

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2005



**Auditor of State
Betty Montgomery**

Board of Trustees
James A. Rhodes State College
4240 Campus Drive
Lima, Ohio 45804

We have reviewed the Independent Auditor's Report of the James A. Rhodes State College, Allen County, prepared by E. S. Evans and Company, for the audit period July 1, 2004 to June 30, 2005. 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 James A. Rhodes State College is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 24, 2006

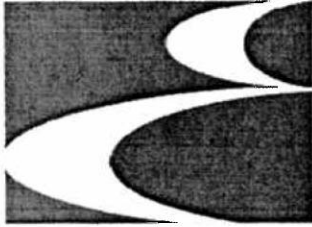
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JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

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E.S. Evans and Company

Certified Public Accountants and Consultants

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Robert E. Wendel, CPA • Dan F. Clifford, CPA • E.S. Evans, CPA, PFS (1930-1999)

November 30, 2005

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
James A. Rhodes State College
Allen County, Ohio

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of James A. Rhodes State College, Allen County, Ohio (the College), as of and for the year ended June 30, 2005, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, 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 James A. Rhodes State College, as of June 30, 2005, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 of the notes to the financial statements, James A. Rhodes State College has implemented for the year ended June 30, 2005, Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2005, 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 opinions 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

E. H. Green and Company

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

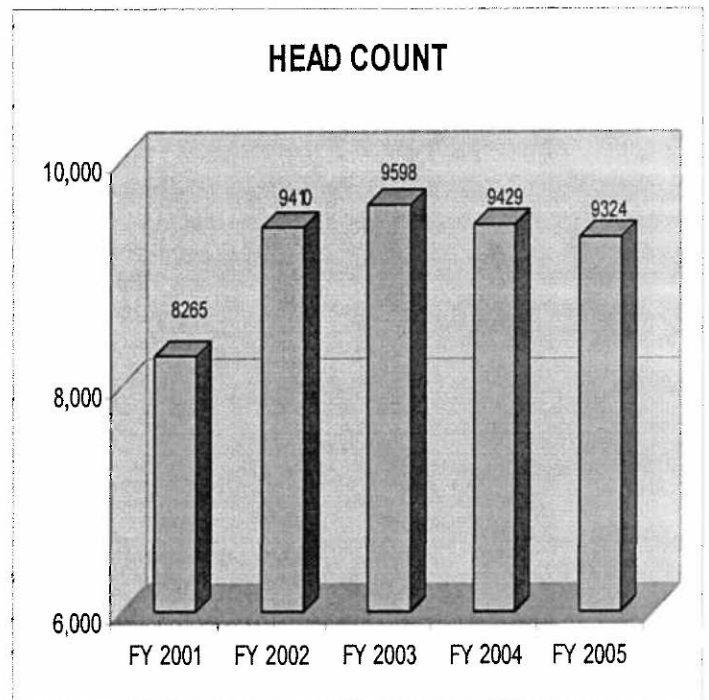
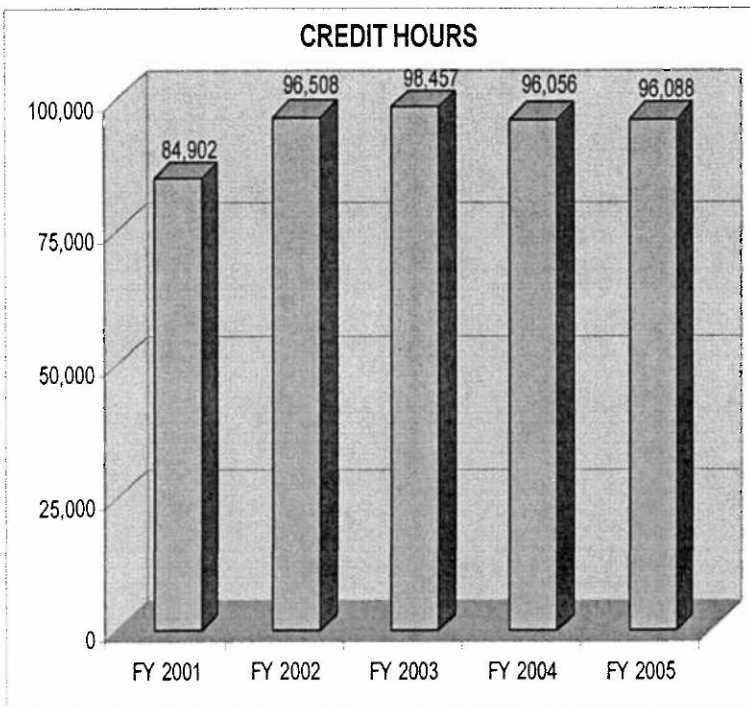
This section of James A. Rhodes State College annual financial report presents management's discussion and analysis of the College's financial performance during the fiscal years that ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

THE COLLEGE

James A. Rhodes State College is a public, two-year institution of higher learning. The College offers over 90 Associate degrees, majors and certificates programs. In addition to degrees and certificates, the College provides educational opportunities through workshops, seminars and on-site training for area businesses. The College serves a ten-county region in Northwest Ohio. James A Rhodes State College is accredited by the North Central Association of Colleges and Schools. The college is one of seven (7) co-located campuses in Ohio, and maintains a cost-shared agreement with The Ohio State University at Lima, regional campus.

The College has focused on continuous improvements and institutional effectiveness. The strategic and institutional effectiveness planning system has developed six (6) priorities. The strategic priorities include: 1) create dynamic learning environments, 2) maximize collaborations, 3) maximize access, 4) stabilize resources, 5) recruit and retain a qualified and diverse workforce, and 6) develop a "Portal to the Future" image.

Listed below are the credit hours and student headcount over the last five years.



JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

FINANCIAL HIGHLIGHTS

The College's financial statements reported net assets of \$31.8 million at June 30, 2005. The net assets increased \$1 million or 3.6% from the previous year. The increase in net assets was primarily due to the capital appropriations for the Information Technology Building.

Unrestricted net assets increased by \$698,608. This is the result of the College's ability to effectively monitor and manage its financial resources. Operating revenues increased by \$560,530 or 4.6%, net non-operating revenues increased \$543,023 or 7.3% while operating expenses increased by \$814,974 or 4.0%.

Student tuition revenue increased by \$682,257 as a result of the 8.58% increase in tuition rates while enrollments were flat. There was a decrease of \$553,282 in non-credit training to local businesses due to the elimination of a contract and the downturn in the economy. Of the increase in tuition rates, \$4.70 per credit hour is funding investments in technology for students and increasing scholarships for low income students.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements. The financial statements presented prior to fiscal year 2003 focused on the accountability of fund groups while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

One of the most important questions asked about the College's finances is whether the College is better off as a result of the year's activities? The key to answering this question is to look at the financial statements of the College.

The Statement of Net Assets includes all assets and liabilities. It is 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.

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. The Governmental Accounting Standards Board Statement No. 35 requires state appropriations to be classified as non-operating revenues. Therefore, as a result of this classification, the College will show an operating deficit prior to the addition of net non-operating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they become due. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and non-capital financing and investing activities.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

CONDENSED FINANCIAL INFORMATION

STATEMENTS OF NET ASSETS
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
Current Assets	\$ 9,789	\$ 11,065	\$ (1,276)	-11.53%
Noncurrent, Capital Assets, net	28,262	26,072	2,190	8.40%
Total Assets	<u>38,051</u>	<u>37,137</u>	<u>914</u>	<u>2.46%</u>
LIABILITIES				
Current Liabilities	2,443	2,620	(177)	-6.76%
Noncurrent Liabilities	3,749	3,754	(5)	-0.13%
Total Liabilities	<u>6,192</u>	<u>6,374</u>	<u>(182)</u>	<u>-2.86%</u>
NET ASSETS				
Invested in capital assets, net				
Of related debt	25,621	25,200	421	1.67%
Restricted, Expendable	9	33	(24)	-72.73%
Restricted, Nonexpendable	-	-	-	0.00%
Unrestricted	6,229	5,530	699	12.64%
Total Net Assets	<u>31,859</u>	<u>30,763</u>	<u>1,096</u>	<u>3.56%</u>
Total Liabilities and Net Assets	<u>\$ 38,051</u>	<u>\$ 37,137</u>	<u>\$ 914</u>	<u>2.46%</u>

Assets - As of June 30, 2005, the College's total assets equaled \$38.1 million. The Noncurrent capital assets, net are the college's largest asset, totaling \$28.3 million or 74.3 % of total assets. Noncurrent capital assets, net increased 8.4% over previous year due mainly to the completion of the Information Technology Building that opened Winter Quarter and the related equipment and fixtures. Cash and cash equivalents are the second largest asset category with \$7.2 million or 18.8% of the total assets. Cash and cash equivalents showed a decrease of \$1.1 million as funds were used to pay for the Information Technology Building.

