



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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JAMES A. RHODES STATE COLLEGE FOUNDATION
ALLEN COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2012
Fiscal Year Audited Under GAGAS: 2012



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the James A. Rhodes State College Foundation, Allen County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 31, 2012

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James A. Rhodes State College Foundation
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Independent Auditor's Report

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

We have audited the accompanying statements of financial position of James A. Rhodes State College Foundation, Allen County, Ohio (the Foundation), a component unit of James A. Rhodes State College, as of June 30, 2012 and June 30, 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on the 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

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 Foundation, Allen County, Ohio, as of June 30, 2012 and June 30, 2011, and the changes in net assets and its cash flows for the years 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 21, 2012, on our consideration of the Foundation'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.

November 21, 2012

James A. Rhodes State College Foundation
Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 463,414	\$ 434,323
Investments	1,689,139	1,594,701
Pledges receivable - Net	32,642	22,854
Accounts receivable	0	308
Loans receivable	23,120	19,838
TOTAL ASSETS	\$ 2,208,315	\$ 2,072,024
LIABILITIES		
Accounts payable - Net	\$ 79,781	\$ 49,913
TOTAL LIABILITIES	79,781	49,913
NET ASSETS		
Unrestricted	364,300	366,966
Temporarily restricted	501,686	506,964
Permanently restricted	1,262,548	1,148,181
TOTAL NET ASSETS	2,128,534	2,022,111
TOTAL LIABILITIES AND NET ASSETS	\$ 2,208,315	\$ 2,072,024

See accompanying notes to the financial statements.

James A. Rhodes State College Foundation
Statements of Activities
For the Years Ended June 30, 2012 and 2011

	For the Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 500	\$ 65,932	\$ 114,264	\$ 180,696
Interest and dividends	2,430	38,278	0	40,708
Realized gain on investments	3,034	72,351	0	75,385
Unrealized gain on investments	(5,462)	(82,761)	0	(88,223)
Total Revenues	<u>502</u>	<u>93,800</u>	<u>114,264</u>	<u>208,566</u>
Loss on pledges and loans receivable	0	(1,884)	103	(1,781)
Assets released from restrictions and transfers	105,889	(105,889)	0	0
Bad debt recovery	0	8,695	0	8,695
Total Revenues, Gains and Other Support	<u>106,391</u>	<u>(5,278)</u>	<u>114,367</u>	<u>215,480</u>
EXPENSES				
Management and general	3,168	0	0	3,168
Fundraising	5,630	0	0	5,630
Academic programs	16,068	0	0	16,068
Scholarships/Grants	84,191	0	0	84,191
Total Expenses	<u>109,057</u>	<u>0</u>	<u>0</u>	<u>109,057</u>
Increase in net assets	<u>(2,666)</u>	<u>(5,278)</u>	<u>114,367</u>	<u>106,423</u>
NET ASSETS				
Net Assets - July 1, 2011	366,966	506,964	1,148,181	2,022,111
Net Assets - June 30, 2012	<u>\$ 364,300</u>	<u>\$ 501,686</u>	<u>\$ 1,262,548</u>	<u>\$ 2,128,534</u>

	For the Year Ended June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 746	\$ 24,200	\$ 36,913	\$ 61,859
Interest and dividends	3,962	28,770	0	32,732
Realized gain on investments	4,058	46,779	0	50,837
Unrealized gain on investments	20,410	237,098	0	257,508
Total Revenues	<u>29,176</u>	<u>336,847</u>	<u>36,913</u>	<u>402,936</u>
Loss on pledges and loans receivable	0	(46,290)	0	(46,290)
Assets released from restrictions and transfers	60,517	(60,517)	0	0
Total Revenues, Gains and Other Support	<u>89,693</u>	<u>230,040</u>	<u>36,913</u>	<u>356,646</u>
EXPENSES				
Management and general	8,365	0	0	8,365
Fundraising	5,305	0	0	5,305
Academic programs	7,960	0	0	7,960
Scholarships/Grants	49,253	0	0	49,253
Total Expenses	<u>70,883</u>	<u>0</u>	<u>0</u>	<u>70,883</u>
Increase in net assets	<u>18,810</u>	<u>230,040</u>	<u>36,913</u>	<u>285,763</u>
NET ASSETS				
Net Assets - July 1, 2010	348,156	276,924	1,111,268	1,736,348
Net Assets - June 30, 2011	<u>\$ 366,966</u>	<u>\$ 506,964</u>	<u>\$ 1,148,181</u>	<u>\$ 2,022,111</u>

See accompanying notes to the financial statements.

