

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2004

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**Auditor of State
Betty Montgomery**

Board of Trustees
James A. Rhodes State College
4240 Campus Dr.
Lima, OH 45804

We have reviewed the Independent Auditor's Report of the James A. Rhodes State College, Allen County, prepared by E. S. Evans & Company, for the audit period July 1, 2003 through June 30, 2004. 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 25, 2005

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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 23, 2004

INDEPENDENT AUDITOR'S REPORT

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

and

Auditor of State of Ohio
Columbus, Ohio

We have audited the accompanying basic financial statements of James A. Rhodes State College, Allen County, Ohio (the College), as of and for the year ended June 30, 2004, 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 James A. Rhodes State College, Allen County, as of June 30, 2004, and the 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the 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.

We conducted our audit to form opinions on the financial statements that collectively comprise the College's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is presented for 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. We subjected this information 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.

A handwritten signature in red ink, appearing to read "E. J. ...", is located in the lower right quadrant of the page.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

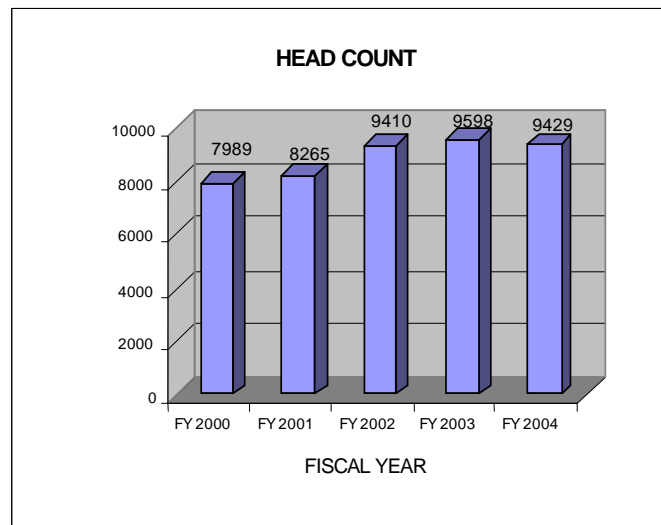
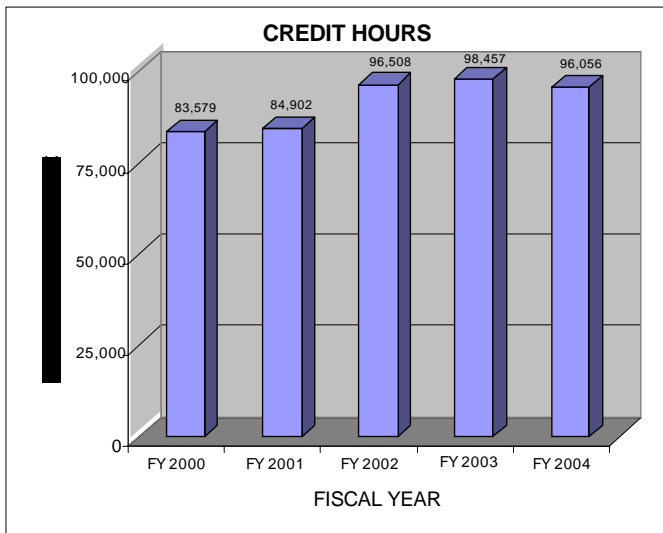
This section of James A Rhodes State College annual financial report presents management's discussion and analysis of the College's financial performance during the fiscal years that ended June 30, 2004 and 2003. This discussion has been prepared by management and should be read in conjunction with the 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 40 associate degree programs and almost 70 certificate 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. As a result, the College has created an office of Institutional Effectiveness that works closely with all areas of the College. Five new master planning committees were formed. These include: Facilities, Financial, Human Resources, Marketing, and Equipment and Technology.

The College has had five continuous years of increased enrollments until FY2004. The College is responding by increasing marketing initiatives and providing more scholarships. 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, 2004

FINANCIAL HIGHLIGHTS

The College's financial statements reported net assets of \$30.8 million at June 30, 2004. The net assets increased \$3 million or 10.9% from the previous year. The increase in net assets was due primarily because of the construction in progress of the Information Technology Building.

Unrestricted net assets increased by \$722,297 or 15.0% from the previous year. This is the result of the College's ability to effectively monitor and manage its financial resources. Operating revenues increased by \$640,395 or 5.5% while operating expenses increased by \$421,003 or 2.1%.

Gross tuition revenue increased by \$805,581 over the previous year. The increase is a result of the 9.9% increase in tuition rates and the College provided more non-credit training to local businesses. Of the increase in tuition rates, 3.9% is funding investments in technology for students and increasing scholarships for low income students.

Capital appropriations increased dramatically as the College started construction on the new Information Technology Building. Of the capital appropriations of \$3.7 million approved by the Ohio Board of Regents, \$3.2 million was expended as of June 30, 2004 and recorded as revenue.

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. This is the second year that the College is reporting its financial statements under the GASB 34 & 35 guidelines. Therefore, the College has provided comparative data from fiscal year 2003.

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.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

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.