Liabilities - As of June 30, 2005, the College's liabilities totaled approximately \$6.2 million. Bonds Payable, net represented the largest portion of liabilities with \$3.0 million or 49.2% of total liabilities. The general receipts bonds are payable over thirty years with final payment due in 2033.

Net Assets- Net Assets as of June 30, 2005 totaled approximately \$31.8 million. Net assets invested in capital assets, net of related debt totaled \$25.6 million, or 80.4% of total net assets.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

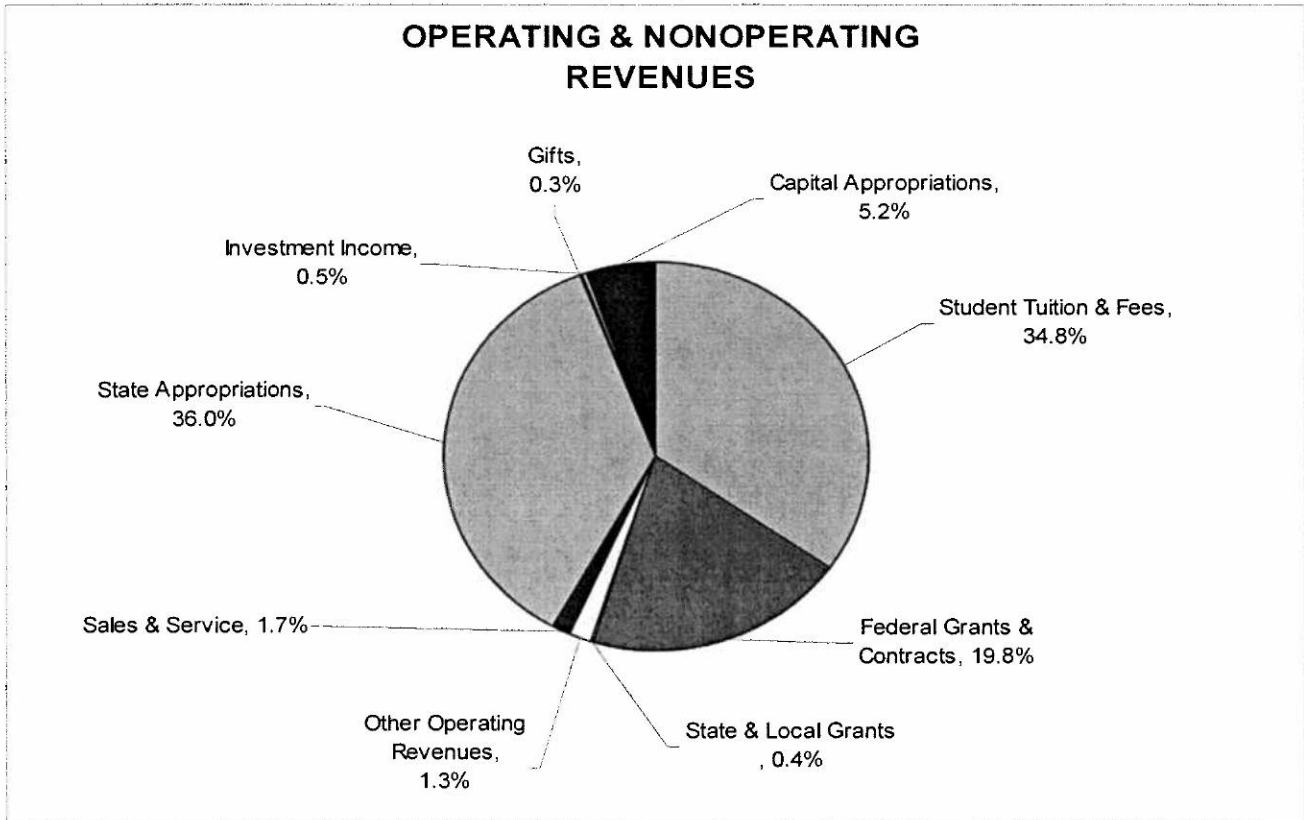
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
OPERATING REVENUES				
Student tuition and fees, net	\$ 7,705	\$ 7,760	(55)	-0.71%
Federal grants and contracts	4,390	3,723	667	17.92%
State grants and contracts	81	136	(55)	-40.44%
Non-Governmental grants and contracts	-	3	(3)	-100.00%
Sales and services	387	378	9	2.38%
Other Operating Revenues	289	292	(3)	-1.03%
Total Operating Revenues	<u>12,852</u>	<u>12,292</u>	<u>560</u>	<u>4.56%</u>
OPERATING EXPENSES				
Educational and General	19,992	19,152	840	4.39%
Depreciation	951	977	(26)	-2.66%
Total Operating Expenses	<u>20,943</u>	<u>20,129</u>	<u>814</u>	<u>4.04%</u>
Operating Income (Loss)	<u>(8,091)</u>	<u>(7,837)</u>	<u>(254)</u>	<u>3.24%</u>
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	7,958	7,329	629	8.58%
Gifts	57	165	(108)	-65.45%
Investment Income	103	42	61	145.24%
Interest on Capital Asset-Related Debt	(86)	-	(86)	-100.00%
Other Non-Operating Revenues (Expenses)	-	(47)	47	-100.00%
Net Non-Operating Revenues (Expenses)	<u>8,032</u>	<u>7,489</u>	<u>543</u>	<u>7.25%</u>
Income before other rev, exp, gains or losses	<u>(59)</u>	<u>(348)</u>	<u>289</u>	<u>-83.05%</u>
Capital Appropriations	<u>1,155</u>	<u>3,383</u>	<u>(2,228)</u>	<u>-65.86%</u>
Total other rev, exp, gains or losses	<u>1,155</u>	<u>3,383</u>	<u>(2,228)</u>	<u>-65.86%</u>
Decrease in Net Assets	1,096	3,035	(1,939)	-63.89%
Net assets beginning of year	<u>30,763</u>	<u>27,728</u>	<u>3,035</u>	<u>10.95%</u>
Net assets end of year	\$ <u><u>31,859</u></u>	\$ <u><u>30,763</u></u>	\$ <u><u>1,096</u></u>	<u><u>3.56%</u></u>

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

The following is a graphic illustration of revenues by source for the year ended June 30, 2005:



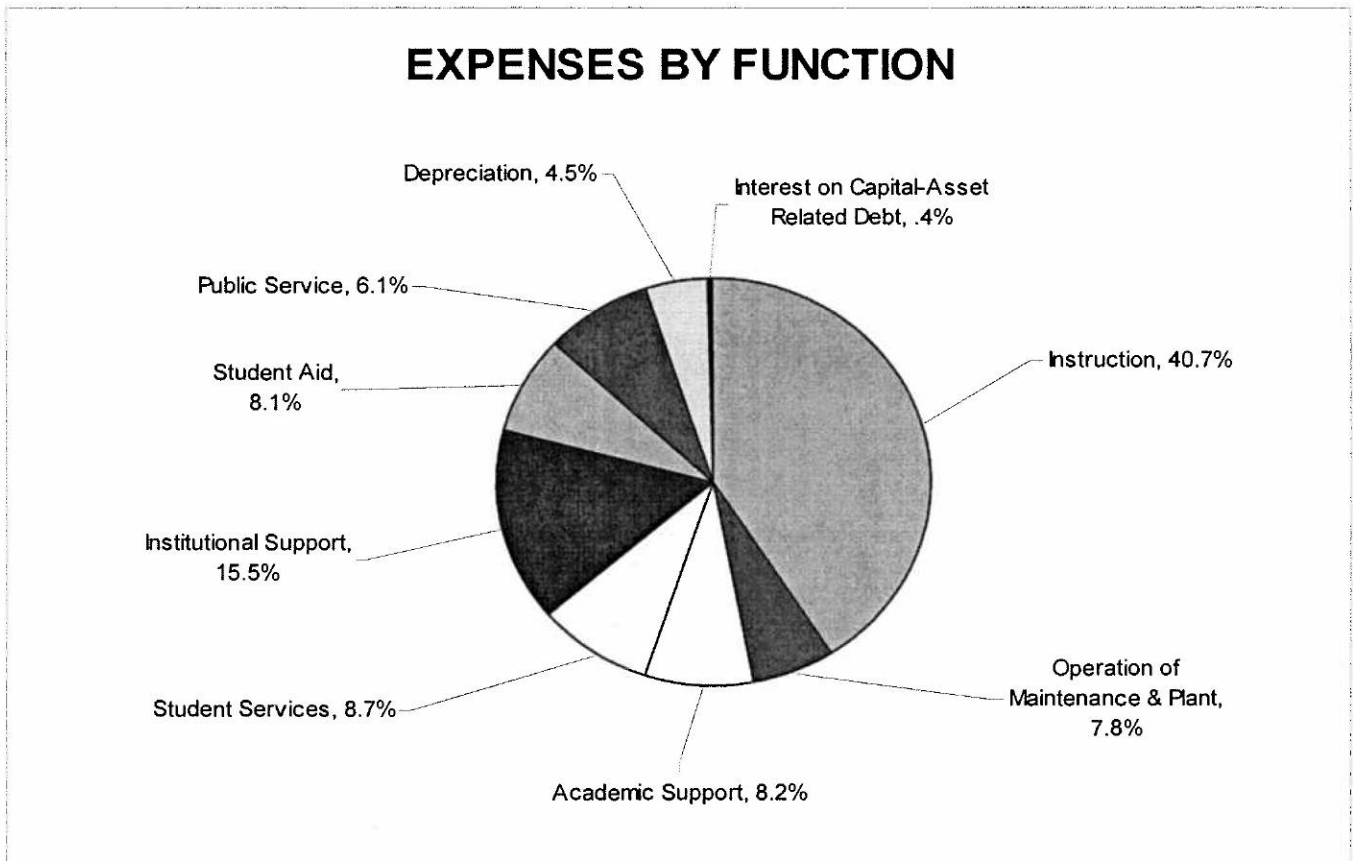
As seen by the illustration above, the largest sources of the College's revenues come from State Appropriations and Student Tuition & Fees (net of scholarship allowance). State appropriations were \$7.9 million. Gross tuition and fees was \$9.3 million and the scholarship allowance was \$1.6 million, thus net tuition and fees of \$7.7 million. Federal grants and contracts were \$4.4 million, capital appropriations were \$1.1 million, sales and services were \$387 thousand, other operating revenues were \$289 thousand, investment income was \$103 thousand, state and local grants were \$80 thousand, and gifts were \$57 thousand. Total operating and non-operating revenues was \$22.1 million.

