Lorain County Community College
Single Audit
July 1, 2005 through June 30, 2006
Fiscal Year Audited Under GAGAS: 2006

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Lorain County Community College, Lorain County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 16, 2007

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LORAIN COUNTY COMMUNITY COLLEGE

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying financial statements of the business-type activities of Lorain County Community College (the College), as of and for the year ended June 30, 2006, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Lorain County Community College Foundation which is the only discretely presented component unit of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the discretely presented component unit is based on the report of other auditors.

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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the College, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2006 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of federal awards expenditures 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 basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

As described in Note 2 to the basic financial statements, the College implemented Governmental Accounting Standards Board (GASB) Statement Number 46, *Net Assets Resticted by Enabling Legislation (An Amendment of GASB Statement No. 34)* and GASB Statement Number 47, *Accounting for Termination Benefits.*

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
November 10, 2006

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Lorain County Community College (the College) for the year ended June 30, 2006. 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). In 2002, the College adopted GASB Statement No. 35, *Basic Financial Statements- and Management's Discussion and Analysis- for Public Colleges and Universities.* 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 financial condition, the changes in financial condition, and the cash flows of the College as whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. Many other non-financial factors also must be considered in assessing the overall health of the College, such as enrollment trends, student retention, strength of the faculty, condition of the buildings, and the safety of the campus.

The financial statements prescribed by GASB Statement No. 35 (the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

Under the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* the Lorain County Community College Foundation, Inc. (the Foundation) is treated as a component unit of the College's basic financial statements. The Foundation is excluded from Management's Discussion and Analysis.

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, 2006 and 2005 is as follows:

	2006	2005
Current assets	$ 60,215,941	$ 49,255,367
Noncurrent assets:		
Capital assets, net	52,189,995	48,657,082
Other	458,346	631,437
Total assets	$112,864,282	$ 98,543,886

Current liabilities	13,900,818	11,778,353
Noncurrent liabilities	8,544,377	8,793,366
Total liabilities	$ 22,445,195	$ 20,571,719
Net assets	$ 90,419,087	$ 77,972,167

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 4.3 indicates that current assets are more than adequate to cover current liabilities as they become due.

Lorain County Community College's financial position, as a whole, improved during the fiscal year ending June 30, 2006. Net Assets increased by $12,446,920 or 16.0% over the previous year. Net capital assets increased by $3,532,913 (about 7.3%) due to the continued construction of a new building. Current Assets increased by $10,960,574 or 22.3% due to the increase in levy proceeds and a reduction in capital expenditures, and increases in plant fund revenues. Noncurrent Liabilities decreased $248,989 or 2.8% due mainly to the current principal retirement of debt.

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 $7.8 million in 2006. Capital additions included construction, 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 and bonds payable totaled $7.5 million at June 30, 2006. Of this debt, $7.16 million were issued two years ago 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, 2006, the College's viability ratio was 5.2:1. For more information regarding the College's capital assets and long term debt, see Notes 6 and 7 to the basic financial statements, respectively.

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, 2006 and 2005 are summarized as follows:

	2006	2005
Invested in capital assets, net of related debt	$ 46,500,585	$ 47,391,108
Restricted – expendable	5,372,334	4,088,676
Unrestricted	38,546,168	26,492,383
Total net assets	$ 90,419,087	$ 77,972,167

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.

Invested in capital assets, net of related debt, decreased by $890,523 (about 1.9%) due to net capital and principal retirement of debt, and normal depreciation of assets. Restricted Net Assets increased by $1,283,658 or 31.4% due to an increase in revenues for grant funded activities; and Unrestricted Net Assets increased by $12,053,785 or 45.5%. This increase is attributed to an increase in local appropriations, an increase in enrollment, a reduction in major capital project expenses, and an increase in government supported capital grants.

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 nonoperating. 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 nonoperating 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, 2006 and 2005 are as follows:

Revenues	**FY2006**	**FY2005**
Operating Revenues:		
Student Tuition and Fees, Net	$ 13,551,388	$ 12,380,322
Federal Grants and Contracts	1,861,415	1,211,095
State Grants and Contracts	5,823,850	5,025,158
Local Grants and Contracts	413,520	503,300
Private Grants and Contracts	4,286,106	4,094,537
Sales and Services	1,118,865	1,044,454
Auxiliary Enterprises	6,128,797	6,093,152
Other Sources	811,492	301,988
Total Operating Revenues	33,995,433	30,654,006
Expenses		
Operating Expenses:		
Instruction	24,294,734	22,322,226
Public Service	13,450,391	12,481,902
Academic Support	3,767,635	3,475,623
Student Services	5,111,235	4,987,456
Institutional Support	8,218,795	6,831,889
Operation and Maintenance of Plant	4,559,431	4,121,284
Scholarships and Fellowships	4,815,802	4,643,826
Auxiliary Enterprises	5,495,984	5,472,413
Other	16,696	905,719
Depreciation	3,499,905	3,474,731
Total Operating Expenses	73,230,608	68,717,069
Operating Loss	(39,235,175)	(38,063,063)
Nonoperating Revenues (Expenses)		
State Share of Instruction	17,801,558	17,438,298
State Appropriations	3,991,307	4,332,267
Local Appropriations	18,325,527	15,934,675
Federal Grants and Contracts	7,613,562	7,721,677
State Grants and Contracts	2,338,800	1,029,760
Gifts	52,358	255,615
Investment Income	1,880,663	746,812
Interest on Debt	(266,893)	(347,921)
Loss on Disposal of Assets	(48,829)	(22,596)
Other Nonoperating Revenues (Expenses)	(5,958)	21,479
Net Nonoperating Revenues	51,682,095	47,110,066
Increase (Decrease) in Net Assets	12,446,920	9,047,003
Net Assets		
Net Assets at Beginning of Year	77,972,167	68,925,164
Net Assets at End of Year	$ 90,419,087	$ 77,972,167

The most significant sources of operating revenues for the College are student tuition and fees ($13.6 million), grants and contracts ($12.4) million, and auxiliary enterprises to be consistent with the financial statements ($6.1 million).

Operating expenses include the costs of instruction, public service, general administration, utilities, libraries, and auxiliary services. Operating expenses also include depreciation of $3.5 million.

Sources of nonoperating revenue include State share of instruction ($17.8 million), local appropriations ($18.3 million), federal grants and contracts ($7.6 million), and state appropriations of ($4.0 million).

Changes in operating revenues were the result of the following factors:

- The Board of Trustees approved a 4% increase in tuition effective for Summer Semester 2005.
- For the Academic Year 2005-2006, the College experienced an enrollment increase of 1.2%.

Changes in operating expenses were the result of the following factors:

- The institution experienced an increase in faculty overload and part-time salaries related to increased enrollment.
- Increases in enrollment resulted in significant increases in PELL grant expenses.

Changes in nonoperating revenues (expenses) were the result of the following factors:

- Federal Grants for PELL increased significantly related to increases in enrollment.
- State appropriations decreased by 7.9% over last year.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital 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, 2006 and 2005 is as follows:

Net cash provided (used) by:	2006	2005
Operating activities	$ (35,612,987)	$ (34,144,380)
Noncapital financing activities	50,064,796	40,869,646
Capital financing activities	(7,612,151)	1,353,187
Investing activities	1,880,663	746,812
Net increase in cash	$ 8,720,321	$ 8,825,265
Cash at beginning of year	34,289,083	25,463,818
Cash at end of year	$ 43,009,404	$ 34,289,083

Major sources of cash included state share of instruction ($17.8 million), state appropriations ($4.0 million), local appropriations ($18.3 million), student tuition and fees ($13.4 million), and grants and contracts ($12.3 million). The largest payments were for employees ($41.6 million) and suppliers of goods and services ($21.3 million).

Operating Highlights

For Fiscal Year 2006 the College support from the State of Ohio increased by 2%. This amount includes the State Share of Instruction (SSI) as well as Access Challenge line items. Over the past six years, the College has experienced six state budget reductions totaling nearly $3 million. Additionally, state support has been reduced by 17% per full-time equivalent (FTE) student over the past five years. Since the SSI and Access Challenge line items account for approximately one third of the total unrestricted general fund revenues, reductions in funding have a substantial impact on the overall operations of the College. In order to address the State budget cuts over the past several years, the College implemented cost containment measures to offset the reduction in funding.

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, dealing with increasing medical care and prescription drug costs, volatile energy prices, and other issues. In November 2004 the Lorain County voters replaced and increased its University Partnership Levy from 1.2 mills to 1.5 mills. The College continues its commitment to quality education, to confront new challenges, and to meet the needs of its constituents.

Another 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 impacting 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 any economic uncertainties since it has strong local financial support.

Contacting the College's Financial Management

This financial report is designed to provide the Ohio Board of Regents, our citizens, taxpayers, creditors, and other interested parties with a general overview of the College's financial position and to show the College's accountability for the money it received. This report is proof of our commitment to quality education, our ability to confront challenges, and our dedication to meeting the needs of our customers. If you have any questions about this report or need additional financial information, please contact the following:

Name	Title	Address	Phone
David J. Cummins	VP for Administrative Services & Treasurer	1005 N. Abbe Road Elyria, OH 44035	440-366-4051
Georgio S. Efpraxias	Controller	1005 N. Abbe Road Elyria, OH 44035	440-366-7590