James A. Rhodes State College Foundation
Statements of Cash Flows
June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 106,423	\$ 285,763
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Realized and Unrealized Gain/(Loss) on Investments	12,842	(308,344)
(Increase)/Decrease in Pledges Receivable	(9,788)	34,382
Decrease in Accounts Receivable	308	82,510
(Increase)/Decrease in Loans Receivable	(3,282)	54,187
Increase/(Decrease) in Accounts Payable	29,868	(16,572)
Net Cash Provided by Operating Activities	136,371	131,926
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Net Purchases/(Sales)	(107,280)	2,241
Net Cash Provided by (Used for) Investing Activities	(107,280)	2,241
NET INCREASE IN CASH	29,091	134,167
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	434,323	300,156
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 463,414	\$ 434,323

See accompanying notes to the financial statements.

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

NOTE1 – Organization and Purpose

The James A. Rhodes State College Foundation (the “Foundation”) was incorporated in March 1978 as a tax-exempt, not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code for the purpose of collecting donations from individuals, corporations, and foundations. The primary uses of these donations are for scholarships to persons attending James A. Rhodes State College (the “College”) and other purposes benefitting the College. The Foundation was originally named the Lima Technical College Development Fund. On June 24, 2002, it changed its name to James A. Rhodes State College Foundation. The Foundation is a discretely presented component unit of James A. Rhodes State College.

NOTE 2 – Summary of Significant Accounting Policies

Financial Statement Presentation

The Foundation’s financial statements are prepared using the accrual basis of accounting, in accordance with Generally Accepted Accounting Principles.

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- **Unrestricted Net Assets**– Net assets not subject to donor-imposed stipulations.
- **Temporarily Restricted Assets**- Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.
- **Permanently Restricted Net Assets**- Net Assets subject to donor-imposed stipulations to be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes on net assets.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Foundation considers cash in bank, time deposits, and highly liquid investments with maturities of three months or less when purchased to be cash or cash equivalents.

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

The Foundation maintains cash balances at one institution. Cash maintained in non-interest bearing accounts at a bank are fully insured by the Federal Deposit Insurance Corporation (FDIC) through December 31, 2012. Cash maintained in interest-bearing accounts at a bank are insured up to \$250,000. At June 30, 2012 and 2011, \$267,971 and \$250,000, respectively, of the cash balances maintained by the Foundation were fully insured by the FDIC.

Investments

Investments are reported at fair value based on quoted market prices for identical assets that are actively traded (Level 1) and quoted market prices for similar assets or identical assets that are not actively traded, or prices based on other observable inputs (Level 2). At June 30, 2012 and 2011 they consisted of common stocks and equity and bond mutual funds.

Contributions

Contributions received, which include unconditional promises to give (pledges), are recognized as revenues at the date of donation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Functional Allocation of Expenses

Total expenses consisted of expenses relating to program services, management and general, and fundraising. Costs are allocated between the various programs and support services on an actual basis, where available, or based upon reasonable methods. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

The Foundation is a not for profit organization exempt from Federal Income Taxes under Section 501(c)(3) of the Internal Revenue Code with the exception of unrelated business income. It has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A).

Generally accepted accounting principles create a model to address uncertainty in tax positions and clarifies the account for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under these standards tax-exempt organizations could now be required to record an obligation as the result of a tax position they have historically taken. The Foundation believes there are no such positions as of June 30, 2012 and 2011 and accordingly, no liability has been accrued. Generally the IRS may examine a tax return for three years from the date it is filed. At June 30, 2012, tax years ended June 30, 2009, 2010, and 2011 remain open for possible examination by the IRS.

