LORAIN COUNTY COMMUNITY COLLEGE

Financial Condition

As of

June 30, 2002

Together with Auditors' Report

Auditor of State
Betty Montgomery

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Board of Trustees
Lorain County Community College
Elyria, Ohio

We have reviewed the Independent Auditor's Report of the Lorain County Community College, Lorain County, prepared by Kevin L. Penn, Inc., for the audit period July 1, 2001 through June 30, 2002. 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 is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 29, 2003

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LORAIN COUNTY COMMUNITY COLLEGE

FINANCIAL CONDITION

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LORAIN COUNTY COMMUNITY COLLEGE

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position of Lorain County Community College (the College) for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Lorain County Community College is part of Ohio's system of state supported and state assisted institutions of higher education. It is one of the 15 community colleges in Ohio. Located in the City of Elyria, with an off-campus facility in Lorain (St. Joseph's Learning Center), the College is a local institution. A majority of the College's students commute daily from their homes in Lorain County and the surrounding counties.

Using the Annual Financial Report

The College's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with accounting principles promulgated by the Governmental Accounting Standards Board (GASB). During 2002, the College adopted GASB Statement No. 35, *Basic Financial Statements- and Management's Discussion and Analysis- for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the College as whole, with resources classified into four net asset categories. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the College at the end of the fiscal year and includes all assets and liabilities. The difference between assets and liabilities– net assets– is one indicator of the current financial condition of the College, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the College's assets, liabilities, and net assets at June 30, 2002 is as follows:

Current assets	$ 21,561,038
Noncurrent assets:	
Capital assets, net	57,128,181
Other	1,188,180
Total assets	$ 79,877,399
Current liabilities	11,383,586
Noncurrent liabilities	3,952,162
Total liabilities	$ 15,335,748
Net assets	$ 64,541,651

Current assets consist primarily of cash, operating investments, accounts receivable, inventories, and prepaid expenses. Current liabilities consist primarily of accounts payable, accrued payroll liabilities, and deferred income. The College's current ratio (current assets divided by current liabilities) of 2.0:1 indicates that current assets are more than adequate to cover current liabilities as they become due.

Capital and Debt Activities

One critical factor affecting the quality of the College's programs is the development and renewal of its capital assets. Capital additions totaled $3.4 million in 2002. Capital additions include construction of new facilities, repair and renovation of existing facilities, and acquisition of equipment. Current year capital asset additions were funded primarily by capital appropriations from local appropriations and from the State of Ohio.

Notes payable totaled $5.4 million at June 30, 2002. These notes were issued in prior years to finance construction or renovation of facilities. One indicator of financial health is the viability ratio (expendable net assets divided by long-term debt). A ratio of 1:1 or greater indicates that financial viability is strong. At June 30, 2002, the College's viability ratio was 1:1.

Net Assets

Net assets represent the residual interest in the College's assets after liabilities are deducted. The College's net assets at June 30, 2002 are summarized as follows:

Invested in capital assets, net of related debt	$ 55,932,965
Restricted – expendable	3,882,893
Unrestricted	4,725,793
Total net assets	$ 64,541,651

Net assets invested in capital assets, net of related debt represent the College's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted-expendable net assets are subject to externally imposed restrictions governing their use.

Unrestricted net assets are not subject to externally imposed stipulations.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. As a public institution, the College's dependency on State aid results in an operating deficit because the financial reporting model classifies State appropriations as non-operating revenue. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Summarized revenues, expenses, and changes in net assets for the year ended June 30, 2002 are as follows:

Statement of Revenues, Expenses and Changes in Net Assets (continued)

Operating revenues	$ 19,974,024
Operating expenses	63,239,661
Operating loss	$ (43,239,661)
Nonoperating revenues (expenses)	37,688,827
Increase(decrease) in net assets	$ (5,576,810)
Net assets at beginning of year	71,263,747
Prior period adjustments	(1,145,286)
Net assets at end of year	$ 64,541,651

The most significant sources of operating revenues for the College are student tuition and fees ($7.3 million), grants and contracts ($6.3) million, and auxiliary services ($5.1 million).

Operating expenses include the costs of instruction, public service, general administration, utilities, libraries, and auxiliary services. Operating expenses also include depreciation of $4.6 million.

Sources of non-operating revenue include State share of instruction ($13.7 million), local appropriations ($12.7 million), federal grants and contracts ($7.1 million), and state appropriations of ($3.0 million).

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities, and helps measure the ability to meet financial obligations as they mature. A summary of the statement of cash flows for the year ended June 30, 2002 is as follows:

Net cash provided (used) by:	
Operating activities	$ (32,474,352)
Non-capital financing activities	36,172,303
Capital financing activities	1,357,707
Investing activities	(4,480,020)
Net increase in cash	$ 575,638
Cash at beginning of year	80,180
Cash at end of year	$ 655,818

Major sources of cash included state appropriations ($13.7million), local appropriations ($11.1 million), student tuition and fees ($7.7 million), grants and contracts ($22.6 million), capital appropriations ($7.2 million), and auxiliary activities ($5.1 million). The largest payments were for employees ($32.2 million) and suppliers of goods and services ($23.3 million).

Operating Highlights

In October 2001, the State of Ohio announced a cut in its support for higher education of 6%. For Lorain County Community College, the cut amounted to $0.9 million. The College responded by reducing the operating budget by 3% over a 3-year period and by raising tuition fees 4% for subsequent Fall semester.

In addition, on November 6, 2001, the citizens of Lorain County approved a 1.5 mill levy for the purpose of continuing educational and job preparation services for a ten year period, including technology, operations, and improvements to property. This new levy replaced and increased an old 1.2 mill levy.

Looking Ahead

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by enrollment, State support, and the cost of health care, utilities, employee compensation and unfunded State and Federal mandates.

Paramount to the College's continuing success is its continual accreditation by the North Central Association, which awarded Lorain County Community College a ten-year renewal with enthusiasm and without condition in 1999.