Lorain County Community College
Statement of Net Assets
June 30, 2006

	Primary Institution	Component Unit
	Lorain County Community College	Lorain County Community College Foundation
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 43,009,404	$ 158,314
Investments	-	16,614,736
Accounts Receivable, Net	8,327,558	14,567
Unbilled Charges	7,902,446	-
Unconditional Promises to Give	-	417,000
Prepaid Expenses and Deferred Charges	169,768	10,550
Inventories, Lower of Cost or Market	806,765	-
Total Current Assets	60,215,941	17,215,167
Noncurrent Assets:		
Pledges Receivable	300,000	-
Unconditional Promises to Give	-	589,761
Notes Receivable, Net	158,346	-
Capital Assets, Net	52,189,995	12,445
Total Noncurrent Assets	52,648,341	602,206
Total Assets	$ 112,864,282	$ 17,817,373
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 2,010,228	$ 92,623
Accrued Liabilities	3,500,115	53,544
Accrued Interest Payable	26,426	-
Deferred Revenue	7,902,446	-
Long-Term Liabilities - Current Portion	461,603	-
Total Current Liabilities	13,900,818	146,167
Noncurrent Liabilities:		
Accrued Liabilities	1,533,831	-
Long-Term Debt	7,010,546	282,914
Total Noncurrent Liabilities	8,544,377	282,914
Total Liabilities	22,445,195	429,081
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	46,500,585	12,445
Restricted:		
Nonexpendable	-	15,015,992
Expendable	5,372,334	1,616,448
Unrestricted:		
Unappropriated	38,546,168	743,407
Total Net Assets	$ 90,419,087	$ 17,388,292

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 Year Ended June 30, 2006

	Primary Institution	Component Unit
	Lorain County Community College	Lorain County Community College Foundation
Revenues		
Operating Revenues:		
Student Tuition and Fees, Net	$ 13,551,388	$ -
Federal Grants and Contracts	1,861,415	-
State Grants and Contracts	5,823,850	-
Local Grants and Contracts	413,520	-
Private Grants and Contracts	4,286,106	-
Contributions and Fundraising	-	664,522
Sales and Services	1,118,865	-
Auxiliary Enterprises	6,128,797	-
Other Sources	811,492	300,000
Total Operating Revenues	33,995,433	964,522
Expenses		
Operating Expenses:		
Instruction	24,294,734	-
Public Service	13,450,391	-
Academic Support	3,767,635	-
Student Services	5,111,235	-
Institutional Support	8,218,795	582,993
Operation and Maintenance of Plant	4,559,431	-
Scholarships and Fellowships	4,815,802	620,632
Auxiliary Enterprises	5,495,984	-
Other	16,696	147,401
Depreciation	3,499,905	6,030
Total Operating Expenses	73,230,608	1,357,056
Operating Loss	(39,235,175)	(392,534)
Nonoperating Revenues (Expenses)		
State Share of Instruction	17,801,558	-
State Appropriations	3,991,307	-
Local Appropriations	18,325,527	-
Federal Grants and Contracts	7,613,562	-
State Grants and Contracts	2,338,800	-
Gifts	52,358	-
Investment Income	1,880,663	1,027,797
Interest on Debt	(266,893)	-
Loss on Disposal of Assets	(48,829)	-
Other Nonoperating Revenues (Expenses)	(5,958)	-
Net Nonoperating Revenues	51,682,095	1,027,797
Increase (Decrease) in Net Assets	12,446,920	635,263
Net Assets		
Net Assets at Beginning of Year	77,972,167	16,753,029
Net Assets at End of Year	$ 90,419,087	$ 17,388,292

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, 2006

	Primary Institution Lorain County Community College
Cash Flows from Operating Activities	
Tuition and Fees	$ 13,403,484
Grants and Contracts	12,267,442
Payments to or On Behalf of Employees	(41,571,216)
Payments to Vendors	(21,270,766)
Auxiliary Enterprises	632,813
Other Receipts	925,256
Net Cash Used by Operating Activities	(35,612,987)
Cash Flows from Noncapital Financing Activities	
State Share of Instruction	17,801,558
State Appropriations	3,991,306
Local Appropriations	18,325,528
Grants and Contracts	9,952,362
Cash Provided by Federal Family Education Loans	7,267,461
Cash Used by Federal Family Education Loans	(7,267,461)
Cash Provided by Agency Fund Activities	121,159
Cash Used by Agency Fund Activities	(127,117)
Net Cash Flows Provided by Noncapital Financing Activities	50,064,796
Cash Flows from Capital Financing Activities	
Purchases of Capital Assets	(6,892,213)
Principal Paid on Capital Debt and Leases	(453,045)
Interest Paid on Capital Debt and Leases	(266,893)
Net Cash Used by Capital Financing Activities	(7,612,151)
Cash Flows from Investing Activities	
Interest on Investments	1,880,663
Net Cash Provided by Investing Activities	1,880,663
Net Increase in Cash	8,720,321
Cash at Beginning of Year	34,289,083
Cash at End of Year	$ 43,009,404

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, 2006
(Continued)

		Primary Institution Lorain County Community College
Reconciliation of Net Operating Loss to Cash Used by Operating Activities		
Operating Loss	$	(39,235,175)
Adjustments:		
Depreciation Expense		3,499,905
Changes in Assets and Liabilities:		
Accounts Receivables		(1,304,091)
Unbilled Charges		(773,091)
Notes Receivables		33,637
Inventories		(183,335)
Prepaid Expenses and Deferred Charges		20,265
Accrued Liabilities		614,436
Accounts Payable		941,371
Deferred Revenue (Tuition Income)		773,091
Cash Used by Operating Activities	$	(35,612,987)

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 joint venture 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.