Use of Estimates

Management of the Foundation has made estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and revenues and expenses to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were issued.

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

NOTE3 –Deposits and Investments

At June 30, 2012 and 2011, the Foundation had carrying cash balances of \$463,414 and \$434,323, respectively. Investments at June 30, 2012, by major security type, were as follows:

<u>Description</u>	<u>Cost</u>	<u>Fair Value</u>
Common Stock	\$355,599	\$514,547
Equity Funds	257,179	325,543
Bond Funds	801,215	\$849,049
Total Investments	<u>\$1,413,993</u>	<u>\$1,689,139</u>

Investments at June 30, 2011, by major security type, were as follows:

<u>Description</u>	<u>Cost</u>	<u>Fair Value</u>
Common Stock	\$570,560	\$743,303
Equity Funds	308,452	448,507
Bond Funds	352,265	402,891
Total Investments	<u>\$1,231,277</u>	<u>\$1,594,701</u>

Risk and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of financial position.

NOTE4 –Pledges Receivable

As of June 30, 2012 and 2011, donors to the Foundation have made written unconditional promises to give, which are valued at fair value at the date of donation. Management has estimated an allowance for uncollectible promises based on historical experience and knowledge of the donors ability to pay. All pledges are expected to be collected within one year.

	<u>2012</u>	<u>2011</u>
Pledges Receivable	\$73,737	\$63,949
Allowance for Uncollectible Pledges	(41,095)	(41,095)
Pledges Receivable – Net	<u>\$32,642</u>	<u>\$22,854</u>

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

NOTE 5 – Related Party Transactions

During the fiscal year ended June 30, 2012, the Foundation distributed \$84,191 for scholarships, \$5,630 for fundraising and \$16,068 for instructional programs to the college. During the fiscal year ended June 30, 2011, the Foundation distributed \$49,253 for scholarships and \$7,960 for instructional programs to the college.

NOTE6 – Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Gifts and other donations available for:		
Schell Foundation Loan Fund	\$50,405	\$41,711
Instructional programs	158,560	107,124
Scholarships	<u>292,721</u>	<u>358,129</u>
Total gifts and other donations	<u>\$501,686</u>	<u>\$506,964</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors as follows:

Instructional Programs	\$16,068
Fundraising	5,630
Scholarships	<u>84,191</u>
Total	<u>\$105,889</u>

Permanently restricted funds consist of endowment funds. In certain cases, the donors of these funds have restricted the use of the income from such funds for scholarships. Expenses related to the purpose restrictions for which the donations were made are included in the appropriate program services category on the statement of activities and changes in net assets.

Permanently restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Scholarships	<u>\$1,262,548</u>	<u>\$1,148,181</u>
Total	<u>\$1,262,548</u>	<u>\$1,148,181</u>

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

NOTE 7 – Fair Value Measurements

Professional literature defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). It establishes a hierarchy for purposes of disclosure that prioritizes the inputs to valuation techniques used to measure fair value into three levels.

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at June 30, 2012, and the valuation techniques used by the Foundation to determine those fair values.

- Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets.
- Fair values categorized as Level 2 inputs use other inputs that are observable, either directly or indirectly. The equity and bond funds included in Level 2 at June 30, 2012 and 2011 are valued using market techniques which include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. The fair value may also be further adjusted for attributes of the interest held, including any restrictions or illiquidity on the disposition of the interest.
- Fair values categorized as Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. There were no Level 3 investments at June 30, 2012 and 2011.

The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

There were no transfers between the levels for the years ended June 30, 2012 and 2011.

