net Assets**

This category includes net assets subject to donor-imposed stipulations that may or will be met by actions of the Board/Foundation and/or the passage of time. It also includes earnings from the donor restricted endowment net of amounts appropriated by the Board of Directors.

**Permanently Restricted Net Assets**

This category includes net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

- C. Equity Transfers – From time to time, the Foundation's donors reconsider the nature of gifts to the Foundation and request reclassification of net asset balances to more closely align with the intention of their donations. The Foundation records these net asset reclassifications as equity transfers between net asset classifications.
- D. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- E. Comparative Financial Information – The financial statements include certain prior year summarized comparative financial information. Such information does not include sufficient detail to constitute a full financial statement presentation. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Summary of Significant Accounting Policies (Continued)**

- F. Cash and Cash Equivalents – The Foundation classifies its checking and money market accounts as cash. Any cash or cash equivalents maintained within professionally managed accounts are classified as investments, due to the overall non-current investment strategy of their investment philosophy.
- G. Investments – Investment income includes realized and unrealized gains and losses, and interest and dividends that are reported in the changes in net assets in the accompanying statement of activities.
- H. Fair Value Reporting – Under accounting principles generally accepted in the United States of America, financial and nonfinancial assets and liabilities are required to be remeasured on an annual basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and establishes a fair value hierarchy based upon the inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities (for example, exchange quoted prices).

Level 2 – Inputs to the valuation methodology are observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not sufficiently active to qualify as Level 1, other observable inputs or inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs to the valuation methodology are significant to the fair value measurement and unobservable (for example, supported by little or no market activity).

Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The Foundation has determined the fair value of the investments to be within Levels 1, 2 and 3, as summarized herein, of the hierarchy. The Foundation's investments in cash and cash equivalents, equity securities and mutual funds are valued with quoted prices in active markets that are considered to be Level 1 inputs. Investments in limited partnerships which are based on the change in the equity partnership are considered to be Level 3 inputs.

The following is a summary of the inputs used as of June 30, 2012 and 2011 in valuing the Foundation's investments carried at fair value:

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Summary of Significant Accounting Policies (Continued)**

H. Fair Value Reporting (Continued)

	2012			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 326,991	\$ 326,991	\$ -	\$ -
Common equity securities	1,361,850	1,361,850	-	-
Mutual equity funds	16,601,359	16,601,359	-	-
Mutual bond funds	7,194,031	7,194,031	-	-
Limited partnership	39,900	-	-	39,900
	<u>\$25,524,131</u>	<u>\$25,484,231</u>	<u>\$ -</u>	<u>\$ 39,900</u>

	2011			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 899,564	\$ 899,564	\$ -	\$ -
Common equity securities	1,341,915	1,341,915	-	-
Mutual equity funds	16,272,715	16,272,715	-	-
Mutual bond funds	7,025,972	7,025,972	-	-
Limited partnership	43,975	-	-	43,975
	<u>\$25,584,141</u>	<u>\$25,540,166</u>	<u>\$ -</u>	<u>\$ 43,975</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follow:

	2012	2011
Beginning balance	\$ 43,975	\$ -
Purchases	-	50,000
Management fee	(5,000)	(5,000)
Unrealized gain (loss)	925	(1,025)
Ending balance	<u>\$ 39,900</u>	<u>\$ 43,975</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Summary of Significant Accounting Policies (Continued)**

- I. Grants Receivable – Grants receivable are comprised primarily of prospective and reimbursable awards committed from various funding agencies for use in the Foundation's activities. All grants receivable are expected to be collected within one year. The Foundation has not recorded a provision for doubtful accounts since it is the opinion of management that these receivables are collectible in full.
- J. Equipment – Equipment is recorded at historical cost or fair market value in case of donation. Depreciation is recorded on the straight-line method over the useful lives of the respective assets, which generally ranges from three to seven years. The Foundation capitalizes all long-lived assets that cost more than \$1,000 and have a useful life in excess of one year. Depreciation expense was \$2,837 and \$1,700 for the years ended June 30, 2012 and 2011, respectively. Accumulated depreciation at June 30, 2012 and 2011 was \$27,479 and \$24,642, respectively.
- K. Contributions – The Foundation recognizes contributions as revenue in the period in which the pledge (promise to give) is received.