Lorain County Community College Foundation (Foundation) is a legally separate, tax-exempt organization supporting Lorain County Community College. The Foundation was established to foster excellence in teaching and learning by encouraging philanthropic support for students, faculty, programs and facilities of the College. Because the majority of the distribution of the resources held by the Foundation are received by the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements. See Note 17 for specific disclosures relating to the Foundation.

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).

The College applies GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. 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:**
  Nonexpendable: Net assets which include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

- **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

The Statement of Net Assets reports $5,372,334 of restricted net assets which is restricted by enabling legislation.

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.

Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis of accounting. The College reports as a Business Type Activity, as defined by GASB Statement No. 35. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

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. The College's capital asset threshold is $5,000. 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

The College follows GASB Statement No.16 when recording its compensated absences liability. 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 – CHANGES IN ACCOUNTING PRINCIPLES

During fiscal year 2006 the College implemented Governmental Accounting Standards (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 46 establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. It amends GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for Sate and Local Governments,* paragraph 34. The objective of GASB Statement No. 46 is to enhance the usefulness and comparability of net asset information reported by state and local governments by clarifying the meaning of the phrase *legally enforceable* as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and financial reporting requirements for those restricted net assets. Implementation of GASB 46 did not have an effect on the financial statements of the College but did require the College to disclose the amount of the primary institution's net assets at the end of the reporting period that are restricted by enabling legislation. GASB Statement No. 47 establishes standards of accounting and financial reporting for certain termination benefits. Implementation of GASB Statement No. 47 had no effect on the financial statements of the College.

NOTE 3 – CASH AND INVESTMENTS

Legal Requirements

Statutes require the classification of moneys held by the College into three categories. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the College Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the College's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer, by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Regulations permit interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligations or securities issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies of instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the College, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, it the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the College had $9,990 in undeposited cash on hand, which is included on the Statement of Net Assets of the College as part of cash and cash equivalents.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*.

Cash and Investments

In accordance with Statement No. 3 of the Government Accounting Standards Board, cash deposits are categorized to given an indication of the level of risk assumed by the College. The categories are as follows:

Category 1 - Insured or collateralized with securities held by the College or by its agent in the College's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the College's name.

Category 3 - Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the College's name.)

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

The carrying amount of the College's deposits is $35,335,416 and the bank balance is $35,325,426. The difference between cash carrying amount and bank balance represents normal reconciling items (outstanding checks, cash on hand, and deposits in transit). At June 30, 2006, $600,000 of the College's deposits was insured by FDIC (Category 1); the remaining bank balances were category 3.

Statement No. 3 of the Government Accounting Standards Board requires government entities to categorize investments to give an indication of the level of risk assumed by the entity at year-end. These categories are as follows:

Category 1 - Investments that are insured or registered, or for which securities are held by the College or its agent in the name of the College.

Category 2 - Investments that are uninsured and unregistered, with securities held by the broker's trust department or agent in the College's name.

Category 3 - Investments that are uninsured and unregistered, with the securities held by the broker or dealer, or by its trust department or agent, but not in the College's name.

The College held $6,966,450 in Star Ohio investments at June 30, 2006, which is an external investment pool and is considered a cash equivalent under GASB Statement No. 9. Oversight of the pool is through the Treasurer of State. The fair value of the College's position in the pool is the same as the value of its pool share. Such investments are not required to be categorized in accordance with Governmental Accounting Standards Board Statement No. 3. All other investments are Category 3. The following summarizes the market value of investments:

Primary Government - College

Description	Market Value	Investment Maturities Less than 1 year
June 30, 2006:		
Star Ohio	$6,966,450	$ 6,966,450
Repurchase Agreement	707,538	707,538
Total Investments	$7,673,988	$ 7,673,988

Interest Rate Risk- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The College has a formal investment policy that authorizes it to make investments of available monies in securities authorized by State law.

Credit Risk- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The College limits its investments to those authorized by State law.

At June 30, 2006, the College's investments in StarOhio were rated AAAm by Standard & Poor's.