The College faces significant cost pressures in the future. These relate to attracting and retaining high quality faculty and staff, increasing costs of medical care and prescription drugs, volatile energy prices, and others.

A critical element to the College's future is its relationship with the State of Ohio. There is a direct relationship between the level of State support and the College's ability to control tuition growth, as declines in State appropriations generally result in increased tuition levels. The State's capital appropriations continue to support construction and renovation of the College's facilities. Economic pressures affecting the State may affect the State's future support of the College.

While it is not possible to predict the ultimate results, management believes that the College's financial condition is strong enough to weather these economic uncertainties since it has strong local financial support.

Kevin L. Penn, Inc.

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Independent Auditor's Report

The Board of Trustees Lorain County Community College
1005 N. Abbe Road
Elyria, Ohio 44035

I have audited the accompanying statement of net assets of Lorain County Community College, as of June 30, 2002 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Lorain County Community College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain County Community College, as of June 30, 2002, and the changes in fund balances and current funds, revenues, expenditures and other changes for the year ended June 30, 2002 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the University adopted the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, as amended by GASB No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and GASB No.38, Certain Financial Statements Note Disclosures, as of July 1, 2001.

The Management's Discussion and Analysis (MD&A) is not a required part of the financial statements but is supplemental information required by the GASB. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards,* I have also issued my report dated November 25, 2002 on my consideration of the Lorain County Community College's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of my audit.

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

Kevin L. Penn, Inc.

November 25, 2002

Lorain County Community College
Statement of Net Assets
June 30, 2002

ASSETS		
Current Assets:		
Cash	$	655,818
Investments		6,653,714
Accounts Receivable, Net		13,430,134
Prepaid Expenses and Deferred Charges		137,551
Inventories, Lower of Cost or Market		683,821
Total Current Assets		21,561,038
Noncurrent Assets:		
Pledges Receivable		989,454
Notes Receivable, Net		198,726
Capital Assets, Net		57,128,181
Total Noncurrent Assets		58,316,361
Total Assets	$	79,877,399
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	1,185,614
Accrued Liabilities		3,113,625
Accrued Interest Payable		31,343
Deferred Revenue		5,578,349
Long-Term Liabilities - Current Portion		1,474,655
Total Current Liabilities		11,383,586
Noncurrent Liabilities:		
Long-Term Liabilities		3,952,162
Total Noncurrent Liabilities		3,952,162
Total Liabilities	$	15,335,748
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	55,932,965
Restricted:		
Expendable		3,882,893
Unrestricted:		
Appropriated		4,324,657
Unappropriated		401,136
Total Net Assets	$	64,541,651

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

Lorain County Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2002

Revenues	
Operating Revenues:	
Student Tuition and Fees, Net	$ 7,358,557
Federal Grants and Contracts	732,943
State Grants and Contracts	1,387,291
Local Grants and Contracts	536,815
Private Grants and Contracts	3,608,421
Sales and Services	766,386
Auxiliary Enterprises	5,149,667
Other Sources	433,944
Total Operating Revenues	19,974,024
Expenses	
Operating Expenses:	
Instruction	16,474,728
Public Service	9,201,184
Academic Support	2,860,284
Student Services	4,266,149
Institutional Support	5,429,440
Operation and Maintenance of Plant	3,499,921
Scholarships and Fellowships	4,198,723
Auxiliary Enterprises	4,726,943
Other	7,986,644
Depreciation	4,595,645
Total Operating Expenses	63,239,661
Operating Loss	(43,265,637)
Nonoperating Revenues (Expenses)	
State Share of Instruction	13,712,651
State Appropriations	3,009,732
Local Appropriations	12,703,528
Federal Grants and Contracts	7,163,031
State Grants and Contracts	1,106,973
Gifts	46,720
Investment Income	219,828
Interest on Debt	(291,691)
Other Nonoperating Revenues (Expenses)	18,055
Net Nonoperating Revenues	37,688,827
Increase (Decrease) in Net Assets	(5,576,810)
Net Assets	
Net Assets at Beginning of Year (See Note 1)	70,118,461
Net Assets at End of Year	$ 64,541,651

The accompanying notes are in integral part of the financial statements.

Lorain County Community College
Statement of Cash Flows
For the Year Ended June 30, 2002

Cash Flows from Operating Activities		
Tuition and Fees	$	7,715,492
Grants and Contracts		14,377,292
Payments to or On Behalf of Employees		(32,280,888)
Payments to Vendors		(23,378,007)
Auxiliary Enterprises Charges		(108,571)
Other Receipts		1,200,330
Net Cash Used by Operating Activities		(32,474,352)
Cash Flows from Noncapital Financing Activities		
State Share of Instruction		13,712,651
State Appropriations		3,009,732
Local Appropriations		11,133,742
Grants and Contracts		8,270,004
Gifts		25,000
Cash Provided by Federal Family Education Loans		2,454,207
Cash Used by Federal Family Education Loans		(2,451,088)
Cash Provided by Agency Fund Activities		87,495
Cash Used by Agency Fund Activities		(69,440)
Net Cash Flows Provided by Noncapital Financing Activities		36,172,303
Cash Flows from Capital Financing Activities		
Capital Appropriations		7,244,335
Purchases of Capital Assets		(3,803,977)
Sales of Capital Assets		12,285
Principal Paid on Capital Debt and Leases		(1,803,245)
Interest Paid on Capital Debt and Leases		(291,691)
Net Cash Used by Capital Financing Activities		1,357,707
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments		11,800,000
Interest on Investments		219,980
Purchase of Investments		(16,500,000)
Net Cash Provided by Investing Activities		(4,480,020)
Net Increase in Cash		575,638
Cash at Beginning of Year		80,180
Cash at End of Year	$	655,818

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

Lorain County Community College
Statement of Cash Flows
For the Year Ended June 30, 2002
(Continued)