Accounting principles generally accepted in the United States of America provide that when a donor transfers assets to the Foundation and the transfers are revocable, repayable or reciprocal, the transfer does not constitute a contribution to the Foundation. Such transactions and subsequent activity relating to these funds are separately identified as "due to fund" in the Foundation's financial statements.

Grants from the State of Ohio and collaborating colleges and universities related to the Innovation Fund are conditional based on criteria included within the grant and collaboration agreements. The Innovation Fund recognizes revenue from these agencies when the conditions are fulfilled and the Foundation has requested reimbursement.

- L. Donated Services – Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Foundation. Note 8 to the financial statements discloses the value of services donated by the College to the Foundation during the years ended June 30, 2012 and 2011.
- M. Administration Fee – The Foundation allocates a 1.25% administration fee on temporarily and permanently restricted net assets, excluding unconditional promises to give, to provide for indirect program, general management and fundraising expenses. The total amount charged to net assets related to this fee was \$312,090 and \$251,850 for the years ended June 30, 2012 and 2011, respectively, and is shown in net investment income.
- N. Functional Allocation of Expenses – The cost of providing various programs and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.
- O. Income Taxes – The Foundation is exempt from income taxes under Section 501(c)(3) as a non-governmental, non-profit entity under provisions of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi) of the Internal Revenue Code.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Summary of Significant Accounting Policies (Continued)**

O. Income Taxes (Continued)

The Foundation believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. As of June 30, 2012, the Foundation's income tax years from 2008 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

P. Innovation Fund Awards – The innovation fund bestows awards in two categories, Type A awards and Type B awards. Type A awards are up to \$25,000 and contain no right of replenishment. Type B awards are greater than \$25,000 and up to \$100,000 and contain a right of replenishment as disclosed in Note 10 to the financial statements. It is the policy of the Foundation to fully reserve against the possibility of replenishment at the time of the award based on insufficient financial information regarding the future collectability of these awards, creating a net \$-0- effect to receivables. If the right of replenishment is exercised for an award, the receivable will be recorded at the time the Foundation determines an entity is financially viable for repayment of its innovation fund award. During the years ended June 30, 2012 and 2011, the Foundation made innovation award payments of \$1,342,800 and \$801,250, respectively, to entities selected by the Innovation Fund Committee. At June 30, 2012 and 2011, the Foundation had additional unpaid awards which were considered conditional and, therefore, not included within accounts payable of \$1,422,200 and \$1,315,000, respectively.

Q. Reclassifications – Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

R. Subsequent Events – The Foundation has evaluated subsequent events through November 15, 2012, the date which the financial statements were available to be issued.

**Note 2. Unconditional Promises to Give**

Unconditional promises to give at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 1,822,927	\$ 1,328,620
Receivable in one to five years	6,084,860	6,740,833
Receivable in six to ten years	2,600,000	3,325,000
Receivable in greater than ten years	<u>153,000</u>	<u>128,000</u>
Total unconditional promises to give	10,660,787	11,522,453
Less discounts to present value	(623,603)	(829,852)
Less valuation reserves and for uncollectible promises to give	<u>(2,953,133)</u>	<u>(2,930,724)</u>
Net unconditional promises to give	<u>\$ 7,084,051</u>	<u>\$ 7,761,877</u>

The discount rate used on long-term promises to give was 2.00% at June 30, 2012 and 2011.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Unconditional Promises to Give (Continued)**

The Foundation has estimated a reserve for uncollectible promises to give of \$2,953,133 and \$2,930,724 at June 30, 2012 and 2011, respectively. During the years ended June 30, 2012 and 2011, the Foundation directly wrote off uncollectible promises to give of \$2,808 and \$-0-, respectively. During the years ended June 30, 2012 and 2011, the Foundation recognized an increase in the reserve for uncollectible promises to give of \$22,409 and \$31,118, respectively.

