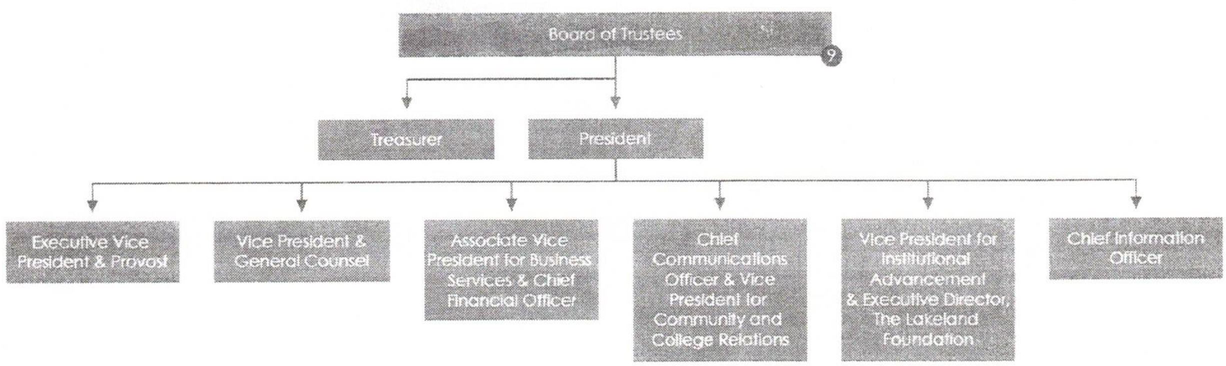
Lakeland Community College

Lakeland Community College (LKCC or the College) was established in 1965 through a popular vote in Lake County. The graphic below shows the College's organizational structure. Pursuant to ORC 3354.05, the College is governed by a Board of Trustees (The Board). Three of the trustees are appointed by the Governor with the advice and consent of the senate, and the remaining six trustees are appointed by the Lake County Commissioners. The Board appoints a president who is responsible for the day-to-day administration of LKCC. The Board also appoints a treasurer that is responsible for the College's financial management. Additionally, as the graphic below illustrates, the College's organizational chart includes five vice presidents (VPs) and the Chief Information Officer (CIO), each of which assists the president in day-to-day administration. It should be noted that the individual who holds the treasurer position answers to the Board in his role as treasurer and to the president in his role as Associate Vice President for Business Services and Chief Financial Officer.[2]



Source: Lakeland Community College

While the organization of the College has been long established, there are several key members of the College's leadership team who are either new to their roles or expected to transition during 2024. The current Treasurer officially took over his position in July of 2023, the current president is expected to retire in the summer of 2024, and the Board of Trustees has welcomed six new members since the beginning of 2022. The new members of the Board and Administration may provide an opportune time for the College to review its current state and consider options for the future.

[2] While we did not find this to be an uncommon practice, the Treasurer role was designed to be a co-equal role to the President, providing advice and guidance to the Board on the fiscal health of the institution. Merging these two roles and having the Treasurer also report to the President may have an impact on how these interactions occur.

SB 6 Score

In addition to meeting the needs of students and the community, Community Colleges and other Ohio public institutions of higher education are subject to oversight from the Ohio Department of Higher Education (ODHE). In 1997, Senate Bill 6 (SB 6) of the 122nd General Assembly was enacted into law and created ORC 3345.72 to ORC 3345.78. These laws require ODHE to monitor the fiscal health of all public institutions of higher education using specific standards and methods as well establish rules for fiscal watch and determination of a warranted conservator for institutions of higher education placed in fiscal watch. To meet the legislative intent of SB 6, ODHE computes three ratios that are then used to generate four scores, one of which is a composite score based on a scale of 0 to 5, with 5 being the highest score. If an institution has a composite score at or below 1.75 for two consecutive years, it may be placed in fiscal watch by ODHE. The composite score is known as the SB 6 Score. The three ratios used by ODHE are Viability, Primary Reserve, and Net Income. These ratios are given a score and weighted to determine the Composite, or SB 6, Score for an institution.