The largest increase in revenue occurred in Federal Grants and Contracts. The College received two federal grants for the Information Technology Building for a total of \$497,050. Student Pell Grants increased by \$206,649 from the previous year. The next largest increase in revenues was in state appropriations. State appropriations increased by \$628,951 as a result of increased enrollments for the past five years.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

The following is a graphic illustration of expenses by function for the year ended June 30, 2005:

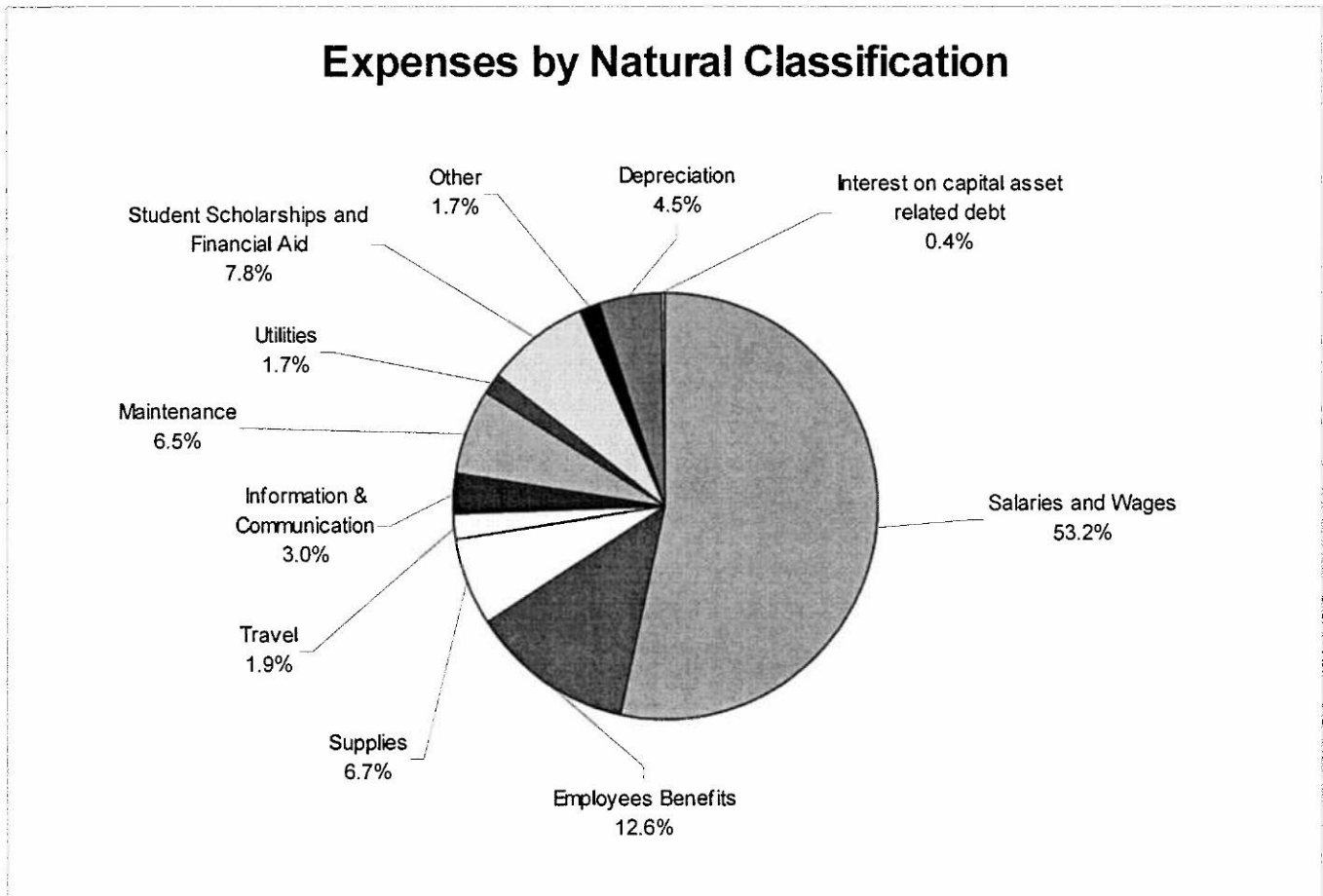


As seen in the above expense illustration, instructional expenditures are the largest expense, comprising almost half of the college's expenses at 40.7%. Instructional expenses were \$8.6 million, institutional support expenses were \$3.2 million, student services expenses were \$1.8 million, student aid expenses were \$1.7 million, academic support expenses were \$1.7 million, operation and maintenance of plant expenses were \$1.6 million, public service expenses were \$1.3 million, depreciation expense was \$.9 million and interest on capital asset related debt was \$86 thousand. Total operating and non-operating expenses was \$21.0 million.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

The following is a graphic illustration of expenses by natural classification for the year ended June 30, 2005.



As seen in the above expense illustration, salaries and wages were the largest expense for the College at 53.2%. Wages and employee benefits accounted for over 66% of the College's total expenses. The next largest expense was student scholarships at 7.8%.

Salaries and wages were \$11.2 million, employee benefits were \$2.7 million, student scholarships were \$1.7 million, supplies were \$1.4 million, maintenance expenses were \$1.3 million, depreciation was \$.9 million, information and communication expenses were \$.6 million, travel expenses were \$.4 million, utilities were \$.4 million, and other expenses were \$.4 million. Total operating and non-operating expenses were \$21.0 million.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

STATEMENTS OF CASH FLOWS
(in thousands)

Net cash provided (used) by:	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
Operating activities	\$ (7,200)	\$ (7,219)	\$ 19	-0.26%
Non-capital financing activities	8,226	7,353	873	11.87%
Capital financing activities	(2,264)	2,612	(4,876)	-186.68%
Investing activities	103	42	61	145.24%
Net Increase in cash	<u>(1,135)</u>	<u>2,788</u>	<u>(3,923)</u>	<u>-140.71%</u>
Cash beginning of year	<u>8,303</u>	<u>5,515</u>	<u>2,788</u>	<u>50.55%</u>
Cash end of year	<u>\$ 7,168</u>	<u>\$ 8,303</u>	<u>\$ (1,135)</u>	<u>-13.67%</u>

Another way to assess the financial health of the College is to look at the statement of cash flows. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of the College during the period. The statement of cash flows also helps financial statement readers assess:

- the ability to generate future net cash flows
- the ability to meet obligations as they become due
- the need for external financing

Major sources of cash included in the operating activities were tuition and fees, net of scholarship allowance of \$7.8 million and grants and contracts of \$4.4 million. Major uses of cash included in the operating activities were payments for wages of \$11.1 million, supplies and services of \$4.0 million, and employee benefits of \$2.8 million. State appropriations are the primary source of cash for non-capital financing activities. The new accounting standards require the College to reflect this source of revenue as non-operating even though the College's budget depends on this to continue operations. State appropriations were \$7.9 million. Major uses of cash included in the capital financing activities were payments for capital assets of \$2.1 million. In the prior year, the major source of capital financing were the proceeds from the sale of bonds of \$3.1 million.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

CAPITAL ASSETS AND DEBT

Capital Assets

The College had \$28.2 million invested in capital assets, net of accumulated depreciation of \$7.8 million at June 30, 2005. Depreciation expense for the year ended was \$.9 million. A summary of net capital assets for the years ended June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Land Improvements	264,321	123,605
Buildings and Improvements	25,603,363	20,209,944
Infrastructure	89,173	95,927
Moveable Equipment	2,081,078	1,300,703
Library Books	224,774	224,162
Construction in Progress	-	4,117,702
	<u>28,262,709</u>	<u>26,072,043</u>
Total Capital Assets, net		

The College purchased \$1,038,007 of moveable equipment, \$161,076 of land improvements, and \$43,813 of library books during the year ending June 30, 2005. The Information Technology Building was completed on time in December 2004 with a cost of \$6 million.