Concentration of Credit Risk- Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. More than 5 percent of the College's investments are invested in Star Ohio and a repurchase agreement. These investments were 90.7% and 9.3%, respectively of the College's total investments of $7,673,988.

The College's investment policy places no limit on the amount the College may invest in any one issuer.

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk- For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At June 30, 2006, $34,725,426 of the College's bank balances were exposed to custodial risk as follows:

	June 30, 2006
Uninsured and collateral held by the Pledging bank's trust department, but not In the College's name	$ 34,725,426

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2006, $707,538 of the College's investment balance was exposed to custodial risk as follows:

	June 30, 2006
Uninsured and collateral held by the Pledging bank's trust department, but not In the College's name	$ 707,538

NOTE 4 – RECEIVABLES

The composition of accounts receivable at June 30, 2006 is summarized as follows:

	2006
Student accounts	$ 5,196,830
Local appropriations	3,795,888
Grants	1,297,420
Other	1,821,638
Total accounts receivable	12,111,776
Less allowance for uncollectable accounts	(3,784,218)
Accounts receivable – net	$ 8,327,558

Pledges receivable applies to contributions receivable as of June 30, 2006 pertaining to the naming of a facility. These receivables are deemed to be fully collectible by management.

NOTE 5 – 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 6 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 is summarized as follows:

	Beginning Balance	Additions	Retirements and Reclassified	Ending Balance
Non-Depreciable Capital Assets:				
Land	$ 1,414,863	$ 15,000	$ 0	$ 1,429,863
Construction in Progress	1,169,866	4,876,481	(669,087)	5,377,260
Total Non-Depreciable Capital Assets	2,584,729	4,891,481	(669,087)	6,807,123
Depreciable Capital Assets:				
Improvements	18,740,595	209,736	0	18,950,331
Buildings	68,994,615	1,456,646	(13,622)	70,437,639
Equipment	11,445,527	1,192,871	(596,745)	12,041,653
Total Depreciable Capital Assets	99,180,737	2,859,253	(610,367)	101,429,623
Less Accumulated Depreciation:				
Improvements	(10,106,037)	(947,517)	0	(11,053,554)
Buildings	(34,869,599)	(1,789,766)	213	(36,659,152)
Equipment	(8,132,748)	(762,622)	561,325	(8,334,045)
Total Accumulated Depreciation	(53,108,384)	(3,499,905)	561,538	(56,046,751)
Depreciable Capital Assets, Net	46,072,353	(640,652)	(48,829)	45,382,872
Total Capital Assets, Net	$ 48,657,082	$ 4,250,829	$ (717,916)	$ 52,189,995

NOTE 7 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2006 is summarized as follows:

	Beginning Balance	New Debt	Principal Repayment	Ending Balance	Current Portion
Energy Conservation Project	$ 765,194	$ 0	$ (178,045)	$ 587,149	$ 186,603
Bond Issue	7,160,000	0	(275,000)	6,885,000	275,000
Total debt	$ 7,925,194	$ 0	$ (453,045)	$ 7,472,149	$ 461,603

The College has two general debt issues outstanding. The general receipt bonds were issued to finance the building of the Business Growth and Development Center. The bonds were issued in March of 2005 with an interest rate of 3.99%, and they will be repaid over a period of 20 years. The College also has energy conservation project notes outstanding related to the H..B. 7 Energy Conservation project. These notes were issued in fiscal year 1999, have an interest rate of 4.75% and mature in fiscal year 2009.

Principal and interest payments for the next twenty years are as follows:

	General Obligation Bonds		Energy Conservation Notes Payable	
Year Ended June 30:	Principal	Interest	Principal	Interest
2007	$ 275,000	$ 230,680	$ 186,603	$ 25,701
2008	285,000	225,579	195,573	16,732
2009	290,000	220,328	204,973	7,331
2010	295,000	213,740	0	0
2011	300,000	206,115	0	0
2012-16	1,645,000	885,487	0	0
2017-21	1,950,000	571,462	0	0
2022-25	1,845,000	157,144	0	0
Total	$ 6,885,000	$ 2,710,535	$ 587,149	$ 49,764

NOTE 8 – 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, 2006 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 9 –RETIREMENT PLANS

State Teachers Retirement System (STRS)
The College contributes to the State Teachers Retirement System Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614)227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

Plan members are required to contribute 10 percent of their annual covered salary and the College in required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The College's total payroll for the year ended June 30, 2006 was $33,101,656; the payroll for covered employees was $16,510,095. The required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were $2,342,684, $2,168,100, and $2,009,187, from the College and $1,658,204, $1,548,651, and $1,439,975 respectively from employees.