**Note 3. Investments**

Investments consist of equity securities, mutual funds and cash and cash equivalents. Investments are carried at fair value and are summarized as follows:

	June 30, 2012		June 30, 2011	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 326,991	\$ 326,991	\$ 899,564	\$ 899,564
Common equity securities	948,458	1,361,850	947,229	1,341,915
Mutual equity funds	15,495,055	16,601,359	14,481,962	16,272,715
Mutual bond funds	6,865,046	7,194,031	6,850,478	7,025,972
Limited partnership	50,000	39,900	50,000	43,975
	<u>\$23,685,550</u>	<u>\$25,524,131</u>	<u>\$23,229,233</u>	<u>\$25,584,141</u>

Investment income for the years ended June 30, 2012 and 2011 consisted of the following:

	2012	2011
Interest and dividends	\$ 737,598	\$ 557,856
Net (losses) gains	(798,399)	4,030,489
Management fees	(63,998)	(60,643)
Total investment income	<u>\$ (124,799)</u>	<u>\$ 4,527,702</u>

**Mutual Capital Partners Fund Partnership**

During 2011, the Foundation's Board approved program support of \$50,000 per year for five years with Mutual Capital Partners (MCP). Under this agreement, Mutual Capital Partners will provide specific deliverables to enhance the College's entrepreneurship program including: internships and jobs for Lorain County Community College students with MCP companies, build an entrepreneurial speaker series and mentor Innovation Fund and GLIDE companies and initiatives. The partnership assesses a \$5,000 annual administrative fee.

This programmatic relationship qualified the Foundation as an investor in the Mutual Capital Partners Fund II, an Ohio limited partnership. The first payment of \$50,000 was made and no additional funding calls have been made. As of June 30, 2012, the Foundation has an outstanding commitment of \$200,000. At June 30, 2012, the valuation of this investment was \$39,900.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 4. Charitable Remainder Unitrusts**

**Charitable Remainder Trusts**

The Foundation was named co-beneficiary of a charitable remainder unitrust. Despite the fact the trust is irrevocably funded, no amount has been recorded in the accompanying financial statements, as the naming and changing of the charities in the trust is revocable by the trustees.

**Charitable Gift Annuities**

The Foundation has two charitable gift annuity agreements with a donor. The Foundation was named as trustee and beneficiary. At June 30, 2012 and 2011, the related asset is included within investments of the accompanying financial statements. At June 30, 2012 and 2011, an annuity obligation liability of \$3,869 and \$5,347, respectively, was recorded for the present value of the expected liability based on fixed quarterly payments for the remainder of the annuitants' lives.

**Note 5. Temporarily Restricted Net Assets**

Net assets as of June 30, 2012 and 2011 were temporarily restricted for the following purposes:

	<u>2012</u>	<u>2011</u>
Support of the College's faculty, programs, facilities and Foundation's operation	\$11,171,485	\$11,322,327
Scholarships	782,040	835,232
Passage of time	<u>3,516</u>	<u>3,898</u>
Total temporarily restricted net assets	<u>\$11,957,041</u>	<u>\$12,161,457</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or passage of time for the years ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Support of the College's faculty, programs, facilities and Foundation's operation	\$ 376,337	\$ 360,851
Innovation fund awards	1,343,572	801,250
Scholarships	<u>554,468</u>	<u>485,887</u>
Total restrictions released	<u>\$ 2,274,377</u>	<u>\$ 1,647,988</u>

**Note 6. Endowments**

The Foundation's endowment includes 145 scholarship funds and 13 program funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Endowments (Continued)**

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of Ohio, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation and (7) the Foundation's investment policies.

**Investment Return Objectives, Risk Parameters and Strategies**

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also preserving the fair value of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes cash and cash equivalents, mutual equity and bond funds, common equity securities and alternatives intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions in accordance with the Foundation's Investment and Allocation Policy of up to 4.5% of the audited June 30 trailing three year moving market value average of investments. By this practice, the Foundation expects its endowment assets, over time, to produce an average rate of return in excess of 6% which allows for transfers of endowed net assets in accordance with both the spending policy and administrative fee policy, while maintaining growth within the endowment. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**Spending Policy**

The Foundation has a policy of appropriating for distribution on an annual basis, up to 4.5% of the fair market value of its investment portfolio as approved by the Board, plus the administrative fee described in Note 1 to the financial statements. The Foundation charges an administrative fee to offset the costs of operating the Foundation. In establishing these policies, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment to grow over the long-term. This is consistent with the Foundation's objective to preserve the fair value of the endowment assets as well as to provide additional real growth through new gifts and investment return. All withdrawals or transfers to other funds are subject to approval by the Board of Directors.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Endowments (Continued)**