Debt

In October 2003, the College issued \$3.1 million in general receipts bonds for the construction of the Information Technology Building. The bonds mature over the next thirty (30) years with principal and interest due semi-annually. This will impact cash flows by approximately \$220,000 each year.

COMPONENT UNIT

Component Unit

The College adopted Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units. The James A Rhodes State College Foundation is a legally separate tax exempt entity governed by its own Board of Directors. The Foundation was created to support the College and its students. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources that the Foundation holds and invests are restricted to the activities of the College by the donors. Since these resources held by the Foundation can only be used for the benefit of the College and determined significant, the Foundation is considered a component unit of the College. The impact is that the financial information of the Foundation will be included as a discretely presented component unit for the first time in FY2005.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

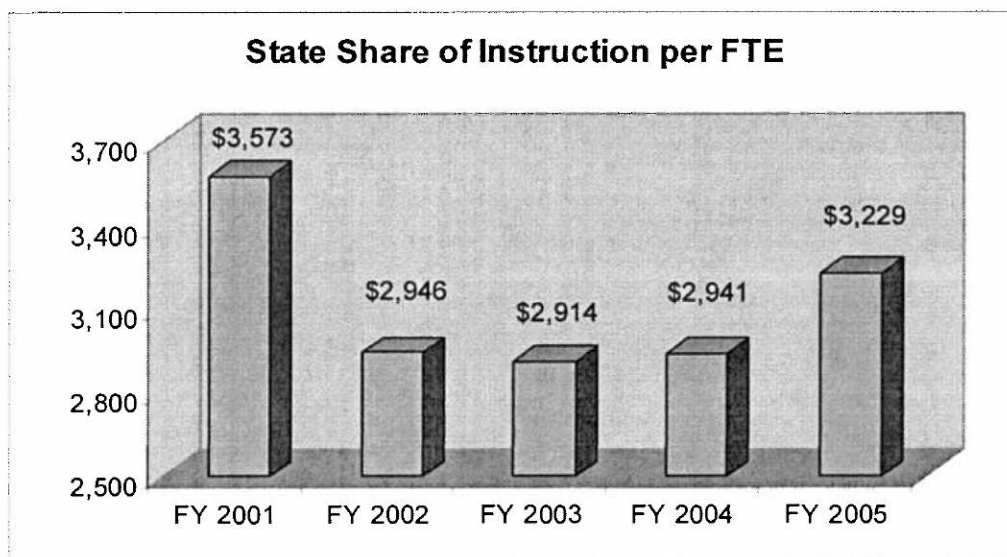
State Appropriations per Dollar of Gross Tuition

Fiscal Year	Gross Tuition	State Appropriations	Net State Appropriations per Dollar of Gross Tuition
2005	\$ 9,329,826	\$ 7,957,978	0.85
2004	\$ 9,152,973	\$ 7,329,027	0.80
2003	\$ 8,347,392	\$ 7,288,195	0.87
2002	\$ 7,755,962	\$ 7,248,007	0.93
2001	\$ 6,420,041	\$ 7,872,456	1.23

In 2001, the State contributed \$1.23 to James A Rhodes State College for every dollar of gross tuition. In 2005 that figure has dropped to \$0.85. In fiscal year 2002, the State made budget cuts of 6.0%. In fiscal year 2003, the State made even further budget cuts amounting to 8.5% and the same cuts were implemented in 2004. In 2004, state appropriations increased slightly as a result of the previous five-year growth in enrollments. In 2005, state appropriations increased as a result of more growth in enrollments at Rhodes State College than in other colleges in Ohio. Enrollments are a major component of the subsidy formula.

State Share of Instruction

In an effort to understand the funding (or lack of) from state appropriations, the table below shows the five-year trend in funding by annual full time equivalent (FTE). Annual FTE is calculated as total credit hours divided by 45. The budget cuts beginning in 2002 decreased the state share of instruction per FTE by 17.5% which has had a large impact on the College's budget. The funding per FTE in 2005 was 9.6% below the 2001 level. This does not take into consideration inflation. The decrease in state funding along with rising operating costs has made it necessary to raise tuition rates.



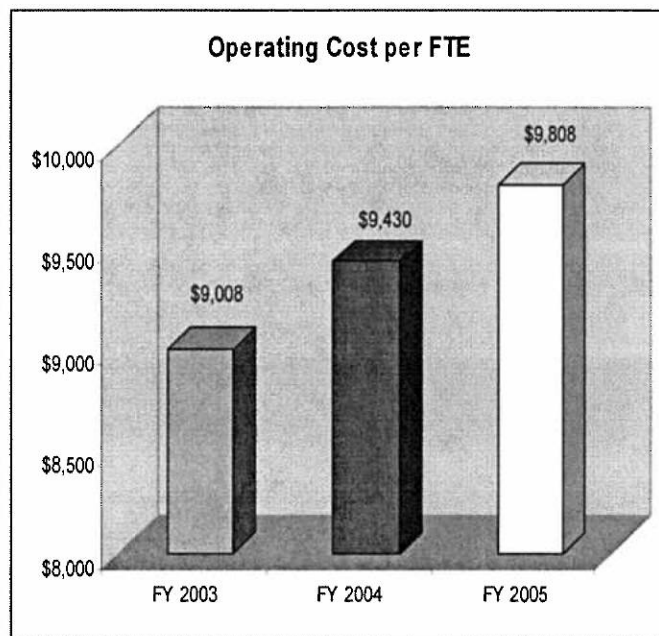
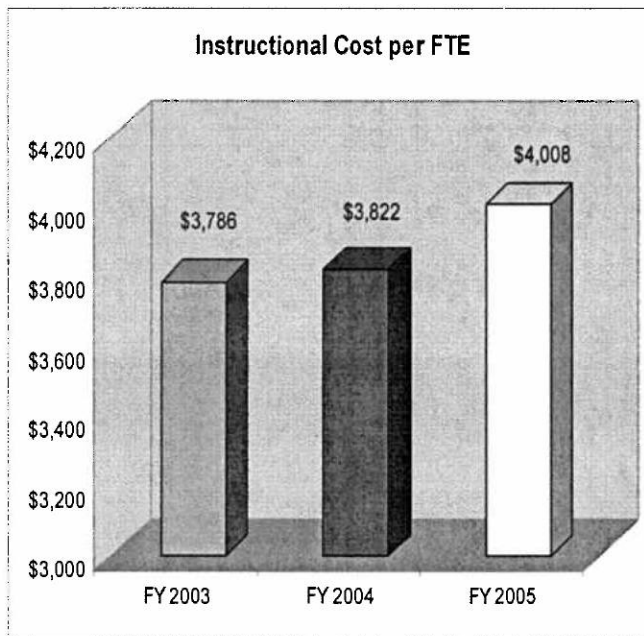
JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Operating and Instructional Expenses per Annual Student FTE

	2005	2004	2003
Total Operating Expenses	\$ 20,943,892	\$ 20,128,918	\$ 19,707,915
Instructional Expenses	\$ 8,559,215	\$ 8,157,321	\$ 8,284,519
Annual Student FTE Enrollment	2,135	2,135	2,188

Annual full time equivalent (FTE) is calculated by taking the total number of student credit hours and dividing by forty-five (45). A review of the total instructional expenses shows that instructional expenses per FTE increased by 0.95% in FY2004 and 4.87% in FY2005. Operating expenses per FTE increased by 4.68% in FY2004 and 4.01% in FY2005.