Reconciliation of Net Operating Loss to Cash Used by Operating Activities		
Operating Loss	$	(43,265,637)
Adjustments:		
Depreciation Expense		4,595,645
Loss on Disposal of Capital Assets		4,459,233
Changes in Assets and Liabilities:		
Accounts Receivables		(65,406)
Notes Receivables		(1,603)
Inventories		(44,183)
Prepaid Expenses and Deferred Charges		112,065
Accrued Liabilities		125,695
Accounts Payable		111,882
Deferred Revenue (Tuition Income)		1,528,970
Deposits		(31,013)
Cash Used by Operating Activities	$	(32,474,352)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Lorain County Community College (the College) was established by the General Assembly of the State of Ohio in 1961 by statutory act and chartered under Chapter 3354 of the Revised Code of the State of Ohio and is governed by a board of nine trustees. As such, it is a component unit of the State of Ohio. The College is exempt from federal income taxes under Section 115 of the Internal Revenue Code, except for unrelated business income. The College is a primary government with no component units.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

For fiscal year 2001/2002, the College adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38, and applied those standards on a retroactive basis. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**
  Expendable: Net assets whose use by the College is subject to externally-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:**
  Unappropriated: Net assets that are not subject to externally-imposed stipulations
  Appropriated: Net assets subject to internally-imposed stipulations

GASB Statement No. 35 also requires that the statements of net assets, revenues, expenses and changes in net assets, and cash flows be reported on a consolidated basis.

The adoption of GASB Statement No. 35 has among other things reduced beginning net assets (previously referred to as fund balances) by approximately $48 million. As further discussed in Note 13, the beginning balance of net accounts receivable was reduced by $950,000 due to an additional increase in allowance for uncollectibles.

Combined Fund Balances, as previously reported 6/30/01	$ 119,072,973
Accumulated Depreciation	(47,838,869)
Reclassification of Deposits from Agency Funds	29,643
Overstatement of Revenues	(195,286)
Additional Allowance for Uncollectibles	(950,000)
Combined Fund Balances, restated as net assets 6/30/01	$ 70,118,461

Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis. The College reports as a Business Type Activity, as defined by GASB Statement No. 35. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Investments are recorded at fair value, as established by the major securities markets. Investment income is recorded on the accrual basis.

Capital assets are stated at cost or fair value at date of gift. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives (five to forty years) of the respective assets.

Deferred revenue consists primarily of amounts received in advance of an event, such as student fees and advance ticket sales related to future fiscal years.
Student tuition and fees revenues are presented net of scholarships and fellowships applied to student accounts.

Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, food service, information technology, tech park development and training programs.

The College's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net assets are those that result from exchange transactions such as payments received for providing services and payments made for goods or services received. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, including state share of instruction and investment income.

Compensated Absences

Classified employees earn vacation at rates specified under State of Ohio law. Full time administrators and twelve-month faculty earn vacation at a rate of 20 days per year. The maximum amount of vacation that an employee can carry over from one fiscal year to the next is 5 days. The College has accrued, a liability for all accumulated vacation hours, plus an estimate of the amount of sick leave based on a maximum of 30 days that will be paid upon retirement. Salary-related fringe benefits have also been accrued.

Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

At year end, the carrying amount of the College's deposits was $0 and the bank balance was $541,910. On the bank balance:

1. $ 100,000 was covered by federal depository insurance.

2. $ 441,910 was uninsured and collateralized as defined by the Governmental

Accounting Standards Board in that the collateral was pooled rather than held in the College's name.

GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and market value of investments, classified by risk. The College's investments are categorized as either (1) insured or registered or for which the securities are held by the College or its agent in the College's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the College's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the College's name.

The College's investments consist principally of deposits with STAR Ohio and repurchase agreements.

STAR Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Amounts invested with STAR Ohio are not classifiable as to risk category because the College does not own identifiable securities of the pool. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Act of 1940. The cost of the College’s deposits with STAR Ohio was $6,653,714 at June 30, 2002, which approximates fair value.

RISK CATEGORY

	1	2	3	Carrying Amount	Fair Value
Repurchase Agreement	-	-	642,682	642,682	642,682
StarOhio	-	-	-	6,653,714	6,653,714
Total	$ -	$ -	$ 642,682	$ 7,296,396	$ 7,296,396

NOTE 3 – RECEIVABLES

The composition of accounts receivable at June 30, 2002 is summarized as follows:

Student accounts	$ 7,151,617
Local appropriations	3,387,861
Grants	2,375,825
Other	2,567,634
Total accounts receivable	15,482,937
Less allowance for uncollectable accounts	2,052,803
Accounts receivable - net	$ 13,430,134

Pledges receivable applies to contributions receivable as of June 30, 2002 pertaining to the naming of a facility. These receivables are deemed to be fully collectible by management.

NOTE 4 – STATE SUPPORT

The College is a state-assisted institution of higher education, which receives a student-based share of instruction from the State of Ohio. This state share of instruction is determined annually, based upon a formula devised by the Ohio Board of Regents.

In addition, the State of Ohio provides some of the funding to construct major plant facilities on the College's campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn causes the construction and subsequent lease of the facility, by the Ohio Board of Regents. Upon completion, the Board of Regents turns over control of the facility to the College. Neither the obligation for the revenue bonds issued by OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the College's financial statements. These are currently being funded through appropriations to the Board of Regents by the General Assembly.

The facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the State.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2002 is summarized as follows:

	Beginning Balance	Additions	Retirements and Reclassified	Ending Balance
Capital Assets:				
Land	$1,433,979	$0	($14,360)	$1,419,619
Improvements	15,244,309	444,729	2,347,389	18,036,427
Buildings	65,408,172	465,697	479,489	66,353,358
Equipment	25,859,857	987,247	(4,710,169)	22,136,935
Construction in Progress	6,075,611	1,468,568	(5,927,823)	1,616,356
Total Capital Assets	$114,021,958	$3,366,241	($7,825,474)	$109,562,695
Less Accumulated Depreciation:				
Improvements	6,453,796	901,281	0	7,355,077
Buildings	27,899,405	1,701,778	0	29,601,183
Equipment	13,485,668	1,992,586	0	15,478,254
Total Accumulated Depreciation	47,485,668	4,595,645	0	52,434,514
Capital Assets, Net	$66,183,059	($1,229,404)	($7,825,474)	$57,128,181

NOTE 6 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2002 is summarized as follows:

	Beginning Balance	New Debt	Principal Repayment	Ending Balance
Tax Anticipation Notes Payable	$ 5,804,943	$ 0	$ (1,629,943)	$ 4,175,000
Energy Conservation Project	1,399,379	0	(147,562)	1,251,817
Installments Notes Payable	25,740	0	(25,740)	0
Total debt	7,230,062	$ 0	$ (1,803,245)	5,426,817
Less current portion	1,803,245			1,474,655
Total long-term debt	$ 5,426,817			$ 3,952,162

The College has two general debt issues outstanding. The installment notes have various call provisions and interest is paid semi-annually. Interest rates on the notes vary from 4.65% to 4.8%.

NOTE 6 – LONG-TERM DEBT (continued)

Principal and interest payable for the next seven years are as follows:

	Installment Notes Payable		Energy Conservation Project	
	Principal	Interest	Principal	Interest
2003	$ 1,320,000	$ 197,725	$ 154,655	$ 57,649
2004	1,390,000	136,345	162,089	50,215
2005	1,465,000	70,320	169,880	42,424
2006	0	0	178,045	34,259
2007	0	0	186,603	25,701
2008	0	0	195,573	16,732
2009	0	0	204,972	7,331
Total	$ 4,175,000	$ 304,390	$ 1,251,817	$ 234,311

NOTE 7 – GOVERNMENT LOAN ADVANCES

Fund balances related to the National Direct Student Loan and other federal programs principally represent advances which are ultimately refundable to the federal government. The records of the College indicate the last National Direct Student Loan advances were in fiscal year 1975-76, with loans aggregating $444,978 that have been made to 1,041 students since the establishment of the program at the College. On June 30, 2002, approximately 2.5% of student loans receivable in repayment status were in default ranging from 2 1/2 years to over ten years past due.

NOTE 8 –RETIREMENT PLANS

State Teachers Retirement System (STRS)

All employees of the College performing duties that require a certificate issued by the Ohio Department of Education are required to contribute to the State Teachers Retirement System (STRS), a cost-sharing multiple employer public employee retirement system.

STRS is a statewide retirement plan for certified teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution, or other agency wholly controlled, managed, and supported in whole, or in part, by the State or any political subdivision thereof. Any member who has (1) five years of service credit and attained age sixty, (2) twenty-five years of service credit and attained age 55, or (3) thirty years of service credit regardless of age may retire. The maximum annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money purchase benefit" calculation. Under the "formula benefit" the retirement allowance is based on years of credited service and final average salary, which is the average of the members three highest years' salary. The annual allowance is determined by multiplying final average salary. Under the "money purchase benefit" calculation, a members lifetime contributions plus interest at specified rates are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

A member under the age of 60 with five or more years' credited service who becomes disabled is entitled to a disability allowance. Survivor benefits are available to eligible spouses and dependents of active members who die before retirement. A death benefits of $1,000 is payable to the beneficiary of each deceased retired member. Additional death benefit coverage of $1,000 or $2,000 can be purchased.

NOTE 8 –RETIREMENT PLANS (continued)

State Teachers Retirement System (STRS) (continued)

For the year ended June 30, 2002, the contribution requirements were 9.25% for covered employees and 14% for employers. The College's total payroll for the year ended June 30, 2002 was $25,983,688; the payroll for covered employees was $11,637,868. The contribution requirements for the years ended June 30, 2002, 2001 and 2000 were $1,629,301, 1,569,732 and $1,510,515 from the College and $1,125,494,

$1,042,751 and $1,011,084 from employees. The required employer contribution rate (14%) is allocated to basic retirement benefits and health care by the STRS Retirement Board.

The "pension benefits obligation," which is the actuarial present value of credited projected benefits, is a standard disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess STRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. STRS issues a stand-alone financial report. The report may be obtained by writing to STRS, 295 East Broad Street, Columbus, OH 43215-3371 or by calling (614) 227-4090.

The "pension benefits obligation" for STRS as of July 1, 1995 (the latest information available) was $38,710 million. Net assets available for benefits as of that date were $31,542 million, excluding reserves of $1,639 million allocated to fund future health care benefits. STRS does not hold any securities in the form of notes, bonds, or other instruments of or loans to any of the entities contributing to STRS. The employer contribution requirement expressed as a percentage of total current year contribution requirements for all employers is .11% at June 30, 2001.

Historical trend information about progress made in accumulating sufficient assets to pay benefits when due is provided in the State Teachers Retirement Systems' Comprehensive Annual Report for the year ended June 30, 1997.

Public Employees Retirement System of Ohio (PERS)

All employees other than certified employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer public employee defined benefit plan. Benefits are calculated on a basis of age, final average salary, and service credit. Members are eligible for retirement at age 60 with a minimum of 5 years of service credit, or at age 55 with a minimum of 25 years of service credit, or at any age with a minimum of 30 years of service credit. The retirement benefit, payable monthly of life, equals 2.2% of the final average salary for each year of credited service up to 30 years. Employees are entitled to 2.5% of their final average salary for each year of service credit over 30 years. Final average salary is the employee's average salary over the highest 3 years of earnings. Pension benefits fully best on reaching 5 years of service credit. Individuals retiring with less than 30 years of service or at less than age 65 receive reduced retirement benefits. PERS provides additional benefits including disability, survivor, health care coverage, early retirement incentive and special retirement options for law enforcement officers. These additional benefits vest at different lengths of service credit. Benefits are established by state statute.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Covered employees are required by the System's Retirement Board to contribute 8.5% of their salary to the plan. The employer contribution rate was 13.55% for fiscal year 2002, of which 8.44% was used to fund pension obligations, with the balance being applied towards the health care program for retirements. The College's total payroll for covered employees was $12,809,738. The College's 2002 total contribution was $1,735,705.