Viability Ratio assesses how strategically the institution's financial resources, including debt, are managed to advance the institution's mission. Specifically, it examines the availability of expendable net assets to cover its debt should those debts need to be settled by dividing expendable net assets by plant-related debt.

Primary Reserve Ratio measures the financial strength of the institution by comparing expendable net assets to total expenses. It provides a financial snapshot of the institution's reserves and an indication of how long the institution could operate using its expendable reserves.

Net Income Ratio reveals whether the institution is living within its available resources by comparing revenues to expenditures. This score relates to the other scores in that a large surplus or a large deficit directly impacts the amount of an institution's available funds.

There is a weight applied to the ratios to determine the **Composite Score**. Typically, weights are applied as follows: 30 percent to Viability Ratio, 50 percent to Primary Reserve Ratio, and 20 percent to Net Income Ratio.[10] It is important to note that expendable net assets, which is largely the fund balance of an institution, is effectively 80 percent of the composite score, due to it being the numerator for both the viability and primary reserve ratio. The highest possible composite score an institution can earn is 5.00 and a composite score of, or below, 1.75 for two consecutive years would result in an institution being placed in fiscal watch.[11]

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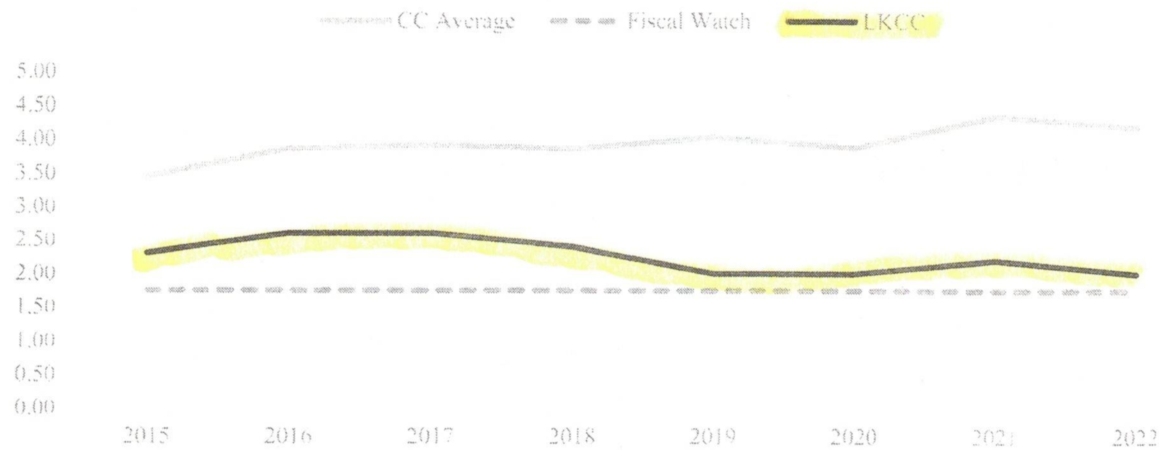
[10] The Viability Ratio only is applied if the plant debt is greater than $50,000. When the Viability Ratio is not applicable, 80 percent of the score is applied to the Primary Reserve Score and 20 percent to the Net Income Score.
[11] Per OAC 126:3-1-01, once declared under fiscal watch, the board of trustees shall adopt a financial recovery plan to end fiscal watch within three years. The Auditor of State shall provide a written report outlining the nature of

The chart below shows the SB 6 score for LKCC between FY 2015 and FY 2022. As shown, LKCC continues to run significantly closer to the SB 6 fiscal watch line than the average community college in Ohio. LKCC has previously expressed a preference for maintaining lower reserves in order to have more money to invest directly in student-facing services and activities.

Historical SB 6 Composite Score



Source: ODHE

Despite a stated preference for focusing on investments in services and activities that directly impact students, maintaining low reserve balances can be risky. Because the College operates on small margins, if unexpected expenses arise, or if revenues decline sharply, there are less resources to deal with unforeseen circumstances when they arise. Operating with larger margins ultimately gives a college more time and flexibility to manage financial difficulties.

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financial accounting and reporting problems. The college will establish a process of monthly reviews of finances and approve monthly levels of expenditures.