

The Lakeland Foundation

(A Component Unit of Lakeland Community College)

Financial Statements
June 30, 2020

OHIO AUDITOR OF STATE
KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of The Lakeland Foundation, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2019 through June 30, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

[December 14, 2020]

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The Lakeland Foundation

Financial Statements

June 30, 2020

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20

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Independent Auditor's Report

To the Board of Directors
The Lakeland Foundation
Kirtland, Ohio

Report on Financial Statements

We have audited the accompanying financial statements of The Lakeland Foundation (a nonprofit corporation, the "Foundation"), a component unit of Lakeland Community College, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
The Lakeland Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2020, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Cimini + Panichi, PC

Cleveland, Ohio
November 13, 2020

The Lakeland Foundation

Statement of Financial Position

June 30, 2020 (with comparative totals for 2019)

	<u>Assets</u>	
	2020	2019
Current assets:		
Cash and cash equivalents	\$ 514,034	\$ 608,920
Cash held for others	10,029	5,974
Pledges receivable, net	223,653	194,483
Accounts receivable	16,313	9,094
Loans receivable, net	22,620	22,896
Other assets	4,785	5,841
Prepaid expenses	1,711	10,418
Investments	5,653,016	4,925,322
Total current assets	\$ 6,446,161	\$ 5,782,948
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Payables (scholarship & trade)	\$ 16,256	\$ 9,045
Deferred revenue	53,916	57,301
Due to custodial funds	10,029	5,974
Note payable	73,800	-
Total liabilities	154,001	72,320
Net assets:		
Without donor restrictions:		
Undesignated	(1,110)	93,224
Board-designated	30,046	30,046
Total net assets without donor restrictions	28,936	123,270
With donor restrictions:		
Purpose and time restrictions	2,853,429	2,801,420
Perpetual in nature	3,409,795	2,785,938
Total net assets with donor restrictions	6,263,224	5,587,358
Total net assets	6,292,160	5,710,628
Total liabilities and net assets	\$ 6,446,161	\$ 5,782,948

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Statements of Activities

For the year ended June 30, 2020 (with comparative totals for 2019)

	Without donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support, revenue, and gains:				
Private and corporate contributions and grants	\$ 71,017	\$ 1,222,284	\$ 1,293,301	\$ 1,480,639
Donations-in-kind	-	57,554	57,554	27,853
Investment return, net	21,037	160,168	181,205	206,658
Total support, revenue, and gains	92,054	1,440,006	1,532,060	1,715,150
Net assets released from restrictions or transferred	764,140	(764,140)	-	-
Total support, revenue, gains, and transfers	856,194	675,866	1,532,060	1,715,150
Program and supporting expenses:				
Program services:				
Scholarships	469,665	-	469,665	537,647
Educational and related programs	197,359	-	197,359	1,000,490
In-kind educational and related programs	44,939	-	44,939	14,286
Total program services	711,963	-	711,963	1,552,423
Supporting services:				
Administration	201,192	-	201,192	223,261
Fundraising	21,942	-	21,942	16,343
Fundraising – in-kind	15,431	-	15,431	8,032
Total supporting services	238,565	-	238,565	247,636
Total program and supporting expenses	950,528	-	950,528	1,800,059
Change in net assets	(94,334)	675,866	581,532	(84,909)
Net assets – beginning of year	123,270	5,587,358	5,710,628	5,795,537
Net assets – end of year	\$ 28,936	\$ 6,263,224	\$ 6,292,160	\$ 5,710,628

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Statement of Functional Expenses

For the year ended June 30, 2020 (with comparative totals for 2019)

	Supporting Services			2020 Total	2019 Total
	Program	General & Administrative	Fundraising		
Scholarships	\$ 469,665	\$ -	\$ -	\$ 469,665	\$ 537,647
Educational and related programs	197,359	-	-	197,359	1,000,490
In-kind educational and related programs	44,939	-	-	44,939	14,286
Professional fees	-	159,780	-	159,780	74,799
Meetings and conferences	-	908	-	908	3,304
Merchant/bank fees	-	1,349	-	1,349	1,116
Information/Communication	-	1,466	-	1,466	462
Miscellaneous	-	1,295	-	1,295	547
Sponsorships	-	-	-	-	3,400
Travel and entertainment	-	5,933	-	5,933	13,542
Dues and memberships	-	6,237	-	6,237	3,384
Lobbying	-	20,000	-	20,000	112,000
Special events	-	-	37,373	37,373	24,375
Schell loan allowance	-	4,224	-	4,224	10,706
Total	\$ 711,963	\$ 201,192	\$ 37,373	\$ 950,528	\$ 1,800,058

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Statement of Cash Flows

For the year ended June 30, 2020 (with comparative totals for 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 581,532	\$ (84,909)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Change in allowance for uncollectible loans	4,224	10,706
Change in allowance for uncollectible pledges	(278)	1,431
Change in discounts to net present value	1,779	(24,868)
Change in fair value of investments, net	(115,495)	(133,189)
Contributions restricted for long-term investment	(620,423)	(212,998)
Premium/discount amortization	33	251
Changes in operating assets and liabilities:		
Decrease (increase) in pledges receivable	(23,430)	56,012
Increase in loans receivable	(3,948)	(24,619)
Decrease (increase) in accounts receivable	(7,219)	46,125
Decrease (increase) in other assets	1,056	(5,536)
Decrease (increase) in prepaid expenses	8,707	(118)
Increase (decrease) in payables	7,211	(655)
Increase (decrease) in deferred revenue	(3,385)	10,885
Increase (decrease) in custodial funds	4,055	(3,167)
Net cash used by operating activities	(165,581)	(364,649)
Cash flows from investing activities:		
Proceeds from sales and maturity of investments	848,921	741,943
Purchases of investments	(1,406,082)	(894,332)
Change in money market funds	(55,071)	16,843
Net cash used by investing activities	(612,232)	(135,546)
Cash flows from financing activities:		
Proceeds from note payable	73,800	-
Collection of contributions restricted for long-term investment	613,182	207,471
Net cash provided by financing activities	686,982	207,471
Net change in cash and cash equivalents	(90,831)	(292,724)
Cash and cash equivalents – beginning of year	614,894	907,618
Cash and cash equivalents – end of year	\$ 524,063	\$ 614,894

The accompanying notes are an integral part of these financial statements

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 1: Nature of Activities

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

The Foundation serves as fiscal agent for two community organizations. The cash on hand and due these organizations is reflected on the statement of financial position as “Cash held for others” and “Due to custodial funds.”

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

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

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

Basis of Presentation

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

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

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations, and are therefore available for use at the discretion of the Board of Directors and/or management for general operating purposes.

Net Assets Without Donor Restrictions (Undesignated) – Consists of net assets that are not subject to donor-imposed restrictions nor have been designated for a specific purpose by the Foundation’s Board of Directors. The purpose of these net assets is to provide support for the daily operations and the mission of the Foundation.

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 2: Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Net Assets Without Donor Restrictions (Board-designated) – Consists of net assets that can be used only for the specific purposes determined by a formal action of the Foundation’s Board of Directors, which is the Foundation’s highest level of decision-making authority. Commitments may be changed or lifted only by the Foundation’s Board of Directors taking the same formal action that imposed the constraint originally.

Net Assets With Donor Restrictions – Net assets whose use has been limited by donor-imposed time and/or purpose restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Some net assets with donor restrictions include a donor stipulation that assets provided be maintained permanently (perpetual in nature) by the Foundation. Generally, the donors of such assets permit the Foundation to use all or part of the income earned on the assets for general or specific purposes.

Adopted Accounting Pronouncement

The FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that superseded existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. On July 1, 2019, the Foundation adopted this ASU. The Foundation’s financial statements have been updated to reflect the implementation of this standard on a retrospective basis. There was no impact on beginning net assets as a result of this implementation.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* to provide clarity in the requirements for the presentation of restricted cash on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018. The Foundation’s financial statements have been updated to reflect the implementation of this standard on a retrospective basis. There was no impact on beginning net assets as a result of this implementation. Cash and cash equivalents as presented on the statements of cash flows were updated to include cash held for others in total cash balances at the end of each year presented.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange transactions subject to other revenue recognition guidance. This ASU gives further guidance related to when a contribution is deemed to be conditional such that recognition of revenue should be delayed until conditions are substantially met. On July 1, 2019, the Foundation adopted this ASU, as it relates to contributions received. The Foundation’s financial statements have been updated to reflect the implementation of this standard on a modified-prospective basis. There was no impact on beginning net assets as a result of this implementation. Management is currently evaluating the impact of this ASU on its accounting for contributions made, which will be effective for fiscal years beginning after December 15, 2019.

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 2: Summary of Significant Accounting Policies (continued)

Comparative Financial Statements

The financial statements include certain prior-year comparative total amounts. Such comparative total amounts do not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such amounts should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2019, from which the comparative total amounts were derived.

COVID-19 Impact

In early calendar 2020, the world began dealing with the effects of the Coronavirus pandemic (COVID-19). Disruptions to business operations, including government mandated actions and employee, supplier and customer related challenges have affected many businesses. The financial markets have experienced significant volatility. Governmental agencies have made indications of their desire to provide aid to those businesses affected by COVID-19. During May 2020, the Foundation received a loan through the U.S. Small Business Administration under the provisions of the Paycheck Protection Program (PPP) in the amount of \$73,800, at an interest rate of 1% per annum with a two-year maturity. Under terms of the PPP certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. It is management's intent to seek forgiveness of the entire loan amount pursuant to the forgiveness provisions under the program. The potential impact of COVID-19 on the Foundation's operations is inherently difficult to predict and could adversely impact its business, financial condition, and/or results of operations.

Use of Estimates

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

Cash and Cash Equivalents

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

Cash and cash equivalents as presented in the accompanying statements of cash flows included the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 514,034	\$ 608,920
Cash held for others	<u>10,029</u>	<u>5,974</u>
	<u>\$ 524,063</u>	<u>\$ 614,894</u>

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 2: Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk

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

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

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

At various times during the year ended June 30, 2020, the Foundation's cash in bank balances may have exceeded the federal insured limits.

Investments

Investments in marketable securities are stated at fair market value.

The Foundation's practice with respect to contributions of equity securities is to sell the securities upon receipt for their current fair market value. Realized and unrealized gains and losses, interest, dividends, and investment fees arising during the period are included in investment return, net in the accompanying statement of activities.

Contributions

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

Functional Allocation of Expenses

The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas.

Tax Status

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

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 2: Summary of Significant Accounting Policies (continued)

Tax Status (continued)

The Foundation accounts for income taxes in accordance with the “Income Taxes” topic of the FASB ASC. Uncertain income tax positions are evaluated at least annually by management. The Foundation classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of June 30, 2020, the Foundation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

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

Pledges Receivable

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

Loans Receivable

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

Donated Administrative Expenses

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

Donated Fundraising Expenses

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

Subsequent Events

The date to which events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure is November 13, 2020, which is the date on which the financial statements were available to be issued. No events were identified that would require adjustment to or disclosure in the financial statements.

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 3: Investments

Investments are recorded at fair value. The historical cost and fair value at June 30, 2020 and 2019 were as follows:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Debt securities:				
Corporate bonds	\$ -	\$ -	\$ 70,067	\$ 70,073
Mutual funds:				
Fixed-income mutual funds	1,109,997	1,100,421	754,652	740,123
Large cap equity	919,786	1,204,041	868,938	1,092,429
Mid cap equity	770,811	698,775	674,178	689,645
Domestic equity mutual funds	948,068	972,642	785,396	793,015
International equities	810,190	837,365	657,228	681,832
International fixed-income	-	-	181,952	177,385
Alternative assets	575,373	554,454	488,709	480,563
Emerging markets equities	84,251	96,966	82,856	97,394
U.S. government obligations	30,417	30,417	-	-
Money market/cash and reserves	<u>157,935</u>	<u>157,935</u>	<u>102,863</u>	<u>102,863</u>
	\$ <u>5,406,828</u>	\$ <u>5,653,016</u>	\$ <u>4,666,839</u>	\$ <u>4,925,322</u>

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

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

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

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

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

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 3: Investments (continued)

The following is a summary of the inputs used as of June 30, 2020, in valuing the Foundation's investments carried at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed-income mutual funds	\$ 1,100,421	\$ -	\$ -	\$ 1,100,421
Large cap equity	1,204,041	-	-	1,204,041
Mid cap equity	698,775	-	-	698,775
Domestic equity mutual funds	972,642	-	-	972,642
International equities	837,365	-	-	837,365
Alternative assets	554,454	-	-	554,454
Emerging markets equities	96,966	-	-	96,966
U.S. government obligations	30,417	-	-	30,417
Money market/cash and reserves	<u>157,935</u>	<u>-</u>	<u>-</u>	<u>157,935</u>
Investments	\$ <u>5,653,016</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,653,016</u>

Note 4: Note Payable

The Foundation received \$73,800 in Paycheck Protection Program (PPP) funding on May 7, 2020. The terms of the funding agreement indicate that the Foundation must utilize the proceeds to fund/offset qualifying expenses over a 24-week period and that they maintain their full-time equivalent employment as specified in the terms of the agreement. The terms of the agreement specify that the Foundation must repay any unforgiven principal of the loan plus interest, which accrues at 1% annually. This represents an unsecured loan that is guaranteed by the United States Small Business Administration. The loan and interest may be forgiven if the Foundation meets the conditions for such forgiveness outlined in the PPP. The Foundation anticipates the full amount of the loan to be forgiven in fiscal year 2021. If the funding is not forgiven, the maturity date is May 8, 2022, and monthly payments would begin at the conclusion of deferment period as specified in the PPP.

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 5: Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Scholarships	\$ 736,025	\$ 728,627
Loans (Note 8)	95,973	100,197
Educational and related programs	884,167	877,580
Future sponsorship activities	40,000	-
Portion of endowment fund classified as purpose and time restricted	<u>1,097,264</u>	<u>1,095,016</u>
Total net assets with donor purpose and time restrictions	2,853,429	2,801,420
Endowment fund	3,402,553	2,775,115
Pledges receivable for endowment	<u>7,242</u>	<u>10,823</u>
Total net assets with perpetual donor restrictions	<u>3,409,795</u>	<u>2,785,938</u>
Total net assets with donor restrictions	\$ <u>6,263,224</u>	\$ <u>5,587,358</u>

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

	<u>2020</u>	<u>2019</u>
Scholarships	\$ 469,665	\$ 537,647
Loans (Note 8)	4,224	10,706
Educational and related programs	238,933	954,757
Administration/fundraising	49,579	30,263
Transferred – without donor restrictions	<u>1,739</u>	<u>3,550</u>
Total net assets released from donor restrictions or transferred	\$ <u>764,140</u>	\$ <u>1,536,923</u>

Note 6: Net Asset Classification of Endowment Funds

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

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

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 6: Net Asset Classification of Endowment Funds (continued)

The Board of Directors of the Foundation has interpreted the State of Ohio enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 perpetually restricted net assets with donor restrictions (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the perpetual 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 perpetually restricted net assets with donor restrictions is classified as purpose restricted net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate donor-restricted endowment funds:

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

Endowment net asset composition by type of fund as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 4,499,817	\$ 4,499,817
Board-designated endowment funds	<u>30,046</u>	<u>-</u>	<u>30,046</u>
Total funds	\$ <u>30,046</u>	\$ <u>4,499,817</u>	\$ <u>4,529,863</u>

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 6: Net Asset Classification of Endowment Funds (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 30,046	\$ 3,870,131	\$ 3,900,177
Investment return, net:			
Interest and dividends	525	66,194	66,719
Net realized and unrealized gain	(363)	97,574	97,211
Management fees	<u>(162)</u>	<u>(20,548)</u>	<u>(20,710)</u>
Total investment return, net	-	143,220	143,220
Contributions	-	624,004	624,004
Appropriation of endowment assets for expenditure	-	(140,972)	(140,972)
Transfers	<u> </u>	<u>3,434</u>	<u>3,434</u>
Endowment net assets, end of year	\$ <u>30,046</u>	\$ <u>4,499,817</u>	\$ <u>4,529,863</u>

The portion of the endowment with donor restrictions includes \$408,636 of net assets, that by the donor's restrictions are purpose restricted. The Board of Directors has determined that the donations will be maintained similar to a perpetual endowment.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for the Endowment Fund. The policy goal for the Foundation's endowment investment portfolio is to provide a real total return that preserves the purchasing power of the endowment assets, while providing an income stream to support the Foundation's activities in support of LCC. Assets for the investment pool include those assets of donor-restricted funds that the Foundation must hold in perpetuity. The Foundation engages an investment manager whose performance is measured against respective benchmarks. The endowment's real total return is sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility. The Foundation recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential loss in purchasing power due to inflation are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the investment portfolio the opportunity to achieve satisfactory results consistent with the objectives and character of the portfolio.

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 6: Net Asset Classification of Endowment Funds (continued)

Strategies Employed for Achieving Objectives

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

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

Spending Policy

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

Note 7: Pledges Receivable

Pledges were discounted to their present value assuming their respective terms (up to five years) and a discount rate of 6%. The pledges receivable, net as of June 30, 2020 are scheduled to be collected as follows:

Pledges receivable:	
Payable within one year	\$ 125,767
Payable in one to five years	<u>112,621</u>
Total pledges receivable	238,388
Less: discount to net present value	(11,978)
Less: allowance for uncollectible pledges	<u>(2,757)</u>
Pledges receivable, net at June 30, 2020	\$ <u><u>223,653</u></u>

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 8: Loans Receivable

As of June 30, 2020 and 2019, loans receivable totaled \$133,297 and \$129,349, respectively. During the fiscal year ended June 30, 2020, \$3,948 was distributed to qualifying students in a revolving student loan from the C. Schell Loan Program. The loans are interest-free and have various repayment terms. Repayment of the outstanding loans is poor primarily because, as a condition of the loan program, repayment is not to impose an undue burden on the borrower. The related allowance for uncollectible loans is \$110,677 and \$106,453 at June 30, 2020 and 2019, respectively.

Note 9: Related-Party Transactions

LCC made distributions to the Foundation of \$107,595 and \$129,508 for the years ended June 30, 2020 and 2019, respectively. The Foundation distributed \$689,726 and \$1,301,707 during the years ended June 30, 2020 and 2019, respectively, to LCC. The Foundation also distributed \$44,939 and \$14,286 in Gifts-in-Kind to LCC during the years ended June 30, 2020 and 2019, respectively. The Foundation had receivables from LCC of \$14,787 and \$8,024 as of June 30, 2020 and 2019, respectively. The Foundation had payables to LCC of \$14,760 and \$8,010 as of June 30, 2020 and 2019, respectively.

Note 10: Liquidity and Availability of Resources

The financial assets available within one year of June 30 for general expenditures are as follows:

	<u>2020</u>
Cash and cash equivalents	\$ 514,034
Cash held for others	10,029
Pledges receivable, net	223,653
Accounts receivable	16,313
Loans receivable, net	22,620
Investments	<u>5,653,016</u>
Total financial assets	6,439,665
Less:	
Amounts unavailable for general expenditure within one year, due to:	
Restricted by donors – purpose and time restrictions	2,853,429
Restricted by donors – perpetual restrictions	3,409,795
Cash held for others	<u>10,029</u>
	6,273,253
Amounts unavailable to management without Board approval:	
Funds functioning as endowment	<u>30,046</u>
Total amounts unavailable for general expenditure within one year	<u>6,303,299</u>
Total financial assets available to management for general expenditure within one year	\$ <u>136,366</u>

The Lakeland Foundation

Notes to Financial Statements

June 30, 2020

Note 10: Liquidity and Availability of Resources (continued)

The Foundation maintains a policy of structuring its financial assets to be available as its general expenses, liabilities, and other obligations come due. The Foundation is largely supported by donor contributions and grants. The Foundation takes into account donor restrictions that require resources to be used in a particular manner or in a future period, and therefore maintains sufficient resources to meet those responsibilities.

In addition, the Foundation has the ability to access Board-designated funds functioning as endowment by special authorization of the Board, if necessary.

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

To the Board of Directors
The Lakeland Foundation
Kirtland, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Lakeland Foundation (a nonprofit corporation, the “Foundation”), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2020.

Internal Control over Financial Reporting

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

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

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

To the Board of Directors
The Lakeland Foundation

Compliance and Other Matters

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

Purpose of this Report

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

Cimini + Panichi, PC

Cleveland, Ohio
November 13, 2020

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OHIO AUDITOR OF STATE KEITH FABER



LAKELAND FOUNDATION

LAKE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/29/2020

88 East Broad Street, Columbus, Ohio 43215
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This report is a matter of public record and is available online at
www.ohioauditor.gov