Significant changes to the financial statements are as follows:

- Revenues and expenses are now classified as either operating or non-operating. Certain recurring sources of revenue such as state appropriations, gifts, certain grants and investment income will be classified as non-operating as specified by GASB statement No. 35. James A Rhodes State College depends on these "non-operating" revenues, especially state appropriations. As a result of the new reporting classifications the College will always show an operating deficit, even if there is an increase in net assets.
- Capital Assets are now depreciated over their expected useful lives instead of recorded entirely as a current period expense in their year of acquisition. Depreciation expense was \$976,934 and \$922,192 for the years ending June 30, 2004 and 2003, respectively.
- Scholarships and fellowships applied to student accounts are now shown as a reduction of student tuition and fees (scholarship allowances), while scholarships and fellowships that are paid directly to the students continue to be presented as student aid expenses. Previously, all scholarships and fellowships were presented as expenses. Scholarship allowances were \$1,393,213 and \$1,684,709 for the years ended June 30, 2004 and 2003, respectively.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

CONDENSED FINANCIAL INFORMATION

STATEMENTS OF NET ASSETS
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
Current Assets	\$ 11,065	\$ 8,020	\$ 3,045	37.97%
Noncurrent, Capital Assets, net	<u>26,072</u>	<u>23,209</u>	<u>2,863</u>	<u>12.34%</u>
Total Assets	<u><u>37,137</u></u>	<u><u>31,229</u></u>	<u><u>5,908</u></u>	<u><u>18.92%</u></u>
LIABILITIES				
Current Liabilities	2,620	2,801	(181)	-6.46%
Noncurrent Liabilities	<u>3,754</u>	<u>700</u>	<u>3,054</u>	<u>436.29%</u>
Total Liabilities	<u><u>6,374</u></u>	<u><u>3,501</u></u>	<u><u>2,873</u></u>	<u><u>82.06%</u></u>
NET ASSETS				
Invested in capital assets, net				
Of related debt	25,200	22,860	2,340	10.24%
Restricted, Expendable	33	59	(26)	-44.07%
Restricted, Nonexpendable	-	-	-	0.00%
Unrestricted	<u>5,530</u>	<u>4,809</u>	<u>721</u>	<u>14.99%</u>
Total Net Assets	<u><u>30,763</u></u>	<u><u>27,728</u></u>	<u><u>3,035</u></u>	<u><u>10.95%</u></u>
Total Liabilities and Net Assets	<u><u>\$ 37,137</u></u>	<u><u>\$ 31,229</u></u>	<u><u>\$ 5,908</u></u>	<u><u>18.92%</u></u>

Assets - As of June 30, 2004, the College's total assets equaled \$37.1 million. The Noncurrent capital assets, net are the college's largest asset, totaling \$26.1 million or 70.2 % of total assets. Noncurrent capital assets, net increased 12.34% over previous year due mainly to the construction in progress of the new Information Technology Building that is scheduled for completion in December 2004. Cash and cash equivalents are the second largest asset category with \$8.3 million or 22.4% of the total assets. Cash and Cash Equivalents showed a large increase due to the sale of bonds to assist with the funding of the new Information Technology Building. As of June 30, 2004, this money had not yet been utilized for any of the costs of the new building. Prepaid Expenses had a large increase because the College had paid for the SCT maintenance agreement contract for fiscal year 2005 in June 2004.

Liabilities - As of June 30, 2004, the College's liabilities totaled approximately \$6.4 million. Bonds Payable, net represented the largest portion of liabilities with \$3.1 million or 48.4% of total liabilities. The College issued \$3.1 million of general receipts bonds in October 2003 which was the largest factor for the increase in non-current liabilities. See Note 8 on page 21 for additional information. Current liabilities decreased because the College was over paid by \$265,923 for Ohio instructional grants in fiscal year 2003.

Net Assets- Net Assets as of June 30, 2004 totaled approximately \$30.8 million. Net assets invested in capital assets, net of related debt totaled \$25.2 million, or 81.9% of total net assets.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