Changes in endowment net assets as of June 30, 2012 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,571,658	\$20,907,572	\$22,479,230
Investment return:				
Administrative fee	265,808	(12,431)	(253,377)	-
Scholarship and program transfers	271,326	551,360	(822,686)	-
Investment income	-	(4,722)	581,730	577,008
Net depreciation (realized and unrealized)	-	-	(676,944)	(676,944)
Total investment return - endowed	537,134	534,207	(1,171,277)	(99,936)
Contributions	-	-	600,858	600,858
Special events	-	-	26,272	26,272
Equity transfers	-	10,629	41,059	51,688
Appropriation of endowment assets for expenditure	<u>(537,134)</u>	<u>(795,554)</u>	<u>-</u>	<u>(1,332,688)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,320,940</u>	<u>\$20,404,484</u>	<u>\$21,725,424</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Endowments (Continued)**

Changes in endowment net assets as of June 30, 2011 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,092,710	\$18,127,497	\$19,220,207
Investment return:				
Administrative fee	228,970	(10,272)	(218,698)	-
Scholarship and program transfers	138,652	638,611	(777,263)	-
Investment income	-	383,123	42,755	425,878
Net appreciation (realized and unrealized)	-	-	3,092,477	3,092,477
Total investment return - endowed	367,622	1,011,462	2,139,271	3,518,355
Contributions	-	31,600	605,396	636,996
Special events	-	-	30,011	30,011
Equity transfers	-	(2,099)	5,397	3,298
Appropriation of endowment assets for expenditure	<u>(367,622)</u>	<u>(562,015)</u>	<u>-</u>	<u>(929,637)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,571,658</u>	<u>\$20,907,572</u>	<u>\$22,479,230</u>

**Note 7. Permanently Restricted Net Assets**

Permanently restricted net assets as of June 30, 2012 and 2011 were comprised of the following amounts, the earnings of which were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Support of the College's faculty, programs and facilities	\$ 5,988,463	\$ 6,270,514
Scholarships	11,992,243	12,498,996
Operations and general support	<u>2,820,183</u>	<u>3,016,853</u>
Total permanently restricted net assets	<u>\$20,800,889</u>	<u>\$21,786,363</u>

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 8. Related Party**

As described in Note 1, the Foundation is affiliated with the College. During the years ended June 30, 2012 and 2011, the College provided the Foundation with professional staffing valued at \$155,136 and \$205,775, respectively. The value of those services is included as contributions in the financial statement and expensed on a functional basis based on the type of service provided by the employee.

Under its direct support organization mission, the Foundation purchased property in North Ridgeville in support of the College's planned outreach center initiatives. In March 2011, the Foundation sold this property to the College so that development of the center could commence. The center will offer expanded associate and bachelor degree programs by the College and its University Partnership to this part of the community.

During the years ended June 30, 2012 and 2011, the Foundation provided scholarships and support to the College of \$1,004,865 and \$1,099,499, respectively.

At June 30, 2012 and 2011, amounts due to the College and included within "accounts, support and grants payable" totaled \$84,742 and \$191,425, respectively.

The Foundation made contributions of \$167,850 and \$210,460 to Citizens for LCCC during the years ended June 30, 2012 and 2011, respectively, and are included in support for the College. Citizens for LCCC is a non-profit political action committee organized to enhance public support for the College. These contributions fall within the mission of the Foundation as Citizens for LCCC supports the growth of the College through support for tax levies benefiting the College.

**Note 9. Concentrations**

The Foundation maintains cash balances at a bank. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. These limits are subject to change by the FDIC. The Foundation's cash balances may exceed this amount from time to time.

At June 30, 2012 and 2011, one donor's promise to give represented approximately 80% and 73%, respectively, of the outstanding promises to give.

**Note 10. Conditional Events**

**Innovation Award Replenishment**

As described in Note 1 to the financial statements, the Foundation holds a right of replenishment over all Type B funds awarded. The awards specify a recipient may repay the Foundation without interest the amount of the award within two years. Subsequent to the two year anniversary of the award, the Foundation may exercise its right of replenishment through the fifth year, at which point the right of replenishment is forfeited.