Ohio Public Employees Retirement System (OPERS)
All employees other than certified employees participate in the Ohio Public Employees Retirement System. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans . The Traditional Pension Plan (TP) is a cost-sharing multiple-employer defined benefit pension plan. The Member-Directed Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The Combined Plan (CO) is a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan. OPERS provides retirement and disability, survivor and death benefits and annual cost of living adjustments to the Traditional Plan and Combined Plans. Members of the Member-Director Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

OPERS issues a stand alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

NOTE 9 –RETIREMENT PLANS (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exists only within the Traditional Pension Plan. The 2005 member contribution rates were 8.5% for members in state and local classifications. The employer contribution rate was 13.55% from July 1, 2005 to December 31, 2005 and 13.70% after January 1, 2006, 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 $15,414,458.

The contribution requirement to fund the pension obligation for the year ended June 30, 2006, 2005 and 2004 were $2,100,086, $1,972,230 and $1,875,923 from the College and $1,348,298, $1,237,206 and $1,176,810 from the employees which met the required percentages. The College's Fiscal Year 2006 contribution represented .09% of total contributions required of all participating entities.

Alternative Retirement Plan

The College also offers eligible employees an alternative retirement program. The College is required to contribute to STRS 3.5% of earned compensation for those employees participating in the alternative retirement program. The College's contribution for the year ended June 30, 2006 was $4,612, which equals 3.5% of earned compensation.

NOTE 10 – POST-EMPLOYMENT BENEFITS

The College provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the Ohio Public Employees Retirement System (OPERS).

State Teachers Retirement System (STRS)

STRS Ohio provides access to health care benefits for retirees who participate in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Ohio Revised Code, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of monthly premiums. The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to benefits recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefits recipients.

Public Employees Retirement System (OPERS)

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an other postemployment benefit (OPEB) as described in the GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers.* A portion of each employer's contribution to OPERS is set aside for funding post retirement health care. The ORC provides statutory authority for employer contributions. The 2005 employer contribution rate for state employers was 13.55% of covered payroll; 4.0% was the portion that was used to fund health care for the year. The ORC provides statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

NOTE 11 – 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 College. However, in the opinion of the College administration, any such disallowed claims will not have a material effect on the College's financial statements or on the overall financial position of the College at June 30, 2006.

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 12 - CONTRIBUTION RECEIVABLE

Contribution receivable as of June 30, 2006, 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, 2006, and are deemed to be fully collectible by management.

Receivable in one to ten years	$ 300,000
Total contributions receivable	$ 300,000

NOTE 13 - 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, 2006 amount to $110,606.

Future minimum lease payments as of June 30, 2006 under all operating leases, are as follows:

Year Ending June 30	Operating Leases
2007	$ 143,234
2008	110,388
2009	116,591
Total minimum lease payments	$ 370,213

NOTE 14 - RISK MANAGEMENT

The College maintains property and casualty liability insurance. The College has not incurred significant reductions in insurance coverage from coverage in the prior year. 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 and stop-loss insurance is held. Medical Mutual of Ohio administers claims for the College. The claims liability of $779,519 at June 30, 2006 is recorded as part of accrued liabilities in the Statement of Net Assets and is based on the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in claims activity for the past three fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2004	$482,780	$2,593,141	$2,465,275	$610,646
2005	610,646	3,334,815	3,165,942	779,519
2006	779,519	2,973,312	2,973,312	779,519

NOTE 15 – LOCAL APPROPRIATIONS

The College receives local appropriations in the form of property taxes levied against real, pubic utility, and tangible (used in business) personal property located in Lorain County, Ohio. The electors within the county must approve any College property tax. The College collects property taxes for operating, capital and University Partnership purposes from two levies approved by the County voters. Each levy has 1.5 mil stated rate and is for a ten year period. The first 1.5 mil levy was approved in November of 2001 and expires with the last collection in calendar year 2011. The second 1.5 mil levy was approved by the Lorain County voters in November of 2004 and expires with the last collection in calendar year 2014.

NOTE 16 – EARLY RETIREMENT INCENTIVE

The College implemented Governmental Accounting Standard Board Statement Number 47, *Accounting for Termination Benefits.* Accordingly, $1,792,000 of termination benefits were reported as of June 30, 2006. During the current fiscal year, $235,710 was expensed and $258,807 is a current liability recorded as part of accrued liabilities for future retirements that the College has recognized will occur between July 1, 2006 and June 30, 2007. The College Board of Trustees approved a one time Early Retirement Incentive program (ERI) in 1997. In spring of 1999, the College Board of Trustees approved a second (ERI) that would be available to all employees who had accrued 20 or more years of service at the College and qualify for and retire under either the STRS or OPERS, with specified credit and age criteria. The second ERI program is effective for the period beginning May 31, 1999 through June 30, 2009. Individuals who qualify and elect the ERI have the option of establishing a ten year annuity incentive program or taking a lump sum payment of one-half of the total annuity value that would have accumulated in the ten-year annuity option. The undiscounted future benefit payments are based on the employees annual salary at the time of retirement.