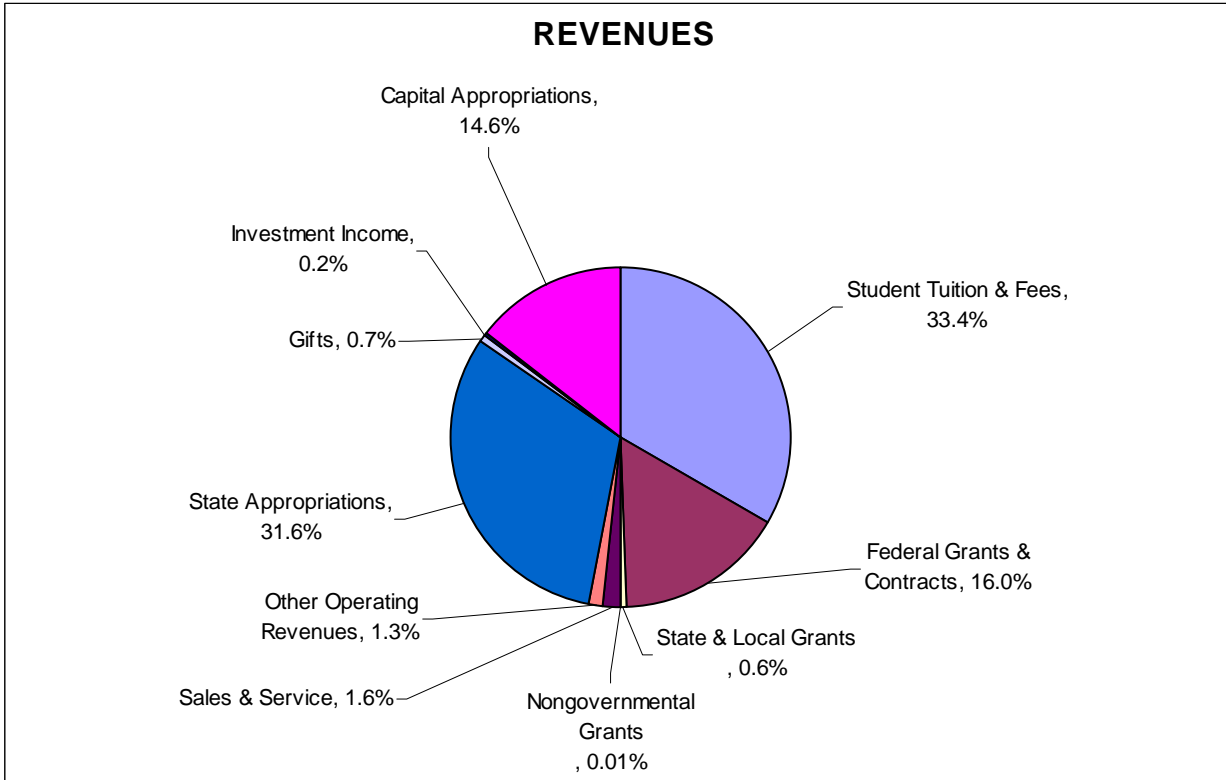
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
OPERATING REVENUES				
Student tuition and fees, net	\$ 7,760	\$ 6,663	1,097	16.46%
Federal grants and contracts	3,723	4,085	(362)	-8.86%
State grants and contracts	136	200	(64)	-32.00%
Non-Governmental grants and contracts	3	44	(41)	-93.18%
Sales and services	378	390	(12)	-3.08%
Other Operating Revenues	292	269	23	8.55%
Total Operating Revenues	<u>12,292</u>	<u>11,651</u>	<u>641</u>	<u>5.50%</u>
OPERATING EXPENSES				
Educational and General	19,152	18,815	337	1.79%
Depreciation	977	922	55	5.97%
Total Operating Expenses	<u>20,129</u>	<u>19,737</u>	<u>392</u>	<u>1.99%</u>
Operating Income (Loss)	<u>(7,837)</u>	<u>(8,086)</u>	<u>249</u>	<u>-3.08%</u>
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	7,329	7,288	41	0.56%
Gifts	165	176	(11)	-6.25%
Investment Income	42	73	(31)	-42.47%
Other Non-Operating Revenues (Expenses)	(47)	-	(47)	0.00%
Net Non-Operating Revenues (Expenses)	<u>7,489</u>	<u>7,537</u>	<u>(48)</u>	<u>-0.64%</u>
Income before other rev, exp, gains or losses	<u>(348)</u>	<u>(548)</u>	<u>200</u>	<u>-36.50%</u>
Capital Appropriations	3,383	169	3,214	1901.78%
Total other rev, exp, gains or losses	<u>3,383</u>	<u>169</u>	<u>3,214</u>	<u>1901.78%</u>
Decrease in Net Assets	<u>3,035</u>	<u>(379)</u>	<u>3,414</u>	<u>-900.79%</u>
Net assets beginning of year	<u>27,728</u>	<u>28,107</u>	<u>(379)</u>	<u>-1.35%</u>
Net assets end of year	<u>\$ 30,763</u>	<u>\$ 27,728</u>	<u>\$ 3,035</u>	<u>10.95%</u>

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

The following is a graphic illustration of revenues by source for the year ended June 30, 2004:



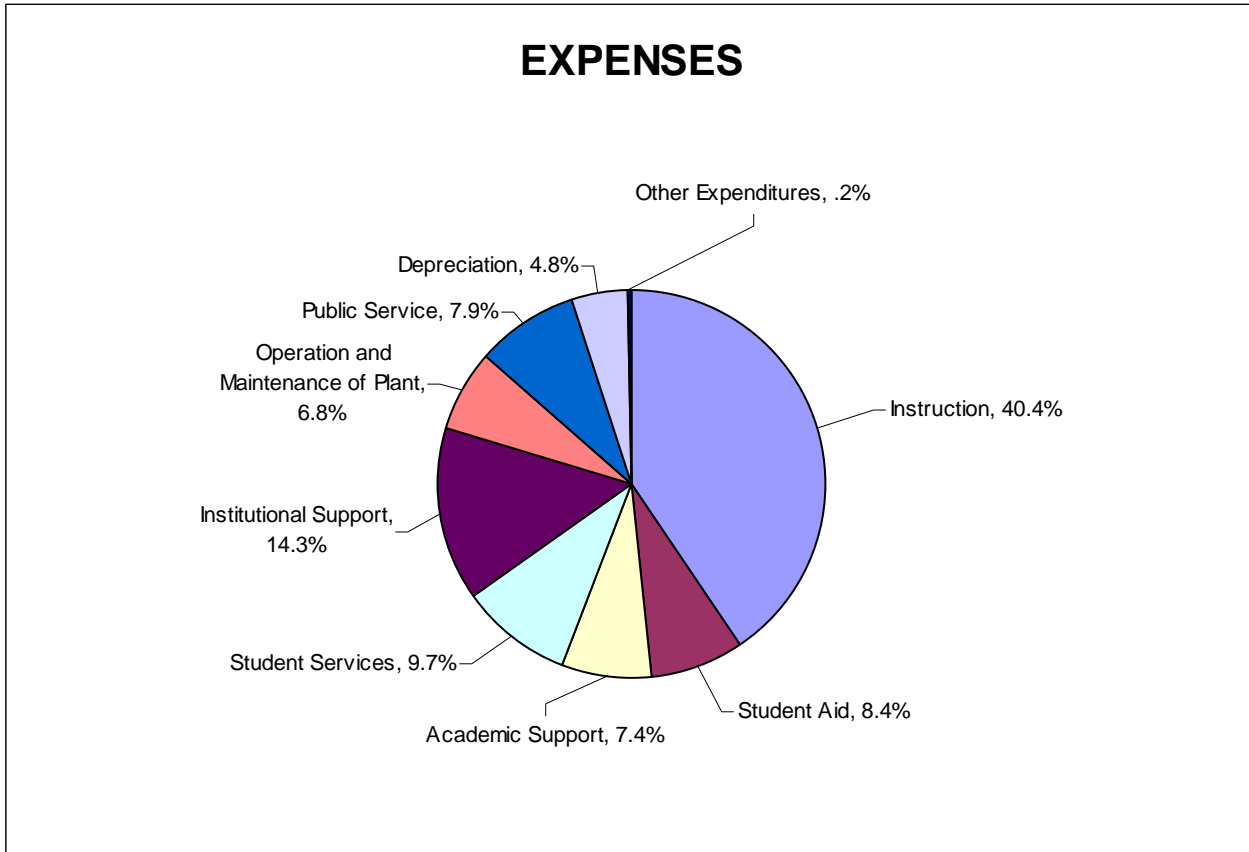
As seen by the illustration above, the largest portion of the College's revenues come from Student Tuition & Fees (net of scholarship allowance), which comprises 33.4% of total revenues. Gross tuition and fees was \$9.2 million and the scholarship allowance was \$1.4 million, thus net tuition and fees of \$7.8 million. State appropriations were \$7.3 million, federal grants and contracts were \$3.7 million, capital appropriations were \$3.4 million, sales and services were \$379 thousand, other operating revenues were \$291 thousand, state and local grants were \$136 thousand, gifts were \$165 thousand, investment income was \$42 thousand, and nongovernmental grants and contracts were \$3 thousand. Total operating and non-operating revenues were \$23.2 million.

The largest increase in revenue occurred in Capital Appropriations. This is due to funds received for the Information Technology Building. Student Tuition & Fees increased \$1.0 million or 16.47% over the previous year due to the increase in tuition rates.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

The following is a graphic illustration of expenses by function for the year ended June 30, 2004:

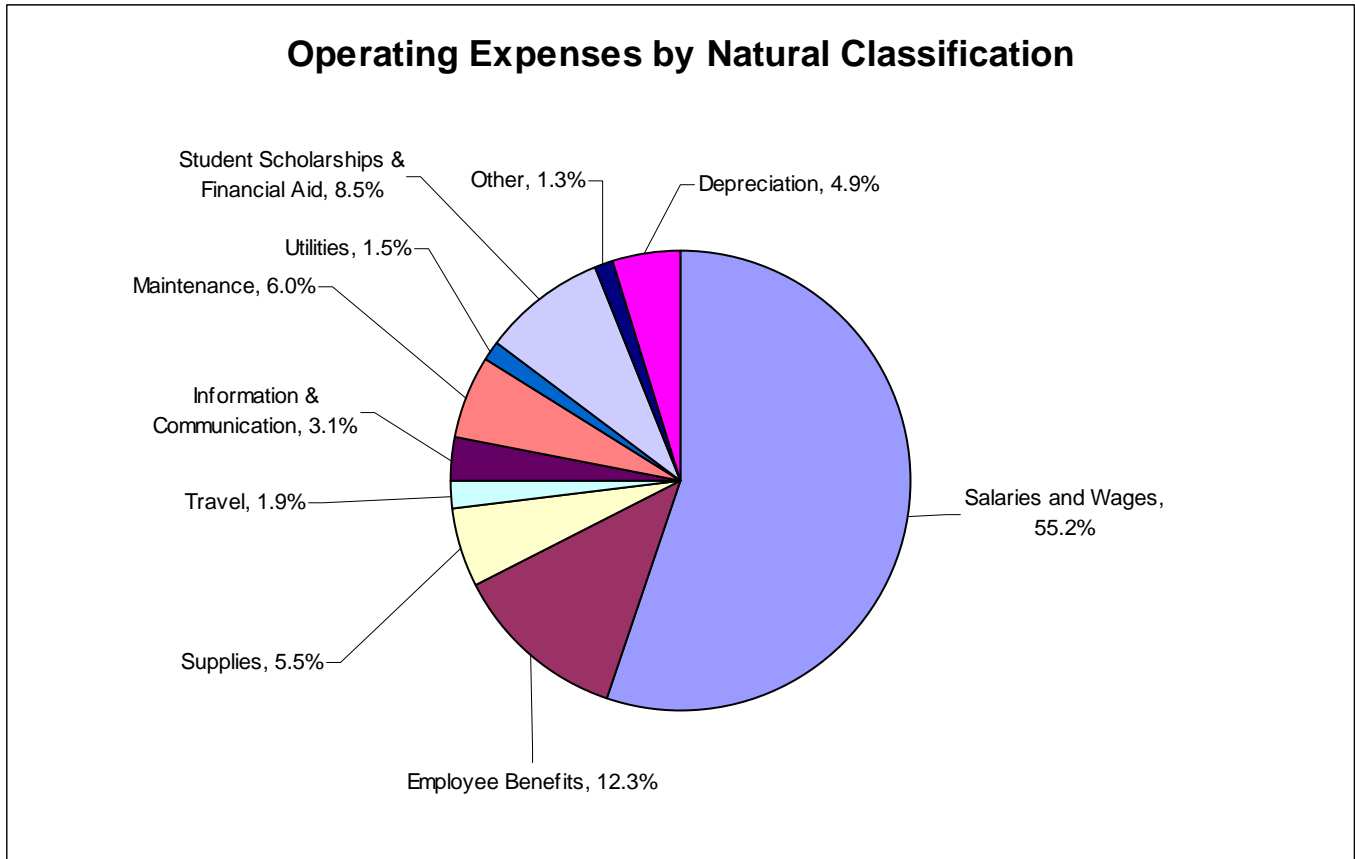


As seen in the above expense illustration, instructional expenditures are the largest expense, comprising almost half of the college's expenses at 40.4%. Instructional expenses were \$8.2 million, institutional support expenses were \$2.9 million, student services expenses were \$2.0 million, student aid expenses were \$1.7 million, public service expenses were \$1.6 million, academic support expenses were \$1.5 million, operation and maintenance of plant expenses were \$1.4 million, depreciation expense was \$.9 million and other expenditures \$47 thousand. Total operating and non-operating expenses were \$20.2 million.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

The following is a graphic illustration of expenses by natural classification for the year ended June 30, 2004.



As seen in the above expense illustration, salaries and wages were the largest expense for the College at 55.2%. Wages and employee benefits accounted for over 67% of the College's total expenses. The next largest expense was student scholarships at 8.5%.

Salaries and wages were \$11.1 million, employee benefits were \$2.5 million, student scholarships were \$1.7 million, maintenance expenses were \$1.2 million, supplies were \$1.1 million, depreciation was \$.9 million, information and communication expenses were \$.6 million, travel expenses were \$.4 million, utilities were \$.3 million, and other expenses were \$.3 million. Total operating expenses were \$20.1 million.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

STATEMENTS OF CASH FLOWS
(in thousands)

Net cash provided (used) by:	2004	2003	\$ Change	% Change
Operating activities	\$ (7,219)	\$ (7,250)	\$ 31	-0.43%
Non-capital financing activities	7,353	7,622	(269)	-3.53%
Capital financing activities	2,612	(249)	2,861	-1149.00%
Investing activities	42	73	(31)	-42.47%
Net Increase in cash	2,788	196	2,592	1322.45%
Cash beginning of year	5,515	5,319	196	3.68%
Cash end of year	\$ 8,303	\$ 5,515	\$ 2,788	50.55%

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 \$7.6 million and grants and contracts of \$3.7 million. Major uses of cash included in the operating activities were payments for wages of \$11.1 million, supplies and services of \$3.7 million, and employee benefits of \$2.5 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 \$7.3 million. Proceeds from the sale of bonds are the primary source of cash for capital financing activities. The proceeds were approximately \$3.1 million.

State Appropriations per Dollar of Gross Tuition

Fiscal Year	Gross Tuition	State Appropriations	Net State Appropriations per Dollar of Gross Tuition
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
2000	\$ 6,533,007	\$ 7,120,622	1.09

In 2001, the State contributed \$1.23 to James A Rhodes State College for every dollar of gross tuition. In 2004 that figure has dropped to \$0.80. In fiscal year 2002, the State made budget cuts of 6.0%, which was approximately a reduction in state appropriations of \$500,133. In fiscal year 2003, the State made even further budget cuts amounting to 8.5%, a reduction in state appropriations of approximately \$811,406. Those same cuts were implemented in 2004. In 2004, state appropriations increased \$40,832 as a result of the previous five-year growth in enrollments. Enrollments are a major component of the subsidy formula.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

Operating and Instructional Expenses per Annual Student FTE

	2004	2003	\$ Change	% Change
Total Operating Expenses	\$ 20,128,918	\$ 19,707,915	421,003	2.14%
Instructional Expenses	\$ 8,157,321	\$ 8,284,519	(127,198)	-1.54%
Annual Student FTE Enrollment	6,404	6,564	(160)	-2.44%
Operating Expenses per FTE	\$ 3,143	\$ 3,002	141	4.70%
Instructional Expenses per FTE	\$ 1,274	\$ 1,262	12	0.95%

Full time equivalent (FTE) is calculated by taking the total number of student credit hours and dividing by fifteen. A review of the operating expenses shows that total operating expenses in 2004 increased by \$421,003 or 2.14% over the previous year. The College showed a decrease in student FTE enrollment of 160, or 2.44%. Operating expenses per FTE student increased by \$141, or 4.7% in 2004 while instructional expenses only increased by \$12 or .95%.