NOTE 8 –RETIREMENT PLANS (continued)

Public Employees Retirement System of Ohio (PERS) (continued)

The contribution requirement to fund the pension obligation for the year ended June 30, 2002, 2001 and 2000 were $2,169,964, $1,747,126 and $1,898,730 which consisted of $1,081,133, $774,480 and $945,982 from the College and $1,088,831, $972,646 and $952,748 from the employees which met the required percentages. The College's 2002 contribution represented .09% of total contributions required of all participating entities.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of

credited projected benefits, is intended to help users assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. . PERS issues a stand-alone financial report. The report may be obtained by writing PERS, 27 East Town Street, Columbus, OH 43215-4642, or by calling (614) 466-2085. The pension benefit obligation for the System as a whole, determined through the latest actuarial valuation performed as of December 31, 1994 was $23,239.4 million. The System's net assets, valued at net amortized cost, available for benefits on that date were $22,888.8 million leaving an unfunded pension benefit obligation of $796 million.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 1997, Comprehensive Annual Fiscal Report.

NOTE 9 – POST EMPLOYMENT BENEFITS

State Teachers Retirement System (STRS)

The State Teachers Retirement System of Ohio provides postretirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to STRS is set aside for the funding postretirement health care based on authority granted by State statute.

The employer contribution rate was 14% of covered payroll for the year ended June 30, 2002; 2.0% was the portion that was used to fund health care. Benefits are advanced-funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 7.50% for 2002; active employee payroll increases range from 4.5% to 10.5% based on age of employee. Included in these percentages are additional annual pay increases.

Short-term securities consisting of cash equivalents, repurchase agreements, and corporate and government notes are carried at cost with related discounts or premiums amortized using the effective yield method. Equity securities and investments are carried at amortized cost, using the effective yield method of amortization. Common and preferred stock and venture capital investments are valued at cost, subject to adjustment for market declines judged to be other than temporary. All investments are subject to adjustment for market declines judged to be other than temporary.

The Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute.

NOTE 9 – POST EMPLOYMENT BENEFITS (continued)

State Teachers Retirement System (STRS) (continued)

The employer contribution rate was 14.0% of covered payroll for the year ended June 30, 2002. 4.87% was the portion that was used to fund health care. Benefits are advanced-funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 7.75%; active employee payroll increases of 5.50% for inflation and an increase of between zero and 4.00% based on additional annual pay increases. Health care premiums were assumed to increase 5.50% annually.

Short-term securities consisting of commercial paper, U.S. Treasury obligations are carried at cost. Equity securities and investments in real estate are carried at cost. Fixed income investments are carried at amortized cost, using the effective interest rate method of amortization. All investments are subject to adjustment for market decline judged to be other than temporary. For actuarial valuation purposes, assets are adjusted to reflect 20% of unrealized market appreciation or depreciation on investment assets.

Alternative Retirement Plan

The College also offers eligible employees an alternative retirement program. The College is required to contribute to STRS 5.76% of earned compensation for those employees participating in the alternative retirement program. The College's contribution for the year ended June 30, 2002 was $6,662, which equals 5.76% of earned compensation.

NOTE 10 – LITIGATION AND CONTINGENCIES

Grants

The College receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Current Fund or other applicable funds. However, in the opinion of the College administration, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the College at June 30, 2002.

Litigation

During the normal course of its operations, the College has become a defendant in various legal actions. It is not possible to estimate the outcome of these legal actions; however, in the opinion of legal counsel and the College administration, the disposition of these pending cases will not have a material adverse effect on the financial condition or operations of the College.

NOTE 11 - CONTRIBUTION RECEIVABLE

Contribution receivable as of June 30, 2002, represents an unrestricted conditional promises to give, pertaining to the naming of a facility. This is to be received by the College for years subsequent to June 30, 2002, and are deemed to be fully collectible by management.

Receivable in less than one year	$ 200,000
Receivable in one to ten years	789,454
Total contributions receivable	$ 989,454

The conditional promises to give is reflected at the present value of estimated future cash flows using a discount rate of 1.9%.

NOTE 12 - LEASES

The College has entered into various lease agreements, which are considered operating leases. Total rental expense under operating leases during the year ended June 30, 2002 amount to $9,182.

Future minimum lease payments as of June 30, 2002 under all capital and operating leases, are as follows:

Year Ending June 30	Operating Leases
2003	$ 16,974
2004	13,376
2005	3,363
2006	1,392
Total minimum lease payments	$ 35,105

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

Due to adverse economic conditions, the College increased the allowance for uncollectible accounts relating to old student accounts receivable by $950,000. In addition, there was an overstatement of state revenue, in the amount of $195,286.

NOTE 14 - RISK MANAGEMENT

The College maintains property and casualty liability insurance. Settled claims against College liability policies have not exceeded policy limits in any of the past fiscal years.

The College also has self-insured health and dental coverage for its employees. The College's risk exposure is limited to claims incurred.

NOTE 15 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lorain County Community College and is presented on the accrued basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

LORAIN COUNTY COMMUTY COLLEGE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2002

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Program Award Amount	Federal Expenditures
Direct Programs:				
Department of Education:				
Student Financial Aid -				
Pell Grant	84.063			$4,653,290
College Work Study	84.033			59,523
Total Student Financial Assistance				4,712,813
VO-ED Office of Special Needs	84.048	VECPIII-P01-400		125,612
FD International Studies	84.016		$160,000	28,815
FD Improvement of Post Secondary Ed.	84.116		$480,000	69,497
Title III Strengthening Institutions Program	84.031	PO31A50212	$228,822	
Tech Prep Grant	84.243	VETP-2002-17-SA	$160,487	160,487
	84.243	VETP-2002-17-TG	$11,760	11,760
Total Tech Prep Grant				172,247
Total Department of Education				5,108,984
Pass-through Programs:				
Department of Human Services:				
Lorain County Employment and Training Administration	93.558	01-TANF-LCC-001	$69,800	65,594
Total Department of Human Services				65,594

See accompanying notes to financial statements.