NOTE 17 – COMPONENT UNIT DISCLOSURES – LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities
Lorain County Community College Foundation, Inc. (Foundation) is a legally separate, tax-exempt organization supporting Lorain County Community College. The Foundation was established to foster excellence in teaching and learning by encouraging philanthropic support for students, faculty, programs and facilities of the College. Because the majority of the distribution of the resources held by the Foundation are received by the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

Basis of Accounting
The financial statements of the Foundation have been prepared utilizing the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Furthermore, the accounting policies adhered to by the Foundation are generally consistent with the *Audit and Accounting Guide for Not-For-Profit Organizations* issued by the American Institute of Certified Public Accountants.

Basis of Presentation
Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

With the exceptions of the necessary presentation adjustments to conform to the College's GASB reporting format, no modifications have been made to the Foundation's financial information in the College's report.

Cash and Cash Equivalents
The Foundation classifies its checking and money market accounts as cash. Any cash or cash equivalents maintained in any professional managed account is classified as investments, due to the overall non-current investment strategy of their investment philosophy.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Equipment
Equipment is recorded at historical cost or fair market value in case of donation. Depreciation is recorded on the straight-line method over the useful lives of the respective assets, which is generally five years. The Foundation capitalizes all long-lived assets that cost more than $500 and have a useful life in excess of one year. Depreciation expense for the year ended June 30, 2006, was $6,038. Accumulated depreciation at June 30, 2006 was $71,902.

Donated Services
Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Unrestricted Net Assets
Net assets not subject to donor-imposed stipulations. This category periodically includes net assets designated by the Board. At June 30, 2006 there were no board designated net assets.

Temporarily Restricted Net Assets
Net assets subject to donor imposed stipulations that may or will be met by actions of the Board/Organization and/or the passage of time

NOTE 17 – COMPONENT UNIT DISCLOSURES – LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC. (Continued)

Permanently Restricted Net Assets
Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Administration Fee
The Foundation allocates a 0.9% administration fee on temporarily and permanently restricted net assets, excluding unconditional promises to give, to provide for indirect program, management and general, and fundraising expenses. The total amount charged to net assets related to this fee was $191,429 for the year ended June 30, 2006.

Functional Allocation of Expenses
The cost of providing various programs and supporting services have been summarized on a functional basis in the statement of revenues, expenses, and changes in net assets. Accordingly, certain costs have been allocated among programs and supporting services benefited.

NOTE B -TAXES

The Foundation is exempt from income taxes under Section 501 (c)(3) as a Non-Governmental, Non Profit entity of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

NOTE C - CHARITABLE REMAINDER UNITRUSTS

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

The Foundation has a charitable gift annuity agreement with a donor. The Foundation was named as trustee and beneficiary. At June 30, 2006 the related asset is included in investments in the accompanying financial statements.

NOTE D - INVESTMENTS

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

	June 30, 2006	
	Cost	Fair Value
Common equity securities	$ 928,138	$ 1,695,965
Mutual equity funds	8,784,250	11,098,613
Mutual bond funds	3,778,947	3,513,594
Cash and cash equivalents	306,564	306,564
	$13,410,938	$ 16,614,736

Investment income for the year ended June 30, 2006 consisted of the following:

	2006
Interest and dividends	$ 376,383
Net gains (losses)	711,832
Management fees	(60,418)
Total investment income (loss)	$1,027,797

NOTE 17 – COMPONENT UNIT DISCLOSURES – LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC. (Continued)

NOTE E - PROMISES TO GIVE

Unconditional promises to give at June 30, 2006 are as follows:

	2006
Receivable in less than one year	$ 417,000
Receivable in one to five years	627,750
Total unconditional promises to give	1,044,750
Less discounts to present value	(37,989)
Net unconditional promises to give	$ 1,006,761

The discount rate used on long-term promises to give was 4.00% at June 30, 2006.

NOTE F - ENGINEERING BUILDING SUPPORT PAYABLE

The Foundation has committed to funding support for the College's engineering building. The following payments due under this commitment for the year ended June 30, 2006 are as follows:

	2006
Payable in one to five years	$ 300,000
Total committed support payable	300,000
Less discounts to present value	(17,086)
Net engineering building support payable	$ 282,914

The discount rate used on long-term support payable was 4.00% at June 30, 2006.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

Net assets as of June 30, 2006 were temporarily restricted for the following purposes:

	2006
Support of the College's faculty, programs, facilities and Foundation's operation	$ 462,147
Scholarships	1,154,301
Total temporarily restricted net assets	$ 1,616,448

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes for the year ended June 30, 2006:

	2006
Support of the College faculty, programs, facilities and Foundation's operation	$ 117,620
Scholarships	550,261
Total restrictions released	$ 667,881

NOTE H - PERMANENTLY RESTRICTED NET ASSETS

Net assets as of June 30, 2006 were permanently restricted for the following purposes:

	2006
Support of the College's faculty, programs, and facilities	$ 2,483,677
Scholarships	9,944,523
Operations and general support	2,587,792
Total permanently restricted net assets	$ 15,015,992

NOTE 17 – COMPONENT UNIT DISCLOSURES – LORAIN COUNTY COMMUNITY COLLEGE FOUNDATION, INC. (Continued)

Permanently restricted net asset investment income available for expenditure is limited to 4.5% of the trailing three year average of the permanently restricted net asset balance, with any excess invest income added to permanently restricted net assets. The Foundation's intent is that the spending policy and the administrative fee will result in long-term preservation of permanently restricted net asset corpus.