CAPITAL ASSETS AND DEBT

Capital Assets

The College had \$26.0 million invested in capital assets, net of accumulated depreciation of \$6.8 million at June 30, 2004. Depreciation expense for the year ended was \$.9 million. A summary of net capital assets for the years ended June 30, 2004 and 2003 is as follows:

	2004	2003
Land Improvements	123,605	137,737
Buildings and Improvements	20,209,944	20,889,649
Infrastructure	95,927	102,682
Moveable Equipment	1,300,703	1,477,250
Library Books	224,162	215,380
Construction in Progress	4,117,702	386,100
 Total Capital Assets, net	 <u>26,072,043</u>	 <u>23,208,798</u>

The College purchased \$105,456 of moveable equipment and \$50,857 of library books during the year ending June 30, 2004. Construction in progress is the new Information Technology Building which is scheduled for completion in December 2004. As of June 30, 2004, approximately \$4 million had been completed. The total estimated cost is approximately \$7.5 million. The funding will come from the following sources: state capital appropriations for \$3.7 million, the financing of serial bonds for \$3.1 million, capital grant of \$.6 million, and the remainder coming from College funds.

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.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004

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 increase (pending further state budget cuts) to partially pay for the gains in enrollments over the last several years. The College raised tuition rates 8.58% for Summer Quarter 2004. Other two year colleges in Ohio raised tuition rates between 6% and 9.9%, the maximum allowed under state law.

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 new Information Technology Building will enhance the College's ability to offer advanced technology for students and industry.

The College started a major gifts campaign in May 2004 with four initiatives. The initiatives are as follows: Health Care Careers, Information Technology Building, Technology Endowment, and Scholarships.

The College was awarded a \$615,000 grant from the Ohio Board of Regents for a non-credit job training facility. This will be incorporated into the new Information Technology Building which will be completed in December 2004. The revenue will be recorded in FY2005.

The College was awarded \$497,050 from the U.S. Department of Education. One grant was for infrastructure and the second grant was for technology and equipment. Both awards will be utilized in the Information Technology Building and will be recognized as revenue in FY2005.

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, 2004

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	8,302,836
Accounts receivable, net of allowance of \$241,011		2,475,333
Appropriations receivable		194,557
Other current assets		92,414

TOTAL CURRENT ASSETS		11,065,140
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NONCURRENT ASSETS:

Capital assets, net		26,072,044
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TOTAL NONCURRENT ASSETS		26,072,044
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TOTAL ASSETS	\$	37,137,184
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable, net	\$	812,585
Current portion of bonds payable		20,000
Accrued liabilities		994,288
Deferred revenue		793,164

TOTAL CURRENT LIABILITIES		2,620,037
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NONCURRENT LIABILITIES:

Bonds payable, net of current portion		3,067,383
Compensated absences		686,570

TOTAL NONCURRENT LIABILITIES		3,753,953
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TOTAL LIABILITIES		6,373,990
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NET ASSETS:

Invested in capital assets, net of related debt		25,199,502
Restricted		
Expendable		
Scholarships and fellowships		5,380
Instructional department uses		25,579
Loans		1,907
Nonexpendable		-
Unrestricted		5,530,826

TOTAL NET ASSETS		30,763,194
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TOTAL LIABILITIES AND NET ASSETS	\$	37,137,184
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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, 2004

REVENUES

Operating Revenues:	
Student tuition and fees (net of scholarship allowance of \$1,393,213)	\$ 7,759,760
Federal grants and contracts	3,722,633
State and local grants and contracts	136,109
Nongovernmental grants and contracts	3,251
Sales and services	378,656
Other operating revenues	291,250
Total operating revenues	12,291,659

EXPENSES

Operating Expenses:	
Educational and general:	
Instruction	8,157,321
Public Service	1,586,632
Academic Support	1,493,988
Student Services	1,956,983
Institutional Support	2,882,788
Operation and Maintenance of Plant	1,372,240
Student Aid	1,702,032
Depreciation	976,934
Total operating expenses	20,128,918
Operating income (loss)	(7,837,259)

NONOPERATING REVENUES (EXPENSES)

State appropriations	7,329,027
Federal grants	-
State and local grants	-
Gifts	165,890
Investment income (net of investment expenses)	41,995
Interest on capital asset-related debt	(367)
Other nonoperating revenues (expenses)	(47,736)
Net Nonoperating Revenues (Expenses)	7,488,809
Income Before Other Revenues, Expenses, Gains or Losses	(348,450)
Capital appropriations	3,383,721
Total other revenues, expenses, gains, or losses	3,383,721
Increase/(Decrease) in net assets	3,035,271

NET ASSETS

Net Assets, Beginning of Year (Restated)	27,727,923
Net Assets, End of Year	\$ 30,763,194

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, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 7,627,024
Grants and contracts	3,715,860
Payments to suppliers	(3,748,885)
Payments to utilities	(326,829)
Payments to employees	(11,154,218)
Payments for benefits	(2,470,960)
Payments for student aid	(1,702,032)
Sales and services	378,679
Other receipts	462,142
Net cash provided (used) by operating activities	(7,219,219)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	7,329,027
Gifts and grants for other than capital purposes	23,755
Student loan receipts	4,985,887
Student loan disbursements	(4,985,887)
Net Cash provided (used) by noncapital activities	7,352,782

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital appropriations	168,041
Proceeds from capital debt	3,087,133
Purchases of capital assets	(643,020)
Net cash provided (used) by financing activities	2,612,154

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	41,995
Net cash provided (used) by investing activities	41,995

NET INCREASE (DECREASE) IN CASH

2,787,712

CASH AND CASH EQUIVALENTS, Beginning of Year

5,515,125

CASH AND CASH EQUIVALENTS, End of Year

\$ 8,302,837

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

Operating income (loss)	\$ (7,837,259)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	976,934
Changes in assets and liabilities:	
Accounts receivable, net	(65,554)
Prepaid expenses	(89,531)
Accounts payable, net	(130,663)
Accrued liabilities	(17,740)
Deferred revenue	(42,400)
Compensated absences	(13,005)
Net cash provided (used) by operating activities	\$ (7,219,218)

NON-CASH TRANSACTIONS:

Capital Appropriations	\$ 3,255,497
Purchase of Capital Assets	(3,255,497)

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, 2004

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).