LORAIN COUNTY COMMUITY COLLEGE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2002

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Program Award Amount	Federal Expenditures
Department of Housing and Urban Development				
Learning Tech Center	14.246		$99,780	7,934
Total Department of Housing and Urban Development				7,934
Department of Labor				
National Science Foundation – Advance Technological Education Grant	47.076			13,954
Subtotal				13,954
St. Joseph's	17.246	00-A170-VPB8-4123-5PR00	$600,000	381,793
Engineering Development	17.249	00-A187-VND7-4123-5WD50	$927,000	533,716
Great Lakes Incubator for Developing Enterprises	17.249			94,222
				627,938
Workforce Investment Act - Adult Program	17.258			85,584
Workforce Investment Act - Youth Activities	17.259		$33,454	33,464
Raising Lorain's Workforce Capability	17.026			61,266
Lorain County Employment and Training Admin.	17.255	00-WTP-LCC-001	$264,276	245,808
Subtotal				245,808
Total Department of Labor				1,449,807
Total Federal Assistance				$6,632,319

Guaranteed Student Loans - Federal CFDA Number 84.032

During the fiscal year ended June 30, 2002, the College processed and offered $2,447,970 of new loans under the Guaranteed Student Loan program.

See accompanying notes to financial statements.

Kevin L. Penn, Inc.

Certified Public Accountant
13212 Shaker Square, Suite 100
Cleveland, Ohio 44120
(216) 283-1535
Fax: (216) 283-5724

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Trustees Lorain County Community College
1005 N. Abbe Road
Elyria, Ohio 44035

I have audited the financial statements of Lorain County Community College as of and for the year ended June 30, 2002, and have issued my report thereon dated November 25, 2002. I conducted my audit in accordance with generally accepted auditing standards 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.

Compliance
As part of obtaining reasonable assurance about whether Lorain County Community College's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2002-3.

Internal Control Over Financial Reporting
In planning and performing my audit, I considered Lorain County Community College's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Lorain County Community College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-1; 2002-2 and 2002-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider item 2002-3 to be material weaknesses.

This report is intended solely for the information and use of the board of trustees, management the Auditor of the State of Ohio, U.S. Department of Education, and applicable 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.

Kevin L. Penn, Inc.

November 25, 2002

Kevin L. Penn, Inc.

Certified Public Accountant
13212 Shaker Square, Suite 100
Cleveland, Ohio 44120
(216) 283-1535
Fax: (216) 283-5724

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Trustees Lorain County Community College
1005 N. Abbe Road
Elyria, Ohio 44035

Compliance

I have audited the compliance of Lorain County Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Lorain County Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lorain County Community College's management. My responsibility is to express an opinion on Lorain County Community College's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lorain County Community College's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Lorain County Community College's compliance with those requirements.

In my opinion, Lorain County Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2002-3.

Internal Control Over Compliance

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

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect Lorain County Community College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider item 2002-3 to be material weaknesses.

This report is intended solely for the information and use of the board of trustees, management the Auditor of the State of Ohio, U.S. Department of Education, and applicable 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.

Kevin L. Penn, Inc.

November 25, 2002

LORAIN COUNTY COMMUNITY COLLEGE
Schedule of Findings and Questioned Costs
June 30, 2002

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Reportable condition(s) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Reportable condition(s) identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes
Identification of major programs:	
84.063; 84.032; 84.033 & 17.249	Student Financial Aid (Pell Grant; College Work Study & Guaranteed Student Loans and School to Work) Employment Training and Job Training Pilots
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000 (Type A)
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

2002-1

Fixed Asset Inventory

Condition:

There were instances whereby, the schedule of fixed assets prepared by each department, indicated the following:

1) Fixed assets, which were missing from the department, but reflected in the College's total fixed assets at year end. Furthermore, there were several instances during the inspection of fixed asset additions, that the location indicated on the inventory listing did not reflect the proper location of capitalized purchases.

2) Fixed assets, did not have a property tag. However, a tag number was assigned on the summarized fixed assets report, prepared by the College.

Criteria:

Fixed assets purchased by the College, should be tagged and recorded on the inventory ledger. In addition, a physical inventory should be performed at year end.

Effect:

Resulted in system of internal controls being deemed inadequate, due to the lack of proper safeguarding of fixed assets. In addition, could result in an overstatement of fixed assets if property is disposed of, or stolen.

Cause:

Oversight by management.

Recommendation:

In order to improve the system internal controls over fixed assets, I recommend that each fixed asset be tagged, prior to being placed into service. In addition, a physical inventory should be performed at year end, and missing fixed assets should be investigated, in order to determine the proper of the fixed asset. Performing these procedures will reduce the risk of improper safeguarding of fixed assets.

2002-2

Allowance for Uncollectible Receivables

Condition:

The College does not have an approved written policy, which addresses uncollected accounts receivable.

Criteria:

Uncollected accounts receivables should be based on the aging of accounts receivable or the percentage of sales method.

Effect:

Could result in an overstatement of accounts receivable.

Cause:

Oversight by management.

Recommendation:

In order to improve the internal controls, relating to accounts receivable, I recommend that the College, implement a written policy, regarding the aging of accounts receivable. By implementing this policy, the risk of overstating accounts receivable, will be significantly reduced.

2002-3

Section III - Federal Award Findings and Questioned Costs

U.S. DOL Engineering Development Center - Eligibility (CFDA # 17.249)

Condition:

Sufficient supporting documentation was not always available in order to determine if an individual, was eligible to participate in the Hardmark Grant training program, for the following categories:

1) Whether a "Dislocated Worker", have been terminated or laid off, or had received a notice of termination or layoff, from the employer.

2) Whether an "Incumbent Worker", was actually 18 years and older, and their job skills required enhancement or upgrading in order to remain competitive in the work force.

3) Whether a "New Entrant", was actually 18 years an older, and had never worked at a full-time job lasting two weeks or longer and was currently unemployed.