NOTE I – CONCENTRATIONS

The Foundation may, from time to time, maintain cash balances that exceed federal depository limits. At June 30, 2006, one donor's promise to give represented approximately 58% of the unconditional promises to give balance.

NOTE J -RELATED PARTY

As described in Note A, the Foundation is affiliated with the College. During the year ended June 30, 2006, the College provided the Foundation with professional services valued at $146,460. The value of those services are included as contributions in the financial statement and expensed on a functional basis based on the type of service.

During the year ended June 30, 2006, the Foundation provided scholarships and support to the College of $961,790.

At June 30, 2006, amounts due to the College totaled $349,103.

Lorain County Community College
Lorain County, Ohio
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	Agency or Pass Through Entity Number	Federal CFDA Number	Disbursements
United States Department of Education			
Direct from the Federal Agency			
Student Financial Aid Cluster:			
Federal Work Study Program	P033A	84.033	$125,441
Federal Pell Grant Program	P063P	84.063	7,449,277
Total Student Financial Aid Cluster			7,574,718
Fund for the Improvement of Postsecondary Education	P116Z	84.116Z	372,600
Passed through the League for Innovation in the Community College			
Vocational Education_National Centers for Career and Technical Education	V051B	84.051B	82,159
Passed through the Ohio Department of Education			
Vocational Education: Basic Grants to States	20C3	84.048	129,729
Tech Prep Education	3ETC	84.243	166,528
Subtotal			296,257
Total United States Department of Education			8,325,734
United States Department of Housing and Urban Development			
Passed through the Ohio Department of Development			
Community Development Block Grants/Brownfields Economic Development Initiative	B-01-SP-OH-0496	14.246	18,457
Total United States Department of Housing and Urban Development			18,457
United States Department of Labor			
Workforce Investment Act Cluster			
Passed through Lorain County			
WIA Youth Activities	N	17.259	125,800
Direct from the Federal Government			
WIA Dislocated Workers	N/A	17.260	756,938
Total Workforce Investment Act Cluster			882,738
Total United States Department of Labor			882,738
National Science Foundation			
Direct from the Federal Agency			
Education and Human Resources	N/A	47.076	87,000
Total National Science Foundation			87,000
Total Federal Financial Assistance			$9,313,929

NA - Direct from the federal government
N - Pass through entity numbers could not be located by the College

See accompanying notes to the schedule of federal awards expenditures

LORAIN COUNTY COMMUNITY COLLEGE

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES

June 30, 2006

NOTE 1 – BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis. Amounts presented are total federal expenditures for each program.

NOTE 2 – FAMILY EDUCATION LOANS

While not listed in the accompanying schedule, the College also participates in the Federal Family Education Loan Program, CFDA No. 84.032. The dollar amounts are not listed in the Schedule of Expenditures of Federal Awards, as the College is not the recipient of the funds. Such programs are considered as a component of the student financial assistance major program. New loans made to eligible students and families during the year ended June 30, 2006, totaled $7,266,135.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Lorain County Community College (the College) and its discretely presented component unit as of and for the year ended June 30, 2006, and have issued our report thereon dated November 10, 2006, in which we indicated the College adopted GASB Statement Nos. 46 and 47. We did not audit the financial statements of the Lorain County Community College Foundation which is included as a discretely presented component unit in the College's basic financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for the Lorain County Community College Foundation, is based on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
November 10, 2006

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Lorain County Community College (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Lorain County Community College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States 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 we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, Lorain County Community College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
November 10, 2006

LORAIN COUNTY COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Aid Cluster: Federal Work- Study Program CFDA# 84.033; PELL Grant Program CFDA# 84.063; Federal Family Education Loan Program CFDA #84.032 and Workforce Investment Act Cluster: WIA Youth Activities CFDA# 17.259; WIA Dislocated Workers CFDA# 17.260
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $497,401 Type B: all others
(d)(1)(ix)	Low Risk Auditee ?	Yes

LORAIN COUNTY COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

FOR THE YEAR ENDED JUNE 30, 2006

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2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

Mary Taylor, CPA
Auditor of State

LORAIN COUNTY COMMUNITY COLLEGE

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 30, 2007

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