FACTORS IMPACTING FUTURE PERIODS

James A. Rhodes State College is dedicated to its mission statement to improve lives, build futures and improve our communities through higher learning. Management believes that the College has a solid financial foundation to continue to attain these goals by providing the student with a high quality and affordable education.

The economic position of the College is closely tied to that of the State of Ohio. There has been and will be a direct relationship between the level of state support and the College's ability to control tuition growth, as declines in state appropriations often result in increased tuition rates. The College expects its state share of instruction to remain flat to partially pay for the gains in enrollments over the last several years. The College raised tuition rates 5.15% effective for Summer Quarter 2005.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Management believes the College's continuing efforts to seek other sources of funding, strong financial position and the ability to control costs will enable the College to continue to provide an excellent educational opportunity for students. Grants are being pursued to supplement the operating budget, and the Information Technology Building will enhance the College's ability to offer advanced technology for students and industry.

The College completed a major gifts campaign that exceeded its goal of \$3.5 million and raised \$5.6 million. The initiatives of the campaign are Health Care Careers, the Information Technology Building, Technology Endowment, and Scholarships.

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. If you have any questions about this report, or need additional financial information, contact the following:

<u>Title</u>	<u>Name</u>	<u>Address</u>	<u>Phone</u>
Vice President of Business	Randall G. McCullough	4240 Campus Drive Lima, OH 45804	419-995-8342
Controller/Asst. Treasurer	Larry E. Hoffman, CPA	4240 Campus Drive Lima, OH 45804	419-995-8411

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	7,167,629
Accounts receivable, net		2,389,692
Appropriations receivable		222,726
Other current assets		8,706

TOTAL CURRENT ASSETS 9,788,753

NONCURRENT ASSETS:

Capital assets, net		28,262,709
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TOTAL NONCURRENT ASSETS 28,262,709

TOTAL ASSETS \$ 38,051,462

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable, net	\$	638,696
Current portion of bonds payable		50,000
Accrued liabilities		913,857
Deferred revenue		841,223

TOTAL CURRENT LIABILITIES 2,443,776

NONCURRENT LIABILITIES:

Bonds payable, net of current portion		3,017,812
Compensated absences		731,270

TOTAL NONCURRENT LIABILITIES 3,749,082

TOTAL LIABILITIES 6,192,858

NET ASSETS:

Invested in capital assets, net of related debt		25,620,704
Restricted		
Expendable		8,467
Unrestricted		6,229,433

TOTAL NET ASSETS 31,858,604

TOTAL LIABILITIES AND NET ASSETS \$ 38,051,462

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

COMPONENT UNIT - FOUNDATION
STATEMENT OF FINANCIAL POSITION

June 30, 2005

Assets:

Cash and Cash Equivalents	\$	348,707
Investments		1,053,846
Pledges Receivable		3,607,204
Accounts Receivable		4,551
Accrued Interest Receivable		128
Schell Foundation Loans Receivable		<u>72,943</u>
Total Assets	\$	<u><u>5,087,379</u></u>

Liabilities and Net Assets:

Accounts Payable	\$	<u>75,607</u>
Total Liabilities		<u>75,607</u>
Net Assets:		
Unrestricted		3,867,949
Temporarily Restricted		562,693
Permanently Restricted		<u>581,130</u>
Total Net Assets		<u>5,011,772</u>
Total Liabilities and Net Assets	\$	<u><u>5,087,379</u></u>

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

REVENUES

Operating Revenues:

Student tuition and fees (net of scholarship allowance of \$1,624,822)	\$	7,705,004
Federal grants and contracts		4,390,446
State and local grants and contracts		80,524
Sales and services		387,036
Other operating revenues		289,179
Total operating revenues		12,852,189

EXPENSES

Operating Expenses:

Educational and general:

Instruction		8,559,215
Public Service		1,287,832
Academic Support		1,716,363
Student Services		1,832,379
Institutional Support		3,250,154
Operation and Maintenance of Plant		1,645,364
Student Aid		1,701,243
Depreciation		951,342
Total operating expenses		20,943,892
Operating income (loss)		(8,091,703)

NONOPERATING REVENUES (EXPENSES)

State appropriations		7,957,978
Gifts		56,801
Investment income (net of investment expenses)		103,070
Interest on capital asset-related debt		(86,018)
Net Nonoperating Revenues (Expenses)		8,031,831
Income Before Other Revenues, Expenses, Gains or Losses		(59,872)
Capital appropriations		1,155,282
Total other revenues, expenses, gains, or losses		1,155,282
Increase/(Decrease) in net assets		1,095,410

NET ASSETS

Net Assets, Beginning of Year		30,763,194
Net Assets, End of Year	\$	31,858,604

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

COMPONENT UNIT - FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Revenues, Gains and Other Support:</u>				
Contributions	\$ 98,654	\$ 3,562,439	\$ 52,469	\$ 3,713,562
Interest and Realized/Unrealized Gain/(Loss)	25,436	66,153	-	91,589
	124,090	3,628,592	52,469	3,805,151
Assets Released from Restrictions	101,273	(101,273)	-	-
Total Revenues, Gains and Other Support	225,363	3,527,319	52,469	3,805,151
<u>Expenses and Losses:</u>				
Management and General	16,788	-	-	16,788
Fundraising	10,288	-	-	10,288
Academic Programs	31,046	-	-	31,046
Scholarships/Grants	58,970	-	-	58,970
	117,092	-	-	117,092
Total Expenses and Losses	117,092	-	-	117,092
Change in Net Assets	108,271	3,527,319	52,469	3,688,059
Net Assets - 7/1/04	472,860	340,629	510,224	1,323,713
Net Assets - 6/30/05	\$ 581,131	\$ 3,867,948	\$ 562,693	\$ 5,011,772

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$	7,755,530
Grants and contracts		4,391,404
Payments to suppliers		(4,021,473)
Payments to utilities		(370,170)
Payments to employees		(11,103,052)
Payments for benefits		(2,779,231)
Payments for student aid		(1,701,243)
Sales and services		390,835
Other receipts		237,141
Net cash provided (used) by operating activities		(7,200,259)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations		7,957,978
Gifts and grants for other than capital purposes		267,781
Student loan receipts		5,713,243
Student loan disbursements		(5,713,243)
Net Cash provided (used) by noncapital activities		8,225,759

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Principal paid on bonds payable		(20,000)
Interest paid on bonds payable		(85,388)
Purchases of capital assets		(2,158,389)
Net cash provided (used) by financing activities		(2,263,777)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments		103,070
Net cash provided (used) by investing activities		103,070

NET INCREASE (DECREASE) IN CASH

(1,135,207)

CASH AND CASH EQUIVALENTS, Beginning of Year

8,302,836

CASH AND CASH EQUIVALENTS, End of Year

\$ 7,167,629

RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$	(8,091,703)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		951,342
Changes in assets and liabilities:		
Accounts receivable, net		(125,338)
Prepaid expenses		83,506
Accounts payable, net		(30,394)
Accrued liabilities		(80,431)
Deferred revenue		48,059
Compensated absences		44,700
Net cash provided (used) by operating activities	\$	(7,200,259)

NON-CASH TRANSACTIONS:

Capital Appropriations	\$	1,127,113
Purchase of Capital Assets		(1,127,113)

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

COMPONENT UNIT - FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

<u>Cash Flows from Operating Activities:</u>	
Change in Net Assets	\$ 3,688,058
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:	
(Increase)/Decrease in Loans Receivable	15,541
(Increase)/Decrease in Accounts & Interest Receivable	1,450
(Increase)/Decrease in Pledges Receivable	(3,167,891)
Increase/(Decrease) in Accounts Payable	<u>(236,302)</u>
Net Cash Provided/(Used) by Operating Activities	<u>300,856</u>
<u>Cash Flows from Investing Activities:</u>	
Net Unrealized (Gain)/Loss on Investments	(50,839)
Net Realized (Gain)/Loss on Investments	(26,995)
Investment Net Purchases/Sales	30,406
Investment Income	(12,230)
Investment Expenses	<u>5,599</u>
Net Cash Provided/(Used) by Investing Activities	<u>(54,059)</u>
<u>Net Increase/(Decrease) in Cash</u>	246,797
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>101,910</u>
<u>Cash and Cash Equivalents at End of Year</u>	\$ <u><u>348,707</u></u>

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

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies

Description of the Entity

James A. Rhodes State College (the College) is a public, two-year institution of higher learning. The College provides instructional programs in various fields and workforce development training. The College was chartered by the Ohio Board of Regents in 1971 as a political subdivision in accordance with the provisions of Chapter 3357 of the Ohio Revised Code. The College was originally called Allen County Technical Institute, later re-named Lima Technical College, and on June 24, 2002, the College officially changed its name to James A. Rhodes State College.