The Foundation made 47 Type B Innovation Fund Awards since inception of the program. Of these 47 Type B Innovation Fund Awards, the Foundation holds the right of replenishment on 36 awards expiring in:

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 10. Conditional Events (Continued)**

**Innovation Award Replenishment (Continued)**

<u>Years Ending June 30,</u>	
2013	\$ 392,000
2014	549,666
2015	650,000
2016	710,000
2017	615,000
	<u>\$2,916,666</u>

The purpose of the Innovation Fund is to foster entrepreneurship and jobs growth. The Foundation's objective in providing these awards was not the return of principal, which is why Innovation Fund awards are expensed when all conditions of the award are fulfilled. The Foundation has not recorded an estimate of funds receivable from award replenishment because the amount cannot be reasonably estimated. As such, the Foundation's ability to realize these amounts is based on the financial success of the recipients. During the year ended June 30, 2012, the Foundation received \$124,084 of Innovation Fund replenishment income.

**Grants Receivable**

During the year ended June 30, 2010, the Foundation was awarded a \$1,500,000 conditional grant by the Ohio Department of Development to support the Innovation Fund. The Foundation was approved to receive the funds over a 3 year period through June 2012. The Foundation may request reimbursement of funds disbursed as Innovation Fund Awards by submitting fund requests based on pre-approval of the program and compliance with specific limitations of the awards and financial reporting requirements of the Foundation and the sponsored organizations. The Foundation has fulfilled the requirements pertaining to the grant and has received \$1,500,000.

During the year ended June 30 2011, the Foundation was awarded a \$2,000,000 conditional grant (11-084) by the Ohio Department of Development to support the Innovation Fund. The Foundation was approved to receive the funds over a three year period from April 2011 through March 2014. The Foundation has fulfilled some requirements pertaining to the grant and received \$300,000. Subsequent to year end, the Foundation fulfilled additional requirements and submitted \$380,000 for reimbursement.

**Awards Payable**

As described in Note 1 to the financial statements, the Foundation's Innovation Fund involves multi-year conditional awards provided to start-up businesses that create or enhance technology. The Foundation has made award commitments of \$6,150,000, of which \$533,330 has been forfeited to date. The net remaining award commitment is \$1,202,951. These awards are expected to be paid out over the next two years once the sponsored recipients fulfill required conditions which may include completion and testing of a prototype, filing and protection of necessary patents and meeting certain financial reporting metrics. The conditional obligations are measured by Great Lakes Innovation and Development Enterprise, which monitors the recipients and reports progress of the recipients to the Foundation, which then approves payment of the conditional portion of the awards.

As these awards are conditional, no liability has been recorded at June 30, 2012 and 2011.

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Note 10. Conditional Events (Continued)**

**Grants**

The Fund for Our Economic Future (the Fund) is a nonprofit tax exempt public charity which started as a pooled grant fund to dramatically improve the economic climate in Northeast Ohio by organizations with the potential to strengthen the region as a whole. Over \$72 million has been raised by over 100 foundations, corporations and individuals in the Northeast Ohio region. The Fund received tax exempt 501(c)(3) status and entered into its third three year phase in 2010. All grant recipients of the Fund are non-profit organizations and tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Grants are awarded by the Fund based on extensive due diligence and approval by the members of the Board. The Board is comprised of representatives from member organizations contributing at least \$100,000 over a three year period (phase).

The Foundation had previously made a \$100,000 conditional commitment to Phase II of the Fund, all of which was paid as of November 24, 2009.

The Foundation has made a conditional commitment to Phase III of the Fund for a total of \$100,000. During 2012, the Foundation made the second of the three \$33,333 payments toward this commitment. As the grant is conditional, no liability has been recorded for this account at June 30, 2012.

To the Board of Directors  
Lorain County Community College Foundation, Inc.  
Elyria, Ohio

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

We have audited the financial statements of Lorain County Community College Foundation, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 (Continued)

We noted certain other matters that we have reported to management of Lorain County Community College Foundation, Inc. in a separate letter dated November 15, 2012.

This report is intended solely for the information and use of the Board of Directors, management, 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.

A handwritten signature in black ink that reads "Melroy + Novotny LLC". The signature is written in a cursive, flowing style.

Cleveland, Ohio  
November 15, 2012

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# Dave Yost • Auditor of State

LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION INC

LORAIN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 3, 2013