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).

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, 2004

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 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). BTAs 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.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

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 2004.

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.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

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.

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.

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 not be included as a component unit of the College in its financial statements.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

Note 2 – Deposits and Investments

The deposit and investment of College monies is governed by the Ohio Revised Code. In accordance with Section 135.03 of the ORC, only banks located in Ohio and Ohio domestic building and loan associations are eligible to hold public deposits. Also, the investment of the College's monies is restricted to certificates of deposits, savings accounts, money market accounts, STAR Ohio, obligations of the United States government or certain agencies thereof, and certain industrial revenue bonds issued by other governmental entities.

The College may also enter into repurchase agreements with any eligible depository for a period not exceeding 30 days. The College's Controller's Office is responsible for selecting depositories and investing funds. Protection for the College's deposits is provided by the Federal Deposit Insurance Corporation, qualified securities pledged in the name of the College and held at the Federal Reserve, or by a collateral pool created by the financial institution to cover all local governmental deposits. The face value of the pooled collateral must equal at least 110% of the public funds on deposit.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No.3, Deposits with Financial Institutions, Investments and Reserve Repurchase Agreements:

Deposits - At June 30, 2004, the carrying amounts of the College's deposits were \$4,236,008 and the bank balance was \$4,518,772. The differences between the carrying amounts and the bank balances are primarily due to outstanding checks and deposits in transit. Of the bank balance, \$200,000 was covered by federal depository insurance and \$4,318,772 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the College's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the College to a successful claim by the Federal Deposit Insurance Corporation.

Investments - The College's investments are categorized below to give an indication of the level of risk assumed by the College at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments which are held by the counterpart's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the College's name.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 2 – Deposits and Investments – (continued)

The College has invested in STAR Ohio, an investment pool operated by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. It is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

The only investment held by James A. Rhodes State College at June 30, 2004 was STAR Ohio (State Treasury Asset Reserve of Ohio). The carrying amount equaled market value which was \$4,066,828 at June 30, 2004.

The classification of cash and cash equivalents and investments on the general purpose financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits		Investments
GASB Statement 9	\$	8,302,836	\$ -
Cash on Hand		(1,322)	-
Investments - STAR Ohio		<u>(4,066,828)</u>	<u>4,066,828</u>
GASB Statement 3	\$	<u>4,234,686</u>	<u>4,066,828</u>

Of the cash and cash equivalents in the amount of \$8,302,836 at June 30, 2004, \$3,104,298 is the amount of proceeds from the bond issue plus earned interest. This amount is restricted for the purposes as described in Note 9 and 15.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Capital Assets

Costs:	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004
Land Improvements	185,359	-	-	185,359
Buildings & Improvements	24,319,179	-	-	24,319,179
Infrastructure	141,383	-	-	141,383
Moveable Equipment	3,412,988	105,456	162,893	3,355,551
Library Books	772,463	50,857	-	823,320
Construction in Progress	386,100	3,731,603	-	4,117,703
Total Costs	29,217,472	3,887,916	162,893	32,942,495
Less accumulated depreciation:				
Land Improvements	47,622	14,132	-	61,754
Buildings and Improvements	3,429,530	679,705	-	4,109,235
Infrastructure	38,701	6,754	-	45,455
Moveable Equipment	1,935,738	234,267	115,157	2,054,848
Library Books	557,083	42,076	-	599,159
Total Accumulated Depreciation	6,008,674	976,934	115,157	6,870,451
Capital Assets, Net	23,208,798	2,910,982	47,736	26,072,044

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
Campus Renovations	Various	1,461,567
Total Cost		\$ 24,319,179

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, 2004

Note 4 - Accounts Receivable

The following is a summary of the accounts receivable:

Tuition and Fees	\$	1,163,472
State Appropriations		194,557
Governmental		821,686
Customized Training Services		240,171
Sponsored Billing Agencies		279,588
Foundation		211,427
Less allowance for uncollectible accounts		<u>(241,011)</u>
Accounts Receivable, Net	\$	<u><u>2,669,890</u></u>

Note 5 - Accounts Payable and Accrued Liabilities

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

Payable to Venders and Suppliers	\$	636,513
The Ohio State University (cost share)		176,202
Benefits Payable		394,528
Accrued Compenated Absences		686,570
Accrued Salaries and Wages		<u>599,630</u>
Total	\$	<u><u>2,493,443</u></u>
Current portion	\$	1,806,873
Long term portion	\$	686,570

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

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, 2004

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, 2004 was 14,413.

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, 2004, the College's liability for accrued sick leave was \$374,434.

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, 2004, the faculty and staff of the College had accumulated vacation leave of 13,883 hours. Based on this, the College recorded a liability of \$312,136 for accumulated vacation leave at June 30, 2004.