The College operates under the control of a board of trustees. The College is not a component unit of the State of Ohio, and therefore, is not included in its Comprehensive Annual Financial Report (CAFR).

The James A. Rhodes State College Foundation is being discretely presented as part of the College reporting entity (although it is legally separate and governed by its own Board of Directors) because its sole purpose is to provide support for the College. This is being done in accordance with GASB Statement No. 39.

Basis of Presentation

The accompanying 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).

Effective July 1, 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. GASB 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 net assets 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 subject to externally imposed stipulations that they be maintained permanently by the College. Such assets include the College's permanent endowment funds. (These assets are recorded in the Rhodes State College Foundation financial statements – a discretely presented component unit).

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.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies – (continued)

- Unrestricted: Net assets whose use by the College is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows. It replaces the fund group perspective previously required.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The College reports as a Business Type Activity (BTA). BTA's are those activities that are financed in whole or in part by fees charged to external parties for goods and services. Pursuant to the provisions of GASB Statement No. 35, the full scope of the College's activities is considered to be a single business type activity and accordingly, is reported within a single column in the basic financial statements. Restricted grant revenue is recognized only to the extent expended.

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.

Cash and Cash Equivalents

This includes all readily available sources of cash such as petty cash, demand deposits, money market funds, and temporary investments in marketable securities with original maturities of three months or less.

Investments

All investments are stated at fair value, in accordance with GASB Statement No.31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in publicly traded securities are stated at fair value as established by major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenue, expenses, and changes in net assets.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2005

Note 1 – Summary of Significant Accounting Policies – (continued)

Capital Assets

Capital assets are stated at cost at the date of acquisition or, in the case of gifts, at fair market value at the date of gift. Equipment, furniture and infrastructure items costing \$5,000 or more and having an estimated useful life of greater than one year are capitalized. All library books that have a useful life of more than one year are capitalized regardless of cost. Renovations to buildings, land improvements, and newly constructed buildings with a cost of \$50,000 or more are capitalized. Routine repairs and maintenance and items costing less than the capitalization thresholds are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the following estimated useful lives:

<u>Classification</u>	<u>Years</u>
Buildings and Improvements	10-50
Land Improvements	10-20
Infrastructure	10-25
Moveable Equipment	5-20
Library Books	10

Deferred Revenue

Deferred revenue consists of the student tuition and fees for Summer Quarter 2005.

Scholarship Allowances

Student tuition and fees revenue and certain other revenues from College charges are reported net of scholarship allowances in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship allowance is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship allowance discount.

Restricted Asset Spending Policy

The College's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies – (continued)

Operating Activities

The College defines operating activities, as reported on the statement of revenues, expenses, and changes in net assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the College's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, grants, gifts, contracts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements

GASB Statement No. 39, Determining Whether Certain Organizations are Component Units — an amendment of GASB Statement No. 14, was issued in May 2002. This statement amends Statement No. 14 to provide additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary entity. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2003.

The Ohio Auditor of State issued bulletin 2004-001 defining "significant" for purposes of GASB 39 as the component unit's revenues or net assets must exceed 5% of the primary government's total revenues or net assets. Based on this criterion, the College determined that the James A. Rhodes State College Foundation will be included as a discretely presented component unit of the College in its financial statements beginning with the fiscal year ending June 30, 2005. The Foundation's statements were prepared in accordance with the pronouncements of the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB as followed by the College. No modifications have been made to the Foundation's financial statements to account for these differences in the College's report.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 2 – Deposits and Investments

The College adopted GASB 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3). This statement amends statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks in four principal areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that include investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; foreign exchange exposures that would indicate the foreign investment's denomination. The provisions of this statement are effective for financial statements for the fiscal year ended June 30, 2005.

As of June 30, 2005, the College had the following deposits and investments:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Fifth Third Bank Checking Accounts	\$ 916,657	\$ 453,989
Bank One Checking Accounts	411,340	219,077
Fifth Third Bank Savings Accounts	2,339,671	2,339,671
STAR Ohio	4,150,584	4,150,584
	<u>\$ 7,818,252</u>	<u>\$ 7,163,321</u>

The differences between the bank balances and the carrying amounts are primarily due to outstanding checks and deposits in transit. In addition to the above, there was \$4,308 of cash on hand.

Credit Risk - STAR Ohio is an investment pool managed by the Treasurer of the State of Ohio. 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. STAR Ohio has obtained an AAA money market rating by Standard & Poor's. The pooled collateral at Fifth Third Bank and Bank One is not rated.

Concentration of Credit Risk - The College had approximately 64% of its investments in STAR Ohio and 36% in Fifth Third Bank high yield savings accounts.

Foreign Currency Risk - The College does not have exposure for foreign exchange risk.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Of the bank balances, \$200,000 was insured by the Federal Depository Insurance Corporation (FDIC) and \$3,467,668 was exposed to custodial credit risk because it was secured by pledges of pooled collateral held by the banks trust department not in the College's name. The collateral is limited to obligations of the United States and its agencies, and the State of Ohio as permitted by Ohio law. The securities are held at the Bank of New York. The College does not have exposure to custodial credit risk for the investment in STAR Ohio as defined by Statement No. 40.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 2 – Deposits and Investments – (continued)

Component Unit – Foundation

As of June 30, 2005, the Foundation had the following deposits:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Union Bank Checking Account	\$ 340,140	\$ 238,764
Union Bank Savings Account	1,414	1,414
Fifth Third Bank Savings Account	60,125	60,125
Bank One CD	10,000	10,000
Fifth Third Money Market Account	38,404	38,404
	<u>\$ 450,083</u>	<u>\$ 348,707</u>

The differences between the bank balances and the carrying amounts are primarily due to outstanding checks and deposits in transit.

As of June 30, 2005, the Foundation had the following investments and maturities:

<u>Investment Type</u>	<u>FMV</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Greater than 5 years</u>
Corporate Bonds	\$ 281,145	-	203,732	77,413
Common Stock	559,756	-	-	-
Equity Funds	212,945	-	-	-
Total Investments	<u>\$ 1,053,846</u>			

Credit Risk - Of the bonds, \$27,162 were rated AAA and the remaining \$253,983 were rated A.

Concentration of Credit Risk - The Foundation investment policy states the target normal asset allocation should be 70% equity and 30% fixed income. The allowable range for equities is 50-80%, for fixed income is 20-50% and cash is 0-5%. There are limits in the equity investments to no more than 20% of stock shall be invested outside the United States, that no more than 5% of the equity portion shall be invested in any one company, and that no more than 20% of the equity portion shall be invested in any one industry sector. As of June 30, 2005, the portfolio allocation had 3.52% in cash, 25.74% in fixed income and 70.74% in equities. Of the equity portfolio, 4.7% were in international equities, the largest holding of a single company was 3.86%, and the healthcare industry was 19.25%.

Foreign Currency Risk - The Foundation does not have exposure for foreign exchange risk.

Custodial Credit Risk - The Foundation's investments are not exposed to custodial credit risk as defined by Statement No. 40. Securities are held by its agent in the name of Rhodes State College Foundation. Of the bank balances, \$208,529 was insured by the FDIC and \$241,554 was exposed to custodial credit risk because it was uninsured and uncollateralized.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 3 – Capital Assets

Costs:	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005
Land Improvements	\$ 185,359	161,076	-	\$ 346,435
Buildings & Improvements	24,319,179	6,016,813	-	30,335,992
Infrastructure	141,383	-	-	141,383
Moveable Equipment	3,355,551	1,038,008	-	4,393,559
Library Books	823,320	43,813	-	867,133
Construction in Progress	4,117,703	(4,117,703)	-	-
Total Costs	32,942,495	3,142,007	-	36,084,502
Less accumulated depreciation:				
Land Improvements	61,754	20,360	-	82,114
Buildings and Improvements	4,109,235	623,394	-	4,732,629
Infrastructure	45,455	6,754	-	52,209
Moveable Equipment	2,054,848	257,633	-	2,312,481
Library Books	599,159	43,201	-	642,360
Total Accumulated Depreciation	6,870,451	951,342	-	7,821,793
Capital Assets, Net	\$ 26,072,044	2,190,665	-	\$ 28,262,709

Buildings and Improvements consists of the following:

	Year	Cost
Technical Education Addition	1988	\$ 959,749
Modular Trailers	1991	143,962
Public Service Building	1993	3,745,593
JJC Engineering Technology Building	1996	2,857,580
YMCA Child Care Center	1998	1,000,000
Life & Physical Sciences Building	2000	14,150,728
Information Technology Building	2005	6,016,813
Campus Renovations	Various	1,461,567
Total Cost		\$ 30,335,992