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

Fair Value Measurements at June 30, 2012

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Common stock types:			
Basic materials	\$ 80,342	\$ 0	\$ 80,342
Communications	51,679	0	51,679
Consumer	126,504	0	126,504
Energy	60,198	0	60,198
Financial	67,443	0	67,443
Industrial	22,336	0	22,336
Technology	106,045	0	106,045
Total – Common stock types	<u>514,547</u>	<u>0</u>	<u>514,547</u>
Equity fund types:			
Real estate investment trust	0	52,344	52,344
Small cap funds	0	14,456	14,456
Index funds	0	258,743	258,743
Total – Equity fund types	<u>0</u>	<u>325,543</u>	<u>325,543</u>
Bond fund types:			
Other bond funds	0	849,049	849,049
Total – Bond fund types	<u>0</u>	<u>849,049</u>	<u>849,049</u>
Total – Investments	<u>\$ 514,547</u>	<u>\$ 1,174,592</u>	<u>\$ 1,689,139</u>

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

Fair Value Measurements at June 30, 2011

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Common stock types:			
Basic materials	\$ 74,825	\$ 0	\$ 74,825
Communications	43,059	0	43,059
Consumer	197,881	0	197,881
Energy	103,469	0	103,469
Financial	48,017	0	48,017
Industrial	133,154	0	133,154
Technology	142,898	0	142,898
Total – Common stock types	<u>743,303</u>	<u>0</u>	<u>743,303</u>
Equity fund types:			
Real estate investment trust	0	51,400	51,400
Commodity funds	0	28,338	28,338
Gold trust	0	36,500	36,500
Small cap funds	0	15,271	15,271
Index funds	0	316,998	316,998
Total – Equity fund types	<u>0</u>	<u>448,507</u>	<u>448,507</u>
Bond fund types:			
Corporate bonds	0	74,505	74,505
Other bond funds	0	328,386	328,386
Total – Bond fund types	<u>0</u>	<u>402,891</u>	<u>402,891</u>
Total – Investments	<u>\$ 743,303</u>	<u>\$ 851,398</u>	<u>\$ 1,594,701</u>

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

NOTE8 –Endowments

The Foundation's endowment consists of donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Ohio Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- a. General economic conditions
- b. The possible effect of inflation and deflation
- c. The tax consequences of investment decisions
- d. The role each investment or course of action plays within the overall investment portfolio of the fund
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the organization
- g. The need of the institution and of the fund to make distributions and to preserve capital
- h. An asset's special relationship or special value, if any, to the charitable purposes of the institution

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

Endowment Net Asset Composition by Type of Fund as of June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ (1,308)	\$ 307,274	\$ 1,300,819	\$1,606,785
Total Funds	<u>\$ (1,308)</u>	<u>\$ 307,274</u>	<u>\$ 1,300,819</u>	<u>\$1,606,785</u>

Changes in Endowment Net Assets for the Fiscal Year End June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, beginning of year	\$ (401)	\$ 344,919	\$ 1,177,678	\$ 1,522,196
Contributions	500	1,000	123,141	124,641
Investment income	6,439	29,977	0	36,416
Investment expenses	(1,660)	(7,565)	0	(9,225)
Expenditures	(5,966)	(57,047)	0	(63,013)
Net appreciation (realized and unrealized)	(220)	(4,010)	0	(4,230)
Net Assets, end of year	<u>\$ (1,308)</u>	<u>\$ 307,274</u>	<u>\$ 1,300,819</u>	<u>\$ 1,606,785</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ (401)	\$ 344,919	\$ 1,177,678	\$ 1,522,196
Total Funds	<u>\$ (401)</u>	<u>\$ 344,919</u>	<u>\$ 1,177,678</u>	<u>\$ 1,522,196</u>

Changes in Endowment Net Assets for the Fiscal Year End June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, beginning of year	\$ (85,255)	\$ 171,584	\$ 1,102,390	\$ 1,188,719
Contributions	0	5,180	75,288	80,468
Investment income	108	27,670	0	27,778
Investment expenses	(32)	(8,460)	0	(8,492)
Net appreciation (realized and unrealized)	84,778	186,551	0	271,329
Expenditures	0	(37,606)	0	(37,606)
Net Assets, end of year	<u>\$ (401)</u>	<u>\$ 344,919</u>	<u>\$ 1,177,678</u>	<u>\$ 1,522,196</u>