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, 2004

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, 2004, 2003, and 2002 were \$395,874, \$385,740, and \$360,563, 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 provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that included financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 10 percent of their annual covered salary and the College is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The College's contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$877,837, \$869,589, and \$821,260, respectively, equal to the required contributions for the year.

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 fiscal year ended June 30, 2004 was \$58,166.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 9 – Long Term Debt

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

General receipts bonds	\$	3,100,000
Less: Unamortized Discount on Bonds Payable		12,617
Bonds Payable, Net		3,087,383
Less: Current Portion		20,000
Long Term Portion		3,067,383

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
2005 \$	20,000	\$ 171,336	\$ 191,336
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
2010-2014	320,000	777,932	1,097,932
2015-2019	400,000	688,657	1,088,657
2020-2024	525,000	555,688	1,080,688
2025-2029	695,000	379,672	1,074,672
2030-2034	930,000	143,056	1,073,056
\$	3,100,000	\$ 3,382,785	\$ 6,482,785

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

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 \$282,162 for fiscal year 2004. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2003 (the date of the most recent information available). For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 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 4.3% is the portion that was used to fund health care. For the College, this amount equaled \$127,893 for fiscal year 2004. 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.

Expenditures for Other Post Employment Benefits during 2003 were \$907,823,760 (the date of the most recent information available). As of December 31, 2003, the net assets available for future Other Post Employment Benefits payments was \$10.8 billion. The number of benefit recipients eligible for Other Post Employment Benefits at December 31, 2003 was 143,643.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

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 \$785,344 for the year ended June 30, 2004. At year-end, the College had an accounts payable to The Ohio State University for \$176,202.

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.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2004

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 2004, 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) \$58,896,553
- 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)

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 - Related Party Transactions

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 College recorded revenues from the Foundation in the amount of \$165,890 for scholarships, instructional programs and marketing initiatives. At year-end, the College had an account receivable from the Foundation for \$211,427.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

Note 14 - Operating Expenses by Natural Classification

The College's operating expenses by natural classification were as follows for the year ended June 30, 2004:

Salaries and wages	\$	11,113,077
Employee benefits		2,476,977
Supplies		1,108,118
Travel		374,289
Information and communication		626,356
Maintenance		1,199,456
Utilities		293,714
Student scholarships and financial aid		1,702,032
Other		257,965
Depreciation		976,934
Total Operating Expenses	\$	<u>20,128,918</u>

Note 15 – Construction in Progress

The College entered into contracts for the construction of a new Information Technology Building. The estimated cost is approximately \$7.5 million. The funding will come from the following sources: The Ohio Board of Regents have approved capital appropriations in the amount of \$3.7 million, the College has sold serial bonds in the amount of \$3.1 million, the Ohio Board of Regents has awarded a non-credit job training capital improvement facilities grant of \$615,000, and the balance will be paid with College funds.

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 is 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, 2004.

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, 2004

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:

6/30/05	\$	120,681
6/30/06		104,743
6/30/07		73,454
6/30/08		33,261
6/30/09		6,166
Thereafter		-
TOTAL	\$	<u>338,305</u>

Operating lease expenditures for the year ending June 30, 2004 were \$121,551.

JAMES A. RHODES STATE COLLEGE
ALLEN COUNTY, OHIO

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
For the Year Ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Titles	Pass Through Entity Number	Federal CFDA Number
<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		
	P116Z040281	84.116
Passed Through Ohio Department of Education: Vocational Education Basic Grants		
	VECPH-P2004-513	84.048
Total Vocational Education Basic Grants		
Technical Preparation Grant		
	VETP-2004-14-FB	84.243
	VETP-2004-14-STP	84.243
	VETP-2004-14-EEG	84.243
	VETP-2004-14-P	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		
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, 2004 was \$4,920,260.

<u>Receipts</u>	<u>Disbursements</u>
\$ 2,881,150	\$ 2,881,150
146,846	146,846
136,000	136,000
<u>3,163,996</u>	<u>3,163,996</u>
<u>62,749</u>	<u>62,749</u>
80,220	80,220
<u>80,220</u>	<u>80,220</u>
158,062	158,062
52,609	52,609
94,189	94,189
20,000	20,000
<u>324,860</u>	<u>324,860</u>
<u>3,631,825</u>	<u>3,631,825</u>
90,808	90,808
<u>90,808</u>	<u>90,808</u>
<u>\$ 3,722,633</u>	<u>\$ 3,722,633</u>

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

November 23, 2004

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

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

and

Auditor of State of Ohio
Columbus, Ohio

We have audited the basic financial statements of James A. Rhodes State College as of and for the year ended June 30, 2004, and have issued our report thereon dated November 23, 2004. 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.

Compliance

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

Board of Trustees
James A. Rhodes State College
Auditor of State of Ohio
November 23, 2004
Page 2

Internal Control Over Financial Reporting

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

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.

A handwritten signature in red ink, appearing to read "E. A. Rhodes and Company", is located in the lower right quadrant of the page.



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 23, 2004

**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

and

Auditor of State of Ohio
Columbus, 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, 2004. 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.

Board of Trustees
James A. Rhodes State College
Auditor of State of Ohio
November 23, 2004
Page 2

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, 2004.

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, 2004

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 Technical Preparation Grant	Pell Grant Program 84.063 College Work Study 84.033 Family Educ Loan 84.032 SEOG 84.007 Tech Prep Grant 84.243
(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, 2004

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, 2004

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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**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 10, 2005**