The other buildings on campus are recorded as assets of the Ohio State University. These buildings include Galvin Hall in 1966, Reed Hall in 1968, Technical Education Laboratory in 1970, and Cook Hall in 1976. The College entered into a partnership with the Ohio Board of Regents, UAW, and the Ford Motor Company in 1993 to construct a training facility located at 1155 Bible Road, Lima, Ohio. The \$4.3 million dollar building becomes property of Ford Motor Company in May 2008 and therefore is not reflected on the College's financial statements.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 4 - Accounts Receivable

The following is a summary of the accounts receivable:

		<u>6/30/2005</u>
Tuition and Fees	\$	1,404,644
Governmental		1,058,654
Customized Training Services		86,277
Sponsored Billing Agencies		114,725
Foundation		447
Less allowance for uncollectible accounts		<u>(275,055)</u>
Accounts Receivable, Net	\$	<u><u>2,389,692</u></u>

Note 5 - Accounts Payable, Accrued Liabilities, and Compensated Absences

The following is a summary of the accounts payable, accrued liabilities, and compensated absences:

		<u>6/30/2005</u>
Payable to Venders and Suppliers	\$	477,521
The Ohio State University (cost share)		159,384
Benefits Payable		268,919
Accrued Compensated Absences		731,270
Accrued Salaries and Wages		646,729
Total	\$	<u><u>2,283,823</u></u>
Current portion	\$	1,552,553
Long term portion	\$	731,270

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 6 - State Support

James A. Rhodes State College is a state assisted institution of higher education which receives a student enrollment based instructional subsidy from the State of Ohio. This subsidy is determined annually based upon a formula devised by the Ohio Board of Regents, adjusted to state resources available.

In addition to the student subsidies, the State of Ohio provides the funding for construction and renovation of major plant facilities on the College 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 renovation of the facility by the Ohio Board of Regents. Upon completion of a construction project, the Ohio Board of Regents turns over control to the College, which capitalizes the cost.

Neither the obligation for the revenue bonds issued by the 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 Ohio Board of Regents by the Ohio 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 requirement exists to assess a special student fee uniformly applicable in state-assisted institutions of higher education throughout the state.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 7 – Compensated Absences

Sick Pay – Sick leave represents an insurance type benefit for absence due to personal illness or injury; for illness, injury, or death of a member of the immediate family of the covered employee on a regular contract; or to cover quarantine required by exposure to a contagious disease.

Sick leave credits will accumulate at the rate of 1.25 days (ten hours) per month of contractual service, including periods of vacation and paid military or sick leave, for all regular continuing employees. Regular employees on less than full time appointments shall be entitled to sick leave credit for time actually worked at the same rate as that granted regular continuing employees. The accumulation of sick leave credits at this rate shall be unlimited. Total hours accrued at June 30, 2005 was 14,972.

College employees, upon retirement with ten or more years of service with the State, shall be compensated in an amount not to exceed one-fourth of the value of accrued but unused sick leave credit, based on the individual's rate of compensation at the time of retirement. The maximum amount of hours at which sick leave will be paid out is set at 240 hours.

On June 30, 2005, the College's liability for accrued sick leave was \$406,545.

Vacation Pay – Compensation for vacation by the College is available only to those employees who are on eleven-month appointments, or are considered administrative and professional staff. Those employees employed by the College on an academic year basis are not eligible to earn or accrue vacation leave.

All employees eligible to receive vacation pay may accrue up to, but not exceed 30 working days (240 hours) over the course of a year. Anything accrued in excess of the 30 days is eliminated from the employee's leave balance at year end.

It is the policy of the College that if after one year of continuous service the employee is terminated or resigns, any unused vacation balance will be compensated to that employee.

At June 30, 2005, the faculty and staff of the College had accumulated vacation leave of 14,122 hours. Based on this, the College recorded a liability of \$324,725 for accumulated vacation leave at June 30, 2005.

The basis on which the College has made these estimates is in accordance with the standards and guidelines established by GASB Statement No.16, Accounting for Compensated Absences.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 8 - Defined Benefit Pension Plans

Public Employees Retirement System

The James A. Rhodes State College contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. Authority to establish and amend benefits is provided by State Statute per Chapter 145 of the Ohio Revised Code. The PERS issues a publicly available financial report that includes financial statements and required supplementary information for the fund. The report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary and the College is required to contribute 13.31 percent. The College's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$404,914, \$395,874, and \$385,740, respectively, equal to the required contributions for the year.

State Teachers Retirement System

The James A. Rhodes State College contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options—New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits — Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The 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 member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 8 - Defined Benefit Pension Plans – (continued)

State Teachers Retirement System – (continued)

The 31st year of earned Ohio service credit is calculated at 25%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits — Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits — Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 8 - Defined Benefit Pension Plans – (continued)

State Teachers Retirement System – (continued)

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005, were 10% of covered payroll for members and 14% for employers. The College's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$900,734, \$877,837, and \$869,589 respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2004 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 432 15-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

Alternative Retirement Plan

The College offers a defined contribution plan as an alternative to participation with State mandated defined benefit plans in accordance with State law. Non-elective employee contributions and employer contributions are made to the plan in amounts equivalent to the participant's compensation which would have otherwise been contributed to the State/Public Retirement System that applies to the participant's position. The College's contributions to the plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$51,091, \$58,166, and \$55,341 respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 9 – Long Term Debt

The College's long term debt consisted of the following:

General receipts bonds	\$	3,080,000
Less: Unamortized Discount on Bonds Payable		12,188
Bonds Payable, Net		3,067,812
Less: Current Portion		50,000
Long Term Portion	\$	3,017,812

In October 2003, the College issued \$3,100,000 of General Receipts Bonds, Series 2003, to pay a portion of the costs of the Information Technology Building. These bonds are special obligations of the College. Principal and interest on the bonds are payable solely from the general receipts of the College and bond proceeds. The bonds are not obligations of the State of Ohio, are not general obligations of the College, and the full faith and credit of the College is not pledged to their payment. Bondholders have no right to have excises or taxes levied by the Ohio General Assembly. The principal and interest is payable semi-annually each June 1 and December 1 beginning June 1, 2004 and ending December 1, 2033. The interest rates range from 4.2% to 5.875%. The bonds are payable as follows:

	Principal	Interest	Total
2006 \$	50,000	\$ 169,866	\$ 219,866
2007	50,000	167,766	217,766
2008	55,000	165,561	220,561
2009	55,000	163,251	218,251
2010	60,000	160,836	220,836
2011-2015	330,000	763,739	1,093,739
2016-2020	425,000	664,938	1,089,938
2021-2025	555,000	524,559	1,079,559
2026-2030	735,000	337,666	1,072,666
2031-2034	765,000	93,266	858,266
	\$ 3,080,000	\$ 3,211,448	\$ 6,291,448

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

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 Public Employees Retirement System (PERS).

The State Teachers Retirement System comprehensive health care benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of monthly premiums. This system is on a pay-as-you-go basis.

The Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The State Teachers Retirement Board currently allocates employer contributions equal to 4.5 percent of covered payroll to a health care reserve fund from which payments for health care benefits are paid. For the College, this amount equaled \$289,522 for fiscal year 2005. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004 (the date of the most recent information available). For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

Public Employees Retirement System of Ohio provides post retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. This system is on a pay-as-you-go basis. The rate is 13.31% of covered payroll of which 4.0% is the portion that was used to fund health care. For the College, this amount equaled \$121,687 for fiscal year 2005. The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to PERS.

The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

As of December 31, 2003 (the most recent information available), the net assets available for future Other Post Employment Benefits payments was \$10.5 billion. The number of OPERS active contributing participants was 369,885 for the year ended December 31, 2003.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 11 - Cost Share Agreement

James A. Rhodes State College is located on the grounds owned by the State of Ohio. According to the cost sharing agreement entered into as of July 1, 1971 (and revised May 27, 1992) between The Ohio State University and the Allen County Technical Institute (later renamed Lima Technical College, and then officially changed to James A. Rhodes State College in 2002), the College reimburses the University for costs incurred in the following areas: academic instruction, library, student services, student activities, institutional support, plant operation and community educational services. The College makes quarterly payments to the University based on estimated costs using formulas as prescribed in the cost sharing agreement. Adjustments at year-end for variances between estimated and actual costs are made at the time of the first quarterly payment of the following fiscal year. The College's portion of cost sharing totaled \$762,056 for the year ended June 30, 2005. At year-end, the College had an accounts payable to The Ohio State University for \$159,384.

Although this is a related party transaction due to the fact that certain management personnel are shared by both institutions, the James A. Rhodes State College and Ohio State University both have separate and distinct Boards of Trustees.