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. Such amounts totaled \$1,308 and \$401 at June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Foundation must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, approved by the Board of Directors, the endowment assets are invested to manage the contributions in a manner that will maximize the benefit intended by the donor, produce current income to support the programs of the College and donor objectives, and achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets, thus protecting the assets against inflation. The long term annualized total net rate of return objective is inflation plus five percent. Investment objectives will be achieved by maximizing total return consistent with prudent risk limits. Actual returns in any given year may vary from this amount. To satisfy its long term net rate of return objective, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy

Ohio law states that the appropriation for expenditure in any year of an amount greater than seven percent of the fair market value of an endowment fund calculated on the basis of fair market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure was made creates a rebuttable presumption of imprudence. For an endowment fund in existence for fewer than three years, the fair market value of the endowment fund must be calculated for the period that the fund has been in existence.

The Foundation has elected to distribute annually five percent of a trailing three year average of the Foundation's total asset value. The Foundation believes that such a policy should allow for steady growth for the support of operations and minimize the probability of invading the principal over time. The Investment Committee reviews the spending policy periodically against actual returns in order to consider adjustments necessary for the preservation of the purchasing power of the endowment.

James A. Rhodes State College Foundation
Notes to Financial Statements
June 30, 2012 and 2011

NOTE 9 – Charles E. Schell Foundation Grant/Loan Program

The Charles E. Schell Foundation Grant/Loan Program Fund is an interest-free loan that is made available through the generosity of the Charles E. Schell Foundation as administered by the Fifth Third Bank. This loan is non-interest bearing and carries a moral obligation repayment clause. It is to be used for the educational benefits of citizens of Ohio, Kentucky, and West Virginia. To qualify, James A. Rhodes State College students need to meet specific requirements.

The minimum loan is \$500 and the maximum loan is \$2,500. Students are to repay these loans at no interest beginning six months after graduation. The Foundation collected \$13,214 and \$11,271 in student repayments in fiscal years 2012 and 2011, respectively. The Foundation does not pursue collections on these loans.

NOTE 10 – Lima Community Foundation

Three separate scholarship funds are held by The Lima Community Foundation: The John J. and Martha M. Hudson Scholarship Fund (formerly the John J. Hudson Fund), the James J. Countryman Scholarship Fund, and the Thomas R. and Gloria P. Leech Scholarship Fund (originally the Thomas R. Leech Memorial Scholarship Fund). All three funds were established to award scholarships to students attending James A. Rhodes State College.

The following table presents the fair value of these funds as of June 30:

	<u>2012</u>	<u>2011</u>
John J. and Martha M. Hudson Scholarship Fund	\$ 7,314	\$ 7,479
James J. Countryman Scholarship Fund	34,933	38,271
Thomas R. and Gloria P. Leech Scholarship Fund	13,952	14,686

Scholarship awards made from each of these funds for the fiscal years 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
James J. Countryman Scholarship Fund	\$ 1,000	\$ 500
Thomas R. and Gloria P. Leech Scholarship Fund	350	350

The Lima Community Foundation manages all three funds according to their investment policy. As such, there is no balance recorded on the financial statements of the Foundation. Scholarship money transferred annually from the Lima Community Foundation is treated as revenue and expense in the year awarded.



Balestra, Harr & Scherer, CPAs, Inc.

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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 Foundation
4240 Campus Drive
Lima, Ohio 45804

We have audited the financial statements of James A. Rhodes State College Foundation, Allen County, Ohio (the Foundation), a component unit of James A. Rhoades State College, as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated November 21, 2012. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies, resulting in more than a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Foundation'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*.

James A. Rhodes State College Foundation
Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Required By *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the Board of Trustees, others within the Foundation, and the Foundation's management. We intend it for no one other than these specified parties.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
November 21, 2012

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Dave Yost • Auditor of State

JAMES A RHODES STATE COLLEGE FOUNDATION

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
JANUARY 10, 2013**