4) Whether an "Unemployed Adult", was actually 18 years and older, and previously worked at a full-time job lasting two weeks or longer, and was currently unemployed.

2002-3

Section III - Federal Award Findings and Questioned Costs

U.S. DOL Engineering Development Center - Eligibility (CFDA # 17.249) (continued)

Criteria:

In order to be eligible to participate in the Hardmark Grant, the following procedures are to be performed:

1) In order to participate as a "Dislocated Worker" the following criteria applies:

   - Has been terminated or laid off, or who has received a notice of termination or layoff, from employment.
   - Is eligible for or has exhausted entitlement to unemployment compensation.
   - Has been employed for a duration sufficient to demonstrate, to the appropriate entity at a one-stop center but is not eligible for unemployment compensation due to insufficient earnings or having performed services for an employer that were not covered under a State unemployment compensation law.
   - Is unlikely to return to a previous industry or occupation.

2) In order to participate as an "Incumbent Worker", the following criteria applies:

   - Currently employed worker 18 years and older, whose job skills require enhancement or upgrading in order that their respective firm can remain competitive, maintain or increase employment, avert layoffs, and/or increase wages.

3) In order to participate as a "New Entrant", the following criteria applies:

   - A person who is 18 years and older who have never worked at a full-time job lasting two weeks or longer, are currently unemployed, and are available for work.

4) In order to participate as an "Unemployed Adult", the following criteria applies:

   - A person 18 years and older who previously worked at a full-time job lasting two weeks or longer, are currently unemployed, and are available for work.

Effect:

Unable to verify whether all of the individuals whom participated in the training programs were eligible. As a result, there is potential questioned cost, pertaining to the total expenditures incurred, for the various training programs.

Cause:

Misunderstanding by Outreach Team.

2002-3

U.S. DOL Engineering Development Center - Eligibility (CFDA # 17.249)

Recommendation:

I recommend that prior to an individual receiving services, the following documentation should be obtained and maintained in the participant's file:

For a Dislocated Worker, the following should be obtained:

1) Documentation, indicating the date of termination or layoff.

For an Incumbent Worker, the following should be obtained:

1) A driver's license or birth certificate, in order to verify that the individual is 18 years or older.

For a New Entrant individual, the following should be obtained:

1) A driver's license or birth certificate, in order to verify that the individual is 18 years or older.

2) Documentation, verifying that the individual, never worked a full-time job lasting two weeks or longer (i.e., statement from former employer).

For an Unemployed Adult, the following should be obtained:

1) A driver's license or birth certificate, in order to verify that the individual is 18 years or older.

2) Documentation, verifying that the individual was employed at a full-time job lasting two weeks or longer (i.e., statement from former employer).

In addition, to the above recommendations, I recommend that the participant's signature be obtained on the initial application document. By performing these procedures, the risk of providing assistance to ineligible individuals and incurring potential questioned costs will be significantly reduced.

2001-1

Fixed Assets Inspection

Condition:

It was noted, during the inspection of fixed asset additions, the inventory listing did not reflect the proper location of capitalized purchases.

Recommendation:

I recommend that the inventory listing be updated (assign one individual to account for fixed assets in each office), in order to properly take a physical inventory at year end and therefore, reduce the risk of overstating capitalized purchases.

Current Status:

The finding has not been corrected, and will be repeated in the 2002 audit.

2001-2

Fixed Asset Inventory

Condition:

There were instances whereby, the schedule of tagged items, did not provide a fixed asset tag number for each item purchased, from the prior year.

Recommendation:

I recommend that each fixed asset be tagged, prior to being placed into service. In addition, each fixed asset should be recorded in the inventory ledger and reconciled, on an annual basis. Performing these procedure, will reduce the risk of improper safeguarding of fixed assets.

Current Status:

The finding has not been corrected, and will be repeated in the 2002 audit.

2001-3

Donated Art Work

Condition:

Donated art work, was not based on a measurement, indicating fair value.

Recommendation:

I recommend that an appraisal of the art work, be obtained in order to properly value the assets.

Current Status:

The finding has been corrected, and does not warrant further action.

2001-4

U.S. DOL Engineering Development Center - Financial Status Report (CFDA # 17.249)

Condition:

The Financial Status Report, reflected "federal share of net outlays", which was overstated by $23,100 as a result of including equipment purchased prior to the grant being approved.

Recommendation:

I recommend that the Financial Status Report, reflect only allowable costs. In addition, the College should request approval from the funding source, prior to requesting federal funds, relating to transactions, which occurred before the federal grant was received. By performing this procedure, the risk of submitting inaccurate financial information and the potential of incurring questioned costs will be significantly reduced.

Current Status:

The finding has been corrected, and does not warrant further action.

Lorain County Community College

CORRECTIVE ACTION PLAN

June 30, 2002

Oversight Agency for Audit: Department of Education

Lorain County Community College, respectfully submits the following corrective action plan for the year ended June 30, 2002.

Name and address of independent public accounting firm: Kevin L. Penn. Inc. 13212 Shaker Square. Suite 100. Cleveland. Ohio 44120.

Audit Period: June 30, 2002.

The findings from the June 30, 2002 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

2002-1

Fixed Asset Inventory

Recommendation:

In order to improve the system internal controls over fixed assets, I recommend that each fixed asset be tagged, prior to being placed into service. In addition, a physical inventory should be performed at year end, and missing fixed assets should be investigated, in order to determine the proper of the fixed asset. Performing these procedures will reduce the risk of improper safeguarding of fixed assets.

Auditee's Response:

1) Year 200 1-02 was the fIrst year that the Purchasing Department issued, to each unit administrator, a detailed listing of capital equipment in his or her area. The purpose of this listing was twofold: to aid the inventory process, and to assist the unit administrator with their budgeting and long term equipment planning. Items that were indicated as 'missing' are to be electronically cross-referenced, with items 'penciled in ' by other departments as the first location. A physical search is to follow if the electronic cross check was unsuccessful. Unforeseen demands on the inventory staff individual and electronic system failures, made the follow up for 'missing' items difficult to achieve. It is not the intent of the Purchasing Department to have the listing sent to the unit administrator in order to replace a physical inventory by the purchasing inventory staff person, but that the physical inventory performed by the purchasing inventory staff person be an ongoing and continuous task. It is not feasible for one person to cover the entire campus in a short time frame in order to achieve a 'snap shot' of inventory. The listings sent to unit administrators should provide the 'snap shot' and alert to 'missing' and migratory equipment.

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2002-1

Fixed Asset Inventory

Auditee's Response: (continued)

Location of fixed assets on the listings capture a ‘snap shot’ of inventory. The nature of some equipment, along with the nature of our institution, is that changes are constant. As we learn of moves and changes, the inventory records are updated. We are working more closely with the Physical Plant Department, Facilities Planning Department, and Information Systems and Services Department to be informed of changes so that we can monitor the changes and update the inventory location in our records.

2) Most products are assigned a property tag by the Receiving Department Warehouse Associate as they are received. Some assets, such as modular furniture, data network equipment, and original art, are installed by outside contractors, or donated, and are not received by the Warehouse Associate. The inventory staff person in Purchasing has been assigning tags when the order is deemed complete by the receiving department. Tags have been physically attached when the configuration information is received from the Physical Plant. Facilities Planning Department or Information System and Services Departments. Tags have purposefully not been affixed to original art so as not to risk defacing or devaluing the item. The college has a photographic record of each tagged piece of art, and a roster of the locations with an attached value.

2002-2

Allowance for Uncollectible Receivables

Recommendation:

In order to improve the internal controls, relating to accounts receivable, I recommend that the College, implement a written policy, regarding the aging of accounts receivable. By implementing this policy, the risk of overstating accounts receivable, will be significantly reduced.

Auditee's Response:

We concur with the recommendation of improving internal controls on accounts receivable. After reviewing and updating our current procedures we will implement a written policy regarding allowance for uncollectible accounts.

A collection policy will be instituted and communicated campus wide to faculty and staff, as well as to students, and other debtors.

2002-3

U.S. DOL Engineering Development Center - Eligibility

Recommendation:

I recommend that prior to an individual receiving services, the following documentation should be obtained and maintained in the participant’s file:

2002-3

U.S. DOL Engineering Development Center - Eligibility

Recommendation: (continued)

For a Dislocated Worker, the following should be obtained:

1) Documentation, indicating the date of termination or layoff.

For an Incumbent Worker, the following should be obtained:

1) A driver's license or birth certificate, in order to verify that the individual is 18 years or older.

For a New Entrant individual, the following should be obtained:

1) A driver's license or birth certificate, in order to verify that the individual is 18 years or older.

2) Documentation, verifying that the individual, never worked a full-time job lasting two weeks or longer (i.e., statement from former employer).

For an Unemployed Adult, the following should be obtained:

1) A driver's license or birth certificate, in order to verify that the individual is 18 years or older.

2) Documentation, verifying that the individual was employed at a full-time job lasting two weeks or longer (i.e., statement from former employer).

In addition, to the above recommendations, I recommend that the participant's signature be obtained on the initial application document. By performing these procedures, the risk of providing assistance to ineligible individuals and incurring potential questioned costs will be significantly reduced.

Auditee's Response:

Over the past year, over 3,000 individuals have been laid off in Lorain County. The Outreach Team has been very involved, in partnership with the local One-Stop, in addressing the needs of this population.

Recognizing the concerns noted in the Auditor's Report, we propose the following activities to address the findings and to ensure that future participant records are more complete.

RE: Dislocated Workers

The Outreach Performance Team took the position that if an individual indicated that they were laid off from a company that had notified the One-Stop and OBES that they were beginning a lay-off process, and if they completed the intake form indicating that they were terminated, then it could be considered sufficient documentation to be served as a dislocated worker. Some participants presented ITA's and that was copied and put in the participant's file.

As a result of the auditor's recommendation, we have begin to acquire the lists from the Ohio Department of Job and Family Services, Bureau of Employment Services, listing the individuals who are eligible for unemployment benefits as a result of being terminated. This verification addresses the Dislocated Worker criteria. Those individuals not appearing on these lists are being contacted and asked to send documentation that supports their assertion that they are/were a dislocated worker, i.e. copy of a layoff notice from the employer.

2002-3

U.S. DOL Engineering Development Center - Eligibility

Auditee's Response: (continued)

RE: Incumbent Worker
The completion of the intake form indicating that they were currently employed and seeking training for job enhancement or upgrading was accepted as sufficient for participants of this status. Verification of age criteria is being sought from college admission and financial aid records. Individuals who do not have this information in their files are being contacted and asked to send a copy of an age verification document to the college (birth certificate, drivers license, etc.)

RE: New Entrant
The completion of the intake form indicating that they were new entrants to the workforce was considered to be sufficient to meet this criteria. Additional information is being sought from the individuals to support this. Verification of age criteria is being sought from college admission and financial aid records. Individuals who do not have this information in their files are being contacted and asked to send a copy of an age verification document to the college (birth certificate, drivers license, etc.)

RE: Unemployed Adult
The completion of the intake form indicating that they were unemployed was considered to be sufficient to meet these criteria. Information is being requested from ODJFS as further support. Verification of age criteria is being sought from college admission and financial aid records. . Individuals who do not have this information in their files are being contacted and asked to send a copy of an age verification document to the college (birth certificate, drivers license, etc.)

RE: Current & Future Participants
The intake form for participants has been revised to include not only the required information, but to also request copies of supporting documentation. All forms now require the participant's signature and verification as part of the intake process.

If there any questions regarding this plan, please call Georgio S. Efpraxias, CPA, CGFM, Controller at (440) 365-5222, Ext. 7590.

Sincerely yours,

Lee W. Kias

Lee W. Kias, Interim Vice President Administrative Services
Lorain County Community College

Auditor of State
Betty Montgomery

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LORAIN COUNTY COMMUNITY COLLEGE

SHELBY 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
FEBRUARY 13, 2003