Note 12 - Risk Management

The College is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the College contracted with a Commercial Insurer for property and fleet insurance, liability insurance, and various other coverages.

Major Coverages provided by this insurer is as follows:

- Building and Contents - replacement cost (\$10,000 deductible) \$53,607,440
- Automobile -
 - Liability \$1,000,000
 - Uninsured/Underinsured Motorists \$100,000
- Crime –
 - Employee Dishonesty \$1,000,000
 - Forgery/Alteration \$1,000,000
 - Funds Transfer Fraud \$1,000,000
 - Computer Fraud \$1,000,000
- General Liability -
 - Per occurrence \$1,000,000
 - Aggregate \$2,000,000
- Excess Liability –
 - Per occurrence \$5,000,000
 - Aggregate \$5,000,000
- Professional –
 - Educator's Legal Liability - \$1,000,000 (per claim & aggregate)
 - Medical Professional Liability - \$1,000,000 (per claim & aggregate)
 - Excess Liability - \$10,000,000 (per claim & aggregate)

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 12 - Risk Management – (continued)

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year. In addition, the College offers medical, vision, and dental insurance to full-time employees through various commercial insurers.

Note 13 – Component Unit Disclosures

The James A. Rhodes State College Foundation was established for charitable and educational purposes for the benefit of the College and its students. The Foundation is a not for profit organization exempt from Federal Income Taxes under Section 501c(3) of the Internal Revenue Code. The Foundation provided \$58,970 in scholarships and \$31,046 for College initiatives for the year ending June 30, 2005.

Fair Value of Pledges Receivable

The fair value of unconditional promises to give (pledges receivable) in more than one year is estimated at \$3,936,860, less discounting of 3.76% for the future cash flows and uncollectible allowance of 3% in the amount of \$329,656 yields a discounted value of \$3,607,204.

The following schedule summarizes the net realizable value and discounted values through the year 2010.

	Net Realizable Value		Discounted Value
2006 \$	1,107,439	\$	1,107,439
2007	1,031,064		993,701
2008	572,813		532,051
2009	572,813		512,770
2010	534,626		461,243
	<u>\$ 3,818,755</u>	\$	<u>3,607,204</u>

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 14 - Operating Expenses by Natural Classification

The College's operating expenses by natural classification were as follows for the year ended June 30, 2005:

	<u>6/30/2005</u>
Salaries and wages	\$ 11,194,851
Employee benefits	2,653,622
Supplies	1,404,738
Travel	399,262
Information and communication	621,601
Maintenance	1,291,965
Utilities	360,391
Student scholarships and financial aid	1,701,243
Other	364,877
Depreciation	951,342
Total Operating Expenses	\$ <u>20,943,892</u>

Note 16 - Contingencies

Grants

The College received financial assistance from federal and state agencies in the form of grants. The expenditure 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 management, any such disallowed claims will not have a material adverse effect on the overall financial position of the College at June 30, 2005.

Litigation

The College is currently not party to any legal proceedings.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 17 – Leases

The College leases duplicating equipment on a monthly basis. Minimum operating lease payments for existing leases over the next five years are as follows:

6/30/2006	\$	103,419
6/30/2007		93,508
6/30/2008		43,319
6/30/2009		16,224
Therafter		-
TOTAL	\$	<u>256,470</u>

Operating lease expenditures for the year ending June 30, 2005 were \$161,427.

Note 18 – Subsequent Event

Subsequently to June 30, 2005 but prior to the issuance of these financial statements, James A. Rhodes State College was awarded a \$696,000 equipment grant from the Ohio Department of Development for an industrial automation trainer. These funds were received and expended during the fiscal year ending June 30, 2006.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
For the Year Ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Titles	Pass Through Entity Number	Federal CFDA Number
<hr/>		
<u>U.S. Department of Education</u>		
Student Financial Aid Cluster:		
Pell Grant Program	N/A	84.063
College Work Study	N/A	84.033
SEOG	N/A	84.007
Total Student Financial Aid Cluster		
Fund for the Improvement of Postsecondary Education - Comprehensive Program		
	N/A	84.116
Passed Through Ohio Department of Education:		
Vocational Education Basic Grants	VECPH-20C3-2005	84.048
Total Vocational Education Basic Grants		
Technical Preparation Grant	VETP-3ETC-2005	84.243
	VETP-3EEO-2005	84.243
	VETP-3ETA-2005	84.243
	VETP-3EVS-2005	84.243
	VETP-PD-2005-4	84.243
Total Technical Preparation Grant		
Total U.S. Department of Education		
<u>Small Business Administration</u>		
(Passed-Through Ohio Department of Development)		
Small Business Development Center	N/A	59.037
Total Small Business Administration		
<u>National Science Foundation</u>		
Education and Human Resources	N/A	47.076
Total National Science Foundation		
Total Federal Financial Assistance		

Note A - Significant Accounting Policies

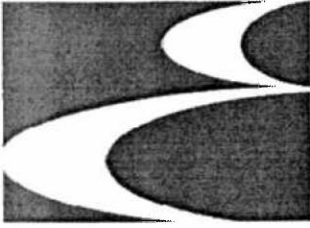
The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the accrual basis of accounting.

Note B - GSL and PLUS Programs

Students at James A. Rhodes State College also participate in the U.S. Department of Education's Guaranteed Student Loan (GSL) and Parent's Loans for Undergraduate Students (PLUS) programs. (CFDA#84.032). These loans are made by lending institutions directly to qualified students and are, therefore, not reflected in the revenues and expenditures of the College. The total amount of loans under these programs for the year ended June 30, 2005 was \$5,608,997.

<u>Receipts</u>	<u>Disbursements</u>
\$ 3,087,799	\$ 3,087,799
155,000	155,000
116,089	116,089
<u>3,358,888</u>	<u>3,358,888</u>
434,301	434,301
64,679	64,679
<u>64,679</u>	<u>64,679</u>
169,987	169,987
57,015	57,015
46,387	46,387
150,000	150,000
17,319	17,319
<u>440,708</u>	<u>440,708</u>
4,298,576	4,298,576
87,140	87,140
<u>87,140</u>	<u>87,140</u>
4,730	4,730
<u>4,730</u>	<u>4,730</u>
<u>\$ 4,390,446</u>	<u>\$ 4,390,446</u>

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Robert E. Wendel, CPA • Dan F. Clifford, CPA • E.S. Evans, CPA, PFS (1930-1999)

November 30, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
James A. Rhodes State College
Allen County, Ohio

We have audited the financial statements of James A. Rhodes State College, Allen County, Ohio, (the College) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 30, 2005, wherein we noted the College adopted Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. 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

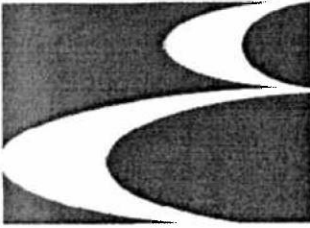
In planning and performing our audit, we considered James A. Rhodes State College's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 caused by error or fraud in amounts material to the financial statements being audited may occur and not be timely detected 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 material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether James A. Rhodes State College's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under Government Auditing Standards.

We intend this report solely for the information and use of management of James A. Rhodes State College, the Auditor of State of Ohio, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.





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Robert E. Wendel, CPA • Dan F. Clifford, CPA • E.S. Evans, CPA, PFS (1930-1999)

November 30, 2005

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

Board of Trustees
James A. Rhodes State College
Allen County, Ohio

Compliance

We have audited the compliance of James A. Rhodes State 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, 2005. James A. Rhodes State 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 James A. Rhodes State College's management. Our responsibility is to express an opinion on James A. Rhodes State 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 James A. Rhodes State 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 on James A. Rhodes State College's compliance with those requirements.

In our opinion, James A. Rhodes State 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, 2005.

Internal Control Over Compliance

The management of James A. Rhodes State 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 James A. Rhodes State 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 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 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 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 management, Board of Trustees, Auditor of State of Ohio, 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.



JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

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

June 30, 2005

A. 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 material non-compliance 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 Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under .510?	No
(d)(1)(vii)	Major Programs (list): Student Financial Aid Cluster Student Financial Aid Cluster Student Financial Aid Cluster Student Financial Aid Cluster Funds for the Improvement of Postsecondary Education	Pell Grant Program 84.063 College Work Study 84.033 Family Educ Loan 84.032 SEOG 84.007 Postsecondary Ed 84.116
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

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

June 30, 2005

B. Findings Related To The Financial Statements Required
To Be Reported In Accordance With GAGAS

None

C. Findings and Questioned Costs for Federal Awards

None

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS AND
QUESTIONED COSTS OMB CIRCULAR A-133 § .315(b)

June 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
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None



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

JAMES A. RHODES STATE COLLEGE

ALLEN 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 